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Witness: Richard A. Voytas
Sponsoring Party: Union Electric Company
d/b/a AmerenUE
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Case No.: EO-2004-0108
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. EO-2004-0108

SURREBUTTAL TESTIMONY

OF

RICHARD A. VOYTAS

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

****Denotes Highly Confidential Information****

**St. Louis, Missouri
March 1, 2004**

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

**In the Matter of the Application of Union)
Electric Company d/b/a AmerenUE for)
an Order Authorizing the Sale, Transfer)
an Assignment of Certain Assets, Real Estate)
Leased Property, Easements and Contractual)
Agreements to Central Illinois Public)
Service Company d/b/a AmerenCIPS, and)
in Connection Therewith, Certain Other)
Related Transactions.)**

Case No. EO-2004-0108

AFFIDAVIT OF RICHARD A. VOYTAS

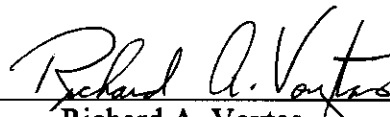
**STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)**

Richard A. Voytas, being first duly sworn on his oath, states:

1. My name is Richard A. Voytas. I work in St. Louis, Missouri and I am employed by Ameren as Manager, Corporate Analysis.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 45 pages and Schedule 1, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

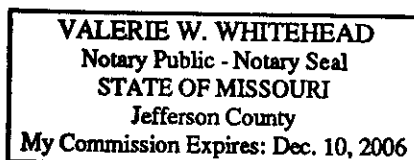
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.


Richard A. Voytas

Subscribed and sworn to before me this 15th day of March 2004.


Notary Public

My commission expires:



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SURREBUTTAL TESTIMONY

OF

RICHARD A. VOYTAS

UNION ELECTRIC COMPANY
d/b/a AmerenUE

CASE NO. EO-2004-0108

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Richard A. Voytas. My business address is 1901 Chouteau Avenue,
St. Louis, Missouri 63103.

Q. By whom and in what capacity are you employed?

A. I am employed by Ameren Services Company (“Ameren Services”) as Manager
of the Corporate Analysis section in the Corporate Planning Department.

Q. Have your responsibilities changed since you filed your Direct Testimony?

A. No.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is twofold. First, I will address concerns on the
least cost analysis for the Metro East transfer raised by Missouri Public Service
Commission (“MPSC”) Staff witness Michael S. Proctor. Second, I will address
concerns on least cost analysis for the Metro East transfer raised by Office of the
Public Counsel (“OPC”) witness Ryan Kind. The fact that I have not responded
in this surrebuttal testimony to a particular issue raised or position taken by other
witnesses that have filed rebuttal testimony in this case, or to all of the issues

1 raised or positions taken by these witnesses, should not be construed to mean that
2 I agree with or support such issues or positions.

3 **II. RESPONSE TO REBUTTAL TESTIMONY OF MICHAEL S. PROCTOR**

4 **Q. Briefly summarize your testimony regarding the Metro East transfer.**

5 A. My testimony provides the analytic support that explains why transferring electric
6 transmission and distribution properties of Union Electric Company d/b/a
7 AmerenUE in the Metro East Service Area in Illinois (“Metro East Service Area”
8 or “Metro East”) to Central Illinois Public Service Company d/b/a AmerenCIPS is
9 the least cost alternative available to supply AmerenUE’s long-term capacity and
10 energy needs.

11 **Q. Briefly summarize Dr. Proctor’s rebuttal testimony regarding AmerenUE’s**
12 **least cost analysis of the Metro East Transfer.**

13 A. Dr. Proctor states his specific concerns with the analysis. The major concern is
14 the impact of the Joint Dispatch Agreement (“JDA”) on the least cost analysis of
15 the Metro East transfer. Dr. Proctor recommends as a condition for approving the
16 Metro East transfer that the Commission require that the terms of the JDA be
17 modified so that energy transfers between AmerenUE and Ameren Energy
18 Generating Company (“AEG”) take place at market prices and that profits from
19 off-system sales be distributed to the entity whose generation supplied the energy
20 for the sale.

21 **(A) Areas of Agreement**

22 **Q. State the aspects of AmerenUE’s least cost analysis of the Metro East**
23 **transfer on which you and Dr. Proctor agree.**

1 A. There are more aspects of AmerenUE's least cost analysis on which we agree
2 than disagree. More importantly, we tend to agree on issues of substance. We
3 tend to have minor differences of opinion on details related to some of the
4 economic parameters of the Metro East least cost analysis. Issues of substance
5 where we agree include:

- 6 1. Absent the Metro East transfer, AmerenUE's least cost planning
7 analyses indicate that AmerenUE's least-cost technology for
8 meeting the reliability requirements for serving its existing load is
9 simple cycle combustion turbine generators ("CTGs").
- 10 2. The present value of the economic benefit of the Metro East
11 transfer as compared to simple cycle CTGs, under the assumption
12 that the JDA is not revised, is relatively small.
- 13 3. Ameren's intention is to operate as a single control area if the
14 Metro East transfer takes place.

15 **(B) JDA**

16 **Q. Do you agree with Dr. Proctor's recommendation as a condition for**
17 **approving the Metro East transfer, that the Commission should require that**
18 **profits from off-system sales be distributed to the entity whose generation**
19 **supplied the energy for the sale?**

20 A. AmerenUE witness Craig D. Nelson addresses this issue in detail in his
21 surrebuttal testimony. As Mr. Nelson states, amendment of the JDA in this
22 manner is not necessary either to ensure that the Metro East Transfer is not
23 detrimental or to ensure that it is the least cost way to meet AmerenUE's resource
24 needs. However, I point out that making this one change to the JDA – namely

1 allocating profits from off-system sales based on generation rather than load –
2 improves the economic benefits of the Metro East transfer relative to a CTG by
3 such a substantial amount that this one change to the JDA makes the Metro East
4 transfer without question more economic than the CTG option by a wide margin.
5 That one change to the JDA improves the already positive economic benefits of
6 the Metro East transfer by approximately \$7 million per year, making the present
7 value of those economic benefits at least \$79 million.

8 **Q. Why does the net present value of the benefits of the Metro East transfer**
9 **increase to at least \$79 million as a result of the change in methodology of**
10 **allocating interchange sales margins?**

11 A. When interchange sales margins are allocated via the JDA by the loads of
12 AmerenUE and AEG, AmerenUE's allocation for the AmerenUE-IL load would
13 go to zero after the UE-IL load is transferred to AmerenCIPS. However, when
14 interchange sales margins are allocated via the JDA based on the generation of
15 AmerenUE and AEG, AmerenUE is projected to receive interchange sales
16 margins of at least \$7 million per year. The \$7 million per year projection is
17 based on 2002 actual market prices which were very low. Ameren's projected
18 market prices show that the interchange sales margins are projected to be in the
19 \$24 million per year range. At \$24 million per year, the net present value of the
20 economic benefits of the Metro East transfer to AmerenUE-MO relative to the
21 installation of CTGs, balloons from \$79 million to \$240 million.

1 **Q. Do you agree with Dr. Proctor’s recommendation that as a condition for**
2 **approving the Metro East transfer the Commission should require that**
3 **energy transfers between the two entities take place at market prices?**

4 A. No. The transfer of the Illinois assets – effectively, the Illinois load – is irrelevant
5 to the JDA. As Mr. Nelson indicates in his surrebuttal testimony, AmerenUE is
6 willing to work collaboratively with Staff and OPC outside of the Metro East
7 proceeding to study options and to consider alternative approaches to the market
8 price issue.

9 **Q. List some potential options that you could work on with Staff and OPC to**
10 **analyze relating to possible changes to the JDA.**

11 A. Dr. Proctor’s recommendations to require that energy transfers between the two
12 entities take place at market prices, and that profits from off-system sales be
13 distributed to the entity whose generation supplied the energy for the sale,
14 involves an analysis that could require a considerable period of time. This is a
15 complex analysis to perform in light of the fact that there is not a market price
16 clearinghouse on which to obtain accurate hourly market price information. It
17 even becomes more complex to develop an operating scheme to jointly dispatch
18 generation under a transfer pricing at market scenario. A “share the benefits”
19 approach for transfer pricing could also be analyzed. Transfer pricing at cost plus
20 an adder could also be analyzed. Other options that may be available to either
21 counterparty to the JDA could be analyzed as well. Staff and OPC may have
22 additional approaches.

1 **Q. Is there urgency in modifying the terms and conditions of the JDA as part of**
2 **the Metro East proceeding?**

3 A. No. Under the rate moratorium stipulated and agreed to in Case No. EC-2002-1,
4 AmerenUE's rates, inclusive of rate reductions specified in that case, continue in
5 effect until June 30, 2006, and thereafter, until changed as a result of a
6 Commission Order. Consequently, there will be no rate impact during the rate
7 moratorium on AmerenUE customers as a result of the asset transfer due or the
8 current JDA, and there may never be any such rate impact. Additional time is
9 required to analyze options, but that analysis can easily proceed in advance of the
10 end of the rate moratorium.

11 **Q. Are there other aspects of the JDA that have value to AmerenUE that were**
12 **not addressed in either your testimony or Dr. Proctor's rebuttal testimony?**

13 A. Yes. Based on discussions with Dr. Proctor, there appears to be consensus that
14 the following aspects of the JDA have value to AmerenUE and to its Missouri
15 customers:

- 16 1. Operational efficiency through joint dispatch;
- 17 2. Added flexibility in outage scheduling;
- 18 3. Increased reliability due to a larger system;
- 19 4. Call option on excess energy;
- 20 5. Call option on excess capacity;
- 21 6. Single trading floor (Ameren Energy);
- 22 7. O&M savings attributable to minimization of cycling of baseload
- 23 units;

- 1 8. Fewer generating units on area control for a larger system as
2 compared to two smaller, separate systems; and
3 9. Better congestion management strategies under MISO Day 2
4 market and more flexibility concerning FTR hedging.

5 **Q. Did AmerenUE attempt to monetize these benefits in its least cost analysis of**
6 **the Metro East transfer?**

7 A. No. These JDA benefits are common to both the Metro East transfer and the
8 option to install CTGs.

9 **(C) Dr. Proctor's Claim that the 50% Assumption of Energy or Charges**
10 **in the Least Cost Analysis is Arbitrary.**

11 **Q. In his testimony, Dr. Proctor indicates he has concerns with the “mark to**
12 **market” analysis referenced in your testimony. What is his main concern?**

13 A. It seems to be with the assumption of a 50% margin on energy sales credit used in
14 the analysis. The analysis has an assumption that gives a credit that offsets the
15 capital and fixed costs of the combustion turbine.

16 **Q. What is the basis of the credit?**

17 A. A “mark to market” analysis compares forward electric price curves to the
18 variable cost of operating the combustion turbine for every hour of the analysis
19 period. If the market price of electricity is higher than the combustion turbine's
20 cost to produce the electricity, the analysis assumes the combustion turbine will
21 run. The credit assumes that a portion of the energy produced by the combustion
22 turbine will be available to sell to market with the remaining energy used to serve
23 native load.

1 **Q. What factors determine if the combustion turbine is able to sell to the**
2 **market?**

3 A. As Dr. Proctor notes on page 12 of testimony, there are three main issues or
4 factors that would impact the ability to sell the electricity produced to the market:
5 1) transmission constraints; 2) depth of market; and 3) the need for the energy to
6 serve native load.

7 **Q. In his testimony, Dr. Proctor uses an example with 5% of the energy from**
8 **the combustion turbine serving native load. How does this relate to the**
9 **credit?**

10 A. If 5% of the energy from the combustion turbine is used to serve native load, then
11 95% of the energy produced is being sold to market. So, the credit that offsets the
12 capital and fixed costs of the combustion turbine would be 95%.

13 **Q. Is a 95% credit reasonable?**

14 A. No. That would mean that virtually all the energy from the combustion turbine
15 over the 25 years of the analysis would be sold to market and that practically none
16 of it would be used to serve native load.

17 **Q. Is it your experience that AmerenUE's combustion turbines are not used to**
18 **serve native load?**

19 A. No. AmerenUE certainly uses its combustion turbines to serve native load. In
20 2003, 49.4% of the energy produced from AmerenUE's newest combustion
21 turbines (Peno Creek) was used to serve native load.

22 **Q. Did you do any analysis to support the assumption of the 50% credit?**

23 A. Yes.

1 **Q. Please describe the analysis.**

2 A. AmerenUE periodically performs Asset Mix Optimization (“AMO”) studies.
3 AMO studies are used to determine the optimal mixture of assets to build or
4 acquire for serving customers. Within a study, various scenarios are tested with
5 different mixes of generating plants. For example, AmerenUE recently presented
6 a study to the Staff that had a scenario of building all combustion turbines and a
7 scenario that had a mixture of building combustion turbines and a coal plant.

8 **Q. At page 12 of his testimony, Dr. Proctor references a “specific production**
9 **cost analysis in which sales limits from transmission constraints and depth of**
10 **market limits are explicitly incorporated to determine the amount of energy**
11 **sales to the market”. Do the AMO studies you performed fulfill these**
12 **requirements?**

13 A. Absolutely.

14 **Q. How were these studies used to determine the 50% credit?**

15 A. Depending on the assumptions and the different scenarios, the amount of output
16 from a combustion turbine that is available to sell to market varies from 35%-
17 80%. It seemed reasonable and prudent to be in the middle of the possibilities:
18 50%.

19 **Q. Why would assuming 100% or 95% credit be less reasonable and prudent**
20 **than the 50% credit?**

21 A. For a couple of reasons. First, as I stated earlier, 100% credit assumes that during
22 the 25 years of the plant’s life, the combustion turbine is never used to service
23 native load. That is contrary to my experience. Second, the 95% or 100% is the

1 very best case possible, although highly unlikely. You can't sell more than 100%
2 of the energy produced from a plant to market. When performing analysis, it is
3 not a good practice to evaluate options based on the absolute best case scenario
4 that is unlikely to occur. A mid-point is usually preferred and more prudent. In
5 addition, it is not in the best interest of rate payers to use an assumption that is not
6 likely to occur.

7 **Q. On page 13 of his testimony, Dr. Proctor states that the 50% credit "should**
8 **be considered arbitrary". Do you agree?**

9 A. Absolutely not. As this testimony outlines, considerable effort and thought were
10 put into the determination of the 50% credit.

11 **(D) Dr. Proctor's Claim That a One-time Snapshot Approach Is Not the**
12 **Preferred Approach.**

13 **Q. On page 12 of his testimony, Dr. Proctor states "the one-time snapshot**
14 **approach is not the preferred approach to evaluate the economics of this**
15 **aspect of the Metro East transfer." What is his concern?**

16 A. On that same page, he indicates that I should have used "budget forecasts for any
17 of the direct and indirect costs associated with the transfer" in the analysis. And
18 on page 9, he states that the analysis did not "take into account the impact of load
19 growth". Based on the quotes above, I believe his concern with the snap-shot
20 approach is that it does not use forecasts for the budget and load growth.

21 **Q. Have you used what Dr. Proctor refers to as the "one-time snapshot"**
22 **approach in prior discussions with Staff on the Metro East transfer**
23 **proposal?**

1 A. Yes. In January and February 2002, AmerenUE, Staff and OPC collaboratively
2 worked together to formulate an accounting based approach, which Dr. Proctor
3 now refers to as the one-time snapshot approach, to analyze the economics of the
4 Metro East transfer relative to the option of installing CTGs. Dr. Proctor was an
5 active participant in that collaborative effort. At that time there was consensus
6 that this approach was acceptable.

7 **Q. What did you do differently for the least cost analysis of the Metro East**
8 **transfer in this proceeding as compared to the 2002 Metro East transfer**
9 **analysis with Staff and OPC?**

10 A. Nothing. We copied the same spreadsheet models, updated the data, and made a
11 correction for the allocation of interchange sales margins after the Metro East load
12 was transferred.

13 **Q. Does it appear that Dr. Proctor is holding AmerenUE to a higher standard**
14 **now?**

15 A. Definitely, or at least to a standard different from what he had accepted earlier.

16 **Q. Do you agree with Dr. Proctor's concerns?**

17 A. We considered doing the analysis using forecasted budget and load growth. We
18 did not believe that approach would yield the best analysis in this situation.

19 **Q. Why did you not believe that would yield the best results in this situation?**

20 A. In many situations, a method that uses forecasted budget and load growth is
21 appropriate. In this case, there are simply too many factors that affect the budget
22 and load growth. These factors make it too complicated to interpret and make
23 sense of the more complex analysis results.

1 **Q. Can you give some examples of those factors?**

2 A. One example is the AmerenUE Illinois customers' load growth with
3 considerations of the impact of Illinois retail choice. Under this scenario, what
4 happens to AmerenUE's capacity currently allocated to Illinois if customers leave
5 under Illinois retail choice law? Another example is the effect of ever-changing
6 environmental regulations and how those changing regulations may affect market
7 prices. Another uncertainty is the impact of the Midwest Independent System
8 Operator, Inc's ("MISO") day-ahead and real-time energy markets to be
9 implemented in late 2004, on market prices. All or any of these factors have the
10 ability to affect and change the outcome of the analysis.

11 The implications of these impacts must be quantified within the scope of
12 the transfer analysis. When you combine all these possibilities with their ranges,
13 it becomes difficult or impossible to focus on the factors that impact the
14 economics of the transfer. The snap-shot analysis allows one to focus on the
15 elements of the analysis that are most important and to reduce or eliminate many
16 of the uncertainties identified.

17 **(E) Dr. Proctor's Contention that the Analysis Should Assume a Phase-in**
18 **of the 597 MW Over a Three Year Period.**

19 **Q. On page 11 of this testimony, Dr. Proctor states that another one of his**
20 **concerns with the analysis is it "assumed that without the Metro East**
21 **transfer, the 597 megawatts of combustion turbines would all be needed in**
22 **the same year. This is not the case. Moreover, based on forecasts of**
23 **AmerenUE's load and capacity needs, the combustion turbine capacity could**

1 **be phased in over a three-year period.” Is making this change as simple as**
2 **changing the installation times in the analysis?**

3 A. No. If you changed the installation times of the combustion turbines, it reduces
4 the amount of energy available to sell to the market from the combustion turbines
5 and from AmerenUE’s existing plants. If you reduce the sales to market, you
6 reduce revenues from the market. So, the costs saved from moving installation
7 dates to later years would not directly translate into lower costs in the analysis.
8 They would be reduced by the amount of lost sales to market.

9 **Q. You mentioned that not only would there be less potential of market sales**
10 **from the combustion turbines, but that the existing plants would have fewer**
11 **sales to market. Why is that?**

12 A. By moving the installation of the combustion turbines to later years, the existing
13 AmerenUE generating plants would need to serve a relatively larger amount of
14 native load. Therefore, there would be less energy from those plants to sell to
15 market.

16 **Q. Do you have any other concerns with changing your analysis to fit**
17 **Dr. Proctor’s comments?**

18 A. Yes. Realistically, it may end up costing AmerenUE more to stretch out the
19 construction period from one year to three years. For example, in constructing a
20 plant over a three-year period, there are certain additional costs for remobilization
21 of the work force and foregone savings due to common facility construction.
22 There also may be “bonus” depreciation rules that have a significant impact on
23 the overall construction cost. By extending the construction period, it may end up

1 costing more. These kinds of details need to be analyzed after the specifics of the
2 project have been determined. By specifics of the project, I mean items like
3 location of plant, type of turbine, etc.

4 **(F) Dr. Proctor's Comments Regarding Nuclear Decommissioning Costs.**

5 **Q. Dr. Proctor states that "If nuclear decommissioning costs are included, the**
6 **economics favor building the combustion turbines, as Missouri becomes**
7 **responsible for a greater portion of the Callaway decommissioning liability."**
8 **Please comment.**

9 A. I disagree that the inclusion of the Illinois portion of the Callaway
10 decommissioning liability will put the economics of the Metro East transfer
11 relative to CTGs in favor of building CTGs. AmerenUE witness Kevin L.
12 Redhage addresses the nuclear decommissioning cost issue in his direct and
13 surrebuttal testimony. It is Mr. Redhage's testimony that Missouri's annual
14 contributions to the decommissioning fund do not need to increase as a result of
15 the Metro East transfer.

16 **Q. Assuming Missouri ratepayers continued to fund at the level currently being**
17 **funded by Illinois ratepayers following the transfer, what would be the**
18 **impact on the least-cost analysis of the Metro East Transfer?**

19 A. Illinois ratepayers currently contribute \$272,554 annually to the decommissioning
20 trust fund. So, even if one assumed that Missouri ratepayers simply took over
21 funding what Illinois ratepayers had previously funded, Missouri ratepayers
22 would pay only an additional \$272,554 per year.

23 **Q. Does the inclusion of an additional \$272,554 in annual costs impact the least**
24 **cost analysis that favors the Metro East transfer over CTGs?**

1 A. No. The average annual savings of the Metro East transfer relative to CTGs is
2 approximately \$2,000,000. Adding \$272,554 per year to the Metro East's
3 revenue requirements will not change the results of the analysis.

4 **Q. Does this complete your surrebuttal testimony relative to Dr. Proctor's**
5 **rebuttal testimony?**

6 A. Yes, it does.

7 **III. RESPONSE TO REBUTTAL TESTIMONY OF MR. RYAN KIND**

8 **Q. Briefly summarize Mr. Kind's rebuttal testimony regarding AmerenUE's**
9 **least cost analysis of the Metro East Transfer.**

10 A. Mr. Kind's testimony is that the Metro East transfer is detrimental to the public
11 interest and should be denied. Mr. Kind's testimony alleges numerous
12 unsubstantiated claims such as:

- 13 1. That AmerenUE's parent company, Ameren Corporation
14 ("Ameren"), would significantly benefit from the proposed transfer
15 because some of its excess non-regulated generating capacity
16 would be used to provide capacity and energy to the Illinois
17 customers who were formerly served by AmerenUE;
- 18 2. That if AmerenUE had not become part of a holding company as a
19 result of the Union Electric Company and CIPSCO Incorporated
20 merger, the Commission would not need to address the proposed
21 transfer;
- 22 3. That the Metro East transfer is part of an Ameren strategic plan to
23 benefit Ameren at the expense of AmerenUE;

- 1 4. That the three Ameren witnesses who submitted direct testimony
2 in this case are employees of Ameren Services and it is Mr. Kind's
3 experience with all three witnesses that they all work to support the
4 financial and strategic interests of AmerenUE's holding company,
5 Ameren;
- 6 5. That Ameren is seeking the Metro East transfer to "work its way
7 around" the significant opposition to the transfer of AEG's
8 Pinckneyville and Kinmundy plants that it had encountered when it
9 sought approval of the transfer from the Illinois Commerce
10 Commission ("ICC");
- 11 6. That if AmerenUE would in effect coerce Electric Energy Inc.
12 ("EEInc.") to renew its power purchase agreement with
13 AmerenUE that terminates at the end of 2005, the capacity
14 resulting from the transfer of the Metro East load is not needed;
- 15 7. That regardless of the status of the EEInc. power purchase
16 agreement, AmerenUE does not need the capacity resulting from
17 the transfer of the Metro East load in 2004 and 2005;
- 18 8. That AmerenUE did not pursue the standard practice of issuing an
19 RFP to determine its full range of resource options;
- 20 9. That Ameren Services on behalf of AmerenUE did not do any
21 meaningful due diligence of the proposed transfer to determine
22 whether it would be detrimental to the public interest;

- 1 10. That as a result of selling SO₂ emission allowances to meet
2 Ameren's short term earnings goals, AmerenUE may not have
3 enough banked allowances to economically operate AmerenUE's
4 coal plants in the future;
- 5 11. That AmerenUE should have evaluated the purchase of the NRG
6 Audrain plant as a potential least cost option;
- 7 12. That a least cost analysis should be done over a 5 or 10 year period
8 rather than a 20 year period;
- 9 13. That adequate documentation is not provided to support an
10 estimate of the installed cost of new CTG generation of \$471/kW;
- 11 14. That AmerenUE's consideration and analysis of only two resource
12 options is not consistent with the range of options that the
13 Company has identified at recent resource planning meetings; and
- 14 15. That as recently as November 2003, AmerenUE received a power
15 supply offer from a combined cycle facility in Tulsa, OK and did
16 not factor that in its analysis.

17 **(A) Areas of Agreement.**

18 **Q. State the aspects of AmerenUE's least cost analysis of the Metro East**
19 **transfer on which you and Mr. Kind agree.**

20 A. There appear to be no areas of agreement. Most of Mr. Kind's testimony focuses
21 on issues other than the Metro East transfer. Where Mr. Kind addresses non
22 Metro East transfer issues, his testimony is based on hearsay, innuendo and his
23 speculative opinions. This is confirmed by the fact that the words "I believe", "it
24 may be", "probably", "it seems", "it could be", "it should", "perhaps" and "it

1 might be” appear over 50 times in Mr. Kind’s testimony. In the sections of his
2 testimony where Mr. Kind attempts to address issues related to the Metro East
3 least cost analysis, Mr. Kind describes his analysis of the capacity needs of
4 AmerenUE and he questions the installed cost of the CTGs used by AmerenUE in
5 the cost comparison between the Metro East transfer and CTGs.

6 **Q. How will you organize your response to Mr. Kind’s testimony?**

7 A. I will address Mr. Kind’s opinions that pertain to my areas of responsibility –
8 regardless of whether they pertain to the Metro East transfer. I will present facts
9 that clearly refute Mr. Kind’s opinions. In the sole analysis that Mr. Kind
10 provided regarding the capacity needs of AmerenUE, I will show why Mr. Kind’s
11 analysis is incorrect. By addressing Mr. Kind’s opinions, the Company is not
12 conceding that they are relevant to the present case.

13 **(B) Mr. Kind’s Contention that the Interests Of Ameren Corporation**
14 **Conflict With The Interests Of AmerenUE.**

15 **Q. Under the current Ameren holding company structure, does least cost**
16 **planning take place for AmerenUE?**

17 A. Yes, AmerenUE has an agreement in which Ameren Services performs these
18 types of least cost planning activities on AmerenUE’s behalf.

19 **Q. Have you been involved in these studies as Manager of Corporate Analysis?**

20 A. Yes, my group is charged with the performance of these studies.

21 **Q. Please describe the process and metrics used and the involvement of**
22 **AmerenUE personnel in these efforts.**

23 A. In general the process conforms to the Missouri resource planning rules adopted
24 in 1993. We determine AmerenUE’s capacity position over a 20 year planning

1 horizon as required by the Commission's rules. Alternative resources are
2 identified to meet any capacity shortfalls with the help of AmerenUE's
3 Generation Engineering & Technical Services Department. Cost estimates are
4 provided by this same AmerenUE group. All plant operating data and other
5 modeling assumptions are developed and reviewed with AmerenUE personnel.
6 These alternative resources are evaluated over at least a 20 year planning horizon
7 to identify the plan with the lowest revenue requirements. The results are
8 discussed with AmerenUE personnel and additional work is performed based on
9 comments provided by AmerenUE.

10 **Q. Would you say that the least cost resource plan in revenue requirements**
11 **would be a benefit to AmerenUE customers?**

12 A. Yes, the least cost plan with the lowest revenue requirement would result in
13 AmerenUE needing the least amount of revenue from its customers, assuming that
14 the plan met other required criteria, such as reliability.

15 **Q. On page 19 of Mr. Kind's testimony, Mr. Kind expresses his opinion that the**
16 **Metro East transfer is only now taking place because it is part of Ameren's**
17 **overall strategic plan. When is the first time that you are aware that**
18 **AmerenUE proposed to transfer its Illinois service territory to AmerenCIPS?**

19 A. AmerenUE first proposed to transfer its Illinois service territory to AmerenCIPS
20 as a part of its merger filing in Case No. EM-96-149 between Union Electric and
21 CIPSCO Incorporated approximately eight years ago. In the Stipulation and
22 Agreement resolving that filing, Staff and OPC did not approve UE's request to
23 transfer its Illinois service territory to CIPS. However, there were difficulties in

1 reaching a structure which satisfied both the MPSC and ICC. Later, AmerenUE
2 obtained approval to transfer the Illinois electric assets from the ICC in 2000.

3 **Q. Has AmerenUE had discussions with the MPSC Staff and the OPC on**
4 **transfer of the Metro East territory at other times?**

5 A. Yes, on several occasions. AmerenUE filed a pleading with the MPSC for the
6 Metro East Service territory in October 2000. Staff contested the pleading in
7 November 2000 and AmerenUE withdrew its pleading in May 2001. In January
8 2002, AmerenUE presented its evaluation of supply options to Staff and OPC for
9 the period 2002-2011. Staff Division Directors indicated a preference for the
10 Metro East transfer to meet a large portion of AmerenUE-Missouri's supply
11 requirements. AmerenUE met with Staff and OPC extensively in January and
12 February 2002 to analyze the economics of the Metro East transfer. AmerenUE
13 exchanged drafts of a stipulation and agreement for the proposed transfer in
14 February and March of 2002. Discussions ceased at the end of March 2002 when
15 agreement was not reached on the parameters to be included in the stipulation.

16 **Q. Would you agree with Mr. Kind's position that AmerenUE is only now**
17 **pursuing the transfer because it has become part of Ameren's strategic plan?**

18 A. No, as I stated in my previous responses, AmerenUE has been actively
19 considering the transfer of its Illinois service territory to AmerenCIPS for over
20 eight years.

21 **Q. Why is Ameren pursuing the Metro East transfer?**

22 A. In his testimony, AmerenUE witness Craig Nelson states that the primary purpose
23 for the transfer is to effectuate an electric resource plan in a manner beneficial to

1 Missouri customers. A second purpose of the transfer is to restructure the
2 business functions to be more in line with the status of customer choice in the
3 respective states.

4 **Q. Why is it important that Ameren restructure its business functions to be**
5 **more in line with customer choice in Missouri and Illinois?**

6 A. By way of further explanation, ICC staff witness Bruce Larson testified in Illinois
7 Docket No. 01-0515, providing an accurate synopsis of Ameren's situation. The
8 purpose of this specific docket was to seek ICC approval in 2001 to build a 50
9 MW CTG at AmerenUE's Venice plant. Mr. Larson discussed why the plant was
10 needed at the time. Mr. Larson stated as follows:

11 "AmerenUE had planned to meet its reserve margin requirements by
12 transferring its customers in Illinois to AmerenCIPS. Our
13 Commission approved that plan in Docket No. 99-0597. However,
14 the Missouri Public Service Commission ("MPSC") did not approve
15 the plan. (Nor did the MPSC disapprove the plan.) This left
16 AmerenUE with very little time to make plans to serve all of its load
17 in 2002 and beyond. I should note that this is at least the second time
18 that Ameren has attempted to divide its companies uniformly along
19 state boundaries. AmerenUE is left in the difficult position of
20 planning and operating in both regulated and unregulated
21 jurisdictions."

22
23 Mr. Larson's testimony acknowledges the differing considerations between
24 the MPSC and ICC as a result of the differing regulatory regimes.

25 **Q. Mr. Kind states that the proposed transfer is part of an Ameren initiative**
26 **referred to as the "Business Streamling Initiative" that is intended to reduce**
27 **Ameren's costs by \$75 million. What is the 'Business Streamlining**
28 **Initiative'?**

1 A. Ameren's Business Streamlining Initiative is part of Ameren's ongoing efforts to
2 control costs and demonstrate performance leadership in the energy business. The
3 goal of the initiative is to look at our work processes across Ameren Corporation
4 and its subsidiary companies to determine how they can make structural changes
5 that can improve their performance and reduce costs on a sustainable basis. This
6 initiative is about doing things better and sharpening our focus on performance
7 leadership within our industry.

8 **Q. How did Ameren derive the \$75 million Mr. Kind references in his**
9 **testimony?**

10 A. The \$75 million figure was established as a "stretch" goal to challenge Ameren's
11 Streamlining teams. The streamlining opportunities identified thus far are not
12 close to meeting the \$75 million stretch goal but efforts are continuing to pursue
13 this goal over time.

14 **Q. How much of the \$75 million stretch goal is due to the proposed transfer?**

15 A. The proposed transfer is not anticipated to generate any savings toward the \$75
16 million stretch goal. Hence, there is no factual basis to Mr. Kind's allegation.

17 **Q. Comment on Mr. Kind's testimony that alleges no AmerenUE employees**
18 **provided testimony in support of this application where he stresses that all**
19 **three of AmerenUE's witnesses are employees of Ameren Services, and ends**
20 **with the statement that "My experience with these witnesses is that they all**
21 **work to support the financial and strategic interest of AmerenUE's holding**
22 **company, Ameren."**

1 A. AmerenUE submitted a data request to Mr. Kind that requested all documentation
2 relied upon in making this statement. Mr. Kind had no documentation to provide.
3 Again, this is his opinion that has no basis in fact. I will speak for myself as one
4 of the three Ameren witnesses. As Ameren Services employees, we are required
5 to bill our time to specific service requests that correspond to the various needs of
6 the Ameren affiliates that contract with us to work for them. In 2003, 76% of my
7 time was billed to working exclusively for AmerenUE in doing resource planning
8 related work. Work that I have either managed, supervised or performed on
9 behalf of AmerenUE was significant and has been documented.

10 **Q. Are there Commission rules in place that hold AmerenUE or its**
11 **representatives accountable for the resource planning related work that they**
12 **do on behalf of AmerenUE.?**

13 A. Definitely. The Unanimous Stipulation And Agreement in Case No. EP-99-365
14 and modifications thereto set forth in Case No. EA-2000-37 concerning an
15 alternative to electric utility resource plan filings sets forth specific guidelines.
16 Documentation requirements which are sent directly to Staff and OPC include:

- 17 1. A description of the process used in deciding to acquire the
18 additional generating capacity resources;
- 19 2. A copy of AmerenUE's evaluations of the resource alternatives;
20 and
- 21 3. AmerenUE's reasons for its decisions.

22 In addition, AmerenUE is required to provide: (a) a description of the resource
23 needs and acquisitions; (b) the impact of the additional generating capacity

resources on capacity reserves; (c) the proposed ratemaking treatment for the additional generating capacity resources, and; (d) a copy of all proposals received for purchased generating capacity.

(C) **Mr. Kind's Contention that Ameren Is Seeking the Metro East Transfer to "Work Its Way Around" The Significant Opposition To The Transfer of AEG's Pinckneyville and Kinmundy Plants It Encountered When It Sought Approval of The Transfer From The ICC.**

Q. Please describe the actions at FERC that AmerenUE has pursued in regards to the proposed sale of AEG's Pinckneyville and Kinmundy plants.

A. FERC designated this case (Docket No. EC03-53-000) for hearing to determine whether the proposed sale and transfer from AEG to AmerenUE of transmission and generation facilities associated with certain generating assets may undermine competition, and thus may be inconsistent with the public interest.

Q. Has the FERC Presiding Administrative Law Judge (ALJ) ruled on this matter?

A. Yes. On February 5, 2004 Presiding Administrative Law Judge, Carmen A. Cintron, issued her initial decision.

Q. What was Judge Cintron's ruling?

A. Judge Cintron ruled that there is no evidence of affiliate abuse in this case. It was found that AmerenUE's proposed purchase of its affiliate's plants is on terms similar to any other competitive alternatives available, and is consistent with the public interest. Accordingly, pursuant to Section 203 of the Federal Power Act, 16 U.S.C. 824b ("FPA"), Judge Cintron recommended that the proposed transaction be approved and the transfer application be granted.

- 1 **Q. Will it be necessary to seek ICC approval in regards to the proposed sale of**
2 **AEG’s Pinckneyville and Kinmundy plants to AmerenUE?**
- 3 A. If the MPSC approves the Metro East transfer, it will not be necessary to seek
4 ICC approval since AmerenUE will no longer be doing business in Illinois,
5 assuming further the ICC approves the pending request to transfer the gas assets.
- 6 **Q. Discuss Mr. Kind’s testimony regarding the “significant opposition to the**
7 **transfer of AEG’s Pinckneyville and Kinmundy plants that it had**
8 **encountered when it sought approval of the transfer from the Illinois**
9 **Commerce Commission (ICC).”**
- 10 A. There is a fundamental philosophical difference between Illinois’ view on power
11 supply in a competitive environment and Missouri’s view on power supply in a
12 regulated environment. Illinois encourages vertically integrated electric utilities
13 to spin off their generation assets and to secure the capacity and energy needs of
14 electric distribution company customers through a competitive bidding process.
15 Missouri encourages regulated utilities to build and/or acquire assets that will not
16 expose customers to the risks of market price volatility.
- 17 **Q. Discuss the specific criticism that the ICC and NRG filed in regards to the**
18 **proposed sale of AEG’s Pinckneyville and Kinmundy plants to AmerenUE.**
- 19 A. Four witnesses disagreed with the price AmerenUE agreed to pay for the AEG
20 plants. The witnesses are ICC Staff witnesses Greg Rockrohr and Bruce Larson
21 and NRG witnesses Erchel Redd and Alexandr Rudkevich.
- 22 **Q. What was the basis for the ICC witnesses’s disagreement?**

- 1 A. The ICC disagreement was based on “trend” analysis of four pricing points of
2 recent CTG market sales done by ICC Staff witness Bruce Larson. Mr. Larson
3 testified that the trend analysis produced a “market” price of \$381/kW.
- 4 **Q. Please explain the validity or lack thereof of Mr. Larson’s valuation**
5 **methodology.**
- 6 A. Trend analysis is not an accepted method of valuation. Mr. Larson dropped the
7 highest sales price of CTGs and attempted to do a regression analysis on the four
8 remaining points. Aside from the invalidity of attempting a regression analysis
9 with only four data points, there was absolutely no statistical correlation with the
10 data used in Mr. Larson’s regression analysis.
- 11 **Q. What was the basis for the NRG witnesses’s disagreement?**
- 12 A. NRG’s testimony was that AmerenUE’s proposed purchase price of the
13 Pinckneyville and Kinmundy facilities from AEG is higher than the fair market
14 value of those facilities.
- 15 **Q. What was the basis for NRG’s testimony?**
- 16 A. NRG expert witness, Dr. Alexandr Rudkevich, used a mark-to-market model
17 approach to determine the value of Kinmundy and Pinckneyville.
- 18 **Q. What were Dr. Rudkevich’s conclusions?**
- 19 A. Dr. Rudkevich’s testimony was that the proposed purchase price of the
20 Pinckneyville and Kinmundy facilities from AEG was higher than the fair market
21 value of those facilities as determined by his modeling process.
- 22 **Q. Were Dr. Rudkevich’s working papers consistent with his testimony?**

1 A. No. Dr. Rudkevich's working papers directly contradicted his testimony. His
2 working papers showed that the market value of Kinmundy and Pinckneyville
3 exceeded their net book value.

4 **Q. How did the FERC ALJ rule on Dr. Rudkevich's testimony.**

5 A. FERC Presiding ALJ Carmen Cintron stated in paragraph 126 of her decision as
6 follows:

7 "NRG offered another pricing method, GE MAPS, which was utilized
8 by NRG witness Rudkevich. However, Mr. Rudkevich's analysis
9 was flawed and is accorded no weight here. First, Staff witness
10 Boner testified to several reasons why the GE MAPS model is limited
11 in its usefulness in this case, in part because it is grounded on the
12 flawed assumptions that the MISO will implement Locational
13 Marginal Pricing ("LMP") in March, 2004. Dr. Boner's testimony is
14 given substantial weight. Moreover, Dr. Rudkevich's revised direct
15 testimony (offered at hearing) differed materially from this initial
16 model (pre-filed direct testimony). Dr. Rudkevich's revised asset
17 valuation study demonstrates that the net book value of the Kinmundy
18 and Pinckneyville plants is at or below the fair market value of the
19 two units. Thus, NRG's proposed pricing methodology has proven to
20 be baseless and is given no weight here."

21
22 **Q. Did the Missouri Public Service Commission support AmerenUE's**
23 **purchase of Pinckneyville and Kinmundy ?**

24 A. Yes. In a letter to FERC, the MPSC made it clear that it views the
25 transaction as consistent with its preference for company-owned generation
26 and the Stipulation and Agreement that was approved in Case No. EC-2002-
27 1, and supported expeditious action by FERC to protect Missouri customers
28 from greater upward price volatility and reduced reliability of supply.

29 **Q. Did the FERC Staff support AmerenUE's purchase of Pinckneyville and**
30 **Kinmundy?**

1 A. Yes. All three FERC Staff witnesses reviewed the evidence and submitted
2 testimony supporting FERC approval of the transaction.

3 **Q. Did the OPC intervene at FERC in this proceeding?**

4 A. Yes. The OPC was allowed to intervene as a party in FERC Case No. EC-
5 03-53; however, the OPC chose not to actively participate in that case. After
6 the FERC hearings were completed, OPC sent a letter to FERC expressing its
7 thoughts pertaining to interpretation of the Stipulation and Agreement in
8 Case No. EC-2002-1.

9 **(D) Mr. Kind's Suggestion that AmerenUE Should In Effect Coerce**
10 **EEInc. To Renew Its Purchased Power Agreement With AmerenUE**
11 **That Terminates At The End of 2005, and His Related Contention**
12 **That if AmerenUE did so, the Capacity Resulting From The Transfer**
13 **Of The Metro East Load Would Not Be Needed.**

14 **Q. What is Mr. Kind's testimony in regards to EEInc.?**

15 A. Mr. Kind's testimony on page 9 beginning at line 10 is that "AmerenUE cannot
16 show that this application is "not detrimental" because the Company has not
17 performed an analysis comparing the proposed transfer to an extension of its
18 existing contract with Electric Energy, Inc (EEI) for the output from the Joppa
19 Plant."

20 **Q. Does Mr. Kind have additional testimony regarding EEInc.?**

21 A. Yes. On page 11 beginning at line 7 Mr. Kind's testimony is "Ameren owns 60%
22 of EEI and it does not explain why it cannot get a new cost-based contract that
23 would allow it to continue getting reasonably priced power from the Joppa plant
24 after the current contract with EEI expires at the end of 2005."

25 **Q. Does Mr. Kind have any other testimony regarding EEInc.?**

1 A. Yes. Beginning on page 30 in his testimony, Mr. Kind cites a Commission order
2 from a case in 1977 where the Commission granted AmerenUE the authority to
3 “guarantee” certain financial obligations of EEInc. Mr. Kind continues on page
4 31 of his testimony, that because of this “guarantee” AmerenUE is “entitled” to
5 the low cost EEInc. power.

6 **Q. Start at the beginning and provide background on the terms and conditions**
7 **of the Power Supply Agreement between EEInc. and AmerenUE.**

8 A. The Power Supply Agreement between EEInc. and the Sponsoring Companies,
9 one of whom was AmerenUE, has a term that ran from 1953 through 2005.
10 AmerenUE has the right to purchase up to 40% or approximately 405 MW of the
11 output of the EEInc. Joppa Plant during the term of the Power Supply Agreement,
12 which ends December 31, 2005.

13 **Q. What will happen after the termination of the contract on December 31,**
14 **2005?**

15 A. AmerenUE knows that EEInc. did not bid on AmerenUE’s RFP dated August
16 2001 for capacity and energy for the period 2002-2011 or any portion thereof. On
17 behalf of AmerenUE, I called the EEInc. President at the time, Mr. Robert
18 Powers, to confirm that EEInc. did not bid on AmerenUE’s RFP. Mr. Powers
19 acknowledged that EEInc. did not bid and did not intend to bid. I do not know
20 EEInc. plans for its capacity and energy after 2005.

21 **Q. Did any other companies to whom the August 2001 RFP was sent elect not to**
22 **bid?**

1 A. Yes. The RFP was sent out to approximately 50 bidders and approximately 30
2 elected not to bid.

3 **Q. AmerenUE followed the RFP process outlined in Case No. EA-2000-37 when**
4 **seeking bids for capacity and energy when Ameren affiliates were included in**
5 **the bidders list. Does Mr. Kind believe this process endorsed by the MPSC is**
6 **satisfactory?**

7 A. Apparently not. This is a confusing position for several reasons. Mr. Kind
8 suggests that, because AEG and AmerenUE, together, own a majority of the stock
9 of EEInc., Ameren should require EEInc. to submit a bid. Mr. Kind in essence is
10 proposing a form of “reverse affiliate abuse” where the regulated affiliate takes
11 advantage of the unregulated affiliate by forcing it to bid on a contract that the
12 unregulated affiliate does not want. Assuming that an affiliate could be forced to
13 bid, nothing would prevent it from bidding at a high price that would be designed
14 to lose the bid. However, Mr. Kind takes things a step farther- he wants EEInc. to
15 bid at cost, which Mr. Kind acknowledges is significantly below market.

16 **Q. Is it reasonable for Mr. Kind to expect that AmerenUE will dedicate**
17 **unregulated assets to regulated service?**

18 A. No. AmerenUE customers bear no cost responsibility for unregulated assets, nor
19 do they provide a return that reflects the risks of any unregulated enterprise. As
20 Mr. Gary Weiss discusses in his surrebuttal testimony, AmerenUE’s investment in
21 EEInc.’s stock has never been included in AmerenUE’s Missouri cost-of-service.
22 What Mr. Kind is effectively suggesting is that AmerenUE’s customers have first
23 call on unregulated assets for which they have borne no costs, and that it is

1 unreasonable for AmerenUE not to try to force dedication of those unregulated
2 assets into a regulated service.

3 **Q. Please discuss Mr. Kind’s claim that AmerenUE is “entitled” to EEInc.**
4 **output as the result of a “guarantee” of certain financial obligations cited**
5 **from a 1977 case.**

6 A. In the MPSC’s Order in the 1977 case cited by Mr. Kind, the Commission
7 described the benefit AmerenUE customers would gain from AmerenUE’s
8 “guarantee” of EEInc.’s financial obligations. The MPSC indicated that
9 AmerenUE customers would receive power at a cost of 1.5 cents per kilowatt
10 hour as compared to other purchases at 2.2 cents per kilowatt hour or new
11 generation at 2.0 cents per kilowatt hour. Assuming a delivery of 400 MW for 13
12 weeks, the benefit from the lower cost energy would amount to an annual savings
13 to AmerenUE customers of \$4-6 million.

14 **Q. What was the amount of the offering for which AmerenUE provided a**
15 **“guarantee”?**

16 A. The offering was for \$9.9 million and AmerenUE’s portion was 40% or \$3.96
17 million as a 40% owner.

18 **Q. What is the current status of that offering?**

19 A. The debt referred to in Mr. Kind’s testimony has been retired.

20 **Q. Did the bond holder have to exercise its right to make AmerenUE cover**
21 **EEInc.’s financial obligations associated with the bond?**

22 A. No, EEInc. satisfied all financial obligations associated with the debt issued
23 during its term of issuance. AmerenUE never paid a dime on its guarantee.

1 **Q. Do you believe AmerenUE customers have received sufficient value from**
2 **their “guarantee” of this offering?**

3 A. Yes, they have received value far in excess of the potential obligation AmerenUE
4 accepted at that time. And, as noted above, in any event the potential obligation
5 was a potential obligation of AmerenUE shareholders, not Missouri ratepayers.

6 **Q. Is Mr. Kind consistent in his application of how AmerenUE should conduct**
7 **an RFP process for securing capacity and energy?**

8 A. No. When Mr. Kind does not agree with the results of an RFP process such as the
9 August 2001 RFP that resulted in the decision for AmerenUE to buy the
10 Kinmundy and Pinckneyville CTGs, Mr. Kind would prefer that the RFP be re-
11 issued in the hopes that a transaction with a non-Ameren affiliate will appear that
12 is more economic than the purchase of Kinmundy and Pinckneyville. When an
13 Ameren affiliate such as EEInc. elects not to bid on an AmerenUE RFP, and Mr.
14 Kind perceives that there is value associated with the Ameren affiliate, Mr. Kind
15 proposes that the RFP process be foregone and that Ameren simply force the
16 affiliate to submit a bid at cost.

17 **(E) Mr. Kind’s Contention That Regardless of the Status of the EEInc.**
18 **Power Purchase Agreement After 2005, AmerenUE Does Not Need**
19 **The Capacity Resulting From the Transfer of the Metro East Load in**
20 **2004 and 2005.**

21 **Q. Please state your understanding of Mr. Kind’s testimony in regards to the**
22 **capacity needs of AmerenUE.**

23 A. ** _____
24 _____
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Q. Please comment.

A. Here Mr. Kind finally provided some analysis rather than a mere opinion. Unfortunately, Mr. Kind’s analysis of AmerenUE’s capacity situation with or without the Metro East transfer is nowhere close to reality. This is extremely frustrating because we discuss AmerenUE’s capacity position with Staff and OPC extensively at our semi-annual AmerenUE resource planning briefing sessions.

**

** Yet, his testimony is that in 2004 AmerenUE’s capacity needs drop to 170 MW at a 15% planning reserve margin and 330 MW at a 17% planning reserve margin. If Mr. Kind had done any type of “sanity” check on his analysis, it should be apparent to him that his analysis is incorrect.

Q. Please comment on the errors in Mr. Kind’s analysis of the AmerenUE capacity position.

A. It is critical that all material assumptions for resource planning purposes be spelled out when defining AmerenUE’s capacity position. The first assumption in Mr. Kind’s analysis is that the Metro East transfer will not be approved. The second assumption follows from the first. If the Metro East transfer is not approved, the sale of the AEG Kinmundy and Pinckneyville units to AmerenUE will not happen unless AmerenUE gets approval from the ICC. Attached as

1 Schedule 1 is the correct analysis of AmerenUE's capacity position under these
2 assumptions. I note that Schedule 1 contains Highly Confidential information.

3 **Q. What is the correct AmerenUE capacity position?**

4 A. ** _____
5 _____
6 _____ **

7 **Q. Does AmerenUE need both the Metro East transfer and the purchase of**
8 **Kinmundy and Pinckneyville to meet its planning reserve margin**
9 **requirements in 2004 and 2005?**

10 A. ** _____
11 _____
12 _____
13 _____
14 _____
15 _____
16 _____ **

17 **Q. What is the total capacity that AmerenUE would add to its system if both the**
18 **Metro East transfer related capacity and the Kinmundy and Pinckneyville**
19 **capacity are included?**

20 A. The capacity related to Kinmundy and Pinckneyville is 548 MW. The capacity
21 related to the Metro East transfer is approximately 570 MW. The total amount of
22 capacity for both transactions is approximately 1,118 MW.

1 **Q.** ** _____
2 _____
3 _____**

4 **A.** Yes. It is important to note that neither the acquisition of Kinmundy and
5 Pinckneyville nor the Metro East transfer by themselves will meet AmerenUE's
6 capacity needs for any of the years 2004 and beyond. Consequently, both are
7 needed to meet AmerenUE's short and long term capacity requirements. It is not
8 unusual to exceed minimum planning reserve margin levels when adding blocks
9 of baseload capacity, which is what the Metro East transfer represents. The
10 reason is that unlike peaking units, which can be added in blocks as small as 50
11 MW, baseload capacity is typically in blocks of 500 MW and greater.
12 Consequently, in those years where AmerenUE has capacity that can be sold to
13 the market, AmerenUE will analyze options to sell capacity in the short and long-
14 term markets and will make decisions that will maximize the value of its
15 generating assets.

16 **Q.** **In regards to managing capacity assets, Mr. Kind alleges in his testimony on**
17 **page 28 beginning at line 24 that "it seems unlikely that AmerenUE could be**
18 **counted on to aggressively market the excess capacity in long term PSAs**
19 **since the Company has not been doing this effectively since it merged with**
20 **CIPS several years ago." Please comment.**

21 **A.** This is another of Mr. Kind's confusing and baseless allegations. This baseless
22 allegation is frustrating because Mr. Kind has been part of the AmerenUE
23 capacity RFP design processes which we have used to solicit offers to buy

NP

1 capacity over the past several years. Mr. Kind should be well aware of the history
2 of AmerenUE's capacity positions. We sent a data request to Mr. Kind for the
3 documentation relied upon to make this statement. Mr. Kind has none. The fact
4 regarding AmerenUE's capacity position is that AmerenUE has been in a short
5 position and has not had capacity to sell. Therefore, how can AmerenUE
6 effectively sell capacity which it does not have and has not had?

7 (F) **Mr. Kind's Contention that AmerenUE's Resource Planning Process**
8 **Is Flawed For Multiple Reasons Including Not Analyzing The Entire**
9 **Range Of Resource Options.**

10 Q. What is Mr. Kind's testimony on this point?

11 A. Mr. Kind's testimony is summarized on page 44, line 9 where he states
12 "AmerenUE has not met its burden of proving that it analyzed the entire range of
13 potential least cost resource options to determine the least cost resource because it
14 did not even explore and evaluate all existing know resource options."

15 Q. Does Mr. Kind's testimony regarding AmerenUE's analysis of resource
16 options have merit?

17 A. Absolutely none at all. The issue in this case is whether the Metro East transfer is
18 detrimental to the public interest. In any event, there have been numerous forums
19 in addition to the semi-annual AmerenUE resource planning meetings with Staff
20 and OPC where AmerenUE resource options have in fact been discussed and
21 analyzed. I will cite three specific forums where written records attest to the
22 extensive documentation of AmerenUE's analyses of its resource options. First,
23 pursuant to the Unanimous Stipulation and Agreement in Case No. EO-99-365
24 and modifications thereto set forth in Case No. EA-2000-37 concerning an
25 alternative to electric utility resource plan filings, AmerenUE sent a letter to OPC

1 dated January 29, 2003 notifying OPC of AmerenUE's decision to purchase
2 AEG's Kinmundy and Pinckneyville plants at net book value. Included in that
3 letter was an analysis of AmerenUE's evaluations of the resource alternatives.
4 Second, Mr. Kind has made references to the Illinois docket (Docket No. 03-
5 0083) wherein AmerenUE sought ICC approval to purchase the Kinmundy and
6 Pinckneyville plants. The written record in that docket expands upon the
7 evaluation of resource alternatives available to AmerenUE. Finally, FERC
8 Docket No. EC03-53-000, which covered AmerenUE's analysis of resource
9 options used in making its decision to purchase Kinmundy and Pinckneyville, has
10 over 1,400 pages of testimony attesting to the evidence that supports this decision.

11 **Q. Please discuss the resource alternatives available to AmerenUE cited by**
12 **FERC Presiding ALJ Carmen Cintron in her initial decision dated**
13 **February 5, 2004, starting with the NRG Audrain County peaking facility.**

14 A. Paragraph 175 of Judge Cintron's decision states "The testimony of Ameren
15 witness Pfeiffer and Staff witness Gross reveals that the AEG plants offer greater
16 reliability to the Ameren control area than would NRG's Audrain facility. Those
17 witnesses' testimony is given great weight." Paragraph 176 states "The Audrain
18 Plant experienced two generator step-up ("GSU") transformer failures in June,
19 2001 which Staff witness Gross attributes to a design flaw that still exists.
20 ...Audrain has eight units which have not run at the same time, have not been
21 dispatched for one year, and only offer 600 MW summer net capability."
22 Paragraph 181 states "Dr. Rudkevich's testimony that the Pinckneyville and

1 Kinmundy plants enjoyed an unfair competitive advantage over the Audrain plant
2 or other IPPs in obtaining transmission service from Ameren is baseless.”

3 **Q. What does Judge Cintron state regarding Aquila’s Raccoon Creek plant?**

4 A. Paragraph 184 states “Aquila’s Raccoon Creek plant, which is located in
5 Ameren’s control area and which was subsequently offered for sale, was not a
6 viable option due to transmission constraints that Ameren witness Mr. Pfeiffer
7 testified to. According to Mr. Pfeiffer, there were existing constraints on
8 AmerenCIPS’ 345 kV Newton-Mt. Vernon line, Illinois Power’s Coffeen-
9 Roxford line, and local 138 kV facilities ... Mr. Pfeiffer testified that no
10 transmission customer has yet sought to confirm long-term transmission service
11 that would justify undertaking the project.”

12 **Q. What does Judge Cintron state regarding Reliant’s Aurora peaking facility?**

13 A. Paragraph 183 cites “According to Mr. Voytas, the Aurora facility, which is
14 located in the Commonwealth Edison (“ComEd”) service area, did not have firm
15 transmission to the Ameren border due to transmission limitations on the ComEd
16 system.”

17 **Q. What does Judge Cintron state regarding the Constellation New Holland
18 combined cycle plant?**

19 A. Paragraph 174 states “The Constellation project was still in the construction phase
20 at the time of the RFP, and was a combined cycle plant that did not meet the
21 operational characteristics for peaking power.” To suggest as Mr. Kind does, that
22 AmerenUE is blind to other resource options, is simply untrue. Other resource

1 options were considered and determined to be not viable, and not just by
2 AmerenUE.

3 **Q. On page 37, beginning at line 8, Mr. Kind alleges that a new power supply**
4 **offer has been received by Ameren. Since Ameren has not pursued the offer,**
5 **Mr. Kind concludes “that Ameren is not genuinely interested in pursuing**
6 **alternatives to the proposed transfer even if they might be less costly and**
7 **might have less adverse rate impacts on consumers than the proposed**
8 **transfer.” Please comment.**

9 A. Mr. Kind continues to ignore the facts. Mr. Kind presents a portion of one of my
10 responses to his data requests in an attempt to bolster his allegation. There are
11 two critical portions of my response that he elected to omit from his testimony.
12 One is that the proposal in question was received in November 2003, two months
13 after my testimony was submitted in September 2003. The second is my detailed
14 explanation of why the operating characteristics of the specific bid, which was for
15 output from a combined cycle plant, do not match the operating requirements of
16 AmerenUE.

17 **Q. Please discuss the power supply offer received in November 2003 in detail.**

18 A. The details are described in the following series of questions and answers.

19 **Q. In its November 17, 2003 “Proposal to Ameren for Firm Capacity and**
20 **Energy,” what generating asset did the supplier identify as the source of**
21 **generation supply?**

22 A. ** _____
23 _____

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1 A. First, in NRG's testimony at FERC, NRG revised its offer to \$391/kW. This
2 \$/kW number was based on the nameplate rating of the NRG CTGs. AmerenUE
3 rates its machines on the summer net capability rating. Using the correct rating,
4 the NRG's effective price was approximately \$420/kW. Knowing that the NRG
5 GSU transformers have a serious design flaw and need to be replaced and
6 accounting for other unknown deficiencies at the plant since it has never operated
7 at 100% of full output, it is reasonable to assume that the plant needs a minimum
8 of \$10 million in repairs. That adds an additional \$17/kW to the cost which now
9 becomes \$437/kW. The NRG units are heavy frame CTGs which have operating
10 characteristics that are not beneficial. Regardless of price, the NRG plant has one
11 fundamental problem that makes the plant virtually worthless - it does not have
12 firm outlet transmission capability for any of the plant output.

13 **(H) Least Cost Planning For Regulated Missouri Electric Utilities.**

14 **Q. Please cite the section of the Missouri Electric Utility Resource Planning rule**
15 **that specifies the time horizon for least cost planning studies.**

16 A. 4 CSR 240-22.060 (4) provides as follows: "The analysis shall cover a planning
17 horizon of at least twenty (20) years."

18 **Q. What is Mr. Kind's testimony in regards to his opinion of the time horizon?**

19 A. Mr. Kind's testimony on page 25, line 4 is "For example, if UE had an option to
20 enter into a five or ten year power supply agreement (PSA) that would lead to
21 lower rates during a five or ten year period than the proposed transfer, I would
22 argue that the proposed transfer was not the Company's least cost option."

1 **Q. Have any members of this Commission written an opinion regarding the**
2 **preference of serving AmerenUE native load with owned generation rather**
3 **than with power supply agreements?**

4 A.. Yes. In his concurring opinion to accept the unanimous Stipulation and
5 Agreement in Case No. EC-2002-1, Commissioner Steve Gaw wrote “The parties
6 have agreed to an investment plan for Ameren, which will improve its ability to
7 serve native load with owned generation. This is a continuation of the traditional
8 philosophy that ratepayers should have reliability of service by receiving
9 electricity generated from the regulated company’s own assets.....Furthermore, it
10 protects Missouri customers of Ameren from the up and down ride of the
11 unregulated market even as it is cast against a national momentum away from this
12 goal.”

13 **Q. Does Mr. Kind propose performing least cost planning analyses on a basis**
14 **that is contrary to Missouri rules?**

15 A. Apparently so based on my understanding.

16 **Q. Are Mr. Kind’s preferences to enter into 5 or 10 year power supply**
17 **agreements to meet AmerenUE’s future resource needs in line with the**
18 **expressed opinions of this Commission?**

19 A. No.

20 **(I) Allegation That AmerenUE Should Have Allowed For Increased**
21 **Environmental Compliance Associated With The Metro East**
22 **Transfer**

23 **Q. What is Mr. Kind’s testimony in regards to the potential impact of**
24 **environmental compliance costs on the AmerenUE least cost analysis of the**
25 **Metro East transfer?**

1 A. Page 26, line 22 of Mr. Kind's testimony states "...Mr. Voytas should have
2 allowed for increased environmental compliance costs that will be associated with
3 the 600 MW of transferred capacity (which includes a high proportion of coal-
4 fired capacity that relies on banked allowances to be operated economically) due
5 to the depletion of much of UE's bank of SO2 allowances."

6 **Q. Did you allow for increased environmental compliance costs in your least**
7 **cost analysis of the Metro East transfer?**

8 A. No. I defer to Ameren witness James C. Moore's testimony who addresses the
9 issue of SO2 emission allowances. There is no way to determine what future
10 regulations will be in place and what requirements for technology installations
11 will be required at AmerenUE power plants over the next twenty years.

12 **Q. Does this conclude your testimony?**

13 A. Yes, it does.

Schedule 1

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been sent to all parties of record this 1st day of March, 2004 by electronic mail (e-mail) or U.S. Mail.

/s/ Joseph H. Raybuck
