Exhibit No.:	____________
Issue(s):	Fuel Adjustment Clause
Witness/Type of Exhibit:	Trippensee/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2007-0002

SURREBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of the Office of the Public Counsel

AMERENUE

CASE NO. ER-2007-0002

February 27, 2007

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area.	)))))	**Case No. ER-2007-0002**

AFFIDAVIT OF RUSSELL W. TRIPPENSEE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Russell W. Trippensee, of lawful age and being first duly sworn, deposes and states:

1. My name is Russell W. Trippensee. I am Chief Public Utility Accountant for the Office of the Public Counsel.

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

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

Russell W. Trippensee

Subscribed and sworn to me this 27th day of February 2007.

Kendelle R. Stratton
Notary Public

My Commission expires February 4, 2011.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

KENDELLE R. STRATTON
My Commission Expires
February 4, 2011
Cole County
Commission #07004782

SURREBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

AmerenUE

CASE NO. ER-2007-0002

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my business address is P.O. Box 2230, Jefferson City, Missouri 65102.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public Counsel).

Q. ARE YOU THE SAME RUSSELL W. TRIPPENSEE WHO HAS FILED REBUTTAL TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. To respond to the rebuttal testimony of AmerenUE witness Martin J. Lyons, Jr. with respect to the issue of Fuel Adjustment Clause (FAC). Specifically, I will address Mr. Lyons' contention that the FAC proposed by AmerenUE will not result in a mismatch of costs and revenues (Lyons rebuttal, page 17, lines 14 – 20). My surrebuttal testimony will address the FAC formula and how the formula does not properly match fuel related revenues and actual fuel costs. I will also present Public Counsel's position or concerns with other statements contained in Mr. Lyons' rebuttal testimony.

FUEL ADJUSTMENT CLAUSE – REVENUE/COST MISMATCH

Q. DOES THE FUEL ADJUSTMENT CLAUSE REQUESTED BY AMERENUE RESULT IN REVENUES RECEIVED FROM CUSTOMERS BEING EQUAL TO THE FUEL COSTS INCURRED?

A. No.

Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL MAKES THIS ASSERTION.

A. The FAC proposed by AmerenUE would collect fuel related costs in both base tariffs and through the FAC's Fuel and Purchased Power Adjustment (FPA). AmerenUE's proposed FAC formula would not recognize the actual kWh revenues billed during the accumulation period but would use actual fuel costs incurred to produce those kWhs sold during the accumulation period.

Q. CAN YOU EXPLAIN WHY ACTUAL REVENUES BILLED VIA BASE RATES WOULD NOT BE RECOGNIZED IN CALCULATING THE FAC'S COST ADJUSTMENT FACTOR?

A. Yes. The proposed cost of fuel included in base rates is $.01341 for AmerenUE. The FPA would calculate the additional revenues necessary to recover fuel costs in excess of the base rates. Original Sheet No. 98.1 contains the FPA formula and Original Tariff Sheet No. 98.3 contains the base rate amounts and these are attached to Mr. Lyons' testimony as Schedule MJL-1-1 and MJL-1-3 respectively.

The FPA formula is defined as:

FPA = [CF + CPP - SMS+ R +I] / S - BFC
Where:
CF = Allowable fuel costs
CPP = Cost of purchased energy --- FERC Account 555, 565, & 575

SMS = Share of Margins from Off-System sales if applicable
R = Under/Over recovery from prior recovery period, and modifications due to annual prudence reviews
I = Interest
S = Applicable recovery period estimated sales (kWh)
BFC = Base cost of fuel and purchased power energy in cents per kWh

The FPA would compare the actual cost of fuel and purchased power, (the CF & CPP), on a cents per kWh for the accumulation period and compare that amount to BFC, (the Base cost of fuel and purchased power). The actual CF & CPP used in the formula will have produced a level of kWh that generated revenue during the accumulation period. However, the FPA formula will use an estimated level of sales for the subsequent recovery period in calculating the cents per kWh to compare to the BFC component of the formula. This creates a mismatch with respect to the costs incurred during the accumulation period and the revenues related to fuel costs actually billed during the accumulation period.

Q. CAN YOU PROVIDE A NUMERIC EXAMPLE OF THE MISMATCH IN REVENUES AND EXPENSES?

A. Yes. I will assign specific values to the respective components of the formula. I should note that I will not use the CPP, SMS, R, or I factor simply for ease of understanding.

CF = $1,600,000
CPP = zero for example only
SMS = zero for example only
R = zero for example only
I = zero for example only
S = 100,000,000 kWh
BFC = $.01341

The result of this example would be that the FPA would equal

FPA = [1,600,000 - 0 - 0 - 0 - 0] / 100,000,000 - .01341
FPA = .01600 - .01341
FPA = .00259

Anticipated FAC to be recovered in the Recovery Period would be $259,000 (100,000,000 kWh * .00259).

The mismatch occurs because the formula does not take into consideration the level of kWh produced during the Accumulation Period. To illustrate, assume that there was no change in the cost of fuel delivered to the AmerenUE and that there was only one plant producing the power and its operation cost was just as anticipated, only it operated at a higher load, that is it achieved a .01341 fuel cost per kWh produced. Therefore in order to incur $1,600,000 of Allowable Fuel Costs (the CR in the formula), AmerenUE would have had to produce 119,313,945 (1,600,000 / .01341) kWhs which in turn would have been sold to the customer at base rates that included the $.01341 fuel cost component. The math is thus very simple, i.e. AmerenUE would have billed $1,600,000 in revenues during the Accumulation Period. As illustrated previously, the FPA revenue to be collected during the recovery period would be $259,000. Thus AmerenUE would bill a total of $1,859,000 to customers while incurring only $1,600,000 of costs.

Q. COULD THE RESULT ALSO BE THAT AMERENUE COULD UNDERCOLLECT ITS COSTS UNDER THE PROPOSED FUEL ADJUSTMENT CLAUSE FORMULA?

A. Yes.

Q. IS THERE A FUNDAMENTAL CONCERN YOU HAVE WITH THE CONCEPT OF THE FORMULA?

A. Yes. Over or under recoveries that have just been discussed would be expected to level each other out over time. However two points must be made. The purpose of a FAC is collecting the costs, no more or no less. A formula that relies on expectations of variations leveling out over time is fundamentally flawed. The second concern is more troubling in that AmerenUE has experienced growth and there is no expectation that the growth will cease. If all else remains equal except that customer growth occurs, the formula as designed by AmerenUE would effectively guarantee recovery of more revenues than costs incurred. This result would occur because the S factor would be growing and thus lower the fuel cost per kWh during the Accumulation Period. When compared to the base fuel cost per kWh, the result would be that through base rates and the FPA, AmerenUE would collect more revenues than cost incurred.

Q. CAN THIS PROBLEM BE CORRECTED?

A. Yes. The S in the FAC formula would have to be revised to reflect actual sales in the accumulation period. I would recommend that the S be relabeled to S_A and to read; S_A = Actual sales (kWh) for the accumulation period. The S_A is used in the calculation of FPA.

OTHER CONCERNS

Q. ON PAGE 18, LINE 9 THROUGH LINE 2 OF THE NEXT PAGE, MR. LYONS ASSERTS THAT A FUEL ADJUSTMENT CLAUSE PROVIDES A BETTER MATCHING OF RATES AND COSTS. HE ALSO ASSERTS THAT THIS IS AN IMPORTANT REGULATORY OBJECTIVE. WOULD YOU CARE TO COMMENT ON THAT ASSERTION?

A. Yes I would. Mr. Lyons asserts that a FAC provides a better match between costs and rates and is consistent with the concept of “cost causality”. Mr. Lyons improperly attempts to substitute the term “rate” for “revenue” with respect to the matching principle. The regulatory principle of matching is a comparison of revenues and costs within a specified time frame in order to determine the rate of return a utility is earning. Consistent with the principles espoused in Hope and Bluefield, rate of return is the critical issue.

The principle of "cost causality", often referred to as "cost causer = cost payer" is not a principle that is met via a FAC. The FAC is intended to be a system that allows a utility to track and recover certain costs. No more and no less. Mr. Lyons' attempt to elevate a FAC to a higher status does not change its basic purpose. Ratepayers required to pay a FAC are being charged for costs that were incurred by the utility at least 4 -6 months prior. The cost causer may be off the system or have usage patterns that are different because of the change in time or season of the year.

Q. MR. LYONS ASSERTS ON PAGE 19, BEGINNING AT LINE 3 THAT A FUEL ADJUSTMENT CLAUSE WILL EASE THE REGULATORY BURDEN OF THE COMMISSION AND ITS STAFF. DO YOU AGREE WITH HIS ASSERTION?

A. No. I addressed this point on page 14 of my rebuttal testimony. Mr. Lyons' asserts, on lines 6 – 9, that the proposed rider is a simple adjustment and the formula "is simple and straightforward and does not require complex calculations or analyses." While it could be argued that the math is simple, the inputs are far from simple and the analysis required in extremely detailed, complex, and voluminous. I would point out that Mr. Lyons proposes to protect the ratepayer from AmerenUE's negligence at Taum Sauk by running a fuel model, PROSYM, to identify the savings that would have occurred had Taum Sauk been operational (Lyons Rebuttal, page 33, beginning on line 15). To assert that fuel modeling is "simple" is completely disingenuous.

Q. DO YOU HAVE OTHER COMMENTS ON THE ASSERTION THAT A FUEL ADJUSMTENT CLAUSE WILL REDUCE THE REGULATORY BURDEN?

A. Yes. A system that effectively requires 4 mandatory filings per year places a significant regulatory burden on the Commission and its Staff. Mr. Lyons doesn't even address the burden placed on Public

Counsel and other intervenors. These groups represent the actual customers who will face volatile rates with respect to 20 – 25% of their total bills.

Mr. Lyons' assertion ignores the real world experience the Commission has with Purchased Gas Adjustment clauses. The Commission currently has seven individuals assigned to its Procurement Analysis depart whose function is to review and audit PGA filings and the associated Actual Cost Adjustment filings (which would be the R factor). I do not think there can be any argument that a FAC involves significantly more analysis, verification, and modeling. In order to perform these tasks, the Commission will need the proper staffing and acquisition of appropriate software to properly perform the necessary tasks. This will result in an increase in regulatory costs as one cannot assume that the other utility industries regulated by the Commission will simply go away, thus freeing up personnel assigned to or responsible for the regulation of those industries.

Finally, Mr. Lyons alleges there will be a reduction in rate cases and therefore asserts the Mr. Brosch "has it wrong" when stating that a FAC will increase regulatory burden. The statutes allowing the Commission to approve a FAC require that a utility with a FAC file a rate case at least every four years. AmerenUE has not filed an electric rate case in over 20 years. Similarly Kansas City Power & Light had not filed a rate case in over a decade. Our experience in Missouri is that utilities with significant coal fired and nuclear capacity have not required frequent rate cases. Based on my experience with these companies, major investments in plant and the related expenses and earnings are more significant drivers of the need for rate cases.

Q. MR. LYONS' REBUTTAL TESTIMONY HAS SEVERAL PAGES DEVOTED TO THE TREATMENT OF THE TAUM SAUK GENERATING FACILITY AND HOW THE RATEPAYERS CAN BE HELD HARMLESS IN THE FUEL ADJUSTMENT

CLAUSE FROM THE COMPANY'S ACTIONS THAT RESULTED IN THIS PLANT BEING UNAVAILABLE TO SERVE THE PUBLIC. DO YOU HAVE ANY COMMENTS ON MR. LYONS' TESTIMONY?

A. Yes. The problem with AmerenUE having a FAC can be best summarized with Mr. Lyons' own words from page 33, lines 10 – 12.

> This would guarantee these amounts to customers, even though **actual amounts could be higher or lower**. In the alternative, these values also could be **recalculated** through production cost modeling every year. (emphasis added)

Based on discussion with counsel, it is the Public Counsel's position that the Commission rules provide that a FAC reflect historic costs (4 CSR240-20.090 (2) (A)). It is Public Counsel's position that a FAC that either does not reflect actual amounts or requires modeling to estimate costs does not meet the test that a FAC should determine actual costs incurred and set a FAC rate to allow a utility to bill those costs (i.e. revenue) to customers.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.