**RIDER FAC**

**FUEL AND PURCHASED POWER ADJUSTMENT CLAUSE (Cont'd.)**

**(Applicable To Calculation of Fuel Adjustment Rate for the Billing Months of February 2016 through May 2016)**

Calculation of Current Fuel Adjustment Rate (FAR):

| | | | |
|---|---|---|---|
| | Accumulation Period Ending: | | September 30, 2015 |
| 1. | Actual Net Energy Cost = (ANEC) (FC+PP+E-OSSR) | | $248,514,856 |
| 2. | Net Base Energy Cost (B) = (BF x $S_{AP}$) | - | $247,972,525 |
| | 2.1 Base Factor (BF) | | $0.01796/kWh |
| | 2.2 Accumulation Period Sales ($S_{AP}$) | | 13,806,933,516 kWh |
| 3. | Total Company Fuel and Purchased Power Difference | = | $542,331 |
| | 3.1 Customer Responsibility | x | 95% |
| 4. | Fuel and Purchased Power Amount to be Recovered | = | $515,214 |
| | 4.1 Interest (I) | - | $733,656 |
| | 4.2 True-Up Amount (T) | + | $566,101 |
| | 4.3 Prudence Adjustment Amount (P) | ± | |
| 5. | Fuel and Purchased Power Adjustment (FPA) | = | $347,659 |
| 6. | Estimated Recovery Period Sales ($S_{RP}$) | ÷ | 25,505,753,964 kWh |
| 7. | Current Period Fuel Adjustment Rate ($FAR_{RP}$) | = | $0.00001/kWh |
| 8. | Prior Period Fuel Adjustment Rate ($FAR_{RP-1}$) | + | $0.00183/kWh |
| 9. | Fuel Adjustment Rate (FAR) | = | $0.00184/kWh |

**Initial Rate Component For the Individual Service Classifications**

| | | | |
|---|---|---|---|
| 10. | Secondary Voltage Adjustment Factor ($VAF_{SEC}$) | | 1.0575 |
| 11. | Initial Rate Component for Secondary Customers | | $0.00195/kWh |
| 12. | Primary Voltage Adjustment Factor ($VAF_{PRI}$) | | 1.0252 |
| 13. | Initial Rate Component for Primary Customers | | $0.00189/kWh |
| 14. | Transmission Voltage Adjustment Factor ($VAF_{TRAN}$) | | 0.9917 |
| 15. | Initial Rate Component for Transmission Customers | | $0.00182/kWh |

**FAR Applicable to the Individual Service Classifications**

| | | | |
|---|---|---|---|
| 16. | FAR for Industrial Aluminum Smelter Service ($FAR_{IAS}$)<br>(The lesser of $0.00200/kWh or Line 15) | | $0.00182/kWh |
| 17. | Difference (Line 15 – Line 16) | = | $0.00000/kWh |
| 18. | Estimated Recovery Period Metered Sales for IAS ($S_{IAS}$) | | 2,815,930,236 kWh |
| 19. | FAR Shortfall Adder (Line 17 x Line 18) | | $0 |
| 20. | Per kWh FAR Shortfall Adder (Line 19 / (Line 6 – $S_{RP-IAS}$)) | = | $0.00000/kWh |
| 21. | FAR for Secondary Customers ($FAR_{SEC}$)<br>(Line 11 + (Line 20 x Line 10)) | = | $0.00195/kWh |
| 22. | FAR for Primary Customers ($FAR_{PRI}$)<br>(Line 13 + (Line 20 x Line 12)) | = | $0.00189/kWh |
| 23. | FAR for Transmission Customers ($FAR_{TRAN}$)<br>(Line 15 + (Line 20 x Line 14)) | = | $0.00182/kWh |

# MEMORANDUM

To: Missouri Public Service Commission

From: Lena Mantle, Senior Analyst
Office of the Public Counsel

Date: January 7, 2016

Re: Case No. ER-2016-0130 Recommendation to Reject Tariff Filing YE-2016-0129

**Recommendation**

The Commission should reject Ameren Missouri's tariff filing YE-2016-0129. The adjustment calculated by Ameren Missouri to off-system sales revenue ("OSSR") due to a reduction of service classification 13(M) billing determinants does not comply with the tariff language found on Ameren Missouri tariff sheet 73.4.

OPC is not contesting that this provision applies to Accumulation Period 20 ("AP20") or the kilowatt-hours ("kWhs") used in calculating the adjustment. However, the adjustment is incorrect because the price used by Ameren Missouri to determine the amount of the adjustment is incorrect.

**Tariff Language**

The tariff provision, commonly referred to as the "N Factor," found in Ameren Missouri's tariff on sheet 73.4 is as follows:

> Should the level of monthly billing determinants under Service Classifications 12(M) or 13(M) fall below the level of normalized 12(M) or 13(M) monthly billing determinants as established in Case No. ER-2014-0258, an adjustment to OSSR [costs and revenues in FERC account 447] shall be made in accordance with the following levels:
>
> a) A reduction of less than 40,000,000 kWh in a given month
>
> - No adjustment will be made to OSSR.
>
> b) A reduction of 40,000,000 kWh or greater in a given month
>
> - An adjustment excluding off-system sales revenue from OSSR will be made equal to the lesser of (1) all off-system sales revenues derived from all kWh of energy sold off-system due to the entire reduction, or

Attachment B

(2) off-system sales revenues up to the reduction of 12(M) or 13(M) revenues compared to normalized 12(M) or 13(M) revenues as determined in Case No. ER-2014-0258.

## Discussion Regarding Tariff Language

The billing determinants of 13(M) fell more than 40,000,000 kWh in the months of July, August and September making b) above applicable. Therefore, an adjustment to OSSR should be made in determining the Actual Net Energy Cost for the accumulation period. Since the price that Ameren Missouri achieved for its off-system sales is less than the 13(M) retail rate, (1) is applicable to this filing.

The amount of the adjustment to OSSR is calculated as the reduction in usage multiplied by a price. Since there is no disagreement regarding the reduction in billing determinants (i.e. usage), the question then becomes what price should be used to calculate the adjustment to off-system sales revenues. The tariff states the adjustment should be equal to "all off-system revenues **derived from all kWh of energy sold off-system** due to the entire reduction" (emphasis added). The appropriate price is the average price received by Ameren Missouri for off-system sales for each month. The average price is **derived from all kWh of energy Ameren Missouri sold off-system** in each month. This price is determined for each month by dividing the off-system sales revenue received in the month by the kWhs sold by Ameren Missouri in that month.

Instead of deriving the adjustment from off-system sales revenues and kWh sold, Ameren Missouri used the average monthly market rate at the MISO CP node. The differences in the average MISO market price reported by Ameren Missouri and the price derived by Ameren Missouri are shown in the table below.

| | MISO Average Market Price $/MWh | Ameren Missouri Derived $/MWh |
|---|---|---|
| July 2015 | ** ** | ** ** |
| August 2015 | ** ** | ** ** |
| September 2015 | ** ** | ** ** |

## Impact

Using the derived price per MWh Ameren Missouri received in each month results in an adjustment to OSSR of $2,660,851. Schedule 1 shows the calculation of the fuel adjustment rate ("FAR") for AP20 incorporating this adjustment to OSSR. The FAR shown in Schedule 1 is $0.00002/kWh less than the FAR in Ameren Missouri's tariff filing. This would lower a customer's bill by $0.02 for each 1000 kWh used. For Ameren Missouri's large industrial customers, this difference will have an impact on their electric bills.

## Additional Concern With the N Factor

Off-system sales revenues are included in the FAC to off-set the cost of fuel to meet the customers' load requirements. The N Factor was first approved by the Commission in July 2011, effective July 31, 2011. In the summer of 2011, the off-system sales margin (off-system sales revenues minus off-system sales costs) for Ameren Missouri was ** **.

Between the summers of 2011 and 2015, the price at which Ameren Missouri sold energy dropped considerably and the cost to generate the energy increased. In the summer of 2015, the off-system sales margin prior to the adjustment allowed by the N Factor was **

**.

Given the same reduction in Class 13(M) sales as seen in AP20, the reduction to off system revenue, calculated using the Ameren Missouri derived priced for the summer of 2011 would have been ** ** or approximately ** ** percent of the margin achieved by Ameren Missouri in 2011. The other ** ** percent of the off-system sales margin would have allowed a considerable off-set to fuel costs in 2011. In the summer of 2015, the inclusion of the adjustment results in the off-system sales margin dropping to ** **.

There is no off-system sales margin to off-set fuel cost in AP20, and the N Factor amplifies this situation. This is a consequence of the provision that was not envisioned or accounted for when the provision was drafted and approved.

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

| | | |
|---|---|---|
| In the Matter of the Adjustment of | ) | |
| Union Electric Company d/b/a Ameren | ) | |
| Missouri's Fuel Adjustment Clause | ) | File No. ER-2016-0130 |
| for the 20th Accumulation Period | ) | |

**AFFIDAVIT OF LENA M. MANTLE**

| | | |
|---|---|---|
| **STATE OF MISSOURI** | **)** | |
| | **)** | **ss** |
| **COUNTY OF COLE** | **)** | |

Lena Mantle, of lawful age and being first duly sworn, deposes and states:

1. My name is Lena Mantle. I am a Senior Analyst for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my memorandum.

3. I hereby swear and affirm that my statements contained in the attached memorandum are true and correct to the best of my knowledge and belief.

Lena M Mantle

Lena M. Mantle
Senior Analyst

Subscribed and sworn to me this 7th day of January 2016.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037

Jerene A Buckman

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

**Ameren Missouri**
**Rider FAC**
**Fuel and Purchased Power Adjustment Clause**

**Calculation of Current Fuel Adjustments Rate (FAR):**

| | | | |
|---|---|---|---|
| **Accumulation Period Ending:** | | | **September 30, 2015** |
| 1. Actual Net Energy Cost (ANEC) (FC+CPP+E-OSSR) | | $ | 247,995,780 |
| 2. Net Base Energy Cost (B) | - | $ | 247,972,525 |
| 2.1 Base Factor (BF) | x | | 0.01796 |
| 2.2 Accumulation Period Sales ($S_{AP}$) kWh | | | 13,806,933,516 |
| 3. Total Company Fuel and Purchased Power Difference | = | $ | 23,255 |
| 3.1 Customer Responsibility | x | | 95% |
| 4. Fuel and Purchased Power Amount to be Recovered | = | $ | 22,092 |
| 4.1 Interest (I) | ± | $ | (734,147) |
| 4.2 True-Up Amount (T) | ± | $ | 566,101 |
| 4.3 Prudence Adjustment Amount (P) | ± | $ | - |
| 5. Fuel and Purchased Power Adjustment (FPA) | = | $ | (145,954) |
| 6. Estimated Recovery Period Sales ($S_{RP}$) kWh | ÷ | | 25,505,753,964 |
| 7. Current Period Fuel Adjustment Rate ($FAR_{RP}$) | = | $ | (0.00001) |
| 8. Prior Period Fuel Adjustment Rate ($FAR_{RP-1}$) | + | $ | 0.00183 |
| 9. Fuel Adjustment Rate (FAR) | = | $ | 0.00182 |
| **Initial Rate Component For the Individual Service Classifications:** | | | |
| 10. Secondary Voltage Adjustment Factor ($VAF_{SEC}$) | | | 1.0575 |
| 11. Initial Rate Component for Secondary Customers | | $ | 0.00192 |
| 12. Primary Voltage Adjustment Factor ($VAF_{PRI}$) | | | 1.0252 |
| 13. Initial Rate Component for Primary Customers | | $ | 0.00187 |
| 14. Transmission Voltage Adjustment Factor ($VAF_{TRAN}$) | | | 0.9917 |
| 15. Initial Rate Component for Transmission Customers ($FAR_{TRAN}$) | | $ | 0.00180 |

Changes from Ameren Missouri's calculations are highlighted

Via: E-Mail

January 7, 2016

# M E M O R A N D U M

**To:** MIEC File

**From:** Greg Meyer

**Re:** Case No. ER-2016-0130 Concerns with Tariff Filing YE-2016-0129

## Recommendation

The Commission should revise Ameren Missouri's tariff language contained on Sheet No. 73.4, that portion of the Fuel Adjustment Clause ( FAC) that is commonly referred to as the "N Factor," to avoid the over collection of lost revenues associated with a Noranda load reduction from the levels used to determine rates in Ameren Missouri's last rate case, Case No. ER-2014-0258. Without this proposed revision, the N Factor adjustment contemplated by the loss of significant Noranda load may, depending on the market price of power, result in Ameren Missouri realizing a windfall in revenues, above that contemplated without the loss of Noranda load, all at the expense of ratepayers, recognizing excess lost revenues from the monthly Noranda load reduction.

## Tariff Language

The tariff provision, found in Ameren Missouri's tariff on Sheet 73.4 is as follows:

> Should the level of monthly billing determinants under Service Classifications 12(M) or 13(M) fall below the level of normalized 12(M) or 13(M) monthly billing determinants as established in Case No. ER-2014-0258, an adjustment to OSSR [costs and revenues in FERC Account 447] shall be made in accordance with the following levels:
>
> a) A reduction of less than 40,000,000 kWh in a given month.

- No adjustment will be made to OSSR.

b) A reduction of 40,000,000 kWh or greater in a given month.

- An adjustment excluding off-system sales revenue from OSSR will be made equal to the lesser of (1) all off-system sales revenues derived from all kWh of energy sold off-system due to the entire reduction, or (2) off-system sales revenues up to the reduction of 12(M) or 13(M) revenues compared to normalized 12(M) or 13(M) revenues as determined in Case No. ER-2014-0258.

## Current N Factor Calculation

Currently, the N Factor calculation for reduced Noranda load allows the average sale price of the power to be sold to Noranda but sold off system to be applied to the total reduced load from Noranda during the month and the resultant product excluded from the off system sales component of the FAC calculation. For example, if Noranda's load was reduced by 42,000 MWhs (or 42,000,000 kWhs), Ameren Missouri would be allowed to reduce the off system sales component of the FAC calculation by the "revenues derived from all kWh of energy sold off-system due to the entire reduction" in Noranda's load.

By allowing Ameren Missouri to recover the total amount of "revenues derived from all kWh of energy sold off-system due to the entire reduction," (assuming that those revenues are less than the revenues that would have been realized from Noranda's purchase of that power) the tariff is allowing Ameren Missouri a windfall any time that the adjustment under the N Factor is greater than Ameren Missouri's margin contemplated under Noranda's rate. This is so because by operation of the FAC the cost of the fuel to produce that power is still borne by ratepayers even though the power is not sold to ratepayers but rather sold off system. In other words, all fuel costs incurred to serve retail load or make Off-System Sales ("OSS") are included in the recovery under the FAC. In the current tariff, during the summer period, Noranda is charged $45.78 per MWh for all power consumed. Of that $45.78 rate, $17.96 represents the average fuel costs to serve all customers. Thus, the revenues associated with the recovery of fixed costs for Ameren Missouri is $27.82 per MWh ($45.78- $17.96). This is the true lost revenue per MWh that Ameren Missouri is being deprived of from a loss or reduction to the Noranda load because, as indicated above, the FAC mechanism still requires ratepayers to pay the fuel costs to produce that off system revenue.

The intent of the tariff language in Sheet 73.4 was to allow recovery of Ameren Missouri's lost revenues that would recover fixed costs when the Noranda load was reduced from the amounts included in the rate case. However, it was not intended to allow Ameren Missouri to reap additional revenues (fuel cost recovery) above those out-of-pocket (recovery of fixed costs or margin) revenues that Ameren Missouri would experience. Ameren Missouri should not be allowed to gain a windfall at the expense of ratepayers from a reduced Noranda load and that clearly was not the intent of the N Factor tariff. However, this is precisely what might occur in the months ahead and it is only luck that this did not happen during the summer months which all covered in this FAC filing.

In the summer months of this FAC filing, Noranda had reduced loads from Ameren Missouri during July, August and September. The average sales price by Ameren Missouri of the power that would have been sold to Noranda, but was rather sold off system, during these months is listed below. It should be noted that I support the actual realized average price derived from OSS sales as presented by the OPC.

| Month | Average Market Price (Ameren Missouri Position) | Average Price Realized from OSS (OPC & MIEC Position) |
|---|---|---|
| July | ** ** | ** ** |
| August | ** ** | ** ** |
| September | ** ** | ** ** |

Since the average prices listed above ** ** the $27.82 fixed cost recovery revenue level (margin rate), Ameren Missouri would ** ** than was contemplated by the intent of the tariff provision. However, that situation ** ** be present in the non-summer months and will provide excessive revenue to Ameren Missouri for the reduced Noranda loads. The example below highlights my concern.

| | |
|---|---|
| Noranda Non-Summer Rate | $31.11 |
| Average Fuel Component in FAC | $17.29 |
| Lost Fixed Cost Recovery (Margin) | $13.82 |

If during October, Noranda continued to take less power than contemplated in the rate case, Ameren Missouri will be collecting lost revenues from the N Factor adjustment as a result of the reduced Noranda load.

| | |
|---|---|
| Reduced Noranda Load | 42,000 MWhs (42,000,000 KWhs) |
| Margin Revenues not Recovered by Ameren Missouri as a result of reduced sales to Noranda | 42,000 * 13.82 = $580,440 |
| Average Sales price for OSS | $24.00 per MWh |
| Ameren Missouri N Factor Lost Revenue Recovery | 42,000 * $24 = $1,008,000 |
| Over recovery of Ameren Missouri Revenues | $1,008,000 - $580,440 = $427,560 |

The almost half a million dollars in the month represents the monthly windfall to Ameren Missouri from the loss of part of the Noranda load. This unintended consequence of the tariff language needs to be addressed now or Ameren Missouri will enjoy excessive revenue collections at the expense of ratepayers.

The solution is for the Commission to state that Ameren Missouri's recovery of lost revenues is capped by the amount of margin (fixed cost recovery in revenues) that exists during the summer and non-summer months.

## Summary

I recommend that the Commission revise tariff Sheet 73.4 to explicitly say that Ameren Missouri is only entitled to recovery of those revenues which represent lost fixed cost recovery, or margin revenues, for each FAC period until this tariff is subject to review in Ameren Missouri's next rate case.

I would also note that my recommendation in this case does not constitute an acceptance of this calculation for future rate cases or in any way be an endorsement of this clause in Ameren Missouri's tariff.

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