

Exhibit No.:
Witness: David F. Dorris
Type of Exhibit: Direct Testimony
Sponsoring Party: Holnam, Inc.
Case No. EO-2000-580

**Before the Public Service Commission
of the State of Missouri**

In the Matter of an Investigation)
Into an Alternative Rate Option for)
Interruptible Customers of Union)
Electric Company d/b/a/ AmerenUE)
_____)

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1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A My name is David F. Dorris. My business address is Highway 79 North, Clarksville,**
3 **MO 63336.**

4 **Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 **A I am employed by Holnam, Inc. (Holnam) in the position of Plant Manager. Holnam is**
6 **a cement manufacturing plant located near Clarksville, MO. The Plant was built in**
7 **1967 by Dundee Cement. This plant produces more than 1.2 million tons of cement**
8 **for the Missouri and Illinois markets. There are currently 187 people employed at the**
9 **Clarksville Plant with a payroll of over \$5 million per year.**

10 **Q WHY ARE YOU FILING TESTIMONY IN THIS PROCEEDING?**

11 **A I will comment on why Holnam rejected taking curtailment service on AmerenUE's**
12 **new Rider M.**

1 Q HAS HOLNAM PREVIOUSLY PURCHASED CURTAILMENT SERVICE FROM
2 AMERENUE?

3 A Yes. Holnam, since January 1, 1984, has purchased portions of its electrical
4 requirements from AmerenUE under its curtailment tariff, Rate 10M (suspended).
5 Holnam was able to purchase portions of its electrical requirements on this basis
6 because, in some instances, cement production requirements have the flexibility to
7 allow us to back down electrical demand when asked to do so by AmerenUE. Of
8 course, reducing electrical demand is accomplished by reducing cement production.
9 Reduced cement production creates operating losses in terms of lost revenues from
10 sales of cement. However, it was a business decision which led Holnam to accept
11 AmerenUE's Rate 10M. Holnam felt that the Rate 10M curtailment credit, coupled
12 with the frequency of curtailments tied primarily to system reliability, was a fair
13 balance with the production losses realized during curtailments.

14 Q DID AMERENUE CALL A CURTAILMENT WHILE HOLNAM WAS ON RATE 10M?

15 A Yes. Holnam was curtailed three to five times per year for each of the last five years.
16 Holnam was asked to curtail down to a level of 7,000 kW or less with one-hour notice.
17 Holnam abided by AmerenUE's request for curtailments during all of these
18 curtailment requests.

19 Q IS HOLNAM CURRENTLY ON AMERENUE'S NEW RIDER M?

20 A No. After careful review of the proposed rider, Holnam decided against accepting
21 service under this rider for the following reasons:

- 22 1. Curtailments were based on power market prices, rather than AmerenUE's
23 system reliability requirements.

- 1 2. Since curtailments were tied to power market prices rather than system
2 reliability, the frequency and likelihood of curtailments was much greater
3 under the new rider than they were under Rate 10M, in Holnam's judgment.
- 4 3. The increased probability of curtailments, without a significant increase in the
5 curtailment credit offered by AmerenUE, made the existing rider economically
6 unattractive.

7 **Q DID HOLNAM PARTICIPATE IN THE NEGOTIATIONS WITH AMERENUE ON**
8 **RIDER M?**

9 **A Yes.** The Rider M that came out of our discussions with AmerenUE gives the
10 economic benefits to AmerenUE and could have a major impact on the customer's
11 ability to make a product at a competitive price. A review of the main issues is given
12 below.

- 13 1. A premium (for the right to curtail firm load) is paid to participants of Rider M
14 based on some calculation set up by AmerenUE. When questioned about
15 how the premium price is set, AmerenUE stated that the spreadsheets were
16 proprietary and no one could get a copy. Our review of the information leads
17 us to believe that it would be impossible to judge the reasonableness of the
18 option price in relationship to the corresponding strike price and curtailment
19 frequencies.

- 20 2. The strike price was set by AmerenUE. It did state that the strike price is
21 negotiable, but changing the strike price will change the option price. The
22 strike price is the preagreed upon variable curtailment credits (\$/MWh) that
23 AmerenUE would pay the customer to shutdown equipment to unload the

1 system. However, as stated above, there was not a clear method of tying the
2 strike price to the option price.

- 3 3. AmerenUE would only accept wording that gives it the right to curtail power to
4 the industrial customer on a market price basis, and not based on system
5 reliability.

- 6 4. A third clause in the contract falls under Company and Customer Obligations.
7 It states:

8 "The possibility of interruption, curtailment or reduction of electric
9 service caused by, resulting from, or arising out of unexpected
10 causes or occurrences shall not be deemed to be Company
11 (AmerenUE) exercise of any Curtailment Option entitling the
12 customer to the payment of the Strike Price under this Rider."

13 This statement seems to give AmerenUE the ability to curtail power at no
14 penalty to itself if it does not have the capacity to meet its demands. The word
15 curtail in the first part implies that they can curtail power without paying the
16 industrial customer for the right if it gets into trouble because of problems with
17 its system. This is what Rate 10M gave AmerenUE, at a cost of \$60 per
18 kilowatt per year, to ensure reliability of service. Under Rider M, AmerenUE
19 gets the same reliability for free.

- 20 5. AmerenUE is a monopoly and uses this to the best of its ability. In the
21 "negotiations" to build a new interruptible rate agreement, AmerenUE basically
22 rejected our proposals and insisted on implementing its proposal. It was not
23 open to any discussion about our concerns for operation or costs from our
24 side.

1 Q PLEASE SUMMARIZE YOUR EVALUATION OF RIDER M.

2 A Holnam could not opt for Rider M based on its uncertain operating limitations, and
3 unacceptable economic benefits. It was better to take the fixed rate and ensure that
4 we could supply our cement customers, than it was to hand over control of our
5 production to AmerenUE. Even if we did opt for Rider M, we felt that we would still
6 incur a loss for the year 2000 because the amounts offered by AmerenUE were lower
7 than what was given in Rate 10M.

8 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A Yes, it does.