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Witness:	David A. Svanda
Sponsoring Party:	Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

SURREBUTTAL TESTIMONY

OF

DAVID A. SVANDA

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
February 27, 2007

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SURREBUTTAL TESTIMONY OF

DAVID A. SVANDA

CASE NO. ER-2007-0002

I. Introduction and Summary.

Q. Please state your name and business address.

A. My name is David A. Svanda. My business address is 6464 Lounsbury Rd., Williamston, Michigan 48895.

Q. Are you the same David A. Svanda who filed direct testimony and rebuttal testimony on behalf of Union Electric Company d/b/a AmerenUE ("AmerenUE" or the "Company") in this matter?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. It is to provide a practical view of several issues in this case. Those issues include return on equity ("ROE"), considerations relating to the storms occurring in the Company's service territory over the past several months, and the Company's request for a fuel adjustment clause ("FAC"). I also provide my perspective on the case as a whole in light of the principal conclusions I outlined in my direct testimony filed on July 7, 2007.

Q. You mentioned the principal conclusions reflected in your direct testimony. Now that the case has unfolded with the filing of rebuttal testimonies, please comment on how the various parties' positions relate to those conclusions.

A. My first principal conclusion is related to the more constructive regulatory environment that has been emerging in Missouri, seen in moves by Missouri to bring itself more into the mainstream, particularly relating to depreciation, to return on equity, and to the

authorization of FACs, and reflected in the improved views of credit rating agencies. A number of parties in this case continue to work in opposition to this more constructive environment, as reflected in unreasonably low ROE recommendations and what appears to be unified (although in my view unjustified) opposition to FACs, despite their wide acceptance and proven track record across the country.

My second principal conclusion is that AmerenUE's ability to remain financially healthy has resulted in a "win-win" situation for the Company and its customers. Opposing a more constructive regulatory environment, as I note above, jeopardizes that situation. I am cognizant of the fact that AmerenUE is seeking a sizeable rate increase, but the electric utility industry as a whole is facing an array of new challenges, not the least of which are the increasing costs that are simply a fact of life in the electric utility industry at this time. AmerenUE, just like other utilities, must have in place rates and regulatory policies that allow those challenges to be met and overcome. Even with the requested increase, AmerenUE's rates will compare quite favorably to utility rates locally, regionally, and nationally. Reverting to a less constructive regulatory environment by denying AmerenUE the legitimate revenue requirement it needs is not a responsible plan to ensure that Missouri continues to have the reliable, reasonably-priced electricity it has enjoyed for so long. The fact that Mother Nature has wreaked havoc on AmerenUE's distribution system (and those of many utilities all over the country, including in other parts of Missouri) during the last several months doesn't warrant any kind of implicit "punishment" to be visited on AmerenUE, by cutting its ROE or otherwise.

My third principal conclusion – a word of advice, really, is that there is no need to be overcome by the range of proposed ROEs and the technical details of the ROE testimony before this Commission in trying to set a fair ROE for this utility. Avoiding that pitfall begins

with the recognition that, notwithstanding those technicalities, what is before you is not primarily a numbers-crunching exercise, but an exercise of your judgment. Below I describe the factors that I believe counsel you to exercise your judgment by choosing an ROE near the upper end of the range offered by the witnesses before you.

II. Return on Equity.

A. Practical Insight in Setting Allowed ROE.

Q. What, in particular, will you address relating to ROE?

A. In particular, I will discuss the implications of setting an allowed ROE as low as other parties suggest. I also provide comments on the impact of the changing environment in which electric utilities operate, and what constitutes a reasonable and prudent return on equity. In doing so, I am responding to the testimonies of Mr. Michael Gorman testifying on behalf of Missouri Industrial Energy Consumers, Mr. Charles W. King testifying on behalf of the Office of the Public Counsel, Mr. Steven G. Hill testifying on behalf of Staff, and Dr. J. Randall Woolridge testifying on behalf of the State of Missouri.

Q. Based on your experience as a commissioner, what are the difficulties and key concerns facing the Missouri Public Service Commission in determining AmerenUE's allowed rate of return?

A. Based on my own experience I know that it is difficult but nevertheless important for commissioners to balance the interests of utilities and their customers. While customers must not be overcharged for the service they receive, utilities need to be financially healthy to be able to cope with the business risks and investment requirements they face. As emphasized in Mr. Baxter's rebuttal testimony, AmerenUE faces a number of challenges going forward and needs to remain a financially healthy company to meet those challenges. At a very practical level, what

confronts a commissioner in a rate proceeding can amount to an unhelpful "battle of the experts." Competing, highly technical calculations have their place, but one can get lost in numbers and competing opinions about how various inputs to, or steps in, these calculations should be handled. Such highly technical evidence can seem divorced from the real world considerations on which a commissioner's judgment should be based.

Q. So how are Commissioners supposed to come to grips with the differences among witnesses' recommendations and reach a reasonable ROE?

A. In the end, there is no single, perfectly correct number for an allowed ROE. It provides a Commissioner no help in this process to say, as does Dr. Woolridge, that the Company's requested ROE is "extremely overstated and not reflective of current market fundamentals."[1] One can also point out that Dr. Woolridge's recommendation of 9.0% severely understates the ROE in current market conditions. The average allowed rate of return for electric utilities in non-restructured states was about 10.6% in 2006.

The range of numbers presented,[2] all vigorously justified by their proponents, illustrates that selecting a fair and appropriate ROE is not simply a matter of mathematical calculation. Commissioners are not being called on to referee a mathematical debate. At the same time, selecting the ROE is not simply a matter of splitting the difference. Too much is at stake regarding ROE to behave so thoughtlessly. In the end, it is the Commission's informed judgment that must determine a reasonable ROE. The remainder of my testimony on ROE offers

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[1] Rebuttal Testimony of Dr. Woolridge p. 4. The January 31, 2007 testimony received from Dr. Woolridge is, mistakenly, I believe, labeled "Direct Testimony" for which reason I refer to it as Rebuttal Testimony of Dr. Woolridge.

[2] The intervener witnesses have recommended an ROE between 9.0% (Woolridge) and 9.8% (Gorman) while the Company is requesting an allowed ROE of 12%.

my thoughts, based on my own experience, on how your judgment should be informed in determining a fair and appropriate ROE.

B. The Practical, Real-World Consequences of Maintaining a Financially Healthy Utility Underscores the Importance of Not Choosing an ROE That is Too Low.

Q. How can some sense be made of the ROE testimony before the Commission?

A. Well, first recall the basic principles governing ROE. We know that a reasonable ROE would allow AmerenUE to maintain its credit rating and access capital markets under favorable terms. This ensures the Company access to low financing costs which benefits both shareholders and customers, and helps to create an attractive economic setting in Missouri. Low-cost access to capital is critical if the Company is to undertake investments in needed infrastructure, such as generation, transmission, or distribution facilities, along with environmental abatements. Such access to capital also gives the Company the capability to undertake discretionary investments that create long-term customer benefits. Some examples of such investments are: smart meters, state-of-the-art emission controls, and renewable energy resources. Moreover, ready access to low-cost capital is vital if the Company is to have the strength to respond appropriately and swiftly to unforeseen circumstances, including natural disasters and severe storms, as they occur. Finally, access to capital on favorable terms creates a financial environment for the Company that is not biased in favor of lower capital investments and higher operating expenses (e.g., gas vs. coal-fired power plants).

Another important element to consider in setting an ROE is the different consequence of getting it wrong in one direction or the other. Too high an ROE is clearly bad for ratepayers. However, if it becomes apparent that a utility is over-earning because of an excessive ROE, a change of course can be relatively promptly implemented in a proceeding

before the Commission, and the consequences of the excessive ROE are therefore limited. The same is not true for a low ROE. A deficient ROE starves the Company of the lower cost capital needed for capital investments and operations that benefit ratepayers, as well as shareholders. Capital projects typically take time to plan, finance, and execute. Thus, a deficient ROE can have a continuing negative impact on ratepayers, regional economic health and infrastructure development, and shareholders for decades. Erring on the higher side of a range of proposed ROEs is, accordingly, a prudent approach.

Q. Are there other considerations that the Commission should take into account when setting rates for AmerenUE?

A. Yes. An observation that flows from my last point is that the ROE issue is not necessarily a zero sum game pitting the interests of ratepayers directly against those of investors. This is illustrated by the fact that AmerenUE has maintained a healthy return for its investors while charging its customers some of the lowest rates in the country. At the same time, AmerenUE has historically scored high marks on customer satisfaction, so the low rates are not obtained through lack of customer service. This win-win posture of AmerenUE is in large measure a result of sensible regulatory judgments made by this Commission, and it highlights the fact that a fair ROE results in investment that is in the best long-term interest of all who depend upon, or are affected by, the Company's operations. This is particularly true in the current environment where significant capital investments are anticipated over the years to come.[3]

C. The Economic World of Electric Utilities Is Changing Dramatically.

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[3] See, for example, Thomas R. Kuhn and David K. Owens, "*Time to Invest in America's Electric Future*," Wall Street Briefing, January 24, 2007.

Q. Does the traditional structure of rate cases assist Commissioners in making their judgment concerning what is a reasonable ROE in the current economic circumstances of electric utilities?

A. Not nearly as much as it once may have. The economic and operating reality of electric utilities is neither stationary nor stable. One certainty for utilities is that the future is more fluid, and poses more risks, than ever before. The retrospective test year at the heart of the traditional rate-making process came from an era when the electric utility business was much more stable, and it made sense to look to the past to see what the future was likely to be. That is less the case than it was in the past, and a process that is still shaped by the historic test-year approach is not as helpful to Commissioners having to make ROE judgments in the global economic setting of today.

Q. Can you explain what you mean when you say that the reality facing electric utilities is neither stationary nor stable?

A. Yes. After a decade or more of stable if not declining rates, sharp and broad increases in costs have required significant rate increases. As a result, average electric rates have increased significantly in the last several years. Increases in operating and investment expenses have led to a substantial drop in the utilities' free cash flow. Moody's Investors Service recently called the trend "alarming."[4] An underlying problem is that electric utilities are experiencing unprecedented volatility in fuel costs and facing significant infrastructure requirements in generation, transmission, distribution as well as environmental areas. At the same time, three fundamental factors are affecting the electric utility industry. First, the fundamental financial market conditions under which electric utilities operate are changing. Second, global competition

[4] The Energy Daily, *Moody's: Rising Expenses Nibbling on Electric Utilities*, January 3, 2007.

is putting upward pressure on commodity prices and introduces risk that did not exist in the past. Third, the stability of the electric industry has been affected and continues to be affected by unpredictable changes in the regulatory and political environment.

Q. Please elaborate on the change in fundamental financial market conditions.

A. Most financial analysts agree that commodity prices have become significantly more volatile during the past couple of years, and electric utilities' systematic risks have increased significantly. Moreover, electric utilities face substantially more credit risk today than they did a few years ago. At year-end 2001, more than 40% of investor-owned electric utilities carried a credit rating at A- or higher, whereas at the beginning of 2006, this figure had dropped to about 16%.[5] More troublesome is that the fraction of utilities with a non-investment grade credit rating has increased and that negative credit outlooks or watches outnumbered positive ones towards year end. The credit rating agencies focus on regulatory issues and the companies' ability to recover capital expenditures.[6] The credit rating agencies cite increasing fuel costs, the need for capital expenditures, and timely recovery of prudently incurred costs as key factors impacting the industry's creditworthiness going forward.[7]

Any elevation in risks necessitates an increase in the allowed rate of return. The credit rating agencies' concerns regarding free cash flow, the need for capital expenditures, changing regulation, and the globalization of markets all increase the risk that AmerenUE is exposed to. This imposes additional risks on equity holders and therefore increases the return on equity that they require.

Q. Can you explain the impact of globalization?

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5 Edison Electric Institute, *Credit Ratings, Q1, 2006 Financial Update.*

6 Edison Electric Institute, *Credit Ratings, Q4, 2006 Financial Update.*

7 See, for example, MW Daily, *S&P Sees Utilities Showing Stable Credit Quality*, January 16, 2007, and MW Daily, *Electric Utilities Looking at Growth: Moody's*, December 1, 2006.

A. Yes. Global competition for fuels (coal, natural gas, and possibly other substitute fuels) introduces risk and uncertainty that did not exist in the past. It puts unpredictable upward pressure on prices as well. The globalization of the markets for raw materials and components used for generation, transmission, or environmental abatement introduces risk and also puts upward pressure on prices. For example, Asia's and especially China's consumption of fossil fuels, building materials, and component parts has increased dramatically and is expected to increase further. This will lead to increased upward pressure on prices.

It is also noteworthy that a number of mergers have occurred abroad so that the some foreign companies now are much larger than most U.S. utilities. During a recent panel on the electric industry's need for capital, Mr. Gaw of ABN Amro argued that, "overseas there are emerging 'supermajor' utilities with as much as $90 billion in market cap. He noted that the average market cap in the US is $10 billion, or less. He said that the situation was 'ripe for behemoth European or Asian companies to buy vulnerable US firms.'"[8]

Q. Does the regulatory and political environment pose risks that affect the electric utility industry?

A. Absolutely. The stability of the electric utility industry has been affected, and will continue to be affected, by unpredictable changes in regulatory and political environments. There are several key factors that have led to an increase in the regulatory and/or political risks the industry faces. First, the industry is still coping with the upheaval of the restructuring of energy markets commencing in the 1990s at the state and federal levels. Second, the ongoing implementation of the Energy Policy Act of 2005 introduces risks and uncertainty that did not exist in the past. In particular, it has yet to be seen how the Act will be implemented. Third,

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[8] MW Daily, *Power sector seen as hungry for capital*, February 20, 2007.

public discourse in other states and regions has made the utility business more risky and unpredictable. As noted by Fitch,[9]

> The dependence on price increases to maintain profitability causes utilities to be especially sensitive to regulatory and political risk. High tariff increases are unpopular with consumers and voters. The conflicts in 2006 in Illinois and Maryland illustrate that when electricity tariffs take on high public visibility, state governors and legislators can interfere in the regulatory process and are unlikely to have the interest of the utility's bondholders uppermost in their minds.

The combination of increasing costs and capital expenditures and changes in financial and regulatory risk exposes AmerenUE to greater risk which requires appropriate compensation.

D. Erring on the High Side of the ROE Ranges Presented Is Prudent and Justified.

Q. Other parties in this case recommend an allowed ROE of 9.0% to 9.8% for AmerenUE's electric operations while AmerenUE's witnesses have recommended 12%. What is your reaction to these recommendations?

A. The range of ROE recommendations is wide. However, I note that in two recent rate of return matters, the Commission allowed an ROE of 10.9% and 11.25%, respectively.[10] Those decisions are quite in line with current regulatory practice in the Midwest. In the past two years, the average allowed ROE by state regulatory commissions in the Midwest is 10.6% for electric utilities, ranging from 10.0% to 11.5% and only a few mostly wires-only electric utilities located in the Northeast (NH, CT, NJ, and NY) received single digit allowed rates of return in 2006. During the same time period, the average allowed ROE for gas distribution companies in

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[9] Fitch Ratings, *U.S. Power and Gas 2007 Outlook*, December 2006, p. 9.

[10] Report and Order, Case No. ER-2006-0315 Re. Empire District Electric Company, December 21, 2006 and Report and Order, Case No. ER-2006-0314 Re. Kansas City Power and Light Company, December 21, 2006.

the Midwest was very similar to that of electric utilities at 10.7%.[11] To reflect the volatility in financial conditions and the operating environment discussed above, the ROE that is allowed today should be materially higher than the average allowed in the recent past. Financial markets expect substantially higher ROE's than that recommended by other parties' witnesses and there is ample evidence that some jurisdictions allow higher ROEs to ensure capital attraction for investments and financial health.

Q. Regarding your last statement, do the financial markets provide any guidance for the Commission in evaluating this range of proposed ROEs?

A. Yes. Clearly, credit rating agencies pay close attention to regulatory decisions, including the ROE established in a rate case. The consequences of low allowed ROE can be dire for electric utilities and especially for those seeking to undertake capital expenditures or upgrades. Moody's discussed the low ROE of 9.9% recently allowed for Public Service Co. of New Hampshire among its reasons to place that company on negative outlook.[12] Similarly, when earlier Commission orders allowed only a very low ROE (i.e., 10%), S&P downgraded Empire District because of these "low allowed ROEs" and a "low plant depreciation allowance."[13] A reasonable ROE helps the utility avoid deterioration of credit quality. When a rating agency lowers a utility's credit rating due to an ROE that has been allowed, that is an important message back from the market that the regulatory judgment as to what was a

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[11] See *Regulatory Research Associates*, Regulatory Focus: Major Rate Case Decisions, January 2005 – December 2006. Supplemental Study.

[12] Moody's Investor Service, *Moody's Places Ratings of Public Svc. Co. of New Hampshire (A3 Sr. Sec.) on Review for Possible Downgrade; Revises Ratings Outlook of Yankee Gas to Negative from Stable*, April 17, 2006.

[13] Standard & Poor's RatingsDirect, *Ratings on Empire District Electric Co. Lowered to 'BBB', Outlook Stable*, July 2, 2002.

reasonable ROE was flawed. Clearly, the proposed ROEs of recommended by the other parties to this case would be viewed as utterly unreasonable in the real world.

An important factor in the credit agencies' evaluations of allowed ROEs is their recognition that a sufficient ROE provides infrastructure investment incentives in an industry that has been lagging in necessary capital spending.[14] The electric industry has increased its capital expenditures in recent years and it is expected to continue its investments in power generation, transmission facilities, and environmental controls. At the same time the cash from operating activities has declined so that the utilities' free cash flow has declined sharply – as noted earlier, Moody's views this trend as "alarming."[15] This is not an environment in which it is easy to attract new investors. Allowing an ROE at the high end of the reasonable range allows the utility easier access to capital and is consistent with investor expectations. For example, *Value Line* expects the electric industry to earn an ROE of 11.5% for the 2009-11 time period,[16] and Lehman Brothers assumed an ROE of 11.5% for AmerenUE in a recent equity research report.

Q. Above you mentioned that there is ample evidence of allowed ROEs in the high end of the reasonable range. Could you explain this statement?

A. Yes. In recent years, Wisconsin has consistently allowed ROEs of no less than 11% for electric utilities. It is noteworthy that Wisconsin utilities generally operate under "fuel rules" that allow for recovery of fuel costs. It is also noteworthy, that the California Public Utility Commission ("CPUC"), after the disaster of the power crisis, became very aware of the importance of maintaining the financial health of their utilities. Only a year ago, the CPUC set

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[14] One of the principal goals of the Energy Policy Act of 2005 was develop a stronger energy infrastructure.

[15] The Energy Daily, *Moody's: Rising Expenses Nibbling On Electric Utilities*, January 3, 2007.

[16] Value Line Investment Survey, *Electric Utility Industry*, December 29, 2006.

the allowed rates of return of the three major California investor-owned utilities at 10.7%, 11.35%, and 11.6%. Importantly, the average ROE allowed by FERC in electric transmission matters has been above 12% during the past two years. In other words, some jurisdictions have awarded ROEs to ensure the financial health of their utilities or to provide incentives for capital investments. As acknowledged by FERC, it is important to provide investors with an incentive to provide capital for investments in infrastructure. Providing an ROE in the upper end of the reasonableness zone does exactly that.

Q. What are the implications of the above for the ROE that AmerenUE should be allowed to earn on its equity capital?

A. I think this information gives the Commission some important practical insights into how to evaluate the range of ROEs before you. First, the high end, the 12% proposed by the Company's witnesses, is not by any means an extreme outlier. Second, the low end is unreasonably low. These observations underscore my point earlier that even where both the high and low ends of an ROE are not in themselves extreme, there are good reasons to generally lean toward the high end in setting the allowed ROE. Here, where the low end *is* extreme, it is all the more important to choose an ROE toward the high end of the range.

III. Reaction to Recent Storms.

Q. In discussing your key conclusions, you mentioned earlier that AmerenUE should not be "punished" implicitly for the unfortunate consequences of the severe storms that have occurred since this case was filed. Please elaborate.

A. It is entirely understandable, in fact expected, for there to be a swift, loud, and emotional outcry from the public, the press, elected officials, and others when customers are without power on multiple occasions for extended periods of time. Without question, regulators

are put under a lot of pressure to "do something" in response to these kinds of events. Some stakeholders likely expect regulators to "send a message" to the utilities involved, regardless of whether the utility was in a position to prevent the outages or alleviate their effects more effectively. Under those circumstances regulators have to remember their proper role; that is, to objectively evaluate the causes of the event, the utility's response, and possible solutions.

Q. Is there any reason to conclude that AmerenUE is at fault for the unfortunate, extended outages occurring over the past several months?

A. No. While I am certain that there are things AmerenUE could have done better – no utility's storm preparedness or response is perfect – the information of which I am aware indicates that AmerenUE has done a good job under the circumstances and operates a reliable electric system. As I noted above, the Commission's own Staff essentially concluded as much after a thorough investigation of the July storms, and it is readily apparent from the effects of other ice storms in Missouri, Oklahoma, and elsewhere this winter that there was nothing particularly unusual or more severe about the inconvenience experienced by AmerenUE customers in Missouri versus the inconvenience experienced by other utilities' customers elsewhere. Does that mean that AmerenUE should not work to improve the ability of its system to withstand storm damage, or improve its storm response? Of course not. AmerenUE should always work to improve in these areas, and I am sure the Commission is looking at constructive regulatory actions to foster that improvement. But heeding the call of frustrated customers and elected officials to in effect "take it out of AmerenUE's hide" because of outages caused by uncontrollable weather events will not lead to improved storm outage responses. Indeed, setting rates below appropriate levels will tend to undermine, not foster, continued investment in

distribution systems and continued improvement in the operations and maintenance activities needed to minimize storm damage and improve storm response.

Q. What about the Taum Sauk reservoir failure? How should the Missouri Commission address its consequences?

A. I see nothing further to address. The Company has taken full responsibility for the Taum Sauk reservoir failure. Any cost of service impacts have been removed from the Company's rate case, the Company has outlined measures to continue to hold customers harmless from the reservoir failure in implementing its requested fuel adjustment clause, as outlined in Mr. Lyons' February 5, 2007 rebuttal testimony, and the proper authorities – the FERC, the state of Missouri, and the Department of Natural Resources, are taking actions to address any liabilities associated with the failure. To the extent others might suggest some kind of "regulatory punishment" in this case, such punishment would be inappropriate. The Company's shareholders are already bearing the full consequences of the failure of the reservoir in the form of substantial costs and exposure to substantial legal liability, for which recovery is not being sought by the Company.

IV. Fuel Adjustment Clause.

Q. As a former commissioner, and as the former President of NARUC[17] and MARC,[18] do you have a perspective on the debate occurring in this case relating to AmerenUE's request for a fuel adjustment clause?

A. Yes. I am frankly surprised that the debate in this case continues to be about whether AmerenUE should have an FAC at all. That debate seems entirely misplaced to me given that the Missouri Legislature, by enacting FAC legislation, and the Commission, by

[17] National Association of Regulatory Utility Commissions.

[18] Midwest Association of Regulatory Commissions.

issuing FAC rules, have now put Missouri in a position to join the mainstream of nearly every other state in the country in utilizing FACs for their utilities.

Q. Is it your position that the Missouri Commission is required to utilize FACs?

A. It is my understanding that the Missouri legislation is enabling, not prescriptive. Having said that, however, I see no legitimate policy reason for failing to take advantage of the legislation by allowing Missouri utilities to reflect changes in their fuel and purchase power costs via adjustments under an FAC.

Q. Why do you believe that an FAC should be authorized for AmerenUE?

A. As I discussed above in connection with my comments on ROE, in a capital-intensive business like the electric utility industry, the credit quality of the utility is important and the capital markets' perception of utility risk is very important. Utilization of mainstream regulatory tools, like an FAC, helps support credit quality and help keep a utility's risk profile, all else being equal, in line with the risk profiles of similarly situated utilities. The fact is that most utilities that are similarly situated to AmerenUE have an FAC and FACs are the norm in most other states. Without an FAC, one would expect investors to require a higher ROE and for AmerenUE's credit quality to be lower, resulting in higher borrowing costs. Both results put upward pressure on the revenue requirement and customer rates.

Q. What has been your experience with FACs?

A. FACs were commonly used by the Michigan utilities regulated by the Michigan Commission, of which I was a member for nearly eight years. FACs and other "adjustment clauses or mechanisms" are utilized broadly to expeditiously, fairly, and openly address volatile or variable economic factors. They are broadly employed because of the above attributes and in order to focus on factual, relevant information. We encounter adjustment clauses frequently in

our day-to-day lives, ranging from when we ride in airplanes or taxis to inflationary adjustments to contracts and entitlement programs. They are employed because they are simple and because they work. They provide appropriate recognition to the fact that some economic factors are responsive only to externalities beyond the control of the company, and therefore are most effectively accommodated by an adjustment clause. There is little justification for Missouri to be out of step with the rest of the country in the application of this mainstream economic tool.

Q. Please address the opposition to AmerenUE's FAC request on the part of Staff as expressed in Mr. Warren Wood's rebuttal testimony.

A. I will generally confine my comments to aspects of Staff's opposition, other than Mr. Wood's reliance on an analysis of fuel prices and off-system sales performed by Staff witness Michael Proctor, as discussed by Mr. Wood at page 4, lines 8-19 of his February 5, 2007 rebuttal testimony. I have, however, reviewed Dr. Proctor's testimony containing this analysis and Mr. Schukar's surrebuttal testimony and from my experience in this industry over the past eleven years, I can say that I find the general conclusion that one can rely on off-system sales margins to eliminate the need for an FAC to be a novel conclusion that I believe is not generally shared, or not shared at all, in the vast majority of other jurisdictions. I also am in general agreement with the proposition that there are a lot of doubts regarding whether off-system sales margins will always naturally move in the same direction as fuel costs so as to act as an adequate "hedge" which would obviate the need for an FAC.

Q. What other specific reactions do you have to Mr. Wood's testimony?

A. Mr. Wood seems to be saying that Missouri should treat AmerenUE differently than the way the vast majority of other similarly situated utilities are treated in nearly every other state when it comes to the utilization of FACs. My experience is that FACs are routinely and

effectively used throughout the country, including by utilities in nearly all similarly regulated states that have a similar generation portfolio to that of AmerenUE. The costs reflected in FACs are in general volatile, and they are the kinds of costs that are largely beyond the control of the utility. Consequently, it makes sense to allow utilities to timely reflect these large costs in the rates they charge because doing so sends the right price signals to consumers and promotes a better matching of utility costs and rates. An FAC will also dampen the need for more frequent rate cases driven largely by fuel cost changes, and FACs promote better, cost-effective access to capital markets for the utility, as I discussed earlier.

Q. Please comment on Public Counsel's opposition to an FAC for AmerenUE.

A. My read of Messrs. Kind's and Trippensee's rebuttal testimony on this issue is that Public Counsel seems intent on erecting whatever roadblocks it can to prevent AmerenUE from implementing an FAC. My views on this are certainly influenced by my review of Public Counsel's comments in opposition to this Commission's rules implementing the legislation. My views are also influenced by the nature of the criticism leveled at AmerenUE's proposed FAC.

Q. Please explain.

A. Mr. Kind is careful to point out that Public Counsel clearly opposes the FAC (Kind Feb. 5. rebuttal testimony, p. 2, l. 4-14), and then couches his comments in terms of suggesting to the Commission that there are fundamental deficiencies in AmerenUE's proposal that completely preclude the Commission from approving an FAC. The identified deficiencies appear to deal with technical details of *implementing* the FAC, as opposed to providing legitimate reasons as to why nearly every other state regulatory commission is apparently wrong in allowing their utilities to utilize FACs. But the point is that Public Counsel seems intent on opposing the FAC over concerns relating to such details, rather than seeming interested in

working constructively with the Commission to allow it to utilize this mainstream tool under appropriate conditions. It's easy, but not necessarily helpful, to raise potential problems about what would be the first implementation of an FAC in Missouri since the 1970s; it may be a bit harder, but is more constructive, to seek solutions to any such perceived problems.

Mr. Trippensee's rebuttal testimony contains similar themes. To take one example, Mr. Trippensee makes it sound like the Missouri Commission is entirely incapable of administering an FAC. (Trippensee rebuttal testimony p. 13, l. 19-22; p. 14, l. 1-13). I do not believe that the Missouri Commission is any less capable of doing so than nearly every other state utility commission in the country. I also note that Mr. Trippensee's argument ignores the huge administrative burdens and inefficiencies inherent in frequent rate cases, which are more likely in the absence of an FAC.

Q. Do you have other comments about the general opposition expressed by Public Counsel and others to AmerenUE's request for an FAC?

A. Yes. While I agree that one aspect of the Commission's job is to consider and protect consumer interests where reasonable, consumer advocates who suggest to the Commission that it should only focus on the impact of changes in costs on consumers (e.g., Mr. Trippensee at p. 10, l. 1-6 of his Feb. 5 rebuttal testimony) ignore that the Commission's job is to fairly balance the interests of all stakeholders, including the utility. The Commission itself recognizes that very fact in its own Mission Statement, which includes the following statement: "provide an efficient regulatory process that is responsive to all parties, and perform our duties ethically and professionally." FACs foster just such an efficient regulatory process this is responsive to *all parties.*

Q. Does this conclude your surrebuttal testimony?

A. Yes.

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 DAVID A. SVANDA

STATE OF MICHIGAN)
) ss
COUNTY OF Ingham)

David A. Svanda, being first duly sworn on his oath, states:

1. My name is David A. Svanda. I work in Williamston, MI and I am employed by Ameren Services Company as a consultant.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 22 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.

David A. Svanda

Subscribed and sworn to before me this 26 day of February, 2007.

Notary Public

My commission expires: 2/18/08

IN K. HONG
Notary Public State of Maryland
My Commission Expires February 18, 2008