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Witness: Jaime Haro
Sponsoring Party: Union Electric Company
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CASE NO. EO-2010-0255

DIRECT TESTIMONY

OF

JAIME HARO

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

St. Louis, Missouri
October, 2010

Ameren Mo Exhibit No. 1
Date 1-10-11 Reporter Jenni
File No. EO-2010-0255

DIRECT TESTIMONY
OF
JAIME HARO
CASE NO. EO-2010-0255

1 **Q. Please state your name and business address.**

2 A. My name is Jaime Haro. My business address is One Ameren Plaza,
3 1901 Chouteau Avenue, St. Louis, Missouri.

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

5 A. I am Director, Asset Management and Trading for Union Electric Company d/b/a
6 Ameren Missouri ("Ameren Missouri" or "Company").

7 **Q. Please describe your educational background and employment experience.**

8 A. I received a Bachelor's degree in Electro-mechanical Engineering from
9 Universidad Panamericana (Mexico City, Mexico) in 1995 and a Master of Business
10 Administration degree from Tulane University in 1998. From 1992 to 1998, I held several
11 positions with Grupo Bursatil Mexicano ("GBM"), a leading Mexican financial services and
12 brokerage firm, dealing with money markets, currency exchange, debt placement, and risk
13 management. In 1998, I joined AmerenEnergy Inc. ("AE") and worked as an energy trader of
14 real time energy products before assuming an analytical support position in the long-term energy
15 market trading area of AE. From 1999 to 2004, I led the group within AE that provided
16 quantitative analysis for AE's trading operations. In 2004, I became responsible for trading
17 operations, including managing the transition to trading AmerenUE's power (with AE acting as
18 AmerenUE's agent) in the Day 2 energy markets started by the Midwest Independent
19 Transmission System Operator, Inc. ("Midwest ISO") on April 1, 2005. On December 31, 2006,

1 the Joint Dispatch Agreement between AmerenUE and AmerenCIPS terminated and as a result,
2 effective January 1, 2007, AE's activities were solely related to AmerenUE's generation asset
3 management, including the trading and marketing operations. On January 1, 2008, AmerenUE
4 terminated the agency relationship with AE related to generation asset management, including
5 the trading and marketing operations. As a result, those AE employees formerly responsible for
6 these activities, including me, became employees of Ameren Missouri. At that time, I assumed
7 my current title, Director, Asset Management and Trading ("AM&T"). The responsibilities of
8 marketing and asset management were added to my existing duties.

9 **Q. What are your responsibilities in your current position?**

10 A. As Director of AM&T I manage three specific areas: (i) Real Time Operations,
11 (ii) Trading, and (iii) Market Origination, providing guidance, oversight and coordination of
12 activities in these areas. It is my responsibility to ensure a proper balance of activities between
13 these groups, such that their operations are mutually supportive and reflect appropriate diversity
14 within the Company's power sales portfolio. Further, I am responsible for staffing, budgeting,
15 goal setting, management reporting and other administrative tasks associated with these
16 functions.

17 **Q. What is the role of each of these areas?**

18 A. Real Time Operations is responsible for interactions between the Midwest ISO
19 and Ameren Missouri's plant operators – including (but not limited to), maintenance of asset
20 operating limit data within the Midwest ISO systems, monitoring the Ameren Missouri assets
21 and initiating a response to disturbance control standard events.

22 Trading is responsible for the optimization of the Ameren Missouri generation assets in
23 the marketplace, consistent with the Company's risk management policies, applicable laws and

1 regulations, and the associated administrative activities. Trading activities encompass
2 transactions with a duration of less than one year that are generally for fixed quantities, with a
3 wide variety of counterparties, including those typically characterized as “financial players” (in
4 that they do not own generation resources and are not load serving entities).

5 Market Origination is primarily responsible for the development of long-term
6 relationships with wholesale entities – primarily load serving entities, including municipalities,
7 electric cooperatives and other electric utilities - intended to lead to wholesale transaction
8 opportunities (i.e., purchases and sales for resale). These activities include the identification of
9 and coordination of appropriate responses to long-term RFPs issued by various wholesale
10 entities. They also include the proactive solicitation and presentation of wholesale opportunities
11 to provide balance to Ameren Missouri’s portfolio via physical sales of power to counterparties,
12 resulting in long-term revenue stability over periods of up to five years (or more with senior
13 management approval). The focus of Market Origination is on transactions which take the form
14 of sales for resale that provide full or partial requirements service to other load serving entities.
15 Such requirement sales may include either fixed or variable amounts of energy, capacity,
16 congestion management, and market administration services.

17 **Q. What is the purpose of your testimony in this proceeding?**

18 A. The purpose of my testimony is to explain why Ameren Missouri’s decision to
19 enter into the long-term partial requirements contracts¹ addressed in the *Staff’s Prudence Report*
20 *and Recommendation* was part of the sound, prudent management of the Company’s power sales
21 portfolio, given the substantial change to Ameren Missouri’s portfolio arising from the
22 devastating ice storm in January, 2009, that drastically affected the load at Noranda Aluminum,

¹ These contracts are between Ameren Missouri and the American Electric Power Operating Companies (“AEP”) and Wabash Valley Power Association, Inc. (“Wabash”).

1 Inc.'s ("Noranda") Southeast Missouri aluminum smelter. Because Noranda is Ameren
2 Missouri's largest customer by far, the loss of this substantial load for a long, but at the time
3 indeterminate period created a significant disruption to the Company's portfolio. In the wake of
4 this catastrophic load loss, Ameren Missouri's decision to enter into these contracts allowed it to
5 maintain the historical balance of the portfolio. Moreover, as Ameren Missouri witness Lynn
6 Barnes testifies in her direct testimony, these contracts kept Ameren Missouri and its customers
7 in essentially the same position they would have been in had no ice storm occurred.

8 **Q. You noted that entering into these requirements contracts was consistent**
9 **with maintaining the balance in the Company's sales portfolio. Please explain what you**
10 **mean.**

11 **A.** Prior to the severe loss of load at Noranda, the balance between (i) sales assigned
12 directly to serve load (consisting of the combination of sales to retail customers and
13 requirements sales), and (ii) off-system sales, had been approximately 78%/22%. The loss of
14 load at Noranda, the duration of which at the time was unknown, upset this balance (it became
15 approximately 74%/26%).

16 **Q. Why was maintaining this balance important?**

17 **A.** In January 2009, when the ice storm occurred, we were in the midst of perhaps
18 the most severe financial crisis since the Great Depression. These conditions suggested strongly
19 that the Company should limit its exposure to potentially weak counterparties in power sales
20 transactions, and should mitigate the risk that market power prices could drop even further than
21 they already had because of the financial crisis and the resulting severe downturn in the
22 economy. If the balance between sales associated with load and off-system sales remained

1 skewed, as it was when the Noranda load dropped, and if power contracts were entered into with
2 weaker counterparties, these risks would not be mitigated.

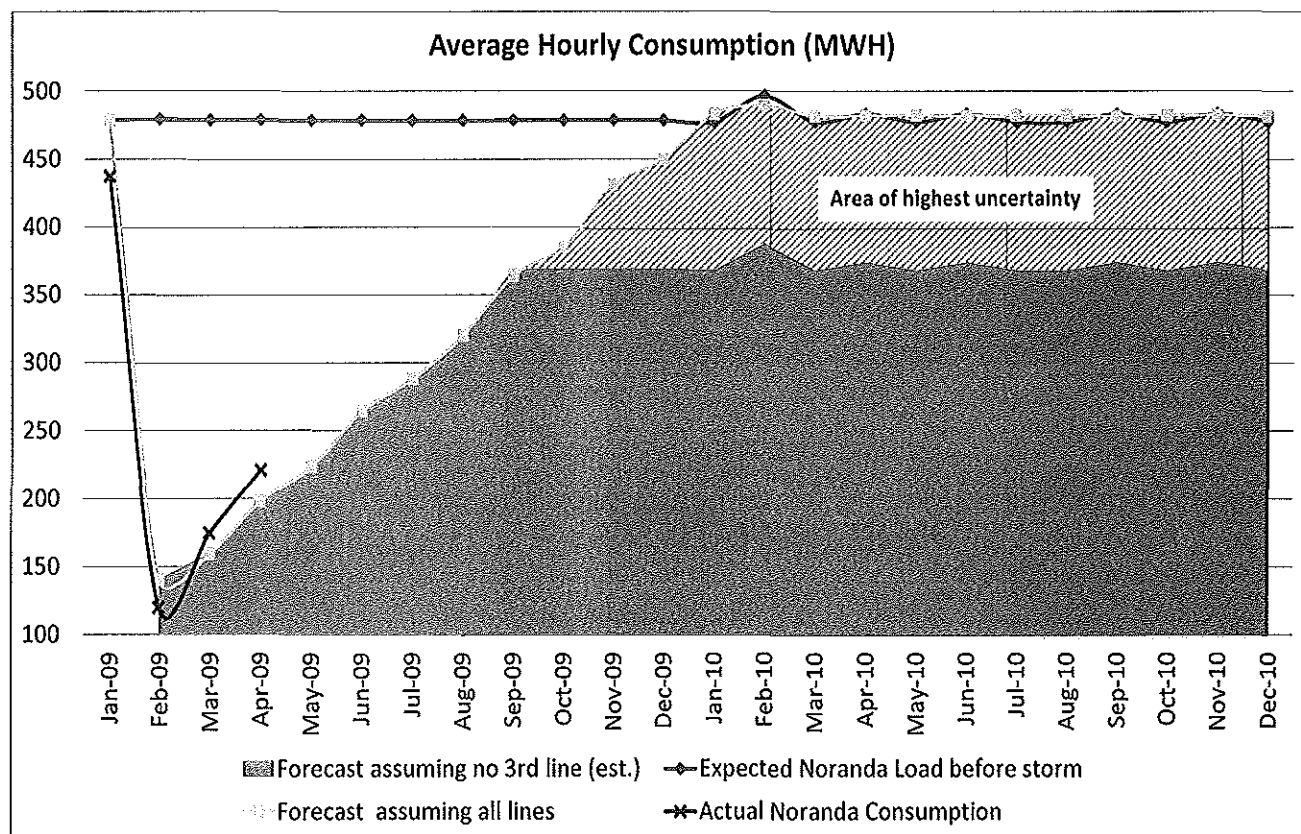
3 **Q. Please discuss the weak counterparty risk issue further.**

4 A. As alluded to above, at the time the megawatt-hours ("MWh") that otherwise
5 would have been sold to Noranda became available, the Company was concerned with increasing
6 its exposure to commercial bank counterparties, who are major traders in the power markets,
7 given the financial condition of those banks in the wake of the financial crisis. This in turn led
8 the Company to have greater concerns about ensuring revenues for excess generation in a market
9 that had become even more uncertain. The need to avoid more exposure to counterparties that
10 might have financial problems is illustrated by the fact that late in 2008 and during the first half
11 of 2009, there were several major players in the energy markets that were materially affected by
12 the financial crisis, including Constellation Energy, which was close to bankruptcy, and Lehman
13 Brothers, which had filed for bankruptcy. Consequently, as the person responsible for managing
14 the sales portfolio, it was my opinion that it was much more prudent for the Company to transact
15 with counterparties that had retail loads backing their ability to pay. AEP and Wabash were such
16 parties. By contracting with parties whose contracts were backed by end-use load, and whose
17 financial condition seemed more stable, we would limit the Company's risk.

18 **Q. You mentioned several times that the balance of your portfolio had changed**
19 **as a result of the loss of the Noranda load. Did you know at the time exactly by how much?**

20 A. No. Immediately following the ice storm Noranda's power usage dropped
21 dramatically, reducing load by approximately 460 megawatts ("MW"), but Noranda stated that it
22 expected to quickly restore one of its three production lines, and that it would need to work on
23 restoring its second and third production lines over time. As a result, we did not know how

1 quickly Noranda's second and third production lines could be restored, or even if Noranda could
2 continue operating in the long run. Even if Noranda could continue to operate at some level,
3 there appeared to be a particularly significant risk that Noranda might never be able to restore the
4 third and most damaged line, which would have permanently reduced Noranda's load by
5 approximately one-third. The graph below shows the expected Noranda load before the storm
6 (which was extremely stable given Noranda's very high load factor), the actual Noranda load
7 shortly after the storm when the first production line was restored (labeled "Actual Noranda
8 Consumption"), and two possible scenarios, one that assumed restoration of the second line (the
9 solid gray area), and one that assumed restoration of both the second and third lines (the
10 combination of the solid gray area and the cross-hatched
11 area).



1 **Q. Since you did not know how many megawatt-hours would be lost over the**
2 **long term, did you sell the full 490 MW of Noranda's load?**

3 A. No, because we expected some level of service to be restored to Noranda we did
4 not sell the full 490 MW. Instead, we entered into two requirements contracts for different
5 volumes, with different load shapes and durations. First, we entered into a long-term partial
6 requirements transaction with American Electric Power Service Corporation for 100 MW and a
7 duration of 15 months for a total of 1,096,800 MWh. Second, we entered into a long-term partial
8 requirements transaction with Wabash Valley Power Association, Inc. to serve Citizens Electric
9 load in Missouri. This transaction had an expected load factor of 76%, a volume of 150 MW
10 with a duration of 18 months, and had a minimum take of 1,500,000 MWh.

11 **Q. Did these contracts replace the loss in load to Noranda?**

12 A. Yes, these contracts basically replaced the Noranda load lost as a result of the ice
13 storm and rebalanced Ameren Missouri's power sales portfolio.

14 **Q. Does this conclude your direct testimony?**

15 A. Yes, it does.

