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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

UNION ELECTRIC COMPANY
d/b/a
AMERENUE

CASE NO. ER-2010-0036

Jefferson City, Missouri
March 2010

Staff Exhibit No. 222
Date 3-15-10 Reporter KF
File No. ER-2010-0036

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE's Tariffs to Increase its Annual Revenues for Electric Service.	)))	Case No. ER-2010-0036

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena M. Mantle, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 20 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Lena M Mantle

Lena M. Mantle

Subscribed and sworn to before me this 5th day of March, 2010.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer

Notary Public

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d/b/a
AMERENUE

CASE NO. ER-2010-0036

Q. Please state your name and business address.

A. My name is Lena M. Mantle and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Lena M. Mantle who contributed to the Missouri Public Service Commission Staff Revenue Requirement and Cost of Service Report (Staff Report) filed on December 18, 2009 and filed supplemental direct testimony on February 22, 2010?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. I will be addressing the rebuttal testimonies regarding the Fuel Adjustment Clause (FAC). In particular I will address the rebuttal testimony addressing the FAC filed on February 26, 2010 of the following Union Electric Company d/b/a AmerenUE (AmerenUE) witnesses and the general FAC area they address:

- Lynn M. Barnes – overall summary
- Timothy D. Finnell – estimation of fuel and purchased power expense
- James Massman – natural gas prices
- Randall J. Irwin – coal and transportation prices
- Robert Neff – uranium prices
- Jaime Haro – off system sales

Issues Common To All AmerenUE Witnesses

Q. Is there anything common across all of these witnesses that Staff would like to address before addressing each witness?

A. Yes there is. Each of these witnesses testifies in their FAC rebuttal testimony that the conditions affecting AmerenUE's opportunity to earn a fair return on equity have not changed significantly since the Commission authorized AmerenUE to use a FAC in Case No. ER-2008-0318.

Q. Does Staff agree?

A. Staff agrees that the conditions that affect AmerenUE's opportunity to earn a fair return on equity due to regulatory lag, AmerenUE's fuel costs and off-system sales revenues have not changed significantly since AmerenUE's last rate case Case No. ER-2008-0318, where the Commission first authorized AmerenUE to use a FAC. However, in Staff's view, the existing conditions that affect AmerenUE's opportunity to earn a fair return on equity due to regulatory lag, AmerenUE's fuel costs and off-system sales revenues are not significantly different from what they were when the Commission rejected AmerenUE's request for a FAC in Case No. ER-2007-0002.

Q. Are there any other issues that are similar across several of these AmerenUE witnesses that you wish to respond to?

A. In each of their FAC rebuttal testimonies, Mr. Massman, Mr. Neff, Mr. Irwin and Mr. Haro discuss the volatility of the natural gas, coal, uranium and purchased power spot market prices respectively. Staff agrees with these witnesses that the spot market prices of each of these commodities are volatile. However, the amount of fuel purchased by AmerenUE on any of these spot markets as a percentage of its total fuel is very small.

Therefore the volatility of these spot markets does not translate to volatility in fuel costs for AmerenUE.

Surrebuttal to Lynn M. Barnes

Q. In stating AmerenUE's position, does Ms. Barnes raise any other points regarding AmerenUE's FAC in her FAC rebuttal testimony that Staff would like to respond to?

A. Yes, she mischaracterizes several points Staff made regarding AmerenUE's FAC presented in my supplemental direct testimony.

Q. Would you please address each mischaracterization point-by-point?

A. Yes. First, Ms. Barnes states in her FAC rebuttal testimony on page 4, lines 11-12 and again on pages 8-9 that Staff's issues with The Empire District Electric Company (Empire) and KCP&L Greater Missouri Operations Company (GMO) I discussed do not have anything to do with AmerenUE.

Q. Can you briefly describe these issues?

A. Actions taken by these utilities indicate that they are not applying the same degree of accuracy as they did prior to the Commission authorizing a FAC for them. For example, GMO, when issuing notice regarding its last rate case, did not include the increase in the notice. Their rationale was that the fuel costs would have been recovered anyway so the increase to fuel really was not an increase.

Empire, in its current rate case did not use its fuel model to estimate a normalized, annualized fuel and purchased power expense and did not calculate a new net fuel base cost for its FAC tariff. This indicates to Staff that Empire is not as concerned about the accuracy of the fuel costs included in its rates.

Q. Why did Staff include this in its FAC direct testimony?

A. I presented Staff's experiences with Empire and GMO regarding their FACs to inform the Commission, because it is only within the past few years after a long period without them that FACs have become available to investor-owned electric utilities in Missouri and, therefore, the Commission, Staff, utilities and others are still early in the learning curve on how to best use and deal with these newly available rate adjusting mechanisms. While Staff has not experienced these issues to the same extent with AmerenUE over its FAC, the issues with Empire and GMO point out changes in how the electric utilities view fuel and purchased power cost that have occurred since the Commission has begun authorizing FACs. Further, while Ms. Barnes described on page 9 at line 15 of her FAC rebuttal testimony how AmerenUE worked with the Staff to avoid similar problems, she did not provide the whole story.

Q. Would you provide the whole story?

A. Before providing the "rest of the story," Staff states that it is very appreciative of AmerenUE working with Staff on its proposed customer and public hearing notices prior to the filing of the rate case. Ms. Barnes correctly states that AmerenUE essentially adopted the draft for the public hearing notice as edited by Staff in its minimum filing requirements and that AmerenUE was entirely up-front about the full $402 million rate increase that it was seeking in the notice it filed. What Ms. Barnes did not include in her testimony was the original draft notice sent to Staff for review. Schedule LM-1 is a copy of the draft public hearing notice that Staff received on June 19, 2009. Its initial notice began with only the proposed non-fuel increase. The increase due to fuel was put in the second paragraph. Without Staff's input, AmerenUE's customer notice would have been eerily similar to the customer notice provided by GMO. Fuel costs were in the draft notice but the draft notice did not contain the total requested increase of $402 million.

Q. Did Ms. Barnes misrepresent any other points your testimony?

A. Ms. Barnes makes several additional misrepresentations. Ms. Barnes states on page 5, lines 9-10 that Staff seems "to recognize that it would be impossible to time rate cases to avoid the likelihood of <u>substantial</u> losses without a FAC." (Emphasis added) I do agree that it would be impossible to time rate cases to recover all fuel cost increases. I do not agree that there would be a <u>substantial</u> loss. Rate cases should be timed to minimize loss due to increases in costs.

Having a FAC does not mean that the utility will have timely recovery of fuel costs. There is lag in recovering increased costs in a FAC. With the current design of AmerenUE's FAC, the time lag between when fuel costs are incurred and when the increase to those costs are finally recovered in a FAC recovery period is at the least sixteen months and at the most twenty months. With the current FAC design, AmerenUE will not begin recovering increased costs incurred in the accumulation period that includes January 2010 until June 2010 and then those costs will be recovered over 12 billing months ending with the May 2011 billing month.

Of course there are some differences that contribute to loss revenues other than timing between recovery of costs through a rate increase case and the FAC. If the utility chooses to request a rate increase to recover costs there is 100% recovery of the increase in costs between the time the cost are incurred and the effective date of the rates authorized by the Commission. With a FAC, even though the recovery is delayed, there is 95% recovery of the difference between the cost used to set the base and the actual cost. The utility also recovers interest on unrecovered costs.

If fuel costs decrease, then the utility without a FAC is not likely to file for a rate decrease just because fuel costs have decreased. If other costs are increasing for the utility, a decrease in fuel costs would off-set these increases. If fuel costs decrease for a utility that has a FAC, 95% of that decrease, must be returned to the customers plus interest over the time between the decrease and the time the revenues are returned to the customer, even if other costs are increasing for the utility.

So saying, as Ms. Barnes does on page 5 of her FAC rebuttal testimony that there would be a substantial loss if a utility attempted to time rate cases to recover increases in fuel costs instead of recovering increased fuel costs through a FAC is a generalization that Staff is not willing to make.

Another mischaracterization can be found on page 5, lines 21-22. Again with respect to the timing of recovery of increased costs, Ms. Barnes opines that "Ms. Mantle appears to recognize that even if another rate case is filed after this case is concluded, there will be <u>many</u> months of lag between the time when fuel costs increase and when they can be reflected in rates." (Emphasis added) I am not sure how Ms. Barnes defines "many months." There was no mention in Staff's direct FAC testimony regarding how long the lag would be between the time when fuel costs increase and when they can be reflected in rates. If AmerenUE delays filing its next rate case, it could be "many" months. If it filed another increase immediately after rates go into effect for this case, recovery of the increased cost of coal on January 1, 2011 could begin in as little as six months.

Ms. Barnes fails to point out that without a FAC, AmerenUE would get to retain 100% of any decreases in fuel costs up until the time new rates go into effect.

Q. Does Ms. Barnes mischaracterize other Staff positions?

A. Yes, for example on page 7, lines 21-22, Ms. Barnes states that Staff believes hedging equates to control. Staff is very aware that hedging does not equate to control. However, Staff does believe that hedging can mitigate volatility in fuel costs. So in effect AmerenUE can exert some control over the volatility in its fuel costs by hedging its fuel.

Ms. Barnes continues on line 23 to state that AmerenUE does not control the national and international markets in which it buys fuel and sells power. Again, Staff would agree that AmerenUE does not control the markets, but by the shear volume of coal that it purchases, Ameren should be able to influence the price and terms for its coal.

Another mischaracterization is on page 11, lines 22-23 of Ms. Barnes FAC rebuttal testimony. Ms. Barnes responds to what she believes is an out-of-left-field accusation in Staff's testimony that AmerenUE was "gaming" the fuel/non-fuel split in this case. In Staff's direct FAC testimony the question was asked:

> Q. Has Staff observed other changes to the rate case process for electric utilities since the Commission has approve FACs for the electric utilities?

The response was:

> A. Yes, there have been other changes. Given the limited resources and time, it is only logical that with a FAC with a 95% sharing mechanism, the parties focus on the non-fuel increases. In addition, the parties can "game" the fuel/non-fuel split of any rate increase request. If the dollar amount attributed to fuel is below the actual fuel costs, then the customers end up only paying 95% of the difference between the actual fuel costs and the rate case fuel costs and the customers pay the increase at a much later time. On the other hand, if fuel cost is set above actual fuel costs, then the utility "refunds" only 95% at a later time period.

The response was intended to indicate that, since FACs have been authorized by the Commission, the Staff has seen "gaming" of the fuel/non-fuel split in increase in revenue requirement. Although Staff did see this gaming occurring in the customer notice for GMO's increase, most of this type of gaming occurs during settlement negotiations and I was very careful not to point to any party in particular, but the intention was to make the Commission aware of the situation in general.

The last mischaracterization that I would like to address is on page 18, lines 4-6 of Ms. Barnes testimony where she states that:

> Staff recognizes that the circumstances and conditions that warranted approval of that FAC, including the sharing mechanism, have not changed. (Emphasis added)

My testimony states that it is Staff's position that circumstances have not substantially changed from Case No. ER-2007-0002 or the last rate case, Case No. ER-2008-0318. In Case No. ER-2007-0002 the Commission did not authorize a FAC and in Case No. ER-2008-0318 the Commission did authorize a FAC.

Q. Were there any points in Ms. Barnes FAC rebuttal testimony that you would like to reply to that were not mischaracterizations of your FAC direct testimony?

A. Ms. Barnes, along with AmerenUE witness Tim Finnell, rebut the contention in my direct FAC testimony that there was not as much care in determining fuel costs in this case as there was in past cases.

Q. Ms. Barnes, on page 10, lines 19-20, states that you imply that a lack of "discussion" regarding AmerenUE's calculation of its net fuel costs "suggests a lack of care on AmerenUE's part." Is that what Staff was suggesting?

A. The testimony was the parties to this case had limited discussion regarding fuel costs and off-system sales margin and Staff believed that this lack of discussion was due, in part, to the 95% sharing mechanism. Staff has always respected the fuel modeling work of AmerenUE and has never known it not take care in modeling fuel and purchased power expense.

Q. Ms. Barnes, on page 11, lines 1-3 of her FAC rebuttal testimony states that there are no facts to support Staff's supposition. Would you agree?

A. While there is no absolute fact that there was a lack of care in this case, the limited discussions among the parties, and AmerenUE's draft public hearing notice that placed the amount of increase requested due to increases in fuel in the second paragraph of the notice, are indications that fuel and purchased power costs were treated differently in this case.

Surrebuttal to Timothy D. Finnell

Q. In his rebuttal testimony, Mr. Finnell describes the working relationship between Staff and AmerenUE regarding fuel and purchased power modeling. Do you agree with his representations regarding how Staff and AmerenUE have worked together on determining fuel and purchased power?

A. Staff agrees that Staff and the Company have worked very well together in this case regarding fuel and purchased power costs just as we typically have in past AmerenUE rate cases. Mr. Finnell and his staff are always willing to discuss the fuel modeling process and have always worked well with Staff. Staff does not want to give the impression that Staff is not appreciative of that relationship.

Surrebuttal to James Massman

Q. What issue regarding the FAC did Mr. Massman address in his FAC rebuttal testimony?

A. Mr. Massman addressed AmerenUE's use of natural gas and the volatility of natural gas prices.

Q. On page 3 of his FAC rebuttal testimony, Mr. Massman describes the volatility of the New York Mercantile Exchange (NYMEX) futures market. Why doesn't this volatility affect AmerenUE's fuel costs?

A. Due to the relatively small amount of natural gas used by AmerenUE, it is difficult for AmerenUE to accurately hedge its natural gas supply.

Q. How much natural gas does AmerenUE use to generate electricity?

A. Mr. Massman, on page 5, lines 11-14 of his FAC rebuttal testimony states that gas-fired generation is utilized to meet peak demand during extreme weather conditions, to serve as a reliability backstop for other resources and to support opportunity sales in the daily power markets. In his rebuttal testimony on page 7, Mr. Massman presented actual and budgeted natural gas costs for the years 2006 to 2009. The table below shows the natural gas MMBtu (one million British Thermal Units) burned results from Staff's fuel runs (including off-system sales) from the past three rate cases rather than actual MMBtu since Taum Sauk is currently not in service. The fuel model includes Taum Sauk as a generation resource. Since Taum Sauk is typically used for the same reasons as Mr. Massman gave for the use of natural gas generation, it is likely that natural gas usage would be less than the actual amounts when Taum Sauk is available. To give an idea of how much natural gas this is as compared on a MMBtu to the total MMBtu for all fuel sources used by AmerenUE, the table below shows the MMBtu of the gas used as compared to AmerenUE's total generation MMBtu for the Staff's fuel run in the last three cases.

	ER-2007-0002	ER-2008-0318	ER-2010-0036
CT Units Natural Gas MMBtu	1,225,307	5,284,044	3,209,393
Natural Gas Used by Coal Units MMBtu	444,059	420,418	452,817
Total Generation MMBtu	494,308,642	479,462,403	489,916,378
Natural Gas as % of Total Generation	0.34%	1.19%	0.75%

This table shows, as my testimony in ER-2007-0002 and ER-2008-0318 does, that as compared to the total amount of fuel used, natural gas provides a small percentage of AmerenUE's energy.

The table below gives the estimated expense of natural gas as compared to the total fuel and purchased power expense from the Staff's fuel runs for the last three AmerenUE rate cases.

	ER-2007-0002	ER-2008-0318	ER-2010-0036
CT Units Natural Gas	$22,502,038	$36,169,100	$8,676,158
Natural Gas Used by Coal Units	$3,119,364	$3,150,500	$3,125,708
Total Generation	$640,476,651	$737,049,100	$776,774,026
Natural Gas as % of Total Generation	4.00%	5.33%	1.52%

Q. Why is this important for the Commission to know?

A. These two tables show the percentage of natural gas costs to total fuel and fuel and purchased power cost is small. Staff would agree that $8.6 million to $22.5 million is a wide range. However the total amount that would be at risk with a FAC would be $13.9 million if either of these amounts were included in base rates. This $13.9 million equates to about 2% of AmerenUE's total fuel costs. Staff does not believe a swing of 2% is significant enough to warrant a FAC.

Q. Mr. Massman also states that Staff suggests that the Company has some control over fuel costs. Is that a correct representation of what you said?

A. In my direct FAC testimony I do state that the Company has some control over fuel costs. I was referring to total fuel costs, and coal costs in particular as described above in the surrebuttal of Ms. Barnes and below in the surrebuttal of Mr. Neff. Due to the varying amounts of natural gas used by AmerenUE, it does have less control over the cost of natural gas that it uses. However, as shown above, the amount of natural gas used by AmerenUE is small compared to AmerenUE total fuel costs.

Q. Mr. Massman, on page 8, lines 2-3 states that the existing FAC treats both the Company and customers fairly by tracking the changes in these highly uncertain costs. Do you agree?

A. I agree that AmerenUE gets to recover additional costs if fuel costs rise and customers get a reduction if costs fall. I don't know if I agree that it is "fair." If prices rise, AmerenUE may not be as careful in its hedging and procurement practices because it knows that AmerenUE will recover the additional costs. If no FAC exists and costs drop, AmerenUE could use that cost savings to offset any increase in non-fuel costs so that it could delay requesting another increase in rates.

Q. Are you suggesting that AmerenUE has changed its hedging and procurement practices or that it will change its hedging and procurement practices?

A. At this time I have no knowledge of or indication that AmerenUE has changed or intends to change its hedging and procurement practices.

Surrebuttal to Robert K. Neff

Q. What issue regarding the FAC did Mr. Neff address in his FAC rebuttal testimony?

A. Mr. Neff addressed AmerenUE's use of coal and the volatility of coal prices.

Q. Please explain why Staff does not believe that the coal spot market is relevant to AmerenUE's coal costs.

A. The coal spot market is a relatively new market and trading on the coal spot market, while increasing, is still limited. Only very limited quantities of AmerenUE's coal supply is procured on the spot market for AmerenUE. AmerenUE has mitigated the volatility of coal prices through its use of coal contracts which define the cost of coal on terms other than the spot market price. As part of a pool procurement process, AmerenEnergy Fuels & Services has entered into numerous contracts on AmerenUE's behalf for coal with varying time lengths, as part of its practice of purchasing all Ameren generating company PRB coal needs.

Q. On page 5, lines 20-22, Mr. Neff states that Staff continues to confuse AmerenUE's control over the manner in which it chooses to purchase fuel with AmerenUE's total inability to control the level or movement of prices in the coal, transportation, natural gas and fuel oil markets. Is his statement accurate?

A. No it is not. Staff does not believe AmerenUE has the ability to control fuel markets. Staff does believe that AmerenUE can influence the price and terms of its coal contracts. The sheer amount of coal that AmerenEnergy Fuels & Services purchases for all of Ameren's affiliates should enhance its ability to negotiate both coal and transportation prices.

Q. Is Staff focusing on the "very near term" as Mr. Neff states on page 6, lines 12-14?

A. I'm not sure what Mr. Neff means by the "very near term" on page 6, lines 12-13 and "long-term" on line 15 on the same page. Across a very long time period of twenty to thirty years, fuel costs will change. However, Staff does not consider a time period of twenty to thirty years to be relevant to this discussion. In Staff's review, different time lengths are taken into account. Staff believes that it is very important in the discussion regarding a FAC to point out to the Commission that AmerenUE is very likely to file another rate increase soon after the rates go into effect in this case to begin cost recovery of the Wet Flue Gas Desulfurization (WFGD) emission control equipment that will soon be operational on its Sioux plants. Therefore rates will be adjusted again for AmerenUE with in a relatively short time period.

Another important time span to consider is the length of coal contracts since the majority of AmerenUE's fuel costs are for the purchase of coal. These contracts run from two to six years in length. The length of these contracts along with the fact that AmerenUE obtains its coal from a number of contracts mitigates coal price changes.

The other time span to take into account is the one set by the legislature in 386.226.4.(3) RSMo Supp. 2009, which requires that a utility with a FAC "file a general rate case with the effective date of new rates to be no later than four years after the effective date of the Commission order implementing the adjustment mechanism." Even if AmerenUE decides not to come back to the Commission for a rate case to include the WFGD on its Sioux plants, AmerenUE will have to return for another rate case within four years.

Surrebuttal of Randall J. Irwin

Q. What issue regarding the FAC did Mr. Irwin address in his FAC rebuttal testimony?

A. Mr. Irwin addressed AmerenUE's use of uranium and the volatility of uranium prices.

Q. Why doesn't the volatility of uranium prices affect AmerenUE's fuel costs?

A. Outages of the Callaway nuclear plant are scheduled in eighteen month intervals. AmerenUE replaces a portion of the uranium in the Callaway nuclear plant each time during each planned outage. This means that if AmerenUE waited four years between rate increase cases, uranium costs would only change twice. Therefore, Staff does not characterize uranium costs as volatile for AmerenUE.

In addition, on page 8, lines 8-9 of SCHEDULE RJI-FR1, Mr. Irwin states that AmerenUE has contracted for substantial supplies of uranium to meet future needs. Therefore, the cost of uranium is mostly known to AmerenUE.

Surrebuttal of Jaime Haro

Q. What issue regarding the FAC did Mr. Haro address in his FAC rebuttal testimony?

A. Mr. Haro addressed the volatility of AmerenUE's off-system margin and concerns he had regarding the FAC direct testimony of Office of Public Counsel witness Ryan P. Kind.

Q. Does the volatility of off-system margin impact AmerenUE's fuel costs?

A. Yes, a significant portion of the difference between off-system margin in the fuel costs between this case and the last case, Case No. ER-2008-0318, is due to lower off-system sales prices. Staff's fuel model's for the last three cases show only a small variation in the off-system sales on a normalized, annualized basis. So the change in fuel and purchased power expense between last case and this case is driven, not by the amount of off-system sales but by the price received.

Q. Would you like to respond to Mr. Haro's rebuttal regarding his concerns with Office of Public Counsel witness Ryan P. Kind?

A. Yes, I would like to respond to Mr. Haro's rebuttal testimony regarding the bilateral contracts that AmerenUE entered into when Noranda's load was reduced by the January 2009 ice storm. Although Mr. Haro does not specifically state who the bilateral contracts were entered into with, as I wrote on pages 62-63 in the Staff Revenue Requirement and Cost of Service Report filed on December 18, 2009, AmerenUE entered into contracts with American Electric Power Company (AEP) and Wabash Valley Power Cooperative (Wabash) during this time period. Mr. Haro makes several statements regarding AmerenUE's FAC, these contracts and how these types of contracts should be dealt with in the future that Staff would like to address.

Q. What in Mr. Haro's FAC rebuttal testimony would Staff like to address?

A. There are several issues. The first is found on page 2, lines 5-7 where Mr. Haro states that these contracts are long-term full or partial requirement contracts which are specifically excluded from off-system sales under the terms of the Company's FAC.

Q. Does Staff agree with Mr. Haro?

A. No, it does not. These are the types of contracts that Staff expects AmerenUE to maximize when it has excess capacity. Typically, these contracts are structured to provide fixed capacity payments and deliver energy at a cost defined in the contract. For a utility with an FAC, the revenues from fixed capacity payments should be included in the revenue requirement, and the revenues from energy sales should flow through the FAC.

Q. What does Mr. Haro base his opinion on?

A. Mr. Haro bases his opinion on the definition of factor OSSR (Revenues from Off-system Sales allocated to Missouri electric operations) in the FAC tariff. The definition is as follows:

> Off-System Sales shall include all sales transactions (including MISO revenues in FERC Account Number 447), excluding Missouri retail sales and long term full and partial requirements sales, that are associated with (1) AmerenUE Missouri jurisdictional generating units, (2) power purchases made to serve Missouri retail load, and (3) any related transmission.

Q. Does this definition exclude the revenues of long term and partial requirement sales from being included in the FAC?

A. No, it only excludes the revenues from being considered off-system sales.

Q. Why should the energy revenues from bilateral contracts be included in the FAC?

A. Utilities typically add supply-side resources (i.e., generation plants) in lumps. This "lumpiness" results in excess capacity in the short-term but is typically cost effective for the utility in the long run. It is prudent for utilities to offer this excess capacity and energy to other utilities through long-term bilateral contracts, for a time period of a year or greater, to offset the cost of the resource until it is needed to meet native load. Allowing utilities to continue to treat long-term bilateral contracts as Mr. Haro suggests - placing the cost of capacity in base rates, so that ratepayers are paying for capacity, and the shareholders keep all capacity and energy revenues from long-term bilateral contracts – could result in the utilities adding supply-side resources much sooner than needed.

Q. How does Staff believe that long-term bilateral contracts should be treated?

A. It is Staff's position that the revenue from the fixed capacity payments and the energy sales received from these types of contracts be included in the revenue requirement calculation in a rate case just as they are for utilities without FACs. The revenue from the energy sales in these contracts should be included in the calculation of the net base fuel cost for the FAC. As long as that long-term bilateral contract exists, the revenues from the sale of energy should be netted against the actual fuel costs when calculating the difference between actual and net base fuel cost for an accumulation period.

Q. Is this calculation currently in the FAC tariff?

A. No it is not. This is the first utility with a FAC that has entered into long-term bilateral contracts. It is Staff's recommendation that the FAC tariff include the actual fuel costs adjusted for the energy revenues received from bilateral contracts for twelve months or greater. Any energy revenues in the test year for long-term bilateral contracts that are included as load in estimating fuel and purchased power costs should also be included in the calculation of the FAC net base fuel cost.

Q. How would Staff include long-term bilateral contracts in the calculation of AmerenUE's fuel and purchase power adjustment rate (FPA_C) under AmerenUE's FAC?

A. Schedule LM-2 to this testimony describes Staff's proposal. The current equation would be modified to include a new term for bilateral contract revenues (BCR) and the definition of the existing terms CF (fuel costs), NBFC (net base fuel cost), S_{AP} (accumulation period sales) and S_{RP} (estimated recovery period sales) would be modified to include the affects of energy sales from bilateral contracts. In addition, the term OSSR (off-system sales revenue) would be further clarified in order to avoid ambiguity between wholesale contracts with municipal utilities and long-term bilateral contracts.

Q. Would such an adjustment result in a "windfall for customers" as described on page 4, line 3 in Mr. Haro's FAC rebuttal testimony?

A. No it would not. By including the fuel costs and delivered energy in the FPA_C calculation as proposed by Staff, both the customers and AmerenUE share in the benefits and costs of these contracts. The "windfall" that Mr. Haro describes would only happen if AmerenUE lost a large amount of load and without losing any of its generating units. I am not aware of any single load other than Noranda where AmerenUE could lose a load large enough to create the situation that Mr. Haro describes.

Q. Would there be an incentive for AmerenUE to enter into long-term bilateral contracts if the energy revenues from long-term bilateral sales are included in the FAC?

A. Yes there would. There would be two incentives for AmerenUE: 1) AmerenUE would retain the revenues from the capacity payments until its next rate case, and 2) AmerenUE would get to keep its share (e.g. five percent with the current tariff) of the difference between the revenues in the net base fuel cost.

Q. On page 7, lines 5-7 Mr. Haro states that the rate treatment these bilateral contracts are being given in this case is fair to all customers as well as AmerenUE. Do you agree?

A. AmerenUE treated these bilateral contracts as wholesale customers in the current case. When treated in this manner, average fuel cost is used to determine the cost to meet the contracts instead of the marginal fuel cost. But by classifying these contracts as "wholesale customers", the jurisdictional allocator for AmerenUE's retail customers was smaller. Analysis conducted by Staff showed that, on a going forward basis, the difference in the treatment of these contracts would be minimal. Since, Staff was not convinced that including these bilateral contracts as described above would be beneficial to the customers once Noranda returns to full capacity, Staff agreed with the manner in which AmerenUE treated these bilateral contracts in this case. However, Staff does recommend that the FAC tariff be revised so that this would not happen again.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

NOTICE

AmerenUE has filed a $____ million rate increase request with the Missouri Public Service Commission to increase base rates for electric service in its Missouri service area. The request will raise a typical residential customer's bill approximately ____%, translating to a $_____monthly increase. The request, which is subject to regulatory approval, would take effect in the early summer of 2010. AmerenUE's rate filing includes a request to continue its fuel adjustment clause in substantially its current form.

AmerenUE is also proposing to include in base rates an additional approximately $_____ million of net fuel costs. If approved, this amount of net fuel costs will be recovered through base rates rather than through the fuel adjustment clause. After rebasing these net fuel costs, the continued fuel adjustment clause would allow 95% of the increases or decreases in net fuel costs above or below the level of net fuel costs included in base rates to be passed through to customers as a separate line item on customer's bills (either through a separate and additional charge in the case of an increase or through a billing credit in the case of a decrease).

Public comment hearings have been set before the PSC as follows:

[To be determined by the Commission]

If you are unable to attend a live public hearing and wish to make written comments or secure additional information, you may contact the Office of the Public Counsel, P.O. Box 2230, Jefferson City, Missouri 65102, telephone (573) 751-4857, email opcservice@ded.mo.gov or the Missouri Public Service Commission, Post Office Box 360 Jefferson City, Missouri 65102, telephone 800-392-4211,email pscinfo@psc.mo.gov. The Commission will also conduct an evidentiary hearing at its offices in Jefferson City during the weeks of __________ through __________, beginning at _____ a.m. The hearings and local public hearings will be held in buildings that meet accessibility standards required by the Americans with Disabilities Act.

If a customer needs additional accommodations to participate in these hearings, please call the Public Service Commission's Hotline at 1-800-392-4211 (voice) or Relay Missouri at 711 prior to the hearing.

Proposed Changes to Rider FAC

Fuel and Purchased Power Adjustment Clause

Fuel and Purchase Power Adjustment Determination

Staff proposes to include the energy sales from bilateral contracts in the calculation of AmerenUE's Fuel and Purchase Power Adjustment under AmerenUE's Rider FAC. The current equation would be modified to include a new term for bilateral contract revenues **(BCR)** and the definition of the existing terms CF, NBFC, S_{AP} and S_{RP} are modified to include the affects of energy sales from bilateral contracts. In addition, the term OSSR is further clarified in order to avoid ambiguity.

Staff proposes the following formula for calculating the Fuel and Purchase Power Adjustment:

$FPA_{(RP)} = [[(CF+CPP-OSSR-TS-S-\mathbf{BCR}) - (NBFC \times S_{AP})] \times 95\% + I + R]/S_{RP}$

Where:

FPA_C = Fuel and Purchase Power Adjustment Rate. (Definition does not change)

BCR = Bilateral Contract Revenues. The revenues from long term (greater than 12months) bilateral contracts between AmerenUE and other utilities or cooperatives.

CF = Fuel costs incurred to support sales to all retail customers and Off-System Sales allocated to Missouri retail electric operations, **and all energy sales from bilateral contracts**, including transportation, associated with the Company's generating plants:

a) For fossil fuel or hydroelectric plants:

(i) the following costs reflected in Federal Energy Regulatory Commission (FERC) Account Number 501: coal commodity, applicable taxes, gas, alternative fuels, fuel additives, Btu adjustments assessed by coal suppliers, railroad transportation, switching and demurrage charges, railcar repair and inspection costs, railcar depreciation, railcar lease costs, similar costs associated with other applicable modes of transportation, fuel hedging costs (for purposes of factor CF, hedging is defined as realized losses and costs minus realized gains associated with mitigating volatility in the Company's cost of fuel and purchased power, including but not limited to, the Company's use of futures, options and over-the-counter derivatives including, without limitation, futures contracts, puts, calls, caps, floors, collars, and swaps), hedging costs associated with SO2 and fuel oil

adjustments included in commodity and transportation costs, broker commissions and fees associated with price hedges, oil costs, ash disposal revenues and expenses, and revenues and expenses resulting from fuel and transportation portfolio optimization activities; and

(ii) the following costs reflected in FERC Account Number 547: natural gas generation costs related to commodity, oil, transportation, storage, capacity reservation charges, fuel losses, hedging costs, and revenues and expenses resulting from fuel and transportation portfolio optimization activities;

b) Costs in FERC Account Number 518 (Nuclear Fuel Expense).

CPP = Cost of Purchase Power. (Definition does not change)

OSSR = Off-System Sales Revenue. (Definition does not change)

TS = Taum Sauk Factor. (Definition does not change)

S = Black Box Settlement. (Definition does not change)

NBFC = Net Base Fuel Costs are the net costs determined by the Commission's order as the normalized test year value (and reflecting an adjustment for Taum Sauk, consistent with the term TS) for the sum of allowable fuel costs (consistent with the term CF), plus cost of purchased power (consistent with the term CPP), less revenues from off-system sales (consistent with the term OSSR), less an adjustment (consistent with the term "S"), **less revenues from bilateral contracts consistent with the term BCR**, expressed in cents per kWh, at the generation level, as included in the Company's retail rates. The NBFC rate applicable to June through September calendar months ("Summer NBFC Rate") is X.XXX cents per kWh. The NBFC rate applicable to October through May calendar months ("Winter NBFC Rate") is X.XXX cents per kWh.

S_{AP} = Supplied kWh, **including supplied kWh from bilateral contracts**, during the Accumulation Period that ended prior to the applicable Filing Date, at the generation level.

S_{RP} = Applicable Recovery Period estimated kWh, **including supplied kWh from bilateral contracts** at the generation level, subject to the FPA_{RP} to be billed.

I = Interest. (Definition does not change)

R = under/ over recovery. (Definition does not change)

OSSR = Revenues from Off-System Sales allocated to Missouri electric operations. Off-System Sales shall include all sales transactions (including MISO revenues in FERC Account Number 447), excluding Missouri retail sales and long-term full and partial requirements sales **to municipalities**, that are associated with (1) AmerenUE Missouri jurisdictional generating units, (2) power purchases made to serve Missouri retail load, and (3) any related transmission.