

Exhibit No.:
Witness: Maurice Brubaker
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Holnam, Inc., River
Cement Company and
Lone Star Industries
Case No. EO-2000-580

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

FILED³

OCT 05 2000

**Missouri Public
Service Commission**

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

Case No. EO-2000-580

Surrebuttal Testimony of

Maurice Brubaker

On behalf of

**Holnam, Inc., River Cement Company
and Lone Star Industries**

Project 7042
October 2000

Brubaker & Associates, Inc.
St. Louis, MO 63141-2000

**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)
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Case No. EO-2000-580

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of Maurice Brubaker

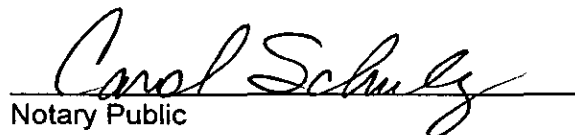
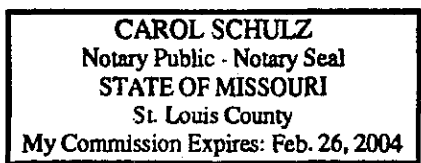
Maurice Brubaker, being first duly sworn, on his oath states:

1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by Holnam, Inc., River Cement Company and Lone Star Industries in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. EO-2000-580.
3. I hereby swear and affirm that the surrebuttal testimony is true and correct and that it shows the matters and things it purports to show.



Maurice Brubaker

Subscribed and sworn to before this 4th day of October 2000.



Notary Public

My Commission Expires February 26, 2004.

**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)
_____)

Case No. EO-2000-580

Surrebuttal Testimony of Maurice Brubaker

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208,
3 St. Louis, Missouri 63141-2000.

4 Q ARE YOU THE SAME MAURICE BRUBAKER WHO FILED DIRECT TESTIMONY
5 IN THIS PROCEEDING?

6 A Yes, I am.

7 Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF AMERENUE WITNESS
8 RICHARD KOVACH AND COMMISSION STAFF WITNESS JAMES WATKINS?

9 A Yes, I have. Both Mr. Kovach and Mr. Watkins oppose the proposal offered in my
10 direct testimony.

**Maurice Brubaker
Page 1**

1 Q BEFORE ADDRESSING THE SPECIFIC DETAILS OF THESE TWO
2 TESTIMONIES, DO YOU HAVE ANY GENERAL COMMENTS OR
3 OBSERVATIONS?

4 A Yes. The cement companies requested the Commission to initiate this docket
5 because of a failure of the cement companies and AmerenUE (UE) to agree on a
6 form of interruptible rate that was usable by these interruptible customers. In
7 accordance with the Stipulation and Agreement in Case No. EO-96-15, which Mr.
8 Kovach reproduces as his Schedule 2, the Commission initiated this docket.

9 I believe it is important that several things be kept in mind. First, it is not
10 uncommon for a utility to offer several varieties of interruptible rates – including rates
11 that provide for interruptions to be based on utility system reliability considerations
12 (like Rate 10M), as well as rates that are geared to economic conditions (like Riders L
13 and M). Second, it should be noted that neither UE nor Staff has alleged that Rate
14 10M was ineffective in providing UE with load reductions at times when UE
15 determined that it was facing a potential reliability problem. Finally, it should be noted
16 that UE has recently stated that it is short of capacity to serve its current native load.
17 Re-instituting a form of rate like I have proposed would give UE an additional 40
18 megawatts of load for which it would not have to plan capacity, thereby helping to
19 alleviate this capacity inadequacy.

20 Q AT PAGES 3 AND 4 OF HIS TESTIMONY, MR. KOVACH ARGUES THAT THE
21 CEMENT COMPANIES PARTICIPATING IN THE RATE DESIGN CASE RECEIVED
22 SEVERAL BENEFITS FROM THE STIPULATION AND AGREEMENT. DO YOU
23 HAVE ANY COMMENTS ON THESE ALLEGED BENEFITS?

1 A Yes. As his first point, Mr. Kovach opines that the interruptible customers received
2 "other" rate benefits as part of the settlement of the case, otherwise they would not
3 have accepted the settlement which contained an agreement to eliminate the
4 interruptible rate, with the proviso that the parties would engage in good faith
5 discussions concerning alternate interruptible rate options. I find it curious that Mr.
6 Kovach can be so certain about the thought process of these interruptible customers.
7 As he, and all other participants in regulatory proceedings are well aware, there are
8 many reasons why parties may agree to particular terms and conditions in a
9 settlement. Mr. Kovach's opinion about the tradeoffs and considerations made by
10 these customers is pure speculation on his part.

11 As the second point of his response, he argues that these customers are
12 participating in voluntary curtailment Rider L. Here, and elsewhere (for example, see
13 Pages 9 and 19 of his rebuttal testimony) he claims that these customers are
14 benefiting as a result. Of course, as is clear from his own testimony, Rider L is purely
15 voluntary and is offered on a day-by-day basis as conditions on UE's system (in UE's
16 view) warrant. The price offered is totally within UE's control. Of course, there is no
17 obligation to interrupt under Rider L, and so there is no cost or downside to a
18 customer from simply agreeing to be notified when Rider L opportunities arise.

19 Based on discussions with the three cement companies, one company did
20 participate on a limited basis on one occasion, and take advantage of Rider L for a
21 period of three hours, receiving a total compensation of less than \$1,000. This same
22 company previously was receiving benefits (relative to firm rates) under the now
23 eliminated Rate 10M, of about \$500,000 per year.

1 A second customer participated on a limited basis on three occasions, for a
2 total of 19 hours, and received total compensation of \$8,700. The same company
3 was receiving a credit of about \$1,000,000 under the 10M interruptible rate.

4 The third company did not utilize Rider L at all and therefore received no
5 compensation.

6 For his third point, Mr. Kovach points out that by no longer taking interruptible
7 service, and instead taking firm service, the customers are not subject to interruption.
8 He then states that these customers ". . . currently receive additional economic and
9 operational benefits . . ." Of course, as the testimonies of the three cement company
10 witnesses make clear, the overall result is a net detriment, and not a net benefit

11 Q AT PAGES 5 AND 6 OF HIS TESTIMONY, MR. KOVACH ARGUES THAT IT IS
12 NOT NECESSARY TO OFFER A RATE SIMILAR TO WHAT INTERRUPTIBLE
13 CUSTOMERS ARE PROPOSING IN THIS CASE – BECAUSE THE COMPANY
14 OFFERS TWO FORMS OF "VOLUNTARY" CURTAILMENT SERVICE, IN THE
15 FORM OF RIDERS L AND M. ARE RIDERS L AND M COMPARABLE TO THE
16 FORMER RATE 10M?

17 A No, not at all. By Mr. Kovach's own testimony, these are voluntary. Rider L is
18 voluntary on a day-by-day basis, with no requirement at all for any customer to curtail
19 load at any time, no matter what the price offered by UE, or the threat to the
20 continued ability to provide reliable service. Rider M is voluntary in terms of the
21 customer subscription, but is mandatory at the designated strike prices if the
22 customer actually signs up and agrees to the curtailment option.

1 Q HOW MUCH LOAD HAS SUBSCRIBED TO THE COMPANY'S RIDER M?

2 A According to information received from UE, a total of 24,000 kilowatts of potentially
3 curtailable load signed up for Rider M. The Company did not invoke this interruption
4 at all during the summer of 2000, however, and thus it is unknown how the Rider M
5 program will work. The only experience the Company has so far is with voluntary
6 day-by-day Rider L, which it offered on eight occasions during the summer of 2000.
7 In any event, Rider L is purely voluntary and provides no basis for reducing the
8 Company's capacity obligation. Rider M could provide a basis for reducing the
9 Company's capacity obligation, but with no experience, and given that Rider M is a
10 year-to-year option, it would not be prudent to count on Rider M to reduce long-term
11 capacity obligations.

12 Q ON PAGE 7 OF HIS TESTIMONY, MR. KOVACH RESPONDS TO THE CLAIM YOU
13 MADE THAT UE WAS ASKED TO PROVIDE A SPECIFIC CRITIQUE OF THE
14 RATE PROPOSAL OFFERED BY THE INTERRUPTIBLE CUSTOMERS, AND DID
15 NOT DO SO. HE SAYS THAT THE CRITIQUE OF THE PROPOSAL WAS
16 PROVIDED VERBALLY AND THAT NO WRITTEN CRITIQUE WAS NECESSARY.
17 PLEASE RECONCILE YOUR STATEMENT WITH THAT OF MR. KOVACH.

18 A I cannot. I specifically recall asking on several occasion that UE representatives
19 engaging in discussions with representatives of the cement companies, and with me,
20 discuss with us the specific objections which they had to the provisions of the rate
21 proposal which we had offered. The response given was always, to paraphrase, "we
22 have decided to go a different direction. We're here to talk about our proposal –
23 Rider M."

1 Perhaps the confusion is Mr. Kovach's apparent belief that a specific written
2 critique was requested. It was not. We simply wanted to discuss the specifics of our
3 proposal with UE and have them tell us where it was problematic – so we could
4 determine if it would be possible to modify the proposal in such a manner that would
5 preserve the benefits of Rider 10M for both parties. This is what UE did not do.

6 Q HOW MANY MEETINGS WITH AMEREN DID YOU ATTEND ON THIS SUBJECT?

7 A After an initial meeting in late December of 1999 with Mr. Dan Cole and Mr. Craig
8 Nelson of Ameren to kick-off the discussion, I attended three meetings. Mr. Kovach
9 did not attend the kick-off meeting, and attended only the first of those subsequent
10 meetings.

11 Q AT PAGE 7 OF HIS TESTIMONY, MR. KOVACH CLAIMS THAT YOUR RATE
12 PROPOSAL IS ONLY A "SLIGHTLY MODIFIED" VERSION OF THE FORMER 10M
13 TARIFF. DO YOU AGREE:

14 A No, I do not. The proposal which interruptible customers made to UE provides
15 significant additional benefits to UE in terms of economic interruption opportunities.
16 Previously, UE could not interrupt except for reliability reasons, or, when a system
17 peak was anticipated. As I outlined in my direct testimony (Page 5), we recognize
18 that the power market has changed and that at some times prices are very high.
19 Thus, we considered it a major modification to explicitly permit economic interruptions
20 for up to 60 hours per year, even if there is no reliability problem. Customers wishing
21 to stay on the system when those high price episodes occurred would compensate
22 UE for the market price of power, and customers electing to curtail would receive 90%

1 of the cost avoided by UE. In either case, UE would be better off than it was under its
2 previous 10M tariff.

3 In light of the power prices experienced during the summers of 1998 and
4 1999, during some expensive days, we believed (and still do) that this feature offers
5 significant benefits to UE. Granted, prices during the summer of 2000 did not reach
6 these same levels, and UE would not have invoked these economic interruptions.
7 However, the point is: if prices do reach these levels, UE has this new opportunity to
8 curtail for economic reasons for up to an additional 60 hours per year.

9 Q AT PAGE 8 OF HIS TESTIMONY, MR. KOVACH ALLEGES THAT THE
10 INTERRUPTIBLE CUSTOMERS DID NOT PROVIDE A SPECIFIC CRITIQUE OF
11 THE RIDER M PROPOSAL. IS THIS AN ACCURATE STATEMENT?

12 A No, it is not. We verbally advised UE representatives (at meetings where Mr. Kovach
13 was not present) that the premiums offered were inadequate, given the interruption
14 exposure that went with the strike prices and curtailment opportunities which the rate
15 gave to UE. We also pointed out to them that the pricing was essentially a "black
16 box" both as to the method of determining the options prices, and lack of disclosure of
17 the option prices at any time prior to actual negotiations. In other words, under Rider
18 M UE can offer whatever price it wants, the option is on a year-to-year basis, and the
19 customer has no choice but to take the price UE offers, or to take firm service. The
20 customer is not permitted to sell to anyone else.

21 Furthermore, we pointed out that while under Rate 10M UE was a monopoly
22 seller of interruptible power, the price that it charged was regulated by the PSC.
23 Under Rider M, the Company now becomes a monopoly purchaser of firm power

1 entitlements from its customers, but at unregulated prices. We find this to be totally
2 unacceptable given the unavailability of other viable interruption options.

3 Q AT PAGE 9 OF HIS TESTIMONY, MR. KOVACH ARGUES THAT UE DID NOT
4 LOSE ACCESS TO 40,000 KILOWATTS OF INTERRUPTIBLE LOAD. DO YOU
5 AGREE?

6 A No. Mr. Kovach is not correct. Rider L, as I have discussed previously, is purely
7 voluntary. No customer has to accept a Rider L curtailment offer. The Company has
8 no ability to force customers receiving offers under Rider L to interrupt. In contrast,
9 under 10M the customer was obligated to interrupt when called upon by the Company
10 to do so. Thus, the Company did in fact lose access to 40,000 kilowatts of
11 dependable and predictable interruptible load.

12 Q AT PAGES 10 AND 11 OF HIS TESTIMONY, MR. KOVACH SAYS THAT HE IS
13 ADDRESSING YOUR PROPOSAL TO ELIMINATE FROM UE'S CURTAILMENT
14 CRITERIA THE RIGHT TO INTERRUPT BECAUSE A "SYSTEM PEAK" IS
15 APPROACHING. DO YOU UNDERSTAND AND AGREE WITH MR. KOVACH'S
16 RESPONSE?

17 A No. In fact, I don't believe his answer really is critical of the elimination of this
18 condition. His only point seems to be that there is a high correlation between system
19 reliability and system peaks. If that is the case then interruptions for reliability
20 reasons can continue as in the past. The fact that a utility may be experiencing, or
21 may be about to experience, a system peak has absolutely nothing to do with
22 whether or not there is a need to interrupt customers.

1 This provision was nothing more than an opportunity to interrupt at times when
2 it is not necessary to do so. In fact, at one time, the Company asserted that it was
3 difficult to administer, and proposed to change this provision to tie interruptions to
4 some percentage of a previous year's system peak. Mr. Kovach does not argue that
5 loss of the ability to curtail at time of system peak – if there is no reliability or
6 economic reason to do so – is in any way detrimental to UE or to its other customers.

7 **Q WHAT ELSE DOES MR. KOVACH SAY IN THAT ANSWER?**

8 **A In the middle of that response he moves to a different subject, and makes the claim**
9 **that:**

10 ". . .with the presence of today's wholesale power markets,
11 system reliability can nearly always be met at some price
12 level, by a combination of market purchases and customer
13 curtailments, which the Company prefers to keep on a
14 voluntary basis."

15 This is a rather bold statement, but note that it is conditioned with the "nearly
16 always" caveat. I will have more to say about this later in rebuttal to the testimony of
17 Staff witness James Watkins. Furthermore, this statement doesn't respond to the
18 issue Mr. Kovach said he was addressing: namely – curtailment just because there is
19 a system peak.

20 **Q AT PAGES 11-13 OF HIS TESTIMONY, MR. KOVACH TALKS ABOUT THE**
21 **DIFFERENCE IN PRICE BETWEEN FIRM POWER AND INTERRUPTIBLE**
22 **POWER, BOTH UNDER RATE 10M AND UNDER YOUR PROPOSAL. DO YOU**
23 **AGREE WITH HIS CONCLUSIONS?**

24 **A No, I do not. First, he calculates a number for kilowatthours curtailed based on some**
25 **history of length of curtailment and number of curtailments per year. He then divides**

1 the rate difference by these kilowatthours to obtain an amount per kilowatthour –
2 which he then goes on to attack as excessive

3 While the math may be interesting, it is irrelevant. As Mr. Kovach well knows,
4 capacity cannot be bought on a kilowatthour basis just when needed. Markets do not
5 work that way. It takes real dedicated physical capacity, to provide reliable service.
6 Utilities provide capacity by installing generation – and spending capital dollars to do
7 so. It is misleading to express the interruptions on a kilowatthour basis. The
8 Company clearly was not installing capacity to serve Rate 10M interruptible load.
9 Interruptible load was subtracted from its total load in order to determine the load for
10 which capacity and reserves were provided.

11 Q AT PAGES 13 AND 14 MR. KOVACH ALLEGES THAT YOUR PROPOSAL,
12 INCLUDING THE ECONOMIC INTERRUPTION OPPORTUNITY OFFERED TO THE
13 UTILITY, IS ADMINISTRATIVELY BURDENSOME. DO YOU AGREE?

14 A No. I am very surprised that Mr. Kovach would make such a criticism of my proposal.
15 Only five customers were on Rate 10M. Communications, verification and billing for
16 these customers would be quite simple. In contrast, to apply the Company's Rider L
17 requires a detailed analysis of the historic hourly load pattern of each and every
18 customer. Then, a comparison must be made between that historical pattern and the
19 customer's load at the time of a promised curtailment. This requirement under Rider
20 L is considerably more administratively complex than anything I propose for my
21 interruptible rate.

22 Q AT PAGE 15 OF HIS TESTIMONY, MR. KOVACH COMMENTS ON YOUR
23 STATEMENT THAT THE 50% DEMAND CHARGE CREDIT FOR INTERRUPTIBLE

1 SERVICE IS TYPICAL FOR AN INTERRUPTIBLE RATE STRUCTURE. HE
2 STATES THAT THE DISCOUNT IS THE LARGEST GIVEN BY ANY UTILITY IN
3 THE STATE OF MISSOURI. HOW DO YOU RESPOND?

4 A Mr. Kovach provides no specific details in his answer. Nor does he disagree with the
5 reasonableness of the 50% discount. In fact, Mr. Kovach and other witnesses for UE
6 have, over at least the last 15 years, supported the 50% credit as being reasonable. I
7 would further point out that while the magnitude of the credit is the largest for any
8 utility in the State, UE's firm rate demand charges also are the highest charged by
9 any utility in the State. Since the credit is for the purpose of reflecting the fact that
10 utilities do not install generation capacity to serve interruptible load, the higher a
11 utility's rates, the higher the credit should be.

12 Furthermore, the Company continues to offer a rate similar to 10M in its Illinois
13 service territory. That rate also has an interruptible credit equal to 50% of the firm
14 rate demand charge.

15 Finally, it should be noted that although the credit is 50% of the firm rate
16 demand charge, the dollar credit is only about 11% of the total firm rate charges.

17 Q ON PAGE 15 OF HIS TESTIMONY, MR. KOVACH ADDRESSES YOUR USE OF
18 THE \$400 PER KW INSTALLATION COST FOR COMBUSTION TURBINES, AND
19 POINTS OUT THAT THESE ARE COSTS FOR TURBINES THAT WILL BE
20 INSTALLED BY AN AFFILIATE OF UE. DOES HE DISAGREE WITH THE \$400
21 FIGURE?

22 A No, he does not. Furthermore, the fact that CTs will be used by an affiliate for sales
23 to the wholesale market is further confirmation of the fact that CTs are a valid
24 measure of the cost of capacity. If UE does not have interruptible load, like 10M, to

1 count on (unlike voluntary Riders L and M), then it must install capacity in order to
2 provide reliable service. A combustion turbine is the least expensive type of capacity
3 that could be installed.

4 Furthermore, Mr. Kovach is simply wrong when he says that hourly market
5 prices, and not capacity costs of the generation, are the proper indicators of the value
6 of curtailed power. No responsible utility would count on purchasing power in the
7 hourly spot market to serve its firm load obligations. Rather, it would install capacity
8 (CTs or other types of capacity), or would enter into firm capacity-backed contracts.
9 Reliance on hourly purchases to meet firm native load obligations would also be a
10 violation of the Regional Reliability Council reserve requirements.

11 **Q AT PAGE 16 OF HIS TESTIMONY MR. KOVACH ADDRESSES YOUR PROPOSAL**
12 **TO SHORTEN THE ON-PEAK HOURS SO THEY WOULD END AT 8 O'CLOCK PM**
13 **INSTEAD OF 10 O'CLOCK PM. PLEASE RESPOND TO MR. KOVACH'S**
14 **TESTIMONY.**

15 **A** Mr. Kovach's testimony does not address my point. He states that interruptible
16 customers would obtain the same flexibility by participation in Rider L. This is not the
17 case. The on-peak period is critical every weekday, because the billing demand
18 determination provision under the firm rate (as well as under the interruptible rate)
19 was based on the time that demands are imposed on the system. Mr. Kovach's
20 response does not address the issue.

21 **Q AT PAGE 16 OF HIS TESTIMONY MR. KOVACH ADDRESSES YOUR PROPOSAL**
22 **TO FORMALIZE THE METHOD BY WHICH CUSTOMERS CAN CHANGE THE**

1 LEVEL OF THEIR FIRM ASSURANCE POWER DEMANDS. HE SAYS THE SAME
2 SHORT-TERM FLEXIBILITY IS AVAILABLE UNDER RIDER L. DO YOU AGREE?

3 A Rider L is totally different in concept. The point of my proposal was to provide an
4 orderly means for customers to make a change in the level of the required assurance
5 power, which was not formally expressed in Rate 10M. Rider L has no bearing on
6 this issue.

7 Q HAVE YOU REVIEWED SCHEDULE 3 ATTACHED TO MR. KOVACH'S
8 REBUTTAL TESTIMONY, WHICH IS ENTITLED "RATE CONCEPT COM-
9 PARISON"?

10 A Yes, I have.

11 Q DO YOU HAVE ANY COMMENTS CONCERNING WHAT IS SHOWN ON THIS
12 SCHEDULE?

13 A Yes. Under what is designated as Concept No. 2 – Penalties, Mr. Kovach suggests
14 that I have changed the penalties for failure to curtail in the current rate. This is not
15 correct. The \$10 per kW penalty which I proposed adding to the rate was applicable
16 to a failure of a customer to voluntarily curtail, under the economic curtailment option,
17 to the level of demand to which the customer had committed. It is not in substitution
18 of any enforcement mechanisms or penalties that may exist in the 10M rate for failure
19 to comply with a mandatory curtailment. Point No. 13, Assurance Demand Charges,
20 is also not accurate, but I have already discussed this issue.

21 The same comments that I have made in connection with Schedule 3 also
22 apply to Schedule 6.

1 Q TURNING NOW TO THE TESTIMONY OF STAFF WITNESS JAMES WATKINS,
2 PLEASE ADDRESS THE POINT WHICH HE MAKES AT PAGES 3 AND 4, WHERE
3 HE SUGGESTS THAT THERE IS SOME KIND OF "UNDERSTANDING" THAT
4 INTERRUPTIONS WOULD ONLY OCCUR ABOUT SIX TIMES PER YEAR.

5 A There is no such provision in the tariffs. While customers may form some expectation
6 based on history, this does not mean that curtailments under the rate are limited to
7 average historical experience. Indeed, the history of interruptions under 10M
8 demonstrates a significant variation from year to year as circumstances warrant.
9 Over the last seven years, for example, interruptions ranged from 16 hours during
10 1997, to 68 hours during 1998.

11 Q MR. WATKINS ALSO CLAIMED THAT DURING SOME UNSPECIFIED TIME
12 FRAME UE PURCHASED SHORT-TERM CAPACITY TO MEET RESERVE
13 REQUIREMENTS AN AVERAGE OF 40 TIMES PER YEAR WHEN IT DID NOT
14 INTERRUPT THE INTERRUPTIBLE CUSTOMERS. WHAT IMPACT DOES THIS
15 HAVE ON YOUR ANALYSIS.

16 A None. The basic concept of the rate is that customers would be interrupted when
17 there is a reliability problem. If UE can purchase capacity to maintain its required
18 reserve margins – there is no reliability problem, and therefore no need to interrupt
19 the customer. While some amount of costs might be avoided by not purchasing, Mr.
20 Watkins has not presented any quantification. Nor has he considered the operating
21 cost of peaking units if they were to be built and run instead of utilizing interruptible
22 load.

23 Also on Page 4 of his testimony, Mr. Watkins makes a calculation which he
24 himself describes as "simplistic." Based on his purchases of 40 times and

1 curtailments of six times, he develops a ratio which he uses to factor down the \$5 per
2 kW month CT avoided cost. This calculation is flawed for the reasons noted
3 previously. In addition, combustion turbines are not nearly as reliable as Rate 10M
4 interruptible load. According to information compiled by the North American Electric
5 Reliability Council (NERC), and reported in the Generation Availability Data System
6 (GADS) report, gas turbines have very high forced outage rates. The August 1999
7 report shows forced outage rates of over 50% for units smaller than 50 MW, and
8 forced outage rates of over 30% for units larger than 50 MW. Obviously, one
9 megawatt of combustion turbine capacity is not as valuable or reliable as one
10 megawatt of interruptible load.

11 Q AT PAGES 4 AND 5 OF HIS TESTIMONY, MR. WATKINS PRESENTS
12 CALCULATIONS WHICH EXPRESS THE INTERRUPTIBLE CREDIT ON A PER
13 KILOWATTHOUR BASIS. ARE THESE CALCULATIONS MEANINGFUL OR
14 VALID?

15 A No, they are not. For the reasons I discussed previously in connection with my
16 response to Mr. Kovach's testimony, it simply is not valid to express capacity costs on
17 a kilowatthour basis. Hard dollars must be paid to put iron in the ground in order to
18 provide capacity value. Simplistic calculations such as these presented by Mr.
19 Watkins are not meaningful.

20 Q IS IT NECESSARY FOR AN INTERRUPTIBLE TARIFF TO SPECIFY THE
21 MAXIMUM NUMBER OF TIMES OR HOURS THAT CUSTOMERS CAN BE
22 INTERRUPTED, AS MR. WATKINS SUGGESTS?

1 A No, it is not necessary. Some tariffs do include these provisions, but others do not.
2 Contrary to Mr. Watkins' assumption, it is not our intent that some unwritten maximum
3 number of interruptions be applied as a limitation. Rather, the utility should
4 administer the tariff in accordance with its terms. In the context of the implementation
5 of a rate such as I have suggested in this proceeding, however, we would certainly be
6 willing to consider modifications to address a maximum number of hours of
7 interruption. We are similarly receptive to discussing more precise wording of the
8 provisions which specify when an interruption can be called.

9 Q AT PAGE 6 OF HIS TESTIMONY MR. WATKINS SUGGESTS THAT UE WOULD
10 BE COMPELLED TO PURCHASE POWER AT ANY COST TO REMEDY
11 RELIABILITY PROBLEMS BEFORE CURTAILING INTERRUPTIBLE LOAD. IS
12 MR. WATKINS CORRECT?

13 A No. This was true under the former Rate 10M. However, in the modification which I
14 have proposed, UE would be given the opportunity to interrupt for up to an additional
15 60 hours per year solely for economic reasons, even if interruptions would not
16 otherwise be required for reliability-related reasons.

17 Q AT PAGE 7 OF HIS TESTIMONY MR. WATKINS CLAIMS THAT UNDER YOUR
18 PROPOSAL UE WOULD NOT BE ABLE TO INTERRUPT CUSTOMERS IN AN
19 EFFORT TO REDUCE ITS RESERVE REQUIREMENTS, WHICH HE SAYS "...
20 ARE BASED ON EACH COMPANY'S ACTUAL SYSTEM PEAK." HOW DO YOU
21 RESPOND?

22 A I disagree. Reserve requirements are based on utility anticipated firm power
23 requirements. If a utility does not interrupt customers at the time of system peak –

1 this does not mean that it has to plan to install and maintain capacity to serve this
2 load. A utility would continue to plan its system, including its reserve requirement,
3 based on its anticipated firm peak load.

4 Q MR. WATKINS GOES ON TO CLAIM, ON PAGE 7, THAT ". . . POWER IS
5 ALWAYS AVAILABLE AT SOME PRICE IN TODAY'S COMPETITIVE WHOLE-
6 SALE MARKETS . . ." DO YOU AGREE?

7 A No, I do not. While power is available most of the time, in most places, Mr. Watkins'
8 statement that power is always available is as surprising as it is wrong.

9 While I have not attempted to accumulate all recent instances of firm load
10 curtailment, the following are notable. In the summer of 1998, some utilities in Ohio
11 interrupted firm load customers because they were unable to generate or purchase
12 enough power to meet their firm load obligations. During the summer of 1999, firm
13 load customers in Arkansas, Louisiana, Mississippi and Texas were subject to
14 rotating blackouts because the utility was unable to generate or purchase sufficient
15 power to maintain service to all firm customers. In the summer of 2000, firm load
16 customers in the San Francisco area were curtailed because of supply and
17 deliverability problems. While many other examples probably exist, I think these are
18 sufficient to point out that the unqualified statement that ". . . power is always
19 available at some price in today's competitive wholesale power markets . . ." would be
20 dangerous to rely upon.

21 Q DO YOU HAVE ANY OTHER COMMENTS ABOUT THIS RESPONSE OF MR.
22 WATKINS?

1 A Yes. The rest of his response simply ignores the economic interruption opportunities
2 incorporated in the tariff which I proposed.

3 Q AT PAGE 7 OF HIS TESTIMONY, MR. WATKINS CLAIMS THAT IF YOUR
4 PROPOSAL WERE IMPLEMENTED, AND RATES WERE DECREASED BY \$2.4
5 MILLION PER YEAR TO RECOGNIZE INTERRUPTIBILITY – THAT THERE IS A
6 PROBLEM IN DETERMINING WHO WOULD PAY THE DIFFERENCE. IN THIS
7 REGARD HE REFERS BACK TO CASE NOS. EM-96-149 AND EO-96-15. HOW
8 DO YOU RESPOND?

9 A Mr. Watkins raises an interesting point, but I think that he has the facts backwards. In
10 designing the rates which were implemented as a result of these cases, the billing
11 determinants assumed the continuation of interruptible service to these interruptible
12 customers. Thus, if we follow Mr. Watkins' issue to its logical conclusion, the
13 question would, instead, be to ask whether UE is being unjustly enriched by being
14 allowed to continue to collect rates that were based on the premise of a \$2.4 million
15 discount, when, in fact, there is no longer any discount.

16 Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

17 A Yes, it does.