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Issue(s):	Transmission Charges Related to Power for Load and Off-System Sales
Witness:	Jaime Haro
Sponsoring Party:	Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2012-0166

SUR-SURREBUTTAL TESTIMONY

OF

JAIME HARO

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

St. Louis, Missouri
September, 2012

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OF

JAIME HARO

CASE NO. ER-2012-0166

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jaime Haro. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

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

A. I am Director, Asset Management and Trading for Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company").

Q. Are you the same Jaime Haro who filed rebuttal testimony in this case?

A. Yes, I am.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your sur-surrebuttal testimony in this proceeding?

A. The purpose of my testimony is to respond to the recommendations of the Staff and the Missouri Industrial Energy Consumers ("MIEC") to exclude certain MISO[1] transmission service charges that have been included in Factor CPP in the fuel adjustment clause ("FAC") since its inception.

Q. Please summarize your testimony.

A. As discussed further below:

[1] "MISO" stands for Midwest Independent Transmission System Operator, Inc., which is the FERC-approved regional transmission organization ("RTO") in which the Company participates, with the Commission's approval.

- Ameren Missouri's FAC specifically provides that costs (with limited exceptions) reflected in Accounts 555, 565, and 575[2] are to be reflected in the FAC, and this provision has been in the FAC since its inception. As noted, there are certain exclusions from costs in those accounts, but none of those exclusions relate or pertain to the transmission charges that all agree are properly recorded in Account 565. These same transmission charges are necessary for Ameren Missouri to gain the benefits (almost entirely for customers) of access to the MISO energy market. Ameren Missouri should not be at risk of bearing increases in costs it cannot control and must pay as a necessary consequence of its MISO participation, yet if these charges were removed from the FAC as the Staff and the MIEC propose, Ameren Missouri would bear that risk. The risk is real, because these charges are both extremely uncertain and are expected to increase substantially in the coming years.
- Because the transmission costs at issue are directly associated with the power Ameren Missouri takes from the MISO to serve its load (and other power purchases and off-system sales), these transmission charges properly belong in the FAC.
- If for some reason the Commission determined these charges should be handled outside the FAC, it is critical that a transmission cost tracker – essentially like the one recommended by the Staff itself in the 2010 KCP&L

[2] The reference to these accounts is a reference to the Uniform System of Accounts for Electric Utilities, issued by the Federal Energy Regulatory Commission and made applicable to the Company by Missouri Public Service Commission's rule.

GMO case – be adopted. Otherwise, the Company will be at risk for millions of dollars, or even tens of millions of dollars, of uncontrollable cost increases, which as noted it cannot avoid if it is to have access to the beneficial MISO energy market. If those kinds of cost increases are borne by the Company, then the Company will have no choice – as Mr. Baxter has discussed in his testimonies in this case – to take steps to reduce other beneficial expenditures to mitigate the negative impact of it being forced to bear these transmission charges. Such a result is in no one's best interest. I would also note that such a tracker would harm no one – it would still be the case that the Commission would have full authority to refuse to recognize imprudently incurred costs when the tracker balance is taken up for ratemaking treatment consideration in a future rate case.

Q. Please summarize the recommendations made by the Staff and the MIEC in their surrebuttal testimony.

A. The Staff and the MIEC are recommending that the terms of the FAC now be modified to explicitly exclude certain transmission service charges. More specifically, the Staff has multiple recommendations, as follows:

1) That the accounts and subaccounts of costs and revenues that flow through the FAC should be listed to the extent that they currently are not specified on the FAC tariff sheets;

2) That the FAC tariff sheets should list the MISO schedules whose costs are allowed to flow through the FAC;

3) That Ameren Missouri should be required to provide account and subaccount detail in its monthly FAC submissions;

4) That the Commission should, to quote Staff witness Lena Mantle, "not allow [the] cost of building transmission lines [to] flow through the FAC.";

5) That the only transmission charges that should be permitted to be included in the FAC are:

   a. Non-MISO transmission charges that are necessary for the purchase of energy; and

   b. Non-MISO transmission charges to make cost-effective off-system sales; and

6) That only charges assessed pursuant to MISO Schedules 2 and 33 should be included in the FAC.

The MIEC has made two specific recommendations, though the second appears to be redundant. The first recommendation is to exclude from the FAC any transmission-related MISO charges associated with network transmission service for Ameren Missouri's retail load; the second is to require the Company to remove all MISO Schedule 26 and MISO Schedule 26-A charges assessed for Ameren Missouri's retail load (along with any other transmission charges MIEC characterizes as "long-term") from the FAC.

Q. Do the Staff and MIEC recommendations reflect a "clarification" or are they outright changes to the FAC?

A. Although Staff and MIEC characterize their changes as clarifications, they are not clarifications. To the contrary, they are outright changes to the FAC that has operated since March 1, 2009.

Q. Please explain.

A. Boiled down to the most basic level, the primary impact of their recommendations is to expand the exclusionary language in factor CPP of the FAC tariff to now exclude charges under even more MISO schedules[3] than have been specified for exclusion since the inception of the FAC. The exclusions in the FAC at this time are very explicit –identified by specific MISO tariff schedules, none of which include the charges at issue here. Those schedules are for either MISO administrative charges or recovery of local balancing authority cost recovery incurred as a result of implementing the MISO markets and services.

Q. Would Ameren Missouri agree to accept any of these recommendations?

A. Yes, Ameren Missouri would not oppose the adoption of certain Staff proposals. The Company would agree to specify the FERC accounts and subaccounts of costs and revenues that flow through the FAC.[4] The Company already provides the account and (if applicable) sub-account details in its monthly FAC reports.

While we believe it to be unnecessary, Ameren Missouri also would not object to listing the MISO schedules whose charges are to be included in the FAC. If this is deemed necessary, it would be imperative to do so in every affected section of the tariff, including factors CPP and OSSR, in order to avoid confusion.

Ameren Missouri is not willing to agree to either the Staff's or the MIEC's other recommendations.

[3] Charges to MISO participants like the Company are assessed by MISO under various MISO "schedules." These schedules are included in MISO's FERC-approved tariff.

[4] Given that the FERC could change account designations, it is important that the FAC tariff accommodate such potential changes. The Company recommended language to protect against this issue in the FAC tariff sheet submitted with Company witness Wilbon L. Cooper's rebuttal testimony, and the Staff has agreed to that

III. INCLUSION OF THE TRANSMISSION CHARGES IN THE FAC

Q. Is it appropriate to include MISO transmission service charges in the FAC?

A. Yes it is. As I discussed in my rebuttal testimony, these are charges assessed by the MISO because of the load we serve from the MISO market. The real benefits of being in MISO are that we have access to a transparent energy market where we can acquire power to serve our load and sell power off-system. These are charges that we can't avoid because they are part and parcel of being in MISO (and having access to that market); we have essentially no control over them. As I discuss further below, the impact of the Staff's and MIEC's recommendations, if they were adopted, would be to expose the Company to large cost increases over which the Company has essentially no control that the Company must pay in order to gain the benefits of being in the MISO market. Staff’s and MIEC’s positions effectively are that customers should reap the benefit of MISO participation but avoid the uncertainty of the costs of MISO participation and, in this case, avoid what we expect to be substantial increases in the cost of obtaining the benefits that participation brings to customers.

Q, Does it make sense to divorce the charges associated with the power that serves retail load (or power sold as off-system sales) from the costs of the megawatt-hours themselves?

A. No, it does not, as the Commission's FAC rules recognize. 4 CSR 240-20.090(1)(B) defines the components that are properly covered by FACs: “(f)uel and

language so long as certain notifications are made by the Company (see Ms. Mantle's surrebuttal testimony). The Company is agreeable to Ms. Mantle's notification provision.

purchased power costs means prudently incurred and used fuel and purchased power costs, including transportation costs." For coal, transportation charges would be for a railcar, barge, or truck; for gas, they would be for pipeline transportation; for power, they are for transmission.

Q. Are there other provisions in the Commission's FAC rules that provide guidance on this issue?

A. Yes. 4 CSR 240-20.090(2)(C) contains the following provision:

> In determining which cost components to include in a RAM, the commission will consider, but is not limited to only considering, the magnitude of the costs, the ability of the utility to manage the costs, the volatility of the cost component and the incentive provided to the utility as a result of the inclusion or exclusion of the cost component.

Q. How does this rule provide guidance?

A. This rule provides guidance because the factors contained in it also support inclusion of these charges in the FAC. More specifically:

Magnitude of costs. The table below clearly illustrates that both the initial value (that which would otherwise be included in base rates if not included in the net base fuel costs against which changes are tracked in the FAC), and the difference between this base level and projected annual amounts are material. (The projected amounts referenced below represent MISO charges only in Account 565 and are net of MISO administrative charges, which are specifically excluded from the FAC). Charges for transmission service on the Entergy system related to getting power we take from MISO to serve our load located in the Missouri bootheel represent an additional $1.2 million per year. We have not attempted to project any changes in transmission charges from Entergy related to the bootheel load or any transmission provider (MISO and non-MISO) which would be incurred to facilitate off-system sales or purchases, although there could be changes in those charges as well.

Transmission Costs (other than MISO
Sch. 10, 16, 17 & 24) recorded in Acct. 565

As Filed 12 mo end 9/30/11	$ 15,806,043
True UP 12 mo end 7/31/12	$ 25,882,203
Projected 2013	$ 29,308,822
Projected 2014	$ 35,908,822
Projected 2015	$ 44,015,822
Projected 2016	$ 52,932,822

If these charges are not included in the determination of NBFC[5], they would be included in the determination of base rates, in which case the Company's rates would have been set assuming a materially lower level of costs than are expected to actually be incurred. While in theory, if one assumed that the rate-setting process was symmetrical, it is possible that other cost decreases or revenue increases could offset these higher costs, as Ameren Missouri witness Warner Baxter discusses in his testimonies, there is no reason to believe that this would be the case. In short, removing these costs from the FAC would be tantamount to forcing the Company to absorb higher costs that the Company is incurring to gain the benefits of MISO participation.

The ability of the utility to manage the costs. Ameren Missouri does not have any ability to materially manage these costs, absent removing its load from the MISO and ceasing making off-system sales to entities outside of the MISO. These costs are unavoidable charges which are assessed as a direct result of Ameren Missouri serving its load requirement in the MISO (and for being connected to the Entergy System in order to serve the portion of its load located in the Missouri bootheel) or as a result of making off-system sales to entities

[5] NBFC is a defined term in the FAC tariff, and is the base amount against which costs and revenue changes in the FAC are tracked.

outside of the MISO. The billing determinants are directly related to the amount of load served on these systems, and they are not a factor within our control. As indicated elsewhere, Ameren Missouri is proposing to include in the FAC revenues it would receive under any MISO Schedule where transmission charges are also included. This leaves only MISO charges based on transmission of others and the charges associated with network service on the Entergy system required to serve Ameren Missouri's load located in the bootheel of the state. While Ameren Missouri participates in the MISO Transmission Expansion Plan ("MTEP") and Multi-Value Project ("MVP") processes and other MISO committees and work groups, (as does the Commission and the Organization of MISO States), we certainly do not control these processes (we have a single vote in the MISO), nor can we control the activities and costs of other transmission owners – including Entergy. As a result, these costs obviously are not within our ability to control.

The volatility of the cost component. As indicated in the table above, these charges are not static, and the projected increases year-over-year are substantial.

The incentive provided to the utility as a result of the inclusion or exclusion of the cost component. Given that these charges are unavoidable and Ameren Missouri does not have the ability to control the billing determinants giving rise to the charges, their exclusion from the FAC cannot possibly provide an incentive to control this cost. In fact, as noted below, their exclusion from the FAC would actually provide a significant financial disincentive to continue to make off-system sales to entities outside of the MISO because the Company would bear 100% of the incremental MISO transmission costs associated with such a sale and would only receive 5% of the benefit of the sale. As to any costs included in these schedules based on Ameren Missouri-owned transmission, as I note above, we are proposing to include the associated revenue.

Q. **Does the current FAC tariff prohibit the inclusion of transmission related charges?**

A. No it does not. To the contrary, it has explicit language which shows that such charges are included.

> *CPP = Costs of purchased power reflected in FERC Account Numbers 555, 565, and 575,* ***<u>excluding MISO administrative fees arising under MISO Schedules 10, 16, 17, and 24</u>****, and excluding capacity charges for contracts with terms in excess of one (1) year, incurred to support sales to all Missouri retail customers and Off-System Sales allocated to Missouri retail electric operations. (emphasis in bold).*

Q. Why have you emphasized the MISO Schedules which are *excluded* from his definition?

A. For two reasons. First, the transmission charges at issue are not administrative fees and do not arise under the excluded schedules, which means by the express terms of the tariff they are included. Second, the administrative charges that are excluded (which I highlighted) – charges under MISO Schedules 10, 16, 17 and 24 – are specifically excluded by name. While Ms. Mantle is now proposing to replace this language with language that specifically states what schedules are included, there is no question that the existing tariff language includes all costs in FERC Account Numbers 555, 565 and 575 other than those explicitly excluded. The tariff's very explicit exclusions do not include the MISO Schedules 7, 8, 26 or 26-A, nor do they include all of the schedules in Entergy's tariff for which we are invoiced. Ms. Mantle's proposals are not mere housekeeping. They are substantive changes to the FAC tariff which seek to remove charges which have previously been included.

Q. MIEC witness James Dauphinais points to the exclusion in the tariff language for "capacity" charges associated with contracts with terms in excess of one year, and then argues that any transmission service charges associated with Ameren Missouri's network service must necessarily be excluded, as they are capacity charges associated with a long-term contract. How do you respond to his assertion?

A. Mr. Dauphinais' suggestion is incorrect. "Capacity" is commonly understood – in the markets and in Missouri regulation – as generation capacity. The Commission's rules, most notably 4 CSR 240-3.190(F), require that the Company report its "capacity purchases," which for decades has meant the purchase of *generation* capacity. The Commission has never required that "transmission capacity purchases" be reported. The Commission has had occasion once to discuss what "capacity" means in an FAC tariff. In the case where the first FAC for a Missouri electric utility was approved for Aquila, the Commission specifically addressed essentially the same provision in Aquila's (now KCP&L-GMO's) FAC. In the Report and Order in that case the following discussion appears:

> Staff witness Cary Featherstone argues only variable fuel and purchased power costs, including variable transportation costs, should be included in a fuel adjustment clause. Specifically, Mr. Featherstone contends it is inappropriate to include demand charges for any capacity contracts, regardless of their duration, for two reasons. First, Mr. Featherstone points to the fact that demand charges are fixed costs to reserve capacity, and as such are more like plant investment cost than fuel or purchased power cost. Second, Staff opposes Aquila's use of short-term contracts *to meet its growing capacity needs*. Staff argues that allowing Aquila to pass on this type of cost would allow Aquila to meet its growing load requirements through short-term capacity, thus *creating another disincentive for it to build generating units* and placing all the risk of future fuel and purchased power cost increases on its customers. [footnote admitted]. Mr. Featherstone's analysis is persuasive (emphasis added).

There is no question that the discussion was in the context of when *generating* capacity ought to be in the FAC. The Commission, in adopting the one-year demarcation for contracts for generating capacity that the Staff was recommending, discussed this in terms of *"demand* charges related to purchased power contracts with terms of one year . . ." (emphasis added). Transmission service charges have nothing to do with demand. Mr. Dauphinais has provided absolutely no evidence that the reference to "capacity charges" in the Company's FAC tariff refers to transmission, and as demonstrated above he is wrong. To borrow one of the MIEC's favorite quotes – just because you call a dog a duck won't make it quack.

Q. You noted that capacity means generation capacity in the markets. What does it mean in MISO?

A. In the MISO currently, capacity charges represent amounts paid for the purchase of planning resource credits to satisfy our generating capacity obligation under MISO's *generation* resource adequacy requirements.

Q. Ms. Mantle repeatedly refers to the transmission service charges she seeks to exclude as "costs of building transmission lines." Is this a proper characterization?

A. No it is not. Charges assessed by MISO because of the load we serve are the costs we pay to MISO for service. It is no more a proper characterization of these charges as the "cost of building a line" than it is to call capacity or energy charges the "costs of building a power plant;" to call rail contract charges paid to move coal the "costs of building a railroad;" to call coal contract charges the "costs of building a coal mine;" or to call the cost for a bus ticket "the cost of manufacturing a bus." These charges represent unavoidable transmission service charges which are required in order to participate in the MISO and to acquire and transport power to our customers.

Q. Doesn't Schedule 26 include charges associated with facilities owned and constructed by Ameren Missouri itself?

A. Yes, it does. Ameren Missouri also receives Schedule 26 revenues, and, as noted above, we believe that including these revenues in the determination of net fuel costs under the FAC (as opposed to the current practice of only accounting for them in the determination of the initial revenue requirement) would be an appropriate change to the FAC tariff – provided that all charges under the MISO Schedules (with the exception those already excluded) continue to be included in the determination as well.

Q. What would the effect be of including such revenues in the FAC?

A. The simple answer is that any additional revenue received between rate cases would flow through to customers (at the applicable sharing percentage), just as any additional costs incurred between rate cases would also flow through (at the applicable sharing percentage). Given that Ameren Missouri would be including all of the revenue, but only incurring a portion of the charges, this would result in a net credit to customers related to our own projects.

Q. Mr. Dauphinais' attempts to dismiss your testimony regarding the inequity of removing MISO transmission costs while allowing the benefit of MISO participation to continue to be included in the FAC by noting "MISO Schedule 26 and MISO Schedule 26-A charges in particular are associated with regional transmission cost allocation to which the Company may have been ultimately subject to under FERC Order No. 1000 even if the Company did not participate in MISO." How do you respond?

A. Mr. Dauphinais fails to point out that there is at this time no regional planning process, let alone any actual cost allocation for entities outside of an RTO today as a result of FERC Order 1000, and he also fails to point out that it is unlikely that there will be for some period of time; certainly not by the time that the rates from this proceeding go into effect, and unlikely for at least the first two years that they are in effect. The benefits of our participation in MISO, however, exist today and are on-going. I would also note that we do not have clarity on how the regional cost allocation process for entities outside of the MISO or other RTOs will work, but we do know with certainty that as long as our load is within the MISO, we will be unable to avoid these transmission charges.

Q. You noted previously that Ms. Mantle's recommendations are internally inconsistent. How are they inconsistent?

A. They are internally inconsistent in three specific ways.

The most obvious is that on the one hand she is saying that costs associated with off-system sales should be passed through the FAC, and then on the other hand she is saying that MISO costs which are unarguably associated with sales to entities outside of MISO should not be included in the FAC.

Secondly, Ms. Mantle has recommended that only *non*-MISO transmission charges associated with purchased power and sales flow through the FAC, and then almost immediately afterwards recommended that charges for two specific *MISO* Schedules be included in the FAC.

Third, she recommends including charges for MISO Schedules 02 and 33, which are both charges based upon the costs generators incur to stand by to provide a service to *support the use of the transmission system*, while arguing against the inclusion of charges associated with the actual use of *this same transmission system*. This is even more illogical when one understands that the volumetric billing determinants for Schedules 02 and 33 are the same as for schedules that Ms. Mantle recommends excluding from the FAC – namely our network load.

Q. You have noted that Ms. Mantle has recommended that only charges under MISO Schedules 02 and 33 should be included in the FAC. Is it reasonable to exclude charges for all other MISO schedules from the FAC?

A. No it is not. Since its inception, the FAC tariff has provided that costs reflected in FERC Account 565, other than those specifically excluded by the existing tariff, are properly chargeable through the FAC under Factor CPP. Her surrebuttal testimony now makes clear that she opposes this treatment for virtually all MISO charges in Account 565, and not just those few currently excluded by the FAC. Her newly proposed exclusions include those that are fundamentally required as a function of Ameren Missouri acquiring resources under the MISO tariff to serve its load obligations; i.e., that are fundamentally required for Ameren Missouri to gain the benefits of participating in the MISO market, the vast majority of which flow to customers in the FAC. Additionally, her proposal would result in the exclusion of the cost of transmission service which is required to export capacity and energy to parties outside of the MISO, thus penalizing the Company by forcing it to bear costs associated with entering into power purchase and sale transactions – which again, benefit customers.

Q. You have stated that these charges are required as a function of Ameren Missouri acquiring resources under the MISO tariff to serve its load obligations. Where does Ameren Missouri obtain the energy to serve its load in MISO?

A. Ameren Missouri purchases 100% of its load requirement from the MISO itself. Similarly, all of our generation is sold to the MISO and settled at the applicable generation nodal price.

Think of the MISO market as a large pool of water. In that analogy, all of the water that we produce/sell is poured into the pool, and the entire requirement to serve our load is drawn/bought from the pool. Our load does not draw from our production facilities directly.

Q. Where does Ameren Missouri obtain the energy to serve its Bootheel load connected to Entergy's system?

A. This energy is also obtained/purchased from the MISO itself and subsequently transported to the Entergy system.

Q. Is Ameren Missouri invoiced separately by the MISO for its energy purchases for load and its energy sales by generation?

A. Yes, including that which is transported to serve our Bootheel load. While the amount payable to/from the MISO represents the net settlement of these two factors, the invoice reflects a charge for 100% of the purchases made to serve the Company's load from the MISO market and a credit for 100% of the sales made from its generation to the MISO market.

Q. Are the charges which Staff and the MIEC seek to exclude from the FAC required to enable Ameren Missouri to serve its load in the MISO?

A. With the exception of charges under MISO Schedules 7 and 8 (which Ameren Missouri does not generally utilize to serve its load in the MISO), yes they are. These are unavoidable charges which are incurred by virtue of Ameren Missouri serving load within the MISO, either through energy acquired directly from the MISO or that imported from outside of the MISO. As long as Ameren Missouri has load in the MISO and utilizes transmission service governed by the MISO tariff, it must pay these charges.

Q. Does this suggest that Ameren Missouri should leave the MISO to avoid these charges?

A. No it certainly does not. More importantly, Ameren Missouri's continued participation in the MISO for the near term has already been approved by the Commission in Case No. EO-2011-0128, and it will be further reviewed in the next proceeding (to be initiated in 2014) where its continued MISO participation is examined. That proceeding will include an extensive analysis on the costs and benefits of continued participation, and the Commission will make its determination in that proceeding based upon the evidence presented therein.

For now, Ameren Missouri is a member of MISO and by virtue of the Stipulation and Agreement from Case No. EO-2011-0128 approved by the Commission several months ago, it has been determined that its membership for a term through early 2016 is prudent. As a MISO member, the Company's load settles in the MISO market and the Company is subject to the provisions of the MISO tariff as a condition of serving our load – a tariff which includes these unavoidable charges. As such, these charges – including those for Schedules 26 and 26-A – which we may incur are absolutely a transmission cost necessary to provide energy to serve the Company's customers.

Q. Do the charges associated with network service on the Entergy system required to serve the Bootheel load that you briefly discussed in your rebuttal testimony also represent a transmission cost necessary to serve Ameren Missouri's load requirements?

A. Yes. These are also unavoidable charges which are incurred by virtue of Ameren Missouri transporting energy it acquires from the MISO to our load connected to Entergy's system, and they too are reflected in Account 565.

Q. Does this suggest that Ameren Missouri should disconnect its load from the Entergy system?

A. No it does not. Furthermore, I am not aware of any evidence, study or analysis which shows that it would be more cost effective to construct the duplicative transmission facilities necessary to avoid taking network service from Entergy to serve this load.

Q. When was Schedule 26 first effective?

A. As I earlier noted, this schedule was first effective February 6, 2006, and charges for it first began to appear on invoices in March 2007.

Q. What is the significance of those dates?

A. They show that Schedule 26 was in place well before our original FAC was developed (proposed April 2008), or made effective (March 1, 2009). If it was not to be included in the FAC, it is reasonable to believe that it too would have been specifically excluded along with Schedules 10, 16, 17 and 24.

Q. When did Ameren Missouri begin paying Entergy for network service associated with the Bootheel load?

A. Ameren Missouri became subject to those charges beginning October 1, 2009.

Q. What is the significance of that date?

A. It shows that these charges were in place during the past two rate cases and during most of the approximately three and one-half year operation of the Company's FAC.

If they were not to be included in the FAC, it is reasonable to believe that they too would have been excluded in those proceedings. The charges were always booked to Account 565, and MIEC and Staff have always agreed that charges in Account 565 were to be included in NBFC and in the FAC.

Q. What would the impact be of changing the language to now exclude these unavoidable transmission charges?

A. Changing the language to now exclude these charges would result in Ameren Missouri being prohibited from recovering millions of dollars of prudently incurred costs in between rate cases and it would negatively impact our ability to have a reasonable opportunity to earn a fair rate of return because of charges we cannot avoid and which in fact we have to pay to gain the benefits of MISO membership for our customers.

Q. Do these charges vary in direct relationship with Ameren Missouri's load requirements?

A. Yes. The billing determinants used to determine the charges are a direct function of our load requirements.

Q. Your answers above dealt with the exclusion of transmission service charges to serve load and to enable off-system sales to entities outside of MISO. Has Ms. Mantle limited her recommendation to include specific MISO schedules to only those for transmission service?

A. No. she has not. She simply has stated that the only charges for MISO schedules that should be included in the FAC are those for Schedules 02 and 03.

Q. Are there MISO schedules which her testimony would exclude but which cover something other than transmission service and thus have nothing to do with the issue she has raised in this case?

A. Yes. MISO Schedule 03 - Regulating Reserve, Schedule 05 - Spinning Reserve and Schedule 06 - Supplemental Reserve are ancillary service schedules.

Q. Why do you think she overlooked including them in the FAC?

A. Because she assumed a data request the Staff asked the Company asked for all MISO schedules whose costs flow through the FAC, but it did not. Rather, it asked for MISO schedules where there were charges for transmission service. Ms. Mantle misstated the nature of this data request in her surrebuttal testimony. Since these three schedules are ancillary service charges, and not transmission service charges, they were not included in that response. If Staff wanted to know what MISO Schedules were included in the FAC, Staff should have asked that question, which they did not. I would also note that our monthly FAC reports contain a specific listing of the FERC accounts charges from which are included in the FAC, and specifically identify any and all MISO schedules charges from which are included in the FAC. All the Staff had to do was look at the reports we give them to see this information.

Q. Have charges for these three schedules been included in the determination of NBFC before?

A. Absolutely – and so have the revenues we receive for these same schedules. This has been true since the inception of the FAC, and there has been no evidence presented in this proceeding to justify treating them any differently going forward. It would be even more egregious going forward if Ms. Mantle is now suggesting that we should exclude the costs for these three schedules from the determination of factor CPP, but somehow leave the revenues received for these three schedules in the determination of factor OSSR, yet her recommendation would have that effect if it were adopted.

Q. You previously stated that her proposal would result in the exclusion of the cost of transmission service which is required to export capacity and energy to parties outside of the MISO, thus providing a substantial disincentive to enter into such transactions. Please expand upon this answer.

A. As MIEC witness Dauphinais points out (Dauphinais surrebuttal testimony p. 11, fn 4), "(t)he Company must take through and out transmission service under MISO Schedule 7 or 8 in order to make off-system sales to these entities." The entities being referred to are those not located within MISO. Later, when asked if he objects to including Schedule 26 and 26-A charges associated with short-term MISO Schedules 7 and 8 transmission service, Mr. Dauphinais states "Provided they are prudently incurred, those particular MISO Schedule 26 and 26-A charges are appropriately recoverable through the Company's FAC. They are incremental charges directly associated with the Company's fuel and purchased power costs less off-system sales revenues." Mr. Dauphinais clearly understands that off-system sales to entities outside of the MISO cannot occur without the purchase of transmission service from the MISO to export the power and energy. The costs associated with these exports only exist to support these off-system sales transactions.

A plain reading of Ms. Mantle's initial proposed FAC tariff change (from her direct testimony) – "Only transmission costs incurred for the purchase and sale of electricity be included," – would seemingly indicate that she also understood this simple market reality and that it would be inappropriate to exclude a cost which is unambiguously a transmission cost incurred for the sale of electricity. In her surrebuttal testimony, she reiterated Staff's recommendation that "only the transmission associated with off-system sales and purchased power be allowed to pass through the FAC." However, her recommendations on page 6 and page 7 of her surrebuttal testimony are completely inconsistent with those prior statements, and if adopted would ignore this reality and prohibit the pass-through of these costs which are required to make such off-system sales.

Q. What would the impact of Ms. Mantle's proposal be on Ameren Missouri's off-system sales?

A. Simply put, her proposal, if adopted, would provide a disincentive to make off-system sales to entities outside of the MISO as it would penalize the Company by forcing it to bear these costs while giving customers the benefit of those sales.

Q. Has the Staff previously argued against including transmission charges in the FAC?

A. Yes, as outlined in the Company's motion to strike Ms. Mantle's and Mr. Dauphinais' surrebuttal testimony on this topic, the Staff previously opposed including transmission service charges in the FAC in Case No. ER-2010-0356, but did support including them in a transmission cost and revenue tracker.

Q. Please elaborate.

A. As described in the surrebuttal testimony of Staff Witness Daniel Beck in that case, the Staff supported the creation of a transmission cost and revenue tracker, though they opposed the methodology that KCP&L-GMO had proposed because it did not account for transmission revenues. I discuss the transmission tracker issue in more detail below.

IV. TRANSMISSION COST AND REVENUE TRACKER

Q. If the Commission were to determine that it was not appropriate to include charges for transmission service in the FAC, would it be appropriate to account for these charges in a transmission cost and revenue tracker mechanism?

A. Yes. While I continue to maintain that it is appropriate for these charges to be included in the determination of the FAC as they have been from day one of the FAC's operation, should the Commission determine otherwise, it would indeed be appropriate. In fact, it would be critical to account for them in a transmission tracker mechanism. I would also propose to include revenues received under those same MISO schedules in the tracker, which is what the Staff had suggested for KCP&L-GMO when the Staff proposed a transmission cost and revenue tracker in that case.

Q. Why would it be appropriate to account for such charges in a transmission cost and revenue tracker mechanism if the Commission were to determine that these charges should not be included in the determination of the FAC?

A. For the very reasons recognized by the Staff itself in the prior KCPL-GMO case. In that case, the Staff testified as follows:

> Staff recommends the Company be authorized to use a transmission expense and revenue tracker due to the historical growth in and current high level of transmission expenses, the uncertainty in the levels of future transmission expenses, and because the Company has less control of the level of transmission expenses the SPP assigns to it than the Company has over most of its other expenses.[6]

Of course Ameren Missouri is in MISO and not Southwest Power Pool ("SPP"), however, like KCPL-GMO, we have much less control over the level of transmission

[6] Ex. GMO 210, Staff Revenue Requirement Cost of Service Report, Case No. ER-2010-0356, p. 161, l. 16-20. Staff also recommended that the regulatory asset or liability such a tracker would produce be amortized in the next rate case over a term of five years. The Company would agree.

expenses the MISO charges to us than we have over most of our other expenses. And there is an even more compelling reason why a tracker should be implemented if these charges do not remain in the FAC: as I already noted, these charges are assessed because we participate in the MISO and obtain the market-related benefits that participation provides for our customers. There was (and still is) no such market in SPP, yet the Staff supported a tracker for KCP&L-GMO so long as the transmission revenues were also included.

Q. Was this recommendation made for charges similar to those reflected in Schedules 26 and 26-A?

A. Yes. Staff describes the charges it is talking about at pages 160-161 of Exhibit GMO 210 from the KCPL-GMO case. It is apparent that the Staff was supporting the use of a tracker for charges similar to those assessed by the MISO under Schedules 26 and 26-A; that is, for transmission charges driven by transmission to be built within the SPP's footprint for projects that would be subject to cost allocation across the region. Those are the same types of projects for which MISO imposes transmission service charges to Ameren Missouri. The Staff did suggest certain reporting requirements for transmission costs of the type covered by Schedule 26 (Company-owned transmission), and the Company would not object to such requirements.[7]

Q. You earlier provided some estimates of these kinds of charges. Are those estimates certain?

A. No, they are not. Just as the Staff noted in the KCP&L-GMO case with regard to analogous SPP charges, there is uncertainty about what the level of the charges (and revenues) will be. As Mr. Beck testified: "Transmission project cost estimate may also

[7] Ex. GMO 210, Case No. ER-2010-0356, p. 163, l. 5-13.

differ significantly from the final cost of these projects when built, increasing the uncertainty of the future level of the Company's transmission expenses."[8] That statement applies with equal force to MISO transmission charges. We can't say with any high level of certainty whether the transmission charge cost estimates we have (which are based on MISO's projections for transmission costs that are impacted by projects the MISO has approved) will turn out to be accurate. I would note that these charges have been growing in recent years, and as the table above demonstrates they are expected to continue to grow at an even faster pace. I would also note that while there is a lot of uncertainty regarding exactly how much they will grow, there is almost no uncertainty about the fact that they will grow significantly given the amount of new transmission in the region that has been approved by the MISO. In MISO's MTEP 11,[9] there are approximately $6 billion of transmission projects that have been approved and which are allocated regionally. Transmission service charges driven by those projects will ultimately be charged to MISO participants in the region, including the Company. The current estimate of what those charges will be is, as noted, set forth in the table above.

Q. What characteristics should such a tracker have?

A. This tracker should be for both transmission costs and revenues, resulting in the creation of a regulatory asset or liability to reflect the difference between the base level of net costs/revenues included in the revenue requirement in this case and the actual net costs/revenues incurred. Ameren Missouri would then recommend in its next rate case that this regulatory asset/liability balance should be amortized over five years, and that the

[8] Ex. GMO 210, p. 162, l. 10-12, Case No. ER-2010-0356.
[9] MISO Transmission Expansion Plan 2011.

unamortized balance should be included in rate base. This is essentially the same recommendation the Staff made in the KCP&L-GMO case discussed earlier:

> Staff proposes GMO should track its actual transmission expenses [separately for GMO and L& P] . . . and record any annual excess amount above the transmission expenses amount included in the revenue requirement used in setting rates in this proceeding as a regulatory asset (account 182) and any annual shortfall below the transmission expenses amount in rates in this proceeding as a regulatory liability (account 254) . . .. Staff recommends the regulatory asset or regulatory liability be amortized over five years in the Company's next rate proceeding, with the unamortized balance included in rate base.[10]

More specifically for Ameren Missouri, the tracker should:

> include all transmission service charges appearing in FERC Account 565 invoiced in association with Ameren Missouri's network transmission service reservations for its native load (whether on the MISO or Entergy systems). Similarly, such tracker would also include all transmission service revenues appearing in FERC Account 456.1 received in association with Ameren Missouri's network transmission service reservation for its native load. All other transmission service charges appearing in FERC Account 565 and all other revenues appearing in FERC Account 456.1, other than those revenues received for (1) distribution facilities or (2) network services charges for entities other than Ameren Missouri itself, would be included in the FAC (and included in the determination of NBFC). Charges for MISO Schedules 10, 16, 17 & 24 would not be included in either the tracker or the FAC.[11]

I do agree that whatever the determination the Commission makes regarding the treatment of those transmission service charges at issue, both the charges and the revenues should be treated the same. If the charges are in the FAC, the revenues should be in the FAC. If they are in a tracker, both should be in a tracker, and if the charges are neither in the

[10] Ex. GMO 210, p. 166, l. 3-12, Case No. EO-2010-0356.
[11] If applicable, there would also be an adjustment to the sum tracked consistent with paragraph 10.j of the Non-Unanimous Stipulation and Agreement approved by the Commission in Case No. EO-2011-0128, as slightly modified by the Commission's Report and Order in that case, which requires that any abandoned plant recovery also be accounted for in the potential adjustment reflected in that paragraph of that Stipulation.

FAC nor in a tracker, then the revenues should not be in either as well. To do otherwise would be unjust and unreasonable.

Q. Do you have anything to add?

A. Only to reiterate what I said toward the beginning of my testimony. If these costs (and revenues) are not included in the FAC as before, or in a transmission cost and revenue tracker, the Company will be at risk for millions of dollars of uncontrollable cost increases which as noted it cannot avoid if it is to have access to the beneficial MISO energy market. If those kinds of cost increases are borne by the Company then the Company will have no choice – as Mr. Baxter has discussed in his testimonies in this case – except to take steps to reduce other beneficial expenditures to mitigate the negative impact of it being forced to bear these transmission charges. Such a result is in no one's best interest. I would also note that such a tracker would harm no one – it would still be the case that the Commission would have full authority to refuse to recognize imprudently incurred costs when the tracker balance is taken up for ratemaking treatment consideration in a future rate case.

Q. Does this conclude your sur-surrebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company	)	
d/b/a Ameren Missouri's Tariffs to	)	Case No. ER-2012-0166
Increase Its Revenues for Electric Service.	)	

AFFIDAVIT OF JAIME HARO

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

Jaime Haro, being first duly sworn on his oath, states:

1. My name is Jaime Haro. I work in the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a Ameren Missouri as Director, Asset Management and Trading.

2. Attached hereto and made a part hereof for all purposes is my sur-surrebuttal testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 27 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.

Jaime Haro

Subscribed and sworn to before me this 19th day of September, 2012.

Julie Donohue
Notary Public

My commission expires:

Julie Donohue - Notary Public
Notary Seal, State of
Missouri - St. Louis City
Commission #09753418
My Commission Expires 2/17/2013