FILED[3]

APR 1 6 2007

Missouri Public
Service Commission

Exhibit No.: 60 NP
Issues: Pinckneyville, Kinmundy and Peno Creek CTGs
Witness: Richard A. Voytas
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2007-0002
Date Testimony Prepared: January 31, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

REBUTTAL TESTIMONY

OF

RICHARD A. VOYTAS

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
January 2007

AmerenUE Exhibit No. 60 NP
Case No(s). ER-2007-0002
Date 3/23/07 Rptr MV

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OF

RICHARD A. VOYTAS

CASE NO. ER-2007-0002

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Richard A. Voytas. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63166-6149.

Q. Are you the same Richard A. Voytas that filed Direct Testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your Rebuttal Testimony in this proceeding?

A. The purpose of my testimony is to respond to the direct testimony of Stephen M. Rackers in regard to Staff's adjustment to the cost of the Pinckneyville and Kinmundy generating plants. In addition, my testimony responds to the direct testimony of Office of Public Counsel witness Ryan Kind relative to adjustments to the cost of the Kinmundy and Pinckneyville generating plants and the Peno Creek generating plant. I will prove with substantial evidence that AmerenUE's purchase of the Pinckneyville and Kinmundy CTG facilities from Ameren Energy Generating at net book value was certainly at and even below market value for similar facilities and thus complied with the Commission's Electric Affiliate Transaction Rules (ATR), 4 CSR 240-20-015.

II. TESTIMONY OF STEPHEN M. RACKERS

Q. What areas of Mr. Rackers' testimony do you address?

A. I address Mr. Rackers' $69,750,000 negative adjustment to the approximate purchase price of $241,000,000 for the Pinckneyville and Kinmundy plants – a staggering 29% negative adjustment.

I. What does Mr. Rackers state is the basis for his adjustment?

A. Mr. Rackers claims that the transfer of the Pinckneyville and Kinmundy plants to AmerenUE from Ameren Energy Generating Company (AEG) did not comply with the Commission's affiliate transaction rules. His reasoning is two-fold. He relies upon the cost of the Venice combustion turbine generator (CTG) additions as the basis for his assertion that AmerenUE could build additional CTG capacity at a lower cost. He then relies upon a letter from NRG Energy, Inc. (NRG) as his basis to assert that the Company could have purchased CTG capacity at a lower price. Mr. Rackers' direct testimony on page 13, lines 15-18 states "From 2002 through 2005 the Company added approximately 500,000 kW of combustion turbine capacity at its Venice plant at an average price of approximately $337/kW. In addition, the Company purchased combustion turbine capacity in 2006 of approximately 1,425,000 kW at a price of $203.75/kW."

Q. Please explain how Mr. Rackers came up with his adjustment dollar amount.

A. Ultimately, Mr. Rackers proposes to base his adjustment on a letter dated August 15, 2002 from NRG wherein Mr. Rackers argues that NRG offered to sell AmerenUE its 640,000 kW combustion turbine Audrain Plant located in Vandalia, Missouri for $200 million. Mr. Rackers calculates the $200 million price as equivalent to $312.50/kW. Mr.

Rackers then proceeds to re-price the combined 548,000 kW of Pinckneyville and Kinmundy capacity at the $312.50/kW, resulting in a revised cost for Pinckneyville and Kinmundy of $171,250,000. Subtracting the actual cost of the Pinckneyville and Kinmundy units from the revised cost results in a reduction of $69,750,000 from plant-in-service.

Q. What are your overarching concerns with Mr. Rackers' testimony relative to his proposed adjustment to the cost of the Pinckneyville and Kinmundy units?

A. I am surprised that Mr. Rackers sponsored this testimony. Mr. Rackers has an accounting degree and is a CPA with limited, if any, generation asset valuation experience. He does not have an engineering background nor does he have CTG plant operating experience. He does not appear to be familiar with basic terminology relative to rating CTG plants. Based on Mr. Rackers' testimony as well as his sworn deposition, he has limited, if any, knowledge of the three categories of combustion turbine generators and the value drivers associated with each type. In his deposition, Mr. Rackers was asked, "Other than information you received from Mr. Taylor about how big the units are, what kind of units they are, what kind of peaking plants, fuel, all those kinds of things, is it fair to say that other than what Mr. Taylor provided to you [sic] don't really know any -- you wouldn't have really known anything about these particular units in terms of those plant characteristics; is that fair?" Mr. Rackers answered, "I think that's fair." Rackers' deposition, P. 18, L.7-15.

Finally, Mr. Rackers seldom, if ever, attends the semi-annual resource planning meetings that the Company has with Staff where resource planning issues, including the acquisition of the Pinckneyville and Kinmundy plants, are discussed.

His lack of technical knowledge becomes apparent, for instance, when Mr. Rackers cites the fact that the Company built 500,000 kW of CTGs during the period 2002-2005 at its Venice Plant site at an average aggregate cost that is less than the cost of the Pinckneyville and Kinmundy plants. Mr. Rackers has no knowledge of the site specific characteristics at Venice Plant that allowed the Company to achieve significant cost savings that could not be achieved at other sites.

Q. Do you have concerns not linked to his experience or knowledge in the area of CTGs?

A. Yes. Setting aside his lack of technical knowledge about CTGs, I am concerned that Mr. Rackers selectively chose the CTGs for which he compared costs. For example, Mr. Rackers chose to ignore the installed cost of the Company's Peno Creek CTG plant, which went into service in summer 2002, in his cost comparison. The installed cost of the Peno Creek plant was approximately $570/kW, which is more than the cost of $439.50/kW Mr. Rackers calculated for the Pinckneyville and Kinmundy plants. It should be noted that another Staff witness, Leon Bender, submitted testimony in this case that recommended the inclusion of all costs associated with the construction of the Peno Creek plant. Mr. Rackers chose to use, for comparison purposes, the cost of the (4) CTG additions at Venice. As I will explain below, the Venice CTG additions are not representative of costs of adding CTGs to the AmerenUE system.

Further, Mr. Rackers does not have experience with utility transactions and the types of dealings they typical involve. On pages 28-32 of his deposition involving generation, it is clear that he does not know the difference between a "letter of intent", an "indicative pricing proposal" and a "definitive agreement."

Q. What additional significant concerns do you have with Mr. Rackers' testimony?

A. Mr. Rackers ignored a tremendous amount of information which was available to him from the proceeding before the Federal Energy Regulatory Commission (FERC), a proceeding to which the Commission was a party. AmerenUE's acquisition of the Pinckneyville and Kinmundy plants was evaluated by FERC to determine the effect on competition in Docket No. EC03-53-000. The filings in this case by AmerenUE, FERC Staff and multiple intervenors were voluminous. Multiple potential concerns associated with the acquisition were addressed in the case, including price. Ultimately, the FERC Administrative Law Judge (ALJ) ruled that the transaction would not have an adverse effect on competition. The FERC affirmed this ruling in its final order authorizing the transfer.

Mr. Rackers' direct testimony on page 12, lines 19-20 states "The Staff examined Federal Energy Regulatory Commission filings and Missouri Public Service Commission filings." It is evident both from Mr. Rackers' testimony as well as from his deposition that he either chose to not read or to disregard many of the FERC filings and to ignore the plethora of issues associated with the Audrain Plant, including severe transmission outlet limitations, the real price rather than the indicative price for which NRG was willing to sell the Audrain Plant in the 2002-2003 timeframe, and the design and operating deficiencies associated with the Audrain Plant in 2002-2003.

Q. Do you have any other significant concerns with Mr. Rackers' testimony?

A. I have one additional significant concern. In Mr. Rackers' attempt to build a case to reduce the plant-in-service cost of the Pinckneyville and Kinmundy plants, he states on page 13, lines 17-18, "In addition the Company purchased combustion turbine capacity in

2006 of approximately 1,425,000 kW at a price of $203.75/kW." Yet the NRG letter on which he bases his disallowance was dated August 15, 2002. If Mr. Rackers truly believes that market prices for the sale of existing, operational CTG facilities in 2002 versus 2006 are comparable, he failed to provide that explanation in his direct testimony. I will address this issue later in my testimony.

Q. How will you structure your testimony to explain your concerns with Mr. Rackers' testimony?

A. I will address each overarching concern with facts and evidence produced in the FERC docket as well as in AmerenUE filings and presentations to the Staff.

III. CTG BASICS – TERMINOLOGY, CHARACTERISTICS AND CATEGORIES OF CTGs

Q. Mr. Rackers used a rating of 640,000 kW in calculating the $/kW cost of the NRG Audrain Plant and a rating of 548,000 kW in calculating the $/kW cost of the Pinckneyville and Kinmundy plants. Are the kW ratings for the CTGs rated on a comparable basis?

A. No. The Audrain 640,000 kW rating is based on a sale offer provided by NRG. What NRG based this number on is unknown. Based on original equipment manufacture (OEM) capability tables, the correct summer (95°F) net rating for the Audrain facility is 600,000 kW. The combined Pinckneyville and Kinmundy rating of 548,000 kW is a summer net capability rating. Comparing CTGs using inconsistent rating methodologies yields significantly different $/kW ratings and results in an "apples to oranges" comparison.

Q. What does the term "nameplate rating" mean?

A. The nameplate rating of a CTG is a capability rating at a standard (ISO - International Standards Organization) condition, namely 59°F, 1 atm (14.7 psia) and 60%

relative humidity. It is typically used as a method to directly compare CTGs; however, it differs dramatically from summer peak capability. Using the ISO nameplate rating will significantly overstate the net capability of a CTG for summer operation. Confusing the kW rating of a CTG, as Mr. Rackers did in calculating the cost of the Audrain CTG, will result in an erroneous comparison of $/kW cost.

Q. What does the term "summer net capability" rating mean?

A. For summer peaking electric utilities, the summer net capability rating reflects the actual output of a CTG at 95°F. The CTG output is a function of the inlet air density and, since hotter air is less dense than cooler air, the net capability rating of a CTG is less at summer peak conditions. Accordingly, Ameren rates all CTGs on a summer peak basis. For a direct comparison, the Audrain CTGs should be rated on the same basis.

Q. What is the summer net capability rating of the Audrain CTG plant?

A. The summer net capability rating is 600 MW rather than the 640 MW used in Mr. Rackers' testimony. This represents a 6.25% reduction from the nameplate rating used by Mr. Rackers. Consequently, Mr. Rackers' use of the nameplate rating in calculating the $/kW selling price of the Audrain CTG plant understated NRG's indicative pricing proposal.

Q. Are there different types of CTGs?

A. Absolutely. CTGs can be classified into three categories:

1. Aero-derivatives
2. Small frame
3. Large frame

Each type has different operational capabilities and cost structures. Each type of CTG performs a specialized function. Accordingly, depending on AmerenUE system

operating requirements, a mix of types of CTGs gives AmerenUE better operating flexibility which results in better generation reliability.

Q. What is a general rule of thumb for the range of installed costs for the categories of CTGs?

A. The range of installed costs is from approximately $350/kW for a very large frame CTG (usually rated in excess of 150 MW) to $600/kW for an aero-derivative CTG, depending upon site characteristics.

Q. What are the more significant value drivers of the $600/kW cost for a smaller aero-derivative CTGs?

A. Briefly, there are "quick start" capabilities which enable these CTGs to count toward operating reserves. They have intraday cycling capability. They have very good heat rates among all categories of CTGs. They have significantly lower startup costs when compared to the other categories of CTGs.

Q. What are the more significant value drivers for the small and larger frame CTGs?

A. The larger frame machines have lower installed costs. However, the lower initial installed costs come at the expense of less operating flexibility, higher operations and maintenance (O&M) costs and higher startup costs, resulting in a dramatically lower dispatch frequency.

Q. What type of CTGs are at the Kinmundy site?

A. The Kinmundy site consists of two large frame units with a summer peak rating of 116 MW each.

Q. What type of CTGs are at the Pinckneyville site?

A. Pinckneyville units 1-4 are aero-derivatives units with a summer peak rating of 44 MW each. Pinckneyville units 5-8 are small frame units rated at 36 MW each.

Q. What type of CTGs are at the Audrain facility?

A. Audrain has eight large frame units with a summer peak rating of 75 MW each.

Q. Clearly, the Pinckneyville and Kinmundy CTGs consist of a mix of large frame, small frame and aero-derivative CTGs whereas the Audrain CTGs are 100% large frame. What adjustments does Mr. Rackers make in his market assessment of the purchase price of Kinmundy and Pinckneyville relative to what he purports to be the market price of the Audrain facility in 2002 to account for the vastly different mix of CTGs?

A. Mr. Rackers admits that he made no adjustment to account for the drastic differences in the various CTGs that he compared as follows:

> Q. You haven't done any analysis to determine whether or not whatever cushion you think might exist [in the NRG offer] is more than offset by differences in operating or plant characteristics, have you?
> A. I have not done that." Rackers' deposition, P. 87, L. 4-8.

His failure to do so results in an understatement of the value of the Kinmundy and Pinckneyville CTGs.

Q. Please continue to address other value drivers that Mr. Rackers ignored in his valuation of the Pinckneyville and Kinmundy plants.

A. The Kinmundy plant has dual fuel capability, that is, the plant has the capability to burn either oil or natural gas. Audrain is limited to burning natural gas. Dual

fuel capability allows a plant to continue to operate during natural gas interruptions. It also provides flexibility in negotiating both firm and interruptible natural gas delivery contracts. Consequently, there is considerable value to dual fuel capability that should be recognized in a market price comparison to a plant without dual fuel capability, i.e. the Audrain plant.

The Pinckneyville units 1 - 4 have the best (lowest) heat rate of any current Ameren CTG units. Compared to the Audrain units, Pinckneyville units 1 - 4 have a 15% lower heat rate, constituting a significant improvement in efficiency. This value should also be recognized in a market price comparison to a unit with a higher heat rate.

IV. USE OF AMERENUE VENICE CTGS AS A BENCHMARK FOR THE MARKET PRICE FOR CTGS

Q. Please discuss Mr. Rackers' testimony in regard to the Venice CTGs.

A. Although Mr. Rackers relies upon the NRG letter as the basis for his specific adjustment amount, he uses AmerenUE's cost of adding CTG capacity at its Venice facility as additional support for a disallowance. Mr. Rackers' testimony is found on page 13, lines 12-18. His testimony reads:

> Q. Please discuss examples of how the Company has been able to build and buy combustion turbine capacity at prices less than the actual transfer price used by AmerenUE for the Pinckneyville and Kinmundy units.
>
> A. From 2002 through 2005 the Company added approximately 500,000 kW of combustion turbine capacity at its Venice plant at an average price of approximately $337/kW. In addition, the Company purchased combustion turbine capacity in 2006 of approximately 1,425,000 kW at a price of $203.7/kW.

Q. Please provide a description of the individual CTGs at the Venice plant.

A. Venice CTG 2 is an aero-derivative CTG, identical to the CTGs installed at the Company's Peno Creek facility. Its installed cost was $570/kW. It is rated at 48 MW (net summer rating) and was put into commercial operation in summer 2002. Venice CTGs 3

and 4 are very large frame CTGs rated at 168 MW (net summer rating) each. Their installed cost was $356/kW. Both were put into commercial operation in summer 2005. Venice CTG 5 is a large frame CTG rated at 116 MW (net summer rating). Its installed cost was $368/kW. It went into commercial operation in the fall of 2005.

Q. What is the weighted average installed cost of Venice CTG 2-5? Does it differ from Mr. Rackers' calculation of $337/kW?

A. The weighted average installed cost is $378/kW. Consequently, Mr. Rackers understated the cost by $41/kW ($378/kW - $337/kW = $41/kW).

Q. Please discuss the unique site characteristics at the Venice site that made significant contributions to lowering the installed costs of Venice CTGs 3, 4 and 5.

A. Diligent and proactive construction management and workforce coordination by AmerenUE engineers and the use of existing resources at the Venice site were the principal reasons for the low installed costs for Venice 3, 4 and 5. The specific reasons include:

- Venice CTG 5 was completed early with minimal additional overtime, resulting in lower- than-anticipated labor costs.
- Venice 3, 4, and 5 were brownfield developments. The property was already owned by AmerenUE and the property infrastructure was already in place. This eliminated the additional work required to provide site security. Telecommunications, roads, grading, perimeter fencing, sanitation systems and potable water connections.
- The substation connections to the Ameren grid already existed.
- A planned new demineralized water tank was not needed for Venice CTG 5.
- Venice CTG unit 5 gas supply capital cost was very low.
- The same contractor was used on CTG 5 as on CTG 3 and 4. The contractor moved from the CTG 3 and 4 project directly to CTG 5 without incurring remobilization costs.
- The generator step-up (GSU) transformer used for Venice CTG 5 was reused from the Venice steam plant.
- The existing CTG 2 transmission line to the switchyard was utilized for Venice CTG 5.

- Existing infrastructure and utilities at the CTG 2 site were used for CTG unit 5.

All of these resulted in tremendous costs savings and most of the savings was unique to the location of the additional units. It would be unrealistic to expect these savings at a different site.

Q. How significant were the Venice site characteristics discussed above in the final installed cost of Venice CTG 5?

A. If Mr. Rackers had attended the May 2005 resource planning meeting that the Company had with Staff regarding the construction of Venice CTG 5, he would have seen the following slide from the Company presentation and would have been able to recognize that installation of Venice CTG 5 occurred at a cost well below the projected installed cost. The slide shows the projected cost as of May of 2005.

Venice CTG 5 – Current Status

- **Project Status**
  - Current Estimate = $25.7MM (not including CTG transfer price)
  - Book Value of Machine = $26.5MM
  - Total Project Cost = $52.2MM
- **Schedule Status**
  - Unit 5 First Fire = 10/10/05
  - Unit 5 Commercial Operation = 11/1/05

Knowing the net summer capability rating of Venice CTG 5 is 116 MW, the projected installed cost of $52.2 million would have been equivalent to $450/kW. However,

due to diligent and proactive construction management and maximum re-use of existing site equipment, AmerenUE engineers were able to install Venice CTG 5 at a cost equivalent to $368/kW – an $82/kW or an 18% reduction from original cost estimates.

Q. You have made the point that there are unique, site specific characteristics at the Venice site that clearly contribute to lower installed costs for Venice CTG 3, 4 and 5 than would be incurred at a greenfield or undeveloped site. Do you have any other observations regarding the Venice CTGs that Mr. Rackers failed to consider in his testimony?

A. Yes, I have two additional points. The first point is to note that Venice CTG 2 is an aero-derivative CTG. Its installed cost of $570/kW was above Mr. Rackers' calculated cost of $439.80/kW for the Pinckneyville and Kinmundy units. This speaks to the fact that aero-derivative CTGs have higher installed costs, but significantly greater system reliability aspects than large frame machines.

Q. What is your second point regarding major issues related to the Venice Plant that Mr. Rackers ignored in his testimony?

A. Venice CTG 2 is identical to the Peno Creek CTGs. The Peno Creek CTGs went into commercial operation in summer 2002 at an installed cost of $570/kW. Clearly, the cost of $439.80/kW that Mr. Rackers calculated for the Pinckneyville and Kinmundy CTGs is below the costs of Venice CTG 2 ($570/kW) and the Peno Creek CTG plants ($570/kW).

Q. Please summarize the deficiencies in Mr. Rackers' use of AmerenUE CTGs in his analysis.

A. Mr. Rackers selectively used the installed cost of only a subset of AmerenUE CTGs installed in the 2002-2005 timeframe, ignored the site specific characteristics at the Venice site that significantly impact the installed cost of CTGs and ignored the difference in the types of CTGs for which he attempts to make comparisons in his simplistic assessment of the market price of the Pinckneyville and Kinmundy CTGs.

V. LIMITATIONS OF THE AUDRAIN PLANT WHICH PREVENTED IT FROM BEING A VIABLE OPTION FOR AMERENUE IN 2002.

Q. Please list the major deficiency associated with the Audrain Plant in 2002.

A. At the time of the purported offer to sell the Audrain Plant to AmerenUE, NRG had not been able to obtain long-term firm transmission service from the Audrain facility due to severe transmission constraints. Consequently, the value of a peaking plant, such as the Audrain facility, without firm transmission was no more than salvage value. This is because a generating facility that lacked firm transmission would be subject to interruption and curtailment. This made Audrain virtually worthless to AmerenUE in its efforts to reliably serve its customers.

Q. The Audrain plant construction was completed in 2001, had the plant been commercially operated, i.e., dispatched in to the market, in 2002, 2003, 2004?

A. No. Other than a few start-up tests, the Audrain units had no run time. Thus, Audrain had no commercial track record for AmerenUE to judge its capabilities.

Q. Did Mr. Rackers know this or consider it in his assessment of the indicative pricing proposal for the Audrain plant?

A. No. Mr. Rackers states on page 36, lines 2-5 of his deposition, "I – it was my understanding. I don't see it in the letter, and I'm not positive where I got that understanding, but it was my understanding that the plant was already running."

Q. How does Mr. Rackers' erroneous understanding of the operating disposition of the Audrain plant impact the credibility of his testimony regarding the market value of the Pinckneyville and Kinmundy CTG facilities?

A. In my opinion, this fundamental lack of knowledge of the operating status of the Audrain facility raises serious questions regarding Mr. Rackers credibility to assess the market value of the Audrain facility, much less the Pinckneyville and Kinmundy facilities. Early in his analysis, Mr. Rackers should have asked what were the reasons why the Audrain CTGs haven't been dispatched into the market and why do they continue not be dispatched into the market?

Q. Please provide an overview of the transmission issues at the Audrain Facility in 2002.

A. AmerenUE witness Edward C. Pfeiffer explained the transmission issues associated with the Audrain Facility in 2002 at length in his direct and rebuttal testimonies in FERC Docket No. EC03-53-000. He identified two transmission constraints associated with NRG's ability to obtain long-term firm transmission service. The first was attributable to AmerenUE's Bland-Franks high voltage transmission line which was fully subscribed for long-term transmission service. The second was attributable to the Palmyra 345/161 kV transformer owned by Associated Electric Cooperative, Inc.

Q. Why would NRG or the original owner, Duke Energy Trading & Marketing (DETM), build or buy the plant knowing the site was severely transmission constrained?

A. That is a good question for either DETM or NRG. Mr. Pfeiffer addressed the issue at length in his direct testimony in FERC Docket EC03-53-000 beginning on page 5; line 7, where he described the transmission studies done for both DETM and NRG. These studies show that both DETM and NRG either knew or should have known about the Audrain site transmission limitations.

Q. In FERC Docket No. EC03-53-000, what was the testimony of the FERC expert engineer witness, Edward A. Gross, relative to the transmission limitations at the Audrain facility in 2002?

A. Mr. Gross's conclusions regarding Audrain transmission constraints start on page 4, line 11 of his testimony. Mr. Gross's testimony stated:

> With respect to my analysis of the three generation plants in question, I conclude that the Audrain Generation Plant (Audrain) is not a network resource, cannot currently service AmerenUE native load, and is less reliable than the Kinmundy and Pinckneyville Generation Plants. In contrast, the Kinmundy and Pinckneyville Generation Plants are network resources and can serve AmerenUE native load.

Q. Did the Missouri Public Service Commission (MPSC) address the Audrain Facility's transmission constraints in FERC Docket No. EC03-53-000?

A. Yes. The MPSC sponsored a brief in response to filings by the Electric Power Supply Association (EPSA) and the NRG Companies. Paragraph C of that brief reads as follows:

> Intervenors continue to dispute AmerenUE's claims that transmission constraints limited its alternatives to the transaction. However, this allegation is not in agreement with the facts as determined by the Administrative Law Judge in the ID. Moreover, FERC Staff investigated the transmission constraints that would be binding on all of the alternatives to the transfer and found that these constraints were real and did in fact limit the alternatives that AmerenUE could consider at the time.

In support of the need for upgrades on the Ameren transmission system, the Missouri Commission by Order issued August 21, 2003, approved AmerenUE's proposed construction of the Callaway-Franks line based on the express finding that the overloadings and congestion on the Bland-Franks line had led to numerous transmission loading reliefs ("TLRs"), and placed an increased risk of line failure on AmerenUE. The Missouri Commission's approval of the Callaway-Franks line reflects the fact that the Ameren transmission system is indeed constrained.

Q. Why is the point that the NRG Audrain generating plants did not have firm transmission outlet capability in 2002 pertinent to Mr. Rackers' testimony?

A. The premise for Mr. Rackers' valuation of the Audrain Plant is that the purported indicative offer of $312/kW was a legitimate offer. The fact is that the lack of firm transmission outlet capability at the Audrain site resulted in a failure by NRG to find a buyer of its Audrain Facility at any price. AmerenUE witness Craig D. Nelson perhaps explained the situation as succinctly as possible in his Rebuttal Testimony in FERC Docket No. EC03-53-000. Mr. Nelson's testimony, beginning on page 13, line 16 stated:

> However, AmerenUE is not willing to gamble that a plant "might" have adequate transmission, at the expense of either system reliability and customer service, or potentially hundreds of millions of shareholder dollars. A purchase of the Audrain Facility now would be such a gamble because: (1) as Mr.

> Pfeiffer explains, without transmission, the plant would be subject to an operating guide; and (2) AmerenUE can only rate base its investment to the extent it can demonstrate that the investment is "used and useful." Such a demonstration would be made more difficult for a plant like the Audrain Facility that currently cannot even deliver power due to lack of available transmission.

Q. Did Mr. Rackers know, at the time he wrote his Direct Testimony and sponsored a $69,750,000 adjustment to AmerenUE's rate base, whether or not the Audrain plant had firm transmission outlet capability in 2002?

A. Based upon the NRG indicative pricing proposal dated August 15, 2002, Mr. Rackers assumed that it did. Again, quoting from his deposition, page 38, lines 3-13:

> A. This [indicative proposal] language indicates to me that Audrain has the capability to get its power out to the market.
> Q. That's the assumption you made based upon this information in proposing the adjustment you proposed; is that correct?
> A. That's how I read this information.
> Q. And since that's how you read it you assumed it was true in terms of preparing your testimony in this case; is that right?
> A. Yes.

Q. Please fast forward to today. Assume the transmission upgrades identified by the MPSC were made. Do transmission constraints exist at the Audrain facility today?

A. Yes. The Midwest Independent Transmission System Operator, Inc. (MISO) has limited the output of the Audrain facility to 578 MW rather than its anticipated net summer capability rating of 600 MW due to transmission constraints that continue to exist

today. This information is available for public viewing at the MISO website located at http://www.midwestiso.org/publish/Document/3b0cc0_10d1878f98a_-7e1d0a48324a/MISO_Generator_Deliverability_Result_09202006.xls?action=download&_property=Attachment .

VI. THE PRICE AT WHICH NRG OFFERED ITS AUDRAIN FACILITY TO AMERENUE IN THE 2002-2003 PERIOD

Q. Please continue to incorrectly assume, as Mr. Rackers did, that NRG's inability to obtain firm transmission service at its Audrain facility is not an issue. Is Mr. Rackers' correct that NRG offered its Audrain Plant to AmerenUE in a letter dated August 15, 2002 for $200 million?

A. First, this letter is a non-binding "indicative" pricing proposal written by a staff person, Connie L. Paoletti, in NRG's Origination or long-term marketing department. The letter is attached to my testimony as Schedule RAV-___. The wording in the letter is hedged in that it states: "NRG would consider selling 100% of its undivided interest in Audrain for $200 million." It is AmerenUE's experience that long-term marketers use "indicative" pricing proposals to get their foot in the door at AmerenUE. It is not unusual for indicative pricing proposals to be removed from the negotiating table or to be significantly modified when it comes time to develop a definitive agreement.

Q. In FERC Docket No. EC03-53-000, who sponsored pricing testimony under oath on behalf of NRG?

A. Ershel C. Redd, Jr. sponsored NRG's testimony. Mr. Redd was the Senior Vice President, Commercial Operations, NRG Energy, Inc. In addition, he was the Chairman, President and CEO of NRG Power Marketing, Inc. He was responsible for the

purchase of fuels, sales of energy and related products and management of all physical and contractual assets of NRG Energy, Inc. including the Audrain generating station.

Q. When Mr. Rackers submitted his Direct Testimony in this case, was he familiar with either Mr. Redd or his testimony in FERC Docket No. EC03-53-000?

A. No. As he admits in the deposition, Mr. Rackers wasn't aware of this testimony and didn't even know that Mr. Redd was associated with NRG. Page 42, Lines 21-22 of his deposition read:

> Q. Do you know who Ershell Redd is?
> A. Not offhand, no.
> Q. Were you aware that he [Mr. Redd] testified in the FERC docket involving these generating units, Pinckneyville and Kinmundy that NRG believed that they could sell the units for a price of up to $391 per KW as opposed to the $312 you calculated?
> A. I wasn't aware of that. Page 44, line 25

Q. What was Mr. Redd's testimony?

A. Mr. Redd's testimony relative to the price at which NRG would be willing to sell its Audrain facility to AmerenUE is on page 8, beginning on line 177 of his direct testimony. His testimony stated:

> In support of our position, we stated that NRG was confident that a price could be negotiated for the sale of the Audrain facility that would not exceed $391/kW. That figure represents a fair market value substantially lower than book value figures quoted by AmerenUE for the Kinmundy and Pinckneyville facilities and substantially lower than the purchase price for Audrain in 2001.

Q. Please comment on Mr. Redd's testimony and relate your comments to Mr. Rackers' testimony.

A. First, I will continue to make the erroneous assumption, as Mr. Rackers did, that the value of NRG's Audrain Facility in 2002-2003 was something other than salvage

even though firm transmission outlet capability was not available to the Audrain facility. Second, note that the price at which the highest ranking officer of NRG Power Marketing offered the NRG facility to AmerenUE under oath is $391/kW. This is $79/kW or 25% higher than NRG's indicative price proposal in the NRG letter referenced in Mr. Rackers' testimony. Third, assume in 2002 we had perfect knowledge of the future and knew that the transmission outlet capability of the Audrain facility would be 578 MW in 2007 as MISO has since determined it to be. The $391/kW sale price testified to by Mr. Redd was based on an Audrain Facility rating of 640,000 kW. $391/kW multiplied by 640,000 kW is the same as a sale price of $250,240,000. We know today that the Audrain facility is transmission limited and listed as a network resource by MISO at 578,000 kW. The equivalent $/kW price for the Audrain facility made by Mr. Redd based on the true net output capability of the Audrain facility in 2007 is $250,240,000 divided by 578,000 kW or $433/kW.

Q. How does the actual price of $433/kW at which the NRG CEO offered its Audrain facility in 2003 under oath compare to the price of $439.80/kW which Mr. Rackers calculated to be the transfer price used by AmerenUE for the Pinckneyville and Kinmundy units?

A. If we continue to ignore the severe transmission constraints existing in 2002-2003, the offer price of the Audrain facility and the transfer price of the Pinckneyville and Kinmundy facilities are virtually identical. When other attributes of the Kinmundy and Pinckneyville facilities including dual fuel capability and the operational benefits of the small frame and aero-derivative CTGs are factored into the assessment, the market value of the Kinmundy and Pinckneyville facilities far exceeds that of the Audrain facility.

Q. Finally, even if we accept Mr. Rackers' assertions about the NRG letter, is it an appropriate basis for analyzing CTG purchases?

A. No. At best, it represents one potential transaction. Mr. Rackers himself admitted in his deposition that it is not proper to determine the market price for CTGs from a single indicative proposal. In his deposition, page 35, lines 3-8, it states:

> Q. Well the – an indicative proposal for one particular plant isn't going to set the market, is it? Is one plant, one data point, going to set a market for combustion turbine generators?
> A. I would say one alone doesn't set the market.

This answer is completely at odds with the action he took in his testimony, when he adjusted the price of Kinmundy and Pinckneyville based solely upon the dollar amount found in one indicative pricing proposal.

VII. MARKET PRICE ASSESSMENT OF ACQUISITION COST OF THE KINMUNDY AND PINCKNEYVILLE PLANTS.

Q. Mr. Rackers attempted to assign a market value to the Kinmundy and Pinckneyville plants by assigning a discrete price, namely $312/kW based on the indicative pricing proposal from NRG for the Audrain facility. Did any of the market pricing experts in FERC Docket No. EC03-53-000 attempt to assess market value using a discrete price?

A. No. All of the market pricing experts recognized that no two CTG facility sales are alike. Obvious differences in CTG technology, size, markets, and special contractual circumstances were underlying reasons for pricing experts to write testimony in terms of a reasonable range of prices for CTGs.

Q. Yet Mr. Rackers assigned a discrete price based solely on NRG's indicative offer, didn't he?

A. Yes, it is ironic. As I stated above, in his deposition, he stated that one plant sale, one data point, doesn't set the market value. Yet his testimony proceeds to do exactly that – set the value based from one data point.

Q. Discuss the AmerenUE market price assessments relative to the Kinmundy and Pinckneyville plants in FERC Docket No. EC03-53-000.

A. AmerenUE submitted its own market price assessment in its letter of notification of resource acquisition to the MPSC Staff. In addition, AmerenUE engaged James M. Metcalfe, Managing Director in Lehman Brothers' Merger and Acquisitions department, to identify a reasonable range of prices for the acquisition of Kinmundy and Pinckneyville Plants. AmerenUE also engaged Frank M. Graves, Principal of The Brattle Group, to provide testimony on the reasons why market value should not be the sole criterion on which to measure the merits of AmerenUE's purchase of Kinmundy and Pinckneyville.

Q. Please explain AmerenUE market price assessment.

A. AmerenUE's market price assessment was provided to the MPSC Staff in a letter of notification of resource acquisition dated January 23, 2003. The pertinent market price matrix in that letter is duplicated below:

Power Plant Sales

Plant	Audrain County	Madison Generating Station & CinCap VII (Henry Co., IN)	Manchief Power Station	Neenah	DePere Energy Center
Seller	Duke Energy	CinCap (Cinergy)	El Paso	Mirant	Calpine Corp
Buyer	NRG Energy	PSI Energy	TransCanada PipeLines	Alliant Energy	Wisconsin Public Service
Capacity (MW)	640	706	275	309	155
Sale Price ($M)	$325	$450	$127	$109	$72
Sale Price ($/KW)	**$508**	**$637**	**$462**	**$353**	**$465**
City	Vandalia	Madison & Cadiz	Brush	Neenah	De Pere
County	Audrain	Butler & Henry	Morgan	Winnebago	Brown
State	MO	OH & IN	CO	WI	WI
Online Date	May-00	Jun-00 & Aug-01	Jul-00	May-00	Jun-99
Date of Sale	May-01	Nov-02	Nov-02	Feb-03	Dec-02
Number of Units	8	11	2	2	1
Unit Type	Combust Turb	Combust Turb	Combust Turb	Combust Turb	Combust Turb
Unit Description	GE PG7EA	GE PG7121EA & Unavail	SWPC V84.3A1	GE PG7FA	GE PG7FA

AmerenUE's purchase of AEG's Kinmundy plant at $412/kW and Pinckneyville plant at $508/kW were well within the range of recent peaking plant sales.

Q. Please explain Mr. James M. Metcalfe's market assessment in his direct testimony in FERC Docket No. EC03-53-000.

A. Mr. Metcalfe used the following transactions in his analysis:

- AEP's sale of the Frontera plant to TECO Energy,
- Duke Energy's sale of the Audrain County plant to NRG Energy,
- TXU Energy's sale of the Mountain Creek and Hadley plants to Exelon Generation,
- Cinergy Corporation's internal transfer (at net book value) of its Madison and Henry County plants to PSI Energy,
- Javelin Energy's sale of the Pedricktown plant to TXU Energy,
- Calpine Corporation's sale of the De Pere Energy Center to Wisconsin Public Service,
- WisVest Corporation's sale of the Bridgeport Harbor and New Haven plants to PSEG Power,

- The Williams Companies' sale of the Worthington plant to Hoosier Energy Rural Electric Cooperative, and
- Allegheny Energy Inc.'s sale of the Conemaugh plant to UGI Corporation.

Mr. Metcalfe stated in his testimony that both the mean and median transfer price paid by AmerenUE for the Kinmundy and Pinckneyville plants was $460/kW. This price is lower than both the mean price of $464/kW and the median price of $508/kW of the comparable transactions. Also, the mean price is well below the high price of $790/kW and is above the low price of $190/kW.

Q. Please discuss the testimony of Frank C. Graves in FERC Docket No. EC-53-000 that is pertinent to the market assessment of purchase price of the Kinmundy and Pinckneyville plants.

A. Mr. Graves stated beginning on page 7, line 23 of his Rebuttal Testimony that AmerenUE's purpose in purchasing Kinmundy and Pinckneyville was to increase its ability to reliably and economically serve its native load. He noted that this purpose is consistent with the Missouri Commission's preference that AmerenUE buy sure and reliable dedicated assets to serve it load. This purpose is not necessarily equivalent to the goal of acquiring those plants with the most attractive market value relative to their offered price. The latter goal might suit a merchant generation company, but not a utility with defined native load requirements in its service territory. Although the most reliable and accessible resource for serving native load may offer the best value, this is not always the case.

Q. Did NRG attempt to show in FERC Docket No. EC03-53-000 that AmerenUE's purchase price of the Kinmundy and Pinckneyville plants exceeded market prices?

A. Yes. NRG engaged a person it considered to be an expert witness, Dr. Aleksandr Rudkevich. Dr. Rudkevich followed a market modeling analysis approach rather than a comparable sales approach to assess market value. Dr. Rudkevich testified on page 3, line 15 of his direct testimony that "AmerenUE's proposed purchase price of the Pinckneyville and Kinmundy facilities from AEG is higher than the fair market value of those facilities."

Q. How did AmerenUE react to Dr. Rudkevich's testimony?

A. While Dr. Rudkevich's testimony said one thing, his work papers on his modeling analysis presented a totally contradictory picture. Dr. Rudkevich's work papers showed that the market value of the Kinmundy Plant ranged from $475/kW to $592/kW and the market value of the Pinckneyville Plant ranged from $484/kW to $603/kW – both of which were well above the prices that AmerenUE paid for each facility.

Q. How did the FERC ALJ rule on Dr. Rudkevich's testimony?

A. The FERC ALJ, Carmen A. Cintron, did not mince her words. Her initial decision states on page 57, paragraph 126:

> However, Mr. Rudkevich's analysis was flawed and is accorded no weight here....Dr. Rudevich's revised asset valuation study demonstrates that the net book value of the Kinmundy and Pinckneyville plants is at or below fair market value of the two units. Thus, NRG's proposed pricing methodology has proven to be baseless and is given no weight here.

Q. Did any other witness address the Kinmundy and Pinckneyville plant cost?

A. Yes, Office of Public Counsel witness Ryan Kind made arguments that are very similar to those made by Mr. Rackers. My response to his testimony on this issue is the same as my response to Mr. Rackers' testimony.

Q. In regard to AmerenUE's purchase of the Kinmundy and Pinckneyville CTGs, what did the FERC ALJ conclude in FERC Docket No. EC03-53-000?

A. Judge Cintron's rulings can be found on pages 1 and 2 of her initial decision issued February 5, 2004. After reviewing the equivalent of seven file boxes of testimony, data requests and after a week-long hearing listening to cross-examination of the key witnesses, she made the following findings:

- As discussed below, there is no evidence of affiliate abuse in this case. It is found that Ameren's proposed purchase of its affiliate's plants is on terms similar to any other competitive alternatives available, and is consistent with the public interest.
- In this case, Ameren employed an adequate Request for Proposals ("RFP") process in which various non-affiliated suppliers were seriously considered. However, those non affiliated bidders were properly eliminated as contenders for a variety of price and non-price reasons. Ameren took account of transmission constraints, creditworthiness, completion risk, and operational concerns associated with competing bidders. In addition, Ameren hired an independent consultant and properly acted in accordance with its obligations under the Missouri Stipulation and Agreement and according to the Missouri Public Service Commission's ("MPSC") stated preferences for company-owned generation.
- The evidence demonstrates there were no improvements in the transmissions infrastructure since the August 2001 RFP was issued that would make options previously excluded due to transmission concerns more viable. Furthermore, market fundamentals have not changed materially since the RFP that would produce any significant difference in price. Thus, a more current RFP in this case will not be useful because it is unlikely to bring forth any new viable options.

- Ameren has established that the Proposed Transaction will not have an adverse impact on competition and that its customers are adequately protected under a retail rate freeze, future MPSC prudence review, and fixed rate wholesale contracts. Moreover, the proposed transaction does not raise "safety net" concerns raised in Cinergy Services, Inc., 102 FERC 61,128 (2003) ("Cinergy"). Ameren has demonstrated a lack of affiliate abuse with benchmark evidence of market value using Ocean State Power II, 59 FERC 61,360 (1992), reh'g denied, 69 FERC 61,146 (1994)("Ocean State") as a guideline. This evidence shows the prices, terms and conditions of sales made by nonaffiliated sellers. Although the contemporaneousness and similarity of services of Ameren's benchmarks were disputed, the evidence showed that the results of various analyses differed insignificantly. Therefore, Ameren demonstrated that the purchase of the Pinckneyville and Kinmundy plants at net book value is consistent with the results that would have been obtained through a competitive bidding process reflecting interplay between AmerenUE and independent sellers, and has not resulted in undue preference being shown to AmerenUE's affiliate, AEG.

Q. One of those conclusions included the statement that the ratepayers are protected because the MPSC would do a prudence review of the transaction. Isn't that what Mr. Rackers is doing in his testimony?

A. Reviewing the prudence of the transaction was likely the goal of his testimony. However, his fundamental lack of knowledge doomed his analysis. He failed to compare like generation units, he compared prices from different time periods and he ignored evidence that had already been presented by AmerenUE about this transaction. In short, I believe his entire adjustment must be rejected.

VIII. AMERENUE'S PENO CREEK CTG PLANT

Q. Please describe the issue raised concerning AmerenUE's Peno Creek CTG Plant by Office of Public Counsel witness Ryan Kind.

A. Mr. Kind presented testimony in which he argues that the cost associated with the construction of the Peno Creek CTG facility should be reduced from $550/kW to $390/kW.

Q. What is the basis for Mr. Kind's assessment?

A. While Mr. Kind spends a lot of time quoting Ameren CEO Gary Rainwater about the future of deregulation and how to position the Company for that development, Mr. Kind ultimately relies on a benchmark figure of $390/kW for constructing new gas-fired generation. This benchmark figure was provided by AmerenUE in its Application in Case No. EA-2000-37.

Q. Did Mr. Kind visit the Peno Creek CTG facility or conduct an audit of the construction records?

A. No, he did not do either.

Q. What was Case No. EA-2000-37 about?

A. Case No. EA-2000-37 concerned AmerenUE's application to form a generating company. In that application, which was dated July 21, 1999, AmerenUE cited generic benefits that may result in deferring the need to construct additional gas-fired capacity at an estimated cost of $390/kW.

Q. How was the estimated cost determined?

A. The estimated cost came from a 1995 AmerenUE asset mix optimization study and represented a generic installed cost for a large frame CTG based on 1995 information.

Q. What relevance does the cost of a 1995 generic large frame CTG cost have to the cost of constructing the Peno Creek facility?

A. It has absolutely no relevance. The Peno Creek facility went into commercial operation in the summer of 2002 and consisted exclusively of aero-derivative CTGs. As I explained above, the costs associated with a large frame CTG are not the same as the costs of an aero-derivative CTG. The comparison made by Mr. Kind is not an appropriate method to evaluate the cost of the Peno Creek facility.

Q. Please describe the Peno Creek CTG facility.

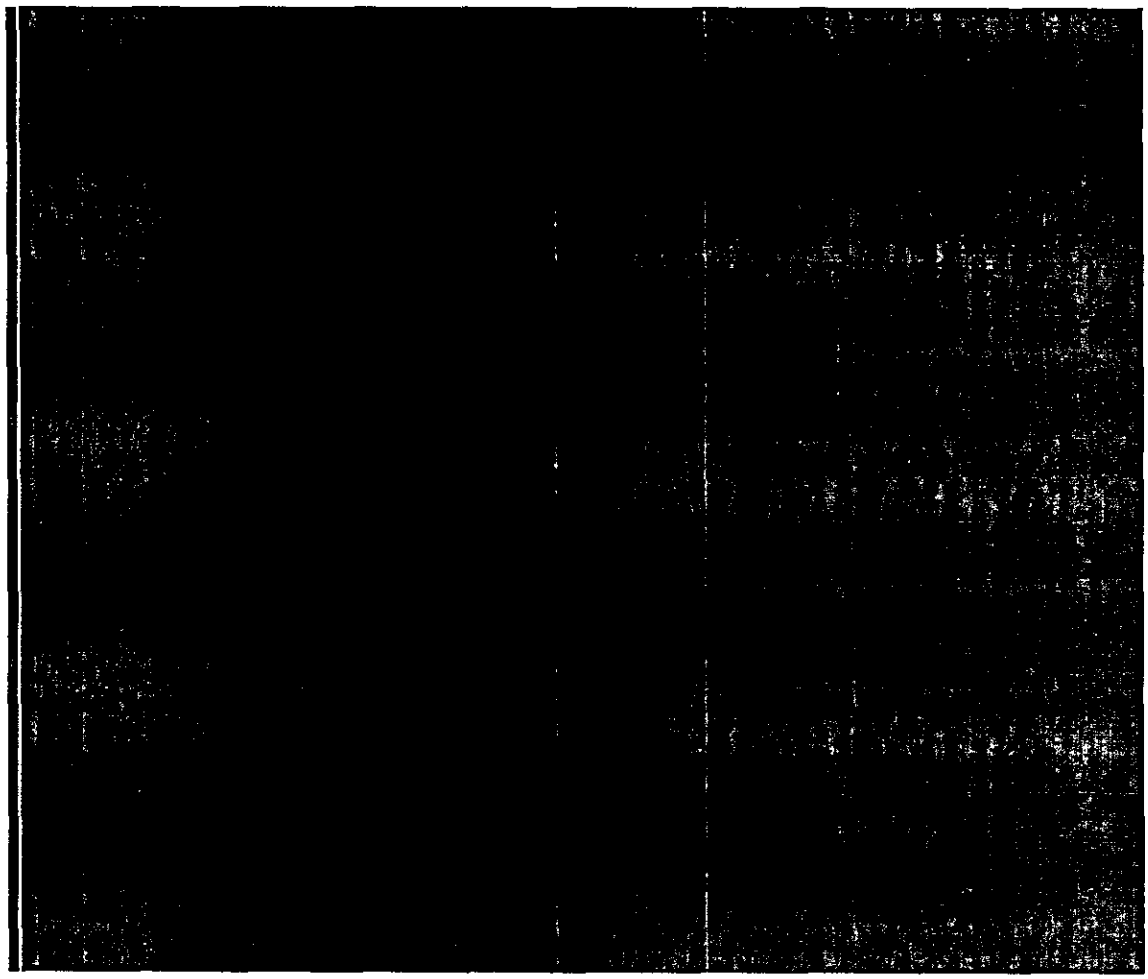
A. To preface the description, AmerenUE sent the Office of Public Counsel a letter of notification of resource acquisition dated August 29, 2001 on the Peno Creek CTG facility. That letter both described the plant and explained AmerenUE's decision making process in building the facility. The four units at Peno Creek, located in Pike County, Missouri, are identical to Venice CTG 2. Each unit is a Pratt & Whitney FT-8 simple cycle CTG rated at approximately 48 MW in peak summer conditions. The units have dual fuel capability to burn either natural gas or oil. The FT-8's are aero-derivative machines that are capable of reaching full output in 8 minutes. As a result, the CTGs can be used to comply with the operating reserve requirements of MISO.

Q. What evidence did the Company present to the Office of Public Counsel concerning the Company's evaluation that resulted in the purchase of the FT-8 machines?

A. The following evaluation was included in the August 29, 2001 letter.

Table 1A

**[redacted]



**

As indicated in the preceding table, the FT8 machines were the most competitive of the aero-derivative type machines. Equally important, the FT8 machines

Public

could be installed to meet a June 1, 2002 commercial operation date. The FT8 machines had a relatively short installation time of approximately three months due to the highly packaged nature of the components of the machine.

Q. What additional steps did AmerenUE take to minimize the costs associated with the installation of the Peno Creek CTG facility?

A. AmerenUE took advantage of Chapter 100 financing by structuring a financial lease with the City of Bowling Green, Missouri that effectively resulted in annual personal property tax savings of $1.8 million. Information relative to the Chapter 100 financing arrangement was presented to the Commission in Case No. EO-2003-0035. The twenty-year net present value of this annual savings is approximately $33 million. In addition, the Company took advantage of "bonus depreciation" provisions applicable to the construction cost of approximately $44 million for the plant. The bonus depreciation statute allows an additional first-year depreciation deduction (referred to as "bonus depreciation") equal to 30 percent of the adjusted basis of qualified property in the year that the property is placed in service.

Q. What additional reliability benefits does the Peno Creek CTG facility offer AmerenUE customers?

A. From a transmission planning perspective, the Peno Creek plant provides power and voltage support where none was before. This plant capability is utilized not only to supply the AmerenUE load as a whole, but also to provide support to the local area transmission system for a variety of system operating conditions. For example, it provides local support during both normal and contingency conditions. Considering all of the transmission facilities in service, transmission system voltages at AmerenUE substations in

the Pike County area are approximately 3% higher when the Peno Creek CTGs are running as compared to when they are off. During transmission contingencies involving the Peno Creek-Palmyra 161 kV line, transmission voltages in the Pike County area are approximately 5.9% higher with the Peno Creek CTGs running. During transmission contingencies involving the Troy-Pike 161 kV line, the transmission voltages in the Pike County area are approximately 6.5% higher with the Peno Creek CTGs running. Therefore, the transmission system in the Pike County area receives a direct benefit, as measured in terms of system voltage support, from the Peno Creek generation. The local generation source augments the existing system and provides real and reactive power and voltage support to the area as needed for a variety of system operating conditions.

From a generation perspective, Peno Creek plant has fast startup capability, intra-day dispatch capability, low O&M expense, remote operation allowing prompt market response, dual fuel capability, excellent heat rate and low carbon dioxide emissions due to an exhaust catalyst.

Q. Did any party do an in-depth review of the Peno Creek CTG construction?

A. Yes, Staff did an extensive review and visited the plant. After that review, Staff witness Leon C. Bender submitted testimony in this case on December 15, 2006, which stated on page 5, lines 3-4, "Staff has not identified any construction costs during construction that should not be allowed."

IX. USE OF PRICES AT WHICH COMPANY PURCHASED CTGS IN 2006 TO JUSTIFY PRICES AT WHICH COMPANY MADE DECISIONS TO PURCHASE CTGS IN 2002

Q. Does Mr. Rackers cite the combustion turbine capacity that AmerenUE purchased in 2006 in his testimony?

A. Yes. In an attempt to show examples of how the Company allegedly has been able to build and buy combustion turbine capacity at prices less than the actual transfer price used by AmerenUE for the Pinckneyville and Kinmundy units, Mr. Rackers states in his direct testimony on page 13, lines 15-18: "From 2002 through 2005 the Company added approximately 500,000 kW of combustion turbine capacity at its Venice plant at an average price of approximately $337/kW. In addition, the Company purchased combustion turbine capacity in 2006 of approximately 1,425,000 kW at a price of $203.7/kW."

Q. Please comment.

A. I've already addressed how Mr. Rackers ignored the facts regarding the Venice CTG installations and eliminated the Peno Creek CTG installations from his calculations in an attempt to create a low installed cost for CTGs that AmerenUE built in the 2002-2005 timeframe. However, Mr. Rackers' attempt to cite AmerenUE purchases in 2006 of the NRG Audrain County CTG facility in addition to the Aquila Goose Creek and Raccoon Creek CTGs as further support to assign a low market value to the purchase of the Pinckneyville and Kinmundy CTGs is even more convoluted than what Mr. Rackers did with his misinterpretation of the costs to build other AmerenUE CTGs in the 2002-2005 timeframe.

Q. Discuss why use of the 2006 CTG transactions is convoluted.

A. The only reason that the NRG Audrain facility was available for sale in 2006 was because AmerenUE refused to be forced by NRG to buy an asset in 2002 which could

not be used to provide reliable service to AmerenUE customers. Citing again AmerenUE witness Craig Nelson's FERC testimony

> However, AmerenUE is not willing to gamble that a plant "might" have adequate transmission, at the expense of either system reliability and customer service, or potentially hundreds of millions of shareholder dollars. A purchase of the Audrain Facility now would be such a gamble because: (1) as Mr. Pfeiffer explains, without transmission, the plant would be subject to an operating guide; and (2) AmerenUE can only rate base its investment to the extent it can demonstrate that the investment is "used and useful." Such a demonstration would be made more difficult for a plant like the Audrain Facility that currently cannot even deliver power due to lack of available transmission.

Consequently, as a result of AmerenUE's resolve to not be forced into a purchase of a CTG facility that could not be used to reliably serve AmerenUE customers, NRG realized that they could not sell their Audrain facility to AmerenUE at $391/kW or $250,240,000 in either 2002 or 2003. Obviously, since the NRG Audrain facility remained for sale through 2005, no other non-AmerenUE entity was interested in buying the facility either.

Q. How did business conditions change at NRG between 2002 and 2006?

A. NRG declared bankruptcy. Ownership of the Audrain facility was transferred to the Audrain facility creditors. The creditors were interested in finding a buyer quickly in order to get their cash proceeds from the sale of the Audrain facility. Consequently, the creditors seized the opportunity to bid on AmerenUE's RFP to acquire additional peaking capacity which AmerenUE issued in June 2005.

Q. What price did NRG offer its Audrain CTG facility to AmerenUE in 2005 in response to AmerenUE's RFP?

A. $115,000,000.

Q. What was the price that NRG Chairman, President and CEO, Ershell Redd, testified under oath at FERC that NRG was willing to sell the NRG facility to AmerenUE in 2003?

A. Mr. Redd's testimony was that NRG was willing to sell the Audrain facility for an amount not to exceed $391/kW or $250,240,000.

Q. Please put this in perspective relative to Mr. Rackers' testimony.

A. Mr. Rackers testified that AmerenUE should have bought the Audrain facility for $200 million based on an August 15, 2002 indicative price proposal from a staff person in the NRG origination department. However, AmerenUE actually bought the facility for $115 million in 2006 – a savings of $85 million or 43% lower than Mr. Rackers' unsubstantiated market assessment. Next Mr. Rackers attempts to use the fact that AmerenUE bought the Audrain facility for $115 million in 2006 to buttress his argument that AmerenUE should have paid $200 million for the Audrain facility in 2002. Yet, the only reason that the NRG Audrain facility was available for sale in 2006 at the fire sale price of $115 million was because AmerenUE refused, on behalf of AmerenUE customers, to be forced by NRG to buy it in 2002 for $200 million when NRG did not have firm transmission outlet capability at its Audrain CTG facility. Remember, because of transmission restraints, the Audrain CTG facility had no capacity value in 2002 to either AmerenUE or its customers.

Q. Rather than overpaying, as suggested by Mr. Rackers, it appears that AmerenUE negotiated a deal that worked in favor of its customers.

A. Yes. AmerenUE should be commended for the transaction if was ultimately able to negotiate with NRG. This transaction ultimately resulted in the purchase of a CTG facility with firm transmission outlet capability at one of the lowest sale prices recorded for a

CTG facility of this type. AmerenUE customers ended up being served with a reliable asset that resulted from a unique, one of a kind purchase from a group of bankruptcy creditors eager to sell an asset for immediate cash.

Q. You mentioned the Aquila Goose Creek and Raccoon Creek CTGs were also included in AmerenUE's acquisition of CTGs in 2006. Please provide background information on the Aquila units.

A. The Goose Creek facility is comprised of six large frame CTGs and has a total net summer capability rating of 432 MW. The Raccoon Creek facility is comprised of four large frame CTGs and has a total net summer capability rating of 300 MW.

Q. Did Aquila offer these units to AmerenUE in response to AmerenUE's RFP issued in June 2005?

A. Yes. Aquila offered both facilities as a single package and made it clear that they were not interested in selling either facility on a stand alone basis.

Q. What price did Aquila offer Goose Creek and Raccoon Creek to AmerenUE?

A. The price quoted was $195 to $200 million in cash.

Q. What price did AmerenUE ultimately negotiate to purchase both units?

A. $175 million.

Q. Is Mr. Rackers' testimony accurate when he states, "the Company purchased combustion turbine capacity in 2006 of approximately 1,425,000 kW at a price of $203.7/kW."

A. AmerenUE purchased the Audrain facility for $115 million and the Aquila facilities for $175 million. The total is $290 million. If Mr. Rackers purported capacity

rating of 1,425,000 kW is multiplied by $203.7/kW, the resulting product is $290,272,500. Consequently, he has characterized the total purchase price relatively accurately. Mr. Rackers, however, continues to misunderstand how to apply capacity ratings to CTGs. The Audrain CTG is transmission limited to a summer net capability rating of 578 MW. Goose Creek has a net summer capability rating of 432 MW and Raccoon Creek 300 MW. The total net summer capability rating of the Audrain and Aquila facilities are: 578 MW + 432 MW + 300 MW = 1310 MW. Consequently, if the total purchase price of $290 million is divided by the net summer capability ratings of the acquired units, 1310 MW, the result is $221/kW and not the $203.7/kW stated by Mr. Rackers.

Q. Was Aquila in dire financial straits when they made their offer to sell Goose Creek and Raccoon Creek to AmerenUE?

A. Yes. While the Aquila lenders had not yet taken control of the two facilities, Aquila was facing bankruptcy and was in the process of exiting the merchant energy business. Consequently, they were looking for a timely sale for immediate cash.

Q. Discuss the AmerenUE RFP issued in June 2005 that ultimately resulted in AmerenUE's purchase of the Audrain, Goose Creek, and Raccoon Creek CTG plants.

A. AmerenUE engaged the consulting engineering firm, Burns & McDonnell, to manage the entire RFP process. The RFP was issued to owners of CTG facilities within the MISO. Twenty-two CTG facilities were identified as qualifying candidates. In addition to the direct mailing of the RFP, the RFP was advertised in the Platt's Megawatt Daily publication for five days. A web site, which contained a copy of the RFP, was listed for

interested parties to download a copy of the RFP. The ad copy ran in the Megawatt Daily publication on June 30, July 1 and July 5-7, 2005.

Q. How many bidders responded to the RFP?

A. Four. The following firms provided a response to the RFP:

- Aquila
- **[redacted]
- [redacted]**
- NRG

Q. You have already discussed in both the NRG and Aquila bids. Please provide details of the **[redacted] bid.**

A. **[redacted]

Q. Please provide details of the **[redacted] bid.**

A. **[redacted]

Q. What do the results of the AmerenUE RFP seeking to buy peaking plants tell us about the market for slightly used peaking plants in the MISO footprint in 2005?

A. The responses to AmerenUE's well publicized RFP are very compelling. First, AmerenUE's ability to purchase the Audrain, Goose Creek, and Raccoon Creek CTG facilities really were unique, one-time opportunities that show that AmerenUE purchased both plants at the rock bottom of the market. Second, the results show that the market for slightly used CTGs has virtually no depth as only four bidders elected to bid and two of the four bidders had transmission limitations. Third, all bids came from owners of large frame CTG facilities. Not a single bidder was willing to offer its best, aero-derivative CTGs. This is important to note because four of the eight units at Pinckneyville are aero-derivative CTGs.

Q. Does this conclude your Rebuttal Testimony?

A. Yes, it does.

NRG Power Marketing Inc.
901 Marquette Avenue
Suite 2300
Minneapolis, MN 55402-3265

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Main Fax: (612) 373-8686
Telephone: (800) 241-4NRG

an NRG Energy company

August 15, 2002

Mr. Clarence "Joe" Hopf, Jr.
Senior Vice President
Ameren Energy
400 South Fourth Street
St. Louis, MO 63102

RE: Audrain Proposal

Dear Joe:

We appreciated meeting with you and your team to discuss opportunities for the Audrain facility. As requested, NRG is pleased to present an indicative proposal to sell the Audrain facility to Ameren.

Executive Summary

NRG Energy, Inc. (NRG) acquired a 100% undivided interest in Duke Energy Audrain, LLC from Duke Energy North America on May 10, 2001. NRG's interests in the Audrain project are held by its direct, wholly owned subsidiary, NRG Audrain Holding LLC (Audrain). Audrain's operations are carried out through its wholly owned subsidiaries NRG Audrain BondCo LLC and NRG Audrain Generating LLC (Audrain Generating, formerly known as Duke Energy Audrain, LLC). Audrain Generating was established to develop, construct, lease and operate the 640MW gas-fired simple cycle merchant generation facility located in Vandalia, Missouri, approximately 105 miles northwest of St. Louis (the "Project").

This letter and information memorandum are being supplied confidentially for use by Ameren for the sole purpose of evaluating the potential purchase of Audrain. Contingent upon appropriate approvals, and delivery and execution of definitive agreements, NRG would consider selling 100% of its undivided interest in Audrain for $200 million.

In order to provide you with the information that you will require to submit a counterproposal, we will provide you with certain information regarding the Audrain generating facility, the industrial revenue bonds owned by NRG Audrain BondCo LLC, and the current facility lease structure with Audrain County. The information will include a preliminary information memorandum (included with this letter), a financial information supplement (upon signing a confidentiality agreement

governing further disclosures and the sale process), and a Purchase Agreement (the "Agreement").

Proposal Guidelines

Your counterproposal must include all material terms on which it is based, specifically including the following:

a) **Price.** The purchase price you will pay in cash for NRG's interest in NRG Audrain Holding LLC. Our expectation is that the purchase price will be $200 million
b) **Financing Sources.** The form and source(s) of financing of the purchase price. If financing will involve third party source(s), please provide an indication of the timing and committed nature of those sources;
c) **Required Approvals and Consents.** A statement as to any applicable approvals and consents (shareholder, board, regulatory or otherwise) required by you to complete the transaction and the estimated timing to obtain such approvals (if they have not yet been obtained);
d) **Timing.** A statement regarding the proposed timing of a transaction and any requirements that you might have regarding the closing date of a transaction;
e) **Purchase Agreement.** By the time of your counterproposal, a Purchase Agreement will have been provided to you. NRG requests that you provide comments to the Agreement when you submit your proposal.

Statements

This indicative proposal is valid through August 30, 2002, unless extended by NRG. The submission of this proposal by NRG is not deemed an acceptance of all of the terms, conditions and requirements of Ameren's request for an indicative offer. Any counterproposal must be submitted in written form by 1:00 pm CST on August 30, 2002.

No agreement will be deemed to be reached, and unless the parties agree otherwise in writing, neither Ameren nor NRG will be obligated to the other in any manner until the execution and delivery of definitive agreements setting forth the understanding of the parties.

Audrain appears to be particularly well suited to meeting your planned generation needs. We look forward to discussing our offer with you. If you have any questions regarding this indicative proposal, please call me at (303) 308-2741 or David Duran at (303) 308-2822.

Regards,

Connie L. Paoletti
Origination
Encl.

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 RICHARD A. VOYTAS

STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

Richard A. Voytas, being first duly sworn on his oath, states:

1. My name is Richard A. Voytas. I work in St. Louis, Missouri and I am employed by Ameren Services Company as Manager of Corporate Analysis

2. Attached hereto and made a part hereof for all purposes is my rebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 40 and Schedule RAV-2 pages, which has been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Richard A. Voytas

Subscribed and sworn to before me this 30th day of January, 2007.

Danielle R. Moskop
Notary Public

My commission expires: July 21, 2009

Danielle R. Moskop
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 21, 2009
Commission # 05745027