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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

JAMES C. WATKINS

UNION ELECTRIC COMPANY

D/B/A

AMERENUE

CASE NO. ER-2008-0318

Jefferson City, Missouri

October 2008

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REBUTTAL TESTIMONY

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JAMES C. WATKINS

UNION ELECTRIC COMPANY

D/B/A

AMERENUE

CASE NO. ER-2008-0318

15 Q. Please state your name and business address.

16 A. My name is James C. Watkins and my business address is Missouri Public
17 Service Commission, 200 Madison Street, P. O. Box 360, Jefferson City, Missouri
18 65102.

19 Q. Who is your employer and what is your present position?

20 A. I am employed by the Missouri Public Service Commission (Commission)
21 and my title is Manager, Economic Analysis, Energy Department, Operations Division.

22 Q. Are you the same James C. Watkins that prefiled direct testimony in this
23 case on September 11, 2008?

24 A. Yes.

EXECUTIVE SUMMARY

25 Q. What is the purpose of your rebuttal testimony?

26 A. It is the Staff's position that the Commission should not allow AmerenUE
27 a Fuel Adjustment Clause (FAC). The purpose of this testimony is to make
28 recommendations regarding the operation and structure of a FAC and additional reporting
29 requirements should the Commission allow AmerenUE a FAC.

30 Q. What are the Staff's recommendations?

1 A. The Staff recommends that if the Commission approves an electric FAC
2 for AmerenUE, that the FAC should have the characteristics of the FAC proposed by
3 AmerenUE with the following modifications:

4 1. Fuel and purchased power cost accumulation should occur on a
5 calendar month basis, but recovery should be billed on a billing month basis;

6 2. Instead of a single average annual “Net Base Fuel Cost,” the base cost
7 of fuel and purchased power energy should be determined on a seasonal basis
8 consistent with the months comprising the AmerenUE summer and winter
9 seasons;

10 3. The number of “Accumulation Periods” should be reduced from three to
11 two by lengthening the Accumulation Periods from four months to six months;

12 4. The tariffed FAC rate schedule should include the Fuel and Purchased
13 Power Energy Cost Adjustment(s) (FPA) currently in effect, and a tariff sheet
14 detailing the calculation of the rate;

15 5. Replacement power insurance costs, replacement power insurance
16 recoveries, and ash disposal costs and sales should not be part of the FAC; and

17 6. AmerenUE should be required to submit specified information required
18 for the Staff’s True-Up Audit and Prudence Review, in addition to the
19 information required by the Electric Utility Fuel and Purchased Power Cost
20 Recovery Mechanisms Filing and Submission Requirements rule (4 CSR 240-
21 3.161).

1 **ISSUES**

2 Q. Should fuel cost accumulation occur on a calendar month basis, but fuel
3 cost recovery be billed on a billing month basis?

4 A. AmerenUE's fuel and purchased power costs are proposed to be
5 accumulated on a calendar month basis, but AmerenUE's billing system and rate
6 schedules are designed to recover costs on a billing cycle basis. AmerenUE proposes
7 that, in the instance where a billing cycle contains fuel and purchased power adjustments
8 (FPA) for two calendar months, the customer's bill be prorated in proportion to the
9 number of days in the customer's billing period that each FPA was in effect. Staff
10 proposes that the accumulated fuel and purchased power energy cost adjustments be
11 recovered by billing month, as part of the standard billing process.

12 Q. Is it important that the "Net Base Fuel Cost" be determined on a seasonal
13 basis?

14 A. Yes. The cost of fuel and purchased power energy is significantly higher
15 in the summer than in the winter. If the Accumulation Period is less than a full calendar
16 year, this difference should be reflected in the determination of whether AmerenUE has
17 over collected or under collected its fuel and purchased power energy costs during each
18 Accumulation Period. By its nature, actual fuel and purchased power energy costs in the
19 summer will be higher than the annual average fuel and purchased power energy cost,
20 and, likewise, the actual fuel and purchased power energy costs in the winter will be less
21 than the annual average. Therefore if the actual cost over the next year were the same as
22 what was set as an annual base, accumulation periods with summer months would always
23 show an upward adjustment was necessary and accumulation periods with winter months

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1 | would always show a downward adjustment was necessary. In some instances, without
2 | seasonal base costs, it would even be possible to calculate an under collection amount to
3 | recover from customers when in fact AmerenUE's average fuel and purchased power
4 | energy cost for the accumulation period was less than the average base fuel and
5 | purchased power energy cost for the season. These situations could be and should be
6 | avoided by seasonally differentiating the base costs. Thus, the total over recovery or
7 | under recovery in each Accumulation Period should be calculated by summing the
8 | differences between the appropriate seasonal base and actual fuel and purchased power
9 | energy costs on a (calendar) monthly basis.

10 | Q. Why should the number of annual Accumulation Periods be reduced to
11 | two per year?

12 | A. There are two reasons that Staff is recommending only two Accumulation
13 | Periods each year. The first is to reduce customer confusion regarding their rates by
14 | minimizing the number of additional rate changes in each year. Having three
15 | Accumulation Periods of four months each would result in three rate changes in addition
16 | to the summer-winter seasonal rate changes, totaling five per year. Staff recommends
17 | that AmerenUE be allowed only two Accumulation Periods a year – one that runs from
18 | December 1 through May 31 with the Recovery Period beginning in the October billing
19 | month (coinciding with the change to winter rates) and the other Accumulation Period
20 | being June 1 through November 30 with the Recovery Period beginning in the April
21 | billing month. Many customers are already confused by the seasonal rate changes. Their
22 | confusion should not be heightened by allowing three rate changes in addition to the
23 | current two seasonal changes. The Staff's recommended accumulation periods would

1 only increase the number of rate changes by one because one of the adjustments is
2 occurring on each customer's same bill as the change to winter rates.

3 The other reason that Staff recommends only two Accumulation Periods is the
4 limited number of changes to coal and nuclear prices during a year. Most of
5 AmerenUE's coal contracts change prices only once a year and typically this is on
6 January 1. AmerenUE's uranium prices change only once every 18 months. Since the
7 majority of AmerenUE's fuel and purchased power costs are for coal and uranium, it
8 seems unnecessary to calculate an adjustment every four months as proposed by
9 AmerenUE.

10 Q. Should the FAC rate in effect be shown in AmerenUE's tariff?

11 A. Yes. The Commission's Rule, 4 CSR 240-3.145, requires that each
12 electric utility have on file with the Commission and available to the public a Tariff that
13 sets forth the services offered by that utility and the rates, terms and conditions for the
14 use of those services. Unless the various FAC rates are listed in the Tariff, customers
15 have no way to determine whether they are being billed correctly or not. The Empire
16 District Electric Company's (Empire's) tariff sheet showing the calculation of its current
17 FAC rate is attached as an example of what should be required of AmerenUE.

18 Q. Does Staff believe that replacement power insurance costs, replacement
19 power insurance recoveries, and ash disposal costs and sales should not be included in the
20 FAC?

21 A. Yes. These costs are not volatile variable fuel costs or revenues.

22 Q. Should additional information be submitted to the Staff?

23 A. Yes. The following reports should be submitted:

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1 1. Annual report of detailed fuel procurement hedging practices
2
3 2. Report to Energy Department Manager or Engineering Analysis
4 Supervisor all incidents at power plants, whether accidental or mechanical
5 failures, involving serious physical injury or death or property damage in
6 excess of one hundred thousand dollars. (4 CSR 240-3.190(3)(A))

7 3. Report to Energy Department Manager or Engineering Analysis
8 Supervisor all SO2 Allowance sales, purchases, trades, swaps, and loans.
9 This information is to be reported monthly, along with the information
10 provided in compliance with 4 CSR 240-3.161

11 Q. Why is this information necessary?

12 A. This information is required for the Staff's True-Up Audits and Prudence
13 Reviews. These Staff information needs are not covered by the current minimum filing
14 requirements, and should the Commission grant AmerenUE use of a FAC, the
15 Commission should order AmerenUE to submit these materials.

16 Q. Does this conclude your rebuttal testimony?

 A. Yes, it does.