

Exhibit No.: 208  
Issues: Rate Design  
Witness: James C. Watkins  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Rebuttal Testimony  
Case No.: ER-2008-0318  
Date Testimony Prepared: October 14, 2008

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**JAMES C. WATKINS**

**UNION ELECTRIC COMPANY**

**D/B/A**

**AMERENUE**

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

**Jefferson City, Missouri  
October 2008**

Staff Exhibit No. 208  
Case No(s). ER-2008-0318  
Date 12-01-08 Rptr KF

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

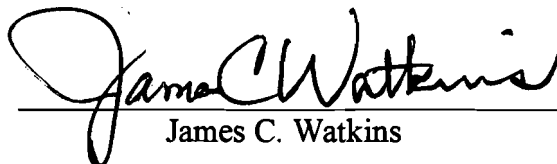
In the Matter of Union Electric Company )  
d/b/a AmerenUE for Authority to File )  
Tariffs Increasing Rates for Electric )  
Service Provided to Customers in the )  
Company's Missouri Service Area. )

Case No. ER-2008-0318

**AFFIDAVIT OF JAMES C. WATKINS**

STATE OF MISSOURI     )  
                                  ) ss  
COUNTY OF COLE     )

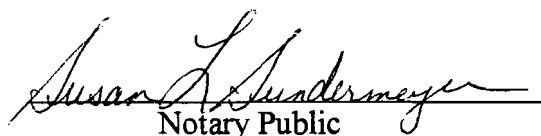
James C. Watkins, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 6 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

  
James C. Watkins

Subscribed and sworn to before me this 10<sup>th</sup> day of October, 2008.



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

  
Notary Public

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**OF**  
**JAMES C. WATKINS**  
**UNION ELECTRIC COMPANY**  
**D/B/A**  
**AMERENUE**  
**CASE NO. ER-2008-0318**

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Rebuttal Testimony of  
James C. Watkins

1           A.     The Staff recommends that if the Commission approves an electric FAC  
2 for AmerenUE, that the FAC should have the characteristics of the FAC proposed by  
3 AmerenUE with the following modifications:

4           1.     Fuel and purchased power cost accumulation should occur on a  
5 calendar month basis, but recovery should be billed on a billing month basis;

6           2.     Instead of a single average annual "Net Base Fuel Cost," the base cost  
7 of fuel and purchased power energy should be determined on a seasonal basis  
8 consistent with the months comprising the AmerenUE summer and winter  
9 seasons;

10          3.     The number of "Accumulation Periods" should be reduced from three to  
11 two by lengthening the Accumulation Periods from four months to six months;

12          4.     The tariffed FAC rate schedule should include the Fuel and Purchased  
13 Power Energy Cost Adjustment(s) (FPA) currently in effect, and a tariff sheet  
14 detailing the calculation of the rate;

15          5.     Replacement power insurance costs, replacement power insurance  
16 recoveries, and ash disposal costs and sales should not be part of the FAC; and

17          6.     AmerenUE should be required to submit specified information required  
18 for the Staff's True-Up Audit and Prudence Review, in addition to the  
19 information required by the Electric Utility Fuel and Purchased Power Cost  
20 Recovery Mechanisms Filing and Submission Requirements rule (4 CSR 240-  
21 3.161).

1 **ISSUES**

2 Q. Should fuel cost accumulation occur on a calendar month basis, but fuel  
3 cost recovery be billed on a billing month basis?

4 A. AmerenUE's fuel and purchased power costs are proposed to be  
5 accumulated on a calendar month basis, but AmerenUE's billing system and rate  
6 schedules are designed to recover costs on a billing cycle basis. AmerenUE proposes  
7 that, in the instance where a billing cycle contains fuel and purchased power adjustments  
8 (FPA) for two calendar months, the customer's bill be prorated in proportion to the  
9 number of days in the customer's billing period that each FPA was in effect. Staff  
10 proposes that the accumulated fuel and purchased power energy cost adjustments be  
11 recovered by billing month, as part of the standard billing process.

12 Q. Is it important that the "Net Base Fuel Cost" be determined on a seasonal  
13 basis?

14 A. Yes. The cost of fuel and purchased power energy is significantly higher  
15 in the summer than in the winter. If the Accumulation Period is less than a full calendar  
16 year, this difference should be reflected in the determination of whether AmerenUE has  
17 over collected or under collected its fuel and purchased power energy costs during each  
18 Accumulation Period. By its nature, actual fuel and purchased power energy costs in the  
19 summer will be higher than the annual average fuel and purchased power energy cost,  
20 and, likewise, the actual fuel and purchased power energy costs in the winter will be less  
21 than the annual average. Therefore if the actual cost over the next year were the same as  
22 what was set as an annual base, accumulation periods with summer months would always  
23 show an upward adjustment was necessary and accumulation periods with winter months

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1 would always show a downward adjustment was necessary. In some instances, without  
2 seasonal base costs, it would even be possible to calculate an under collection amount to  
3 recover from customers when in fact AmerenUE's average fuel and purchased power  
4 energy cost for the accumulation period was less than the average base fuel and  
5 purchased power energy cost for the season. These situations could be and should be  
6 avoided by seasonally differentiating the base costs. Thus, the total over recovery or  
7 under recovery in each Accumulation Period should be calculated by summing the  
8 differences between the appropriate seasonal base and actual fuel and purchased power  
9 energy costs on a (calendar) monthly basis.

10 Q. Why should the number of annual Accumulation Periods be reduced to  
11 two per year?

12 A. There are two reasons that Staff is recommending only two Accumulation  
13 Periods each year. The first is to reduce customer confusion regarding their rates by  
14 minimizing the number of additional rate changes in each year. Having three  
15 Accumulation Periods of four months each would result in three rate changes in addition  
16 to the summer-winter seasonal rate changes, totaling five per year. Staff recommends  
17 that AmerenUE be allowed only two Accumulation Periods a year – one that runs from  
18 December 1 through May 31 with the Recovery Period beginning in the October billing  
19 month (coinciding with the change to winter rates) and the other Accumulation Period  
20 being June 1 through November 30 with the Recovery Period beginning in the April  
21 billing month. Many customers are already confused by the seasonal rate changes. Their  
22 confusion should not be heightened by allowing three rate changes in addition to the  
23 current two seasonal changes. The Staff's recommended accumulation periods would

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1 only increase the number of rate changes by one because one of the adjustments is  
2 occurring on each customer's same bill as the change to winter rates.

3 The other reason that Staff recommends only two Accumulation Periods is the  
4 limited number of changes to coal and nuclear prices during a year. Most of  
5 AmerenUE's coal contracts change prices only once a year and typically this is on  
6 January 1. AmerenUE's uranium prices change only once every 18 months. Since the  
7 majority of AmerenUE's fuel and purchased power costs are for coal and uranium, it  
8 seems unnecessary to calculate an adjustment every four months as proposed by  
9 AmerenUE.

10 Q. Should the FAC rate in effect be shown in AmerenUE's tariff?

11 A. Yes. The Commission's Rule, 4 CSR 240-3.145, requires that each  
12 electric utility have on file with the Commission and available to the public a Tariff that  
13 sets forth the services offered by that utility and the rates, terms and conditions for the  
14 use of those services. Unless the various FAC rates are listed in the Tariff, customers  
15 have no way to determine whether they are being billed correctly or not. The Empire  
16 District Electric Company's (Empire's) tariff sheet showing the calculation of its current  
17 FAC rate is attached as an example of what should be required of AmerenUE.

18 Q. Does Staff believe that replacement power insurance costs, replacement  
19 power insurance recoveries, and ash disposal costs and sales should not be included in the  
20 FAC?

21 A. Yes. These costs are not volatile variable fuel costs or revenues.

22 Q. Should additional information be submitted to the Staff?

23 A. Yes. The following reports should be submitted:



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- 1                   1.     Annual report of detailed fuel procurement hedging practices
- 2                   2.     Report to Energy Department Manager or Engineering Analysis
- 3                   Supervisor all incidents at power plants, whether accidental or mechanical
- 4                   failures, involving serious physical injury or death or property damage in
- 5                   excess of one hundred thousand dollars. (4 CSR 240-3.190(3)(A))
- 6                   3.     Report to Energy Department Manager or Engineering Analysis
- 7                   Supervisor all SO2 Allowance sales, purchases, trades, swaps, and loans.
- 8                   This information is to be reported monthly, along with the information
- 9                   provided in compliance with 4 CSR 240-3.161

10           Q.     Why is this information necessary?

11           A.     This information is required for the Staff's True-Up Audits and Prudence  
12     Reviews. These Staff information needs are not covered by the current minimum filing  
13     requirements, and should the Commission grant AmerenUE use of a FAC, the  
14     Commission should order AmerenUE to submit these materials.

15           Q.     Does this conclude your rebuttal testimony?

16           A.     Yes, it does.