Exhibit No	
Witness	Maurice Brubaker
Type of Exhibit	Direct Testimony
Issues	Cost of Service, Revenue Allocation, and Rate Design (Part 2 Fuel Adjustment Clause)
Sponsoring Party	Missouri Industrial Energy Consumers
Case No	ER-2008-0318

**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**

Direct Testimony and Schedules of

Maurice Brubaker

on Cost of Service, Revenue Allocation and Rate Design

(Part 2. Fuel Adjustment Clause)

On Behalf of

Missouri Industrial Energy Consumers

BRUBAKER & ASSOCIATES, INC.
ST LOUIS MO 63141-2000

Project 8983
September 11, 2008

BEFORE THE PUBLIC SERVICE COMMISSION
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STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of Maurice Brubaker

Maurice Brubaker, being first duly sworn, on his oath states

1 My name is Maurice Brubaker I am a consultant with Brubaker & Associates, Inc , having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St Louis, Missouri 63141-2000 We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf

2 Attached hereto and made a part hereof for all purposes is my direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No ER-2008-0318

3 I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show

M E Brubaker

Maurice Brubaker

Subscribed and sworn to before me this 10th day of September, 2008

TAMMY S. KLOSSNER
Notary Public - Notary Seal
STATE OF MISSOURI
St Charles County
My Commission Expires: Mar 14, 2011
Commission # 07024862

Tammy S Klossner

Notary Public

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<u>Direct Testimony of Maurice Brubaker</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and president of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my direct testimony on revenue requirement issues.

Q ON WHOSE BEHALF ARE YOU PRESENTING THIS DIRECT TESTIMONY ON FUEL ADJUSTMENT CLAUSE AND RATE DESIGN ISSUES?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers (MIEC). I am simultaneously submitting a separate volume of testimony which addresses cost of service, revenue allocation and rate design other than the fuel adjustment clause, which is the subject of this volume

INTRODUCTION AND SUMMARY

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A The purpose of this testimony is to address fuel adjustment clause (FAC) issues for AmerenUE

Q PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

A My testimony and recommendations may be summarized as follows

1 It is important to have an incentive in a fuel adjustment clause in order to better align the interests of customers and stockholders If any FAC is approved for AmerenUE, it should contain a meaningful incentive

2 AmerenUE has proposed an incentive in the form of a 95% pass-through of changes to customers, with stockholders only retaining 5%

3 AmerenUE's proposed 95% / 5% recovery clause provides weak and inadequate incentives

4 My testimony develops and illustrates the impact of a more meaningful sharing percentage for AmerenUE Specifically, I recommend that the mechanism be 80% to customers and 20% to stockholders if an FAC is adopted

5 An 80% / 20% clause provides much more meaningful incentives to AmerenUE

6 In order to limit financial impact, it is reasonable to cap the annual retention of increases or decreases in net fuel costs to $25 million This equates to approximately ±50 basis points return on equity for AmerenUE

7 My Schedule MEB-FAC-2 contrasts the key cost and financial parameters of AmerenUE with those of Aquila and Empire District Electric Company These comparisons clearly show that variations in fuel cost have a smaller impact on AmerenUE than on the other two utilities, and that a larger retention percentage (i e , 20% instead of 5%) is appropriate for AmerenUE

8 Any FAC for AmerenUE should be structured along the lines proposed by AmerenUE This structure includes all eligible fuel and purchased power expense associated both with native load sales and with off-system sales, and subtracts 100% of the revenues from the off-system sales to determine the base fuel cost

9 This structure of the FAC minimizes the risk of misallocations of costs between customers and stockholders, and allows the full benefit of off-system sales to flow through to customers

ADJUSTMENT FOR CHANGES IN THE LEVEL OF FUEL AND PURCHASED POWER COSTS

Q ARE YOU FAMILIAR WITH AMERENUE'S PROPOSAL TO IMPLEMENT AN FAC?

A Yes, I am AmerenUE proposes to implement an FAC which would track increases and decreases in the level of variable fuel and purchased power expenses, net of off-system sales, allocated to Missouri retail customers, as well as changes in certain fixed cost items

Q PUTTING ASIDE THE QUESTION OF WHETHER OR NOT AMERENUE SHOULD BE ALLOWED TO IMPLEMENT AN FAC, ARE THERE ASPECTS OF ITS PROPOSED FAC TO WHICH YOU TAKE EXCEPTION?

A Yes While I have concerns about some of the items AmerenUE proposes to track through the FAC, my most important issue is with the level of sharing of deviations in net fuel costs between customers and stockholders I believe that the proposal to implement a 95% customer / 5% stockholder sharing mechanism for deviations from base costs does not provide adequate incentives to AmerenUE

AmerenUE's Proposed Sharing Mechanism Does Not Provide Adequate Incentives

Q WHAT HAS AMERENUE PROPOSED FOR THE SHARING MECHANISM?

A Under the structure of AmerenUE's FAC, when the cost of fuel and purchased power that is built into base rates is different than the actual cost of fuel and purchased power experienced in a subsequent period, Missouri retail customers would be responsible for 95% of such variations, while AmerenUE would retain only 5%

Q **HAS THE COMPANY PROVIDED ADEQUATE JUSTIFICATION FOR ITS PROPOSAL TO PASS ALONG TO CUSTOMERS 95% OF THE DIFFERENCE BETWEEN ACTUAL FUEL-RELATED COSTS AND BASE FUEL-RELATED COSTS?**

A No As AmerenUE witness Lyons stated at page 6 of his direct testimony, the 95% / 5% structure is simply based on the outcome of a recent Aquila Networks, Missouri PSC Rate Order (Case No ER-2007-0004), and not an analysis of the incentives present in this mechanism or the impact on the utility's return on equity of the proposed sharing of the deviations in the level of fuel and purchased power costs from the base

Q **WERE YOU INVOLVED IN THE REFERENCED AQUILA NETWORKS RATE PROCEEDING, CASE NO. ER-2007-0004?**

A Yes I was a witness in that proceeding, and addressed fuel and purchased power issues and the appropriate voltage-related loss factors to be included in the FAC Although I did not testify with respect to the cost sharing feature of the FAC, I am familiar with the positions of the parties

Q **IN THE AQUILA CASE, DID THE COMMISSION EXPLAIN WHY IT ADOPTED A 95% COST RECOVERY STRUCTURE?**

A Not explicitly In its Order, the Commission does not reveal how the 95% / 5% sharing formula was derived The Commission did note that it is important for an FAC to have incentives for the utility to manage its fuel and purchased power costs In particular, the Commission said the following at page 53 of its May 17, 2007 Report and Order

> "While the Commission believes Aquila should be given the opportunity to recover its prudently incurred fuel costs, it also agrees with Mr Johnstone and Ms Brockway that 1) after-the-fact prudence reviews alone are insufficient to assure Aquila will continue to take reasonable steps to keep its fuel and purchased power costs down, and 2) the easiest way to ensure a utility retains the incentive to keep fuel and purchased power costs down is to allow less than 100% pass through of those costs Accordingly, it is not appropriate to allow Aquila to pass 100% of its fuel and purchased power costs, above those included in its base rates, through its fuel adjustment clause " [Footnote omitted]

Q WHAT POSITIONS WERE ASSERTED BY THE PARTIES IN THE CASE?

A Aquila contended for 100% pass through of increases and decreases in costs The Industrials and AARP proposed a 50% sharing of deviations in fuel and purchased power costs The Commission found that full cost recovery was not appropriate because it did not provide adequate incentives for the utility to manage its costs It also found that only 50% recovery of deviations was inappropriate because of the large financial exposure the utility would have to increased costs

The 95% / 5% sharing arrangement is not a proposal that was made by any party to the proceeding

Q DID THE COMMISSION ALSO ADOPT THIS 95% / 5% SHARING FORMULA IN THE EMPIRE DISTRICT ELECTRIC COMPANY RATE CASE, CASE NO. ER-2008-0093?

A Yes, it did

Q **IN THAT ORDER, DID THE COMMISSION ANALYZE THE EFFECT OF THE 95% / 5% SHARING MECHANISM, OR EXPLAIN WHY THAT PARTICULAR SHARING WAS APPROPRIATE?**

A No, it did not

Q **HAVE YOU ANALYZED THE IMPACT ON AMERENUE OF ITS PROPOSED 95% / 5% SHARING MECHANISM?**

A Yes This is summarized on Schedule MEB-FAC-1 attached to my testimony

Q **PLEASE EXPLAIN THIS SCHEDULE.**

A The purpose of this schedule is to show the impact that a change in fuel cost has on AmerenUE absent any fuel adjustment, and then to show the impact assuming various percentages of sharing or retention

The base fuel cost in this illustration is $360 million, which is the net fuel cost (fuel and purchased power expense minus revenues from off-system sales) contained in Mr Weiss's updated testimony, and which forms the basis for the base point in the fuel adjustment clause sponsored by Mr Lyons Column 1 shows the percentage change in fuel cost Column 2 shows the dollar change in fuel cost as a result of the percentage change shown in Column 1 Column 3 shows the effect after-tax, in other words, the impact on earnings Column 4 translates the after-tax dollar change into the number of basis points change in return on equity (ROE) to AmerenUE if the change is uncompensated by operation of an FAC Columns 5 through 8 show the impact on AmerenUE's ROE for various percentages of sharing or retention periods Column 5, which illustrates the 5% retention, is the impact and effect under the 95% / 5% proposal that AmerenUE has made Line 1 shows that if fuel costs increase by 5% and the sharing mechanism was 95% / 5%, the impact on ROE would be 1 8 basis points

The other lines on Schedule MEB-FAC-1 present the same information assuming different percentage changes in base fuel cost (It is important to note that while I have presented these as an increase in cost, the illustration would be perfectly symmetrical and the results for a decrease in cost would be the mirror image) Line 6 shows that even at a 35% change in base fuel cost with AmerenUE's proposed 95% / 5% sharing that the impact on AmerenUE's ROE would only be about 13 basis points These are truly very minor impacts and serve to illustrate how weak the price signal and incentives are in the 95% / 5% proposal

Q WHAT OTHER SHARING PERCENTAGES ARE ILLUSTRATED ON YOUR SCHEDULE?

A I have also illustrated retention percentages of 10%, 20% and 25%

An Alternative Sharing Mechanism That Contains Meaningful Incentives Should Be Adopted

Q IF AN FAC IS IMPLEMENTED IN THIS PROCEEDING, SHOULD IT CONTAIN A PROVISION THAT PASSES THROUGH TO CUSTOMERS 95% OF ANY CHANGES IN THE LEVEL OF COSTS?

A No It is important that any adjustment mechanism implemented provide greater incentives for the utility to control costs and take other actions which will reduce the level of charges to customers As developed above, even a fairly significant 35% deviation in the overall cost of fuel and purchased power from the base results in only minor consequences to the utility – either negative or positive, depending upon whether costs go up or costs go down

A sharing mechanism which would provide greater incentives to the utility would be more appropriate

Q WHY IS A MEANINGFUL SHARING MECHANISM APPROPRIATE?

A A meaningful sharing mechanism provides an incentive for the utility to manage and control its costs If costs were simply passed through or if the sharing percentage were minimal (i e , 5%) then the price signal to the utility is very weak The price signal needs to be strong enough to be meaningful

Q CAN A UTILITY REALLY INFLUENCE ITS NET FUEL COSTS?

A Yes There are many factors that influence the level of fuel and purchased power costs Some of these are (1) the skill of the utility in negotiating its fuel and purchased power contracts, (2) the skill of the utility in taking advantage of purchases and sales in the economy market, (3) the skill and diligence of a utility in maintaining its generation facilities and in restoring efficient units to service after unexpected outages, (4) the skill of the utility in planning its maintenance outages, (5) the skill and success of the utility in hedging transactions for its fuel supplies, and (6) the management decisions regarding the type, size and timing of facilities added to the utility's generation portfolio Clearly, there are many factors that influence the ultimate level of fuel costs incurred by a utility Certainly, there are factors beyond the control of the utility, but there are many factors that the utility can manage It is these factors that are targeted by the incentive considerations of my proposed fuel adjustment clause

Q DO YOU HAVE A SPECIFIC PROPOSAL?

A Yes, I do

Q **PLEASE ELABORATE ON YOUR PROPOSAL.**

A I propose an 80% / 20% sharing mechanism This will provide a more meaningful incentive for AmerenUE by having a more reasonable, but moderate, impact from increases in net fuel cost At the same time, to the extent that net fuel costs decrease, AmerenUE has the opportunity to retain a larger percentage with the benefits that are created as a result of the reduction in net fuel cost

Referring again to Schedule MEB-FAC-1, at a 25% change in fuel cost, the impact that a 20% retention would have on AmerenUE's ROE is 36 basis points As expected, this is approximately four times the almost negligible 9 basis point impact of AmerenUE's weak 95% / 5% proposal

Q **WOULD YOU PLACE ANY CAP OR LIMIT ON THE AMOUNT OF RETENTION?**

A Yes In order to protect the utility from two large of a financial impact, I would cap the sharing mechanism if it reached the point where the impact on ROE was approximately 50 basis points It is not unreasonable to have some cap on the level of sharing in order to protect AmerenUE from too large of a financial impact should costs increase dramatically Concern about the financial impact on a utility of a large increase on fuel cost was noted by the Commission in the Aquila case My proposal addresses that concern by explicitly limiting the amount of stockholder exposure Of course, in return for this cap there would be a symmetrical floor on the decrease side to allow customers to receive the majority of the benefits if costs were to decrease significantly This ±50 basis points generally reflects the width of the range of Mr Gorman's return on equity recommendations, so variations of this magnitude should not be viewed as having an excessive financial impact

My sharing mechanism better aligns the interests of the utility with those of its customers By virtue of the sharing mechanism, the utility experiences a negative impact if fuel costs rise, but experiences a positive impact if it is able to control and manage fuel costs to a lower level This incentive would not be present if there were a full pass through, and is barely noticeable in AmerenUE's proposed 95% / 5% sharing mechanism

This alignment of interests makes it more likely that the utility will be concerned about its fuel and purchased power costs, and that it will attempt to improve upon price offers and maintenance practices, as well as take other actions that allow it to achieve greater efficiencies and lower costs

Q PLEASE EXPLAIN WHY YOU ARE MAKING THIS SPECIFIC PROPOSAL.

A I believe it is important that the utility have an incentive to control costs and to perform in a superior manner Allowing the utility to share in the benefits of such performance, and requiring it also to share in the consequences of performance that results in higher costs to customers, gives the utility the proper incentive

Under this form of the fuel clause, if the utility reduces its costs it can reap some of the rewards of its performance Both customers and shareholders are beneficiaries under such circumstances Similar incentives exist under circumstances of increasing costs In other words, it is a symmetrical incentive

Q HOW WOULD YOU TRANSLATE THIS ±50 BASIS POINT LIMITATION INTO THE FAC?

A Based on the rate base proposed by AmerenUE in this case, and its proposed capital structure, a $25 million retention of costs equals $15 million after income taxes, which equates to an impact on return on equity of approximately ±50 basis points

As can be seen from Schedule MEB-FAC-1, line 6 of Column 7, with an 80% / 20% sharing mechanism the 50 basis point deviation occurs at approximately a 35% departure in the level of fuel costs from the base fuel cost

Q WHEN WOULD THIS NUMBER BE DETERMINED?

A It would be determined at the time the Commission issues its order in this case If the Commission chose to adopt my ±50 basis points return on equity, but found a different rate base or capital structure, the dollar equivalent of ±50 basis points can easily be recalculated If the Commission were to determine that ±50 basis points did not provide an adequate incentive, then it could recalculate a number comparable to the $25 million by adopting a different variation in ROE along with the capital structure and rate base that it found appropriate

Q IF THE COMMISSION FINDS A DIFFERENT RETURN ON EQUITY FOR AMERENUE THAN HAS BEEN PROPOSED BY AMERENUE OR ANY OF THE OTHER PARTIES, WOULD THIS NUMBER HAVE TO BE RECALCULATED?

A No This number is completely independent of the specific level of ROE found appropriate It is strictly the amount of dollars that equates to a ±50 basis point impact on equity return Accordingly, the only two variables are rate base and capital structure

Q DOES YOUR METHOD REQUIRE ONGOING MEASUREMENT OF THE ACTUAL RETURN ON EQUITY?

A No There is no ongoing requirement to redetermine actual earned return on equity I have used the illustrative ±50 basis points along with other parameters of AmerenUE's filing in order to establish a reasonable sharing The actual earned ROE in between rate cases is not relevant to this FAC structure or amount of permissible fuel adjustment, and need not be calculated

Q **PLEASE EXPLAIN HOW THIS SHARING MECHANISM WOULD BE ADMINISTRATED IN THE CONTEXT OF THE FUEL FILINGS.**

A The sharing is expressed on an annual basis In the context of the filing frequently proposed by AmerenUE, 33 3% of the sharing would be allocated to each period for purposes of the three annual filings proposed by AmerenUE At the end of each 12-month period, the sharing would be applied on an annual basis and reconciled against the amounts applied on an interim basis

Q **THE COMMISSION HAS PREVIOUSLY APPROVED A 95% / 5% SHARING MECHANISM BOTH FOR AQUILA AND EMPIRE DISTRICT ELECTRIC COMPANY. ARE THERE DIFFERENCES BETWEEN AMERENUE AND THESE OTHER COMPANIES THAT WOULD JUSTIFY A DIFFERENT SHARING PERCENTAGE?**

A Yes The level of net fuel cost as well as the relationship between net fuel cost and ROE is much different for AmerenUE than for Aquila and for Empire

Q **HAVE YOU PREPARED AN ANALYSIS TO SHOW THIS?**

A Yes Please refer to Schedule MEB-FAC-2 This summarizes pertinent statistics from the most recent Aquila and Empire District rate cases and compares them to AmerenUE

Q PLEASE EXPLAIN THIS SCHEDULE.

A Column 1 shows the dollar amount of common equity, or the common equity proportion of rate base Column 2 shows the ROE and Column 3 shows the earnings on equity, obtained by multiplying Column 1 times Column 2 Column 4 shows the base amount of fuel cost from the rate case Column 5 divides the base fuel cost by the common equity to determine that relationship Note that in the case of Aquila and Empire District that base fuel costs range between 35% and 49% of the common equity, whereas for AmerenUE it is only 12% This indicates that fuel costs, and therefore changes in fuel costs, will have a substantially greater impact on Aquila and Empire than is true for AmerenUE

To illustrate this further, Columns 6 and 7 show the impact of retaining 20% of a 35% change in base fuel cost The dollar amount is shown in Column 6 and Column 7 expresses this dollar impact on earnings as a percentage of earnings on common equity Not surprisingly, the impact on Aquila and Empire District is much greater than it is on AmerenUE The impact on earnings for Aquila and Empire District ranges between 16% and 22%, whereas the impact on AmerenUE is about 5%

Q WHAT DO YOU CONCLUDE FROM THIS ANALYSIS?

A I conclude that because of the significant differences in the relationship between change in fuel cost and equity levels that AmerenUE is much less impacted by these changes AmerenUE can, and certainly should, absorb a larger share of changes in fuel costs, as illustrated on Schedule MEB-FAC-1

All Costs of Generation and Purchased Power
(for Both Native Load and Off-System Sales)
Should Be Included in the FAC, and All Revenues
<u>Received from Off-System Sales Should Be Subtracted</u>

Q IF AMERENUE IS ALLOWED TO HAVE A FUEL ADJUSTMENT CLAUSE, HOW SHOULD REVENUES FROM OFF-SYSTEM SALES BE INCORPORATED?

A I believe that the approach taken by AmerenUE is the proper one It includes in the FAC calculation the total cost of fuel and purchased power incurred both for native load generation and for off-system sales Then, the total revenues from off-system sales is subtracted to determine the net fuel cost which is then compared to the base fuel cost to determine whether a fuel adjustment factor or change in the factor is appropriate

Q IS THIS APPROACH SUPERIOR TO INCLUDING ONLY NATIVE LOAD FUEL COST IN THE FUEL ADJUSTMENT CLAUSE AND THEN SEPARATELY DETERMINING THE ESTIMATED MARGIN EARNED ON OFF-SYSTEM SALES?

A I believe it is superior because it avoids the complexities and potential for mis-assignments or mis-allocations of costs between native load sales and off-system sales, and also because it provides for a tracking of the difficult to predict margins from off-system sales

Q PLEASE ELABORATE ON THE COST SEPARATION ISSUES.

A AmerenUE faces over 30 different Midwest Independent System Operator (MISO) charges and adjustments in the operation of its system Given the number of different charges, the complexity of the charges, and the volume of the transactions, attempting to separate for purposes of the FAC the costs associated with off-system sales from the costs associated with serving native load customers would expose retail customers to a significant risk of over-allocation of costs These calculations also would be very difficult to audit with any degree of confidence

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does

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AmerenUE

Analysis of Impact on ROE of Increases/Decreases in Net Fuel Costs as a Function of Retention Percentage ($/Millions)

Line	Percent Change in $360 Million Base Fuel Cost	Dollar Change in Cost[1]	After Tax Impact[2]	Uncompensated Change in ROE (Basis Points)[3]	Basis Point Change in ROE as a Function of Retention Percentage[4]			
					5%	10%	20%	25%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	5%	$18	$11	36	1 8	3 6	7 2	9 0
2	10%	$36	$22	72	3 6	7 2	14 4	18 0
3	20%	$72	$44	144	7 2	14 4	28 8	36 0
4	25%	$90	$55	180	9 0	18 0	36 0	45 0
5	30%	$108	$66	216	10 8	21 6	43 2	54 0
6	35%	$126	$77	259	12 6	25 2	50 4	63 0
7	40%	$144	$88	288	14 4	28 8	57 6	72 0

(1)$360 million x Column (1)
(2)Column (2) ÷ 1 62
(3)Column (3) ÷ $300,000 per basis point
(4)Column (4) x indicated percentage

AmerenUE

AmerenUE Compared to Aquila and Empire District Electric Company
($/Millions)

Line	Utility	Common Equity	Return on on Equity	Earnings on Equity	Base Fuel Cost	Base Fuel Costs as a Percentage of Common Equity	Impact of Retaining 20% of a 35% Change in Base Fuel Cost	
							Amount	Percent of Earnings
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Aquila[1]							
	MPS	$442	10 25%	$45	$156	35%	$7	16%
	L&P	$90	10 25%	$9	$38	42%	$2	22%
2	Empire District[2]	$357	10 80%	$39	$174	49%	$8	21%
3	AmerenUE	$3,033	10 20%	$309	$360	12%	$15	5%

[1]Case No ER-2007-0004
[2]Case No ER-2008-0093