

Exhibit No.:

Issues: SO₂ Allowances

Witness: Richard J. Campbell

Sponsoring Party: MO PSC Staff

Type of Exhibit: Cross-Surrebuttal
Testimony

Case No.: EO-2004-0108

Date Testimony Prepared: March 1, 2004

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

CROSS-SURREBUTTAL TESTIMONY

OF

RICHARD J. CAMPBELL

UNION ELECTRIC COMPANY D/B/A AMERENUE

CASE NO. EO-2004-0108

Jefferson City, Missouri

March, 2004

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

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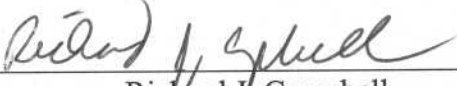
**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of the Application of Union)
Electric Company (d/b/a AmerenUE) for an)
order authorizing the sale, transfer and)
assignment of certain Assets, Real Estate,) Case No. EO-2004-0108
Leased Property, Easements and Contractual)
Agreements to Central Illinois Public)
Service Company (d/b/a AmerenCIPS) and,)
in connection therewith, certain other)
related transactions.)

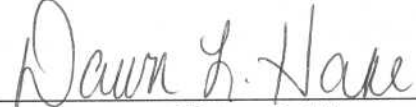
AFFIDAVIT OF RICHARD J. CAMPBELL

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Richard J. Campbell, of lawful age, on his oath states: that he has participated in the preparation of the following written testimony in question and answer form, consisting of 6 pages of testimony to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.


Richard J. Campbell

Subscribed and sworn to before me this 27th day of February, 2004.


Notary Public

DAWN L. HAKE
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan 9, 2005

My commission expires _____

1 **CROSS-SURREBUTAL TESTIMONY**

2 **OF**

3 **RICHARD J. CAMPBELL**

4 **UNION ELECTRIC COMPANY d/b/a AMERENUE**

5 **CASE NO. EO-2004-0108**

6
7 Q. Please state your name and business address.

8 A. My name is Richard J. Campbell and my business address is Missouri
9 Public Service Commission, P.O. Box 360, Jefferson City, Missouri 65102.

10 Q. What is your present position with the Missouri Public Service
11 Commission (Commission)?

12 A. I am a Utility Regulatory Engineer I in the Engineering Analysis Section,
13 Energy Department, Utility Operations Division.

14 Q. Would you please review your educational background and work
15 experience.

16 A. In May of 1995, I received a Bachelor of Science Degree in Chemical
17 Engineering from the University of Missouri in Columbia. In July of 1995, I began
18 working for the Missouri Department of Natural Resource Air Pollution Control Program
19 as an environmental engineer. I was employed with the Air Pollution Control Program
20 from July 1995 until November 2001. I joined the Commission Staff (Staff) in
21 November 2001. I am a registered Professional Engineer in the State of Missouri.

22 Q. Have you filed testimony before this Commission before?

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Richard J. Campbell

1 A. Yes, I filed Direct Testimony in Case Nos. ER-2002-424 and
2 ER-2004-0034 and Rebuttal Testimony in ER-2004-0034.

3 Q. What is the purpose of your Cross-Surrebuttal Testimony?

4 A. The purpose of my testimony is to address and to develop more fully
5 Ameren's SO₂ sales and trading activity described in the Rebuttal Testimony of Office of
6 the Public Counsel's (OPC) witness Ryan Kind (pages 39-41), and to recommend a
7 condition related to this matter, in the event that the Commission, contrary to the Staff's
8 recommendation, decides to approve AmerenUE's application in this proceeding.

9 Q. What is your understanding of the issues raised by Mr. Kind related to
10 AmerenUE's environmental compliance plans?

11 A. Mr. Kind raises two separate issues with respect to AmerenUE's
12 environmental compliance plans. The first is the sales of SO₂ allowances that have taken
13 place in recent years and that are planned for the future. Secondly, Mr. Kind questions
14 whether AmerenUE has the authority to make some of the SO₂ transactions that are
15 currently taking place.

16 Q. Please describe Mr. Kind's concerns related to how AmerenUE's cost
17 effectiveness analysis addresses SO₂ emissions.

18 A. Mr. Kind states on page 41, lines 1 – 4 of his Rebuttal Testimony, that he
19 does not believe that the cost effectiveness analysis that AmerenUE witness
20 Richard A. Voytas performed included Ameren's recent trading and sales activity. Staff
21 agrees that Mr. Voytas' Direct Testimony does not specifically address the issue of
22 compliance with the Environmental Protection Agency's (EPA's) Acid Rain Program.
23 Mr. Voytas does include in his cost effectiveness analysis an adjustment to fuel

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1 production cost on Schedule 5 of his testimony, which is related to the joint dispatch
2 agreement between AmerenUE and Ameren Energy Generating, for SO₂ emissions.
3 However, because of how Mr. Voytas chose to do his analysis, this adjustment remains
4 constant over the 25-year period of the study. This adjustment is also based on a constant
5 dollar per mega-watt hour cost. For more information on the Staff's position on the cost
6 effectiveness analysis, see page 9 of Staff witness Michael S. Proctor's
7 Rebuttal Testimony. As is discussed on page 40 of Mr. Kind's Rebuttal Testimony, the
8 cost of SO₂ compliance in future years is dependent on the amount of SO₂ credits
9 remaining in AmerenUE's emissions bank.

10 Q. You have referred to both Ameren and AmerenUE in your testimony. Is
11 there a reason for this distinction?

12 A. Yes. AmerenUE is the entity to which the EPA allocates SO₂ allowances.
13 However, Ameren, as the parent company, has the ability to manage those allowances
14 and has done so in this case. Therefore, my testimony and, as I understand it, Mr. Kind's
15 testimony are related to Ameren's policies on sales and trades of SO₂ allowances that
16 have been allocated to AmerenUE's generating units.

17 Q. Is there any reason to believe that AmerenUE would not have SO₂
18 emissions credits in its emissions bank for future compliance?

19 A. Yes. As Mr. Kind details on page 40 of his Rebuttal Testimony, Ameren
20 has in recent years been aggressively marketing SO₂ allowances on the open market.
21 This aggressive marketing plan may deplete the emissions bank of AmerenUE to a point
22 where additional emissions controls will be necessary in the timeframe of Mr. Voytas'
23 study.

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1 Q. You use the word “aggressive” to describe Ameren’s SO₂ marketing plan.
2 Why?

3 A. The term “aggressive” is used in documents sent to OPC in response to
4 data requests in this case to describe the presently budgeted SO₂ emissions trading
5 activities of Ameren. I believe that this is an accurate description. ** HC
6 HC
7 HC
8 HC
9 HC **

10 Q. How could Ameren’s SO₂ marketing plan impact AmerenUE’s SO₂
11 emissions bank?

12 A. Ameren’s SO₂ marketing plan could have an impact on AmerenUE’s SO₂
13 emissions bank. Mr. Kind states on page 40 of his Rebuttal Testimony that AmerenUE
14 may be required to install additional environmental controls as early as 2007, depending
15 on the level of its SO₂ sales and trading and the extent to which its emissions bank is
16 depleted. Staff believes that Ameren’s aggressive SO₂ marketing plan has begun to
17 deplete AmerenUE’s emissions bank and will continue to do so if the budgeted sales,
18 referenced on page 40 of Mr. Kind’s Rebuttal Testimony, are completed. In addition,
19 according to AmerenUE’s response to OPC DR No. 520, under current EPA regulations
20 AmerenUE’s annual allocation of SO₂ emission credits will decrease by 12,000
21 beginning in the year 2010.

22 Q. What is the potential impact of the SO₂ sales on AmerenUE’s Missouri
23 ratepayers?

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Cross-Surrebuttal Testimony of
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1 A. If the aggressive marketing plan adopted by Ameren causes AmerenUE to
2 incur environmental costs, as outlined on pages 39 and 40 of Mr. Kind's Rebuttal
3 Testimony, and the proposed transfer to AmerenCIPS is approved, the Missouri
4 ratepayers would be responsible for the full cost of compliance. Staff believes that
5 depletion of the SO₂ emissions bank would mandate that emission controls, at a cost of
6 ** HC **, be installed by
7 AmerenUE sooner than would be necessary had the bank been maintained. Absent the
8 transfer of customers to AmerenCIPS, the Missouri ratepayers of AmerenUE would share
9 the burden of environmental controls with the Metro East ratepayers.

10 Q. Has the Commission imposed limits on the amount of SO₂ credits that
11 AmerenUE can sell or trade without Commission approval?

12 A. The Commission has addressed this matter only with respect to Phase I
13 SO₂ allowances (allowances issued by EPA issued up to and including 1999). On
14 page 41 of Mr. Kind's Rebuttal Testimony, he states that the Commission only gave
15 AmerenUE authority to sell up to one half of its Phase I allowances and has never
16 authorized AmerenUE to sell any Phase II allowances (allowances issued by EPA after
17 1999). Mr. Kind is correct in this statement. The Commission issued its "Order
18 Approving Stipulation and Agreement" in Case No. EO-98-401 in mid-December of
19 1998. Item 2 of attachment A to this order, the stipulation and agreement, states:

20 "The Company is authorized to manage the entire allowances
21 inventory, but may sell only up to one-half of all Phase I
22 allowances without seeking specific Commission approval. This
23 includes sales to AmerenCIPS and other utilities. AmerenUE may
24 request authorization to sell additional allowances, above this
25 level, through a filing with the Commission."
26

27 **NP**

Cross-Surrebuttal Testimony of
Richard J. Campbell

1 AmerenUE's annual reports to Staff that were required by the aforementioned order
2 clearly show sales and trades of SO₂ emissions that are Phase II allowances. These trades
3 have not been approved by the Commission. The current Ameren SO₂ trading policy, if
4 implemented, will primarily involve AmerenUE Phase II SO₂ allowances.

5 Q. What is your recommendation concerning the Metro East transfer?

6 A. I recommend that the Commission take into consideration that the cost
7 effectiveness study done by AmerenUE does not include the impacts of Ameren's current
8 SO₂ marketing strategies in their ruling of whether to allow the Illinois property to be
9 transferred to AmerenCIPS. If the Commission elects to approve the transfer of the
10 Illinois property to AmerenCIPS, I recommend that the Commission require either that
11 AmerenUE be compensated for the potential liability of this Ameren's SO₂ trading
12 activity, or that the transfer include an agreement that AmerenCIPS contribute, in a share
13 equal to the Illinois customers' current twelve CP allocation factor, any future cost of
14 SO₂ compliance that results from Ameren's current SO₂ sales and trading activity.

15 Q. Does this conclude your Cross-Surrebuttal Testimony?

16 A. Yes, it does.