

Exhibit No. 223
Issues: Off System Sales, Fuel &
Purchased Power
Witness: Erin L. Maloney
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No: ER-2008-0318
Date Testimony Prepared: November 5, 2008

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

ERIN L. MALONEY

UNION ELECTRIC COMPANY d/b/a AMERENUE

CASE NO. ER-2008-0318

**Jefferson City, Missouri
November 2008**

Staff Exhibit No. 223
Case No(s). ER 2008-0318
Date 12-12-08 Rptr. KF

**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-2008-0318

AFFIDAVIT OF ERIN L. MALONEY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

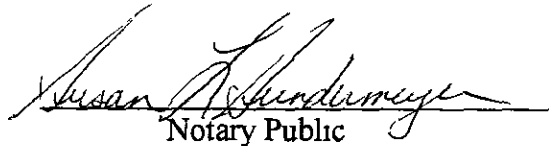
Erin L. Maloney, of lawful age, on her oath states. that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 4 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony 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


Erin L. Maloney

Subscribed and sworn to before me this 5th day of November, 2008



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


Notary Public

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **ERIN L. MALONEY**

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

5 **CASE NO. ER-2008-0318**

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12 Q Please state your name and business address?

13 A Erin L. Maloney, P.O. Box 360, Jefferson City, Missouri, 65102

14 Q Are you the same Erin L. Maloney employed by the Missouri Public Service
15 Commission (Commission) that contributed to Staff's August 28, 2008 Cost of Service
16 Report (Staff Report) and filed rebuttal testimony in this case?

17 A Yes.

18 Q What is the purpose of this Surrebuttal Testimony?

19 A. This testimony responds to statements made in the rebuttal testimony of Union
20 Electric Company d/b/a AmerenUE (AmerenUE or Company) witnesses Scott A. Glaeser
21 and Shawn E. Schukar regarding natural gas prices and purchased power prices
22 respectively

23 Q For what purpose are the purchased power prices and natural gas prices
24 developed?

25 A The purchased power prices developed by Staff were used as an input into its
26 production cost model to determine the appropriate level of off-system sales margin as well
27 as the level of purchased power expense that was included in Staff's cost of service
28 calculation

1 The monthly natural gas prices developed by Staff were also used as an input
2 into the production cost model that determined fuel and purchased power expenses

3 Q On Page 2 line 19 of his rebuttal testimony, Mr. Glaeser states that Staff's
4 "statement that natural gas prices are stable is beyond belief" Does Staff make the
5 contention that natural gas prices are in general stable?

6 A. No, Staff states that the 12 month moving averages being constant over a two
7 year period indicates relative price stability *over this two year period*

8 Q On page 2 of Mr Glaesar's rebuttal testimony lines 20-21, he states that
9 "Staff's method of analysis is flawed and the conclusion Staff draws from its analysis is
10 incorrect Instead of examining actual gas market prices, Staff analyzes actual fuel cost data
11 from AmerenUE " Do you believe that Staff should have used spot market gas prices to
12 evaluate the actual gas prices that AmerenUE paid?

13 A No, Staff used the same gas price data as was used by AmerenUE to analyze
14 the gas prices that the Company actually paid On page 16 of Mr Glaeser's rebuttal
15 testimony he describes how AmerenUE manages its natural gas price risk By using the
16 actual fuel cost data, both Staff and AmerenUE are correctly modeling the natural gas prices
17 AmerenUE uses when it makes its dispatch decisions In essence, Mr Glaesar is rebutting
18 the analysis used by the Company itself.

19 Q Mr Glaesar states further on page 3 that the actual prices include " [a]
20 variety of price hedged gas supply packages, storage withdrawals, and market priced gas
21 supply packages In other words, it represents our price hedged gas supply portfolio in
22 which we employ various hedging instruments and physical resources to dampen price

1 volatility” To your knowledge is the Company planning to continue the use of these
2 techniques to dampen price volatility?

3 A On page 16 of his rebuttal testimony, Mr. Glaeser states that AmerenUE will
4 continue to implement the existing policies and strategies if granted a fuel adjustment clause
5 by the Commission. It would be imprudent of AmerenUE to discontinue its management of
6 fuel risk if the Commission does not grant AmerenUE a fuel adjustment clause. Therefore,
7 Staff believes that using actual fuel cost data from AmerenUE is an accurate representation
8 of the fuel costs used for dispatch.

9 Q Did Staff use a twelve-month moving average method in an effort to
10 artificially remove volatility as Mr. Glaeser claims on page 3, lines 1-3 of his rebuttal
11 testimony?

12 A No, the twelve-month moving average was only used to determine if there
13 were any trends in the data. Staff used actual values as they occurred in the test year
14 adjusted for the abnormal average costs that occurred for Mississippi River Transmission
15 (MRT) Line and Panhandle Eastern Pipe Line (PEPL) in March 2008.

16 Q Did Staff arbitrarily remove certain months with high fuel costs (March 2008
17 for PEPL and MRT) to try to “smooth out” prices by replacing these months with artificially
18 lower values as Mr. Glaeser contends on page 3, lines 14-18 of his Rebuttal Testimony?

19 A No. Staff estimated the March 2008 costs using the average of the February
20 2008 and April 2008 costs in an attempt to normalize the prices for March because the MRT
21 average cost was unrealistically high (over 50% higher than the average value for that
22 pipeline). The March 2008 PEPL average cost was not used because according to the data

1 supplied in response to Staff Data Request # 174 AmerenUE did not purchase gas from
2 PEPL in March 2008.

3 Q In its true-up through September 30, 2008, how did AmerenUE treat the
4 March 2008 abnormal levels for the average costs at MRT and PEPL?

5 A AmerenUE witness Timothy D Finnell's rebuttal work papers indicate that it
6 corrected the high average cost in March 2008 for MRT Staff will incorporate this
7 correction into its true-up analysis. However for PEPL the data shows no volume and a
8 negative cost AmerenUE simply added this negative cost with the positive cost in 2007
9 and divided this reduced amount by the volumes in 2007 This results in a unrealistically
10 low price for March 2008, a price that is even lower than the 2007 price.

11 Q. Why does Staff believe that using the actual gas prices from the test year is
12 more appropriate then using a two year historical average?

13 A Staff believes that the actual prices that occurred in the test year more
14 accurately reflect current market conditions

15 Q. Mr Schukar states on page 5, lines 3-5 of his rebuttal testimony that "[T]he
16 use of a single year's market price data is inconsistent and inappropriate given the models'
17 use of normalized inputs for these other variables " Do you agree with this statement?

18 A. No Staff does use normalized, annualized hourly loads as well as normalized
19 planned and unplanned outages as inputs to the production cost model However, Staff
20 believes using the actual hourly market prices more accurately reflect fluctuations in price
21 due to changes in weather patterns, day types, holidays, peak and off-peak hourly
22 differences and seasonal effects The hourly actual market prices and the hourly normalized
23 load are matched to actual load profiles that occurred during the test year

1 Q Has Staff reviewed the data the Company supplied for the true-up period
2 ending September 30, 2008?

3 A. Yes Staff has reviewed the data supplied for the true-up period to determine if
4 there were any abnormalities in market energy prices or fuel related dispatch costs?

5 Q What did Staff find as part of its review of the true-up data that was supplied
6 through September 30, 2008?

7 A The average monthly on-peak electric prices in June and July for 2008 are the
8 highest on-peak average monthly prices since the operation of the Midwest ISO energy
9 markets began Because of this abnormality Staff will average electric prices for June and
10 July from the test year (2007) with June and July from the true-up period (2008)

11 Q For these two months, how did you apply the average for 2007 and 2008?

12 A The actual prices in June were multiplied by a fraction to reduce the average
13 price level for the month to equal the average for 2007 and 2008. The same procedure
14 was applied to July In this way, the relationship of prices to weekdays and weekends is
15 not distorted by averaging on specific dates

16 Q Why didn't Staff average the six months starting in October 2007 and going
17 through March 2008 with the six months starting in October 2006 and going through
18 March of 2007?

19 A While this is the approach proposed by AmerenUE, Staff does not agree that it
20 is appropriate to average in the low market prices that occurred in the October 2006 to
21 March 2007 time frame These lower prices are not representative of the current price
22 levels in the Midwest ISO Both on-peak and off-peak prices during this pre-test year
23 period were over 15% below the corresponding prices in the test year

1 Q Why didn't Staff average the 2007 and 2008 electric price for the months of
2 April, May, August and September?

3 A The difference in prices over these months of the true-up period and the test
4 year are very small. The on-peak prices over these months are less than one percent lower
5 in 2008 compared to 2007 and the off-peak prices are less than three percent higher in
6 2008 compared to 2007. Staff is not opposed to averaging for these months, but it did not
7 appear to make much difference, so Staff decided only to average for the months of June
8 and July.

9 Q. What other changes did Staff make for the true-up period ending September
10 30, 2008?

11 A. In order to match the dispatch costs for the averaging of June and July
12 electricity prices, the June and July natural gas prices for 2007 and 2008 were also averaged
13 for each of these months. There was so little difference between the test year and true-up
14 period for coal dispatch costs, the dispatch coal costs were simply based on the twelve-month
15 average ending September 30, 2008.

16 Q Does this conclude your surrebuttal testimony?

17 A Yes, it does.