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 WARREN T. WOOD

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Warren T. Wood, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 6 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal 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.

Warren T. Wood

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

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

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

Susan L. Sundermeyer
Notary Public

My commission expires 9-21-10

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UNION ELECTRIC COMPANY d/b/a AMERENUE

CASE NO. ER-2007-0002

Q. Please state your name and business address.

A. Warren T. Wood, P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am the Director of the Missouri Public Service Commission (Commission) Staff's Utility Operations Division.

Q. Do you have any professional licenses?

A. Yes. I am a registered Professional Engineer in the State of Missouri.

Q. Are you the same Warren T. Wood who filed direct testimony in this case on December 15, 2006 and rebuttal testimony in this case on January 31, 2007 and February 5, 2007?

A. Yes.

Executive Summary

Q. Would you please give a brief summary of your surrebuttal testimony?

A. My surrebuttal testimony provides the Commission Staff's (Staff) position on the following two issues:

1) **Callaway Plant Life:** A sixty-year plant life should be implemented in this case for AmerenUE's Callaway nuclear generating plant. License renewal is now the

industries' practice, ignoring this practice acts as a disincentive for AmerenUE to timely file its license renewal application.

Fuel Adjustment Clause: Staff believes the Commission should not implement a fuel adjustment clause (FAC), or an interim energy charge (IEC), at this time for AmerenUE. If AmerenUE is however granted a FAC by the Commission, it is Staff's position that revenues from off-system sales should flow through the FAC to both reduce the FAC rate and its volatility rather than be shared as has been alternatively proposed.

Callaway Plant Life

Q. Does Staff have any response to testimony about the plant life of AmerenUE's Callaway nuclear plant found in the rebuttal testimony of other parties' witnesses filed in this case?

A. Yes. A sixty-year plant life should be used for Callaway in this case. On page 2, at lines 16 and 17 of Mr. Charles D. Naslund's rebuttal testimony, filed on behalf of AmerenUE on January 31, 2007, he states "[t]here are numerous scenarios that could threaten AmerenUE's ability to extend the license that will not be known until later in Callaway's licensed life." Also, on page 3, at lines 4 through 6 of Mr. Naslund's rebuttal testimony, he states "[n]o studies have been completed to investigate the technical issues or economic issues that would need to be evaluated to make a prudent decision on license extension." Frankly, Staff finds these statements regarding AmerenUE's inability to assess if Callaway is ready for license renewal to be contradictory to what Mr. Naslund said in an interview with KOMU TV Channel 8 following the major infrastructure work recently completed at Callaway. In this interview Mr. Naslund states "after the first 20 years of operations, we've rejuvenated the plant and it's basically ready for the next 20 years **and the 20 beyond that.**" (emphasis added) The entire newsclip from KOMU TV Channel 8 within which Mr. Naslund makes the foregoing statement is attached as Appendix A, and is formatted to be played in a DVD player.

Twenty-year license renewals for nuclear power plants started out as an industry trend several years ago but are now clearly industry practice. In fact, as of December 15, 2006, less than ten of the 104 nuclear power plants with operating licenses in the U.S. that are eligible for license renewal have not either sought, or indicated they will seek, license renewal. Callaway is one of these plants.

Q. Does Staff have any additional concerns regarding the statements made by Mr. Naslund in his rebuttal testimony?

A. Yes. Staff notes that the events Mr. Naslund has listed in his rebuttal testimony relative to license renewal for Callaway could happen within the existing license period. Any requirements AmerenUE has placed on when it can perform the analyses it believes must be performed relative to an application for license renewal are self-imposed. If the plant life of Callaway remains at forty years this allows AmerenUE to determine when it will incur license renewal activity costs and when Callaway plant depreciation rates will change due to a life extension. This acts as an incentive for AmerenUE to defer license renewal activities in order to continue to receive a higher depreciation rate on this significant rate base item. The estimated operating plant life for Callaway should be based on the current operating license (forty years) plus a highly probable twenty-year license renewal (sixty year total life).

Fuel Adjustment Clause

Q. Does Staff have any response to the fuel adjustment clause testimony found in the rebuttal testimony of other parties' witnesses filed in this case?

A. Yes. Some parties have offered alternative FAC proposals involving off-system sales and the matter of rate volatility has been raised. The Commission should not allow AmerenUE to implement a FAC or IEC at this time. If AmerenUE is however granted a FAC by the Commission, it is Staff's position that revenues from off-system sales should flow through the FAC to reduce both the level of the FAC rate and its volatility rather than be shared with AmerenUE shareholders.

My surrebuttal testimony, in part, responds to the rebuttal testimony filed by Mr. Martin J. Lyons, Jr. on behalf of AmerenUE on February 5, 2007. Pages 2 through 4 of Mr. Lyons' rebuttal testimony summarize why AmerenUE believes it is appropriate that AmerenUE be granted a FAC.

Much of Mr. Lyons' rebuttal testimony addresses general U.S. regulatory policy that Staff recognizes as reasons why Senate Bill 179 was enacted and is now available as a regulatory tool for use by the Commission. In addition to AmerenUE not needing a FAC or IEC in this case, AmerenUE's proposed FAC mechanism does not adequately address rate volatility mitigation, a topic the Commission is well acquainted with through numerous prior cases where rate volatility was a concern for customers. As with those cases, the customers served by AmerenUE are sensitive to rate volatility. On page 3, at lines 9 through 11 of the rebuttal testimony of Donald Johnstone, filed on behalf of Noranda Aluminum on February 5, 2007, he states "[a] particular Noranda concern is the possibility for sharp or extraordinary rate increases due to operation of the proposed FAC."

One mechanism to reduce the volatility of FAC rate adjustments, if AmerenUE is granted a FAC by the Commission, is to require that off-system sales revenues flow through the FAC to reduce both the FAC rate and its volatility rather than be shared with AmerenUE shareholders as AmerenUE has proposed. To the degree that a significant correlation exists between variability in fuel expense and variability in off-system sales revenues, these expenses and revenues would tend to dampen FAC rate adjustments. This correlation is noted in Staff witness Dr. Michael S. Proctor's rebuttal testimony. Dr. Proctor's analysis shows that a significant correlation exists between variability in fuel expense and variability in off-system sales revenues. Very simply, lower fuel costs correlate with lower off-system sales revenues and higher fuel costs correlate with higher off-system sales revenues. Thus, increases in fuel costs are mitigated by increases in off-system sales revenues, and decreases in fuel costs correspond with reductions in off-system sales revenues. Therefore, seeking a sharing mechanism for off-system sales, while recognizing increased fuel expenses, would increase the rate volatility of customers under a FAC. Customers would be required to pay higher fuel prices but only receive a portion of the increase in off-system sales. Furthermore, the sharing of off-system sales as proposed by AmerenUE would create many concerns regarding the proper allocation of fuel expense between native load customers and off-system sales.

Q. Is Staff then proposing that off-system sales revenues be passed through the FAC rather than be shared as AmerenUE in particular has proposed?

A. Yes. As addressed in Dr. Proctor's rebuttal testimony, Staff does not view AmerenUE's proposed sharing mechanism as an appropriately structured incentive mechanism.

Q. Has the Commission adopted any standards regarding incentive mechanisms or performance based programs associated with the rules it adopted to implement the electric utility FAC and IEC provisions of RSMo 386.266?

A. Yes. Rule 4 CSR 240-20.090(11)(B) states:

> Any incentive mechanism or performance based program shall be structured to align the interests of the electric utility's customers and shareholders. The anticipated benefits to the electric utility's customers from the incentive or performance based program shall equal or exceed the anticipated costs of the mechanism or program to the electric utility's customers. For this purpose, the cost of an incentive mechanism or performance based program shall include any increase in expense or reduction in revenue credit that increases rates to customers in any time period above what they would be without the incentive mechanism or performance based program.

Q. Does Staff believe this standard has been met by AmerenUE in its proposed off-system sales sharing mechanism?

A. No. I am not aware of any studies or analyses that show that AmerenUE's proposed incentive mechanism is structured such that anticipated benefits to the electric utility's customers from the incentive mechanism equal or exceed the anticipated costs of the mechanism.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.