Exhibit No.:
Witness: Maurice Brubaker
Type of Exhibit: Direct Testimony
Issues: Revenue Requirement Issues and Fuel Adjustment Clause Concepts
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 of

Maurice Brubaker

Revenue Requirement Issues and
Fuel Adjustment Clause Concepts

On behalf of

Missouri Industrial Energy Consumers

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

Project 8983
August 28, 2008

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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 which was 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 is true and correct and that it shows the matters and things that it purports to show.

Maurice Brubaker

Subscribed and sworn to before me this 27th day of August 2008.

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

Notary Public

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Direct Testimony of Maurice Brubaker

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 testimony.

Introduction

Q ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers (MIEC). Member companies purchase substantial quantities of electricity from AmerenUE, principally under the Large Primary Service (LPS) Rate Schedule, Rate 11.

Revenue Requirement

Q DO YOU BELIEVE THAT AMERENUE HAS JUSTIFIED AN OVERALL INCREASE OF $251 MILLION, OR 12.1%?

A No. I believe that the evidence shows AmerenUE's claimed revenue requirement and revenue increase to be significantly overstated. We have analyzed in detail two of the significant revenue requirement issues, and found that in these areas alone, AmerenUE has overstated its revenue requirement by almost $100 million. Thus, even before considering the impact of additional adjustments that other parties may be presenting in their evidence, AmerenUE's claimed revenue increase should be reduced by about 40% of its requested amount.

Q PLEASE IDENTIFY THE WITNESSES PRESENTING TESTIMONY ON BEHALF OF MIEC AND BRIEFLY DESCRIBE THE SUBJECT AREAS THAT EACH WILL ADDRESS.

A My testimony will serve to present an overall summary of our positions on the revenue requirement issues we are addressing. I will also state my view on some of the issues pertaining to the fuel adjustment clause (FAC).

Mr. Michael Gorman presents evidence concerning the appropriate cost of equity and overall rate of return for AmerenUE.

Mr. James Dauphinais will present testimony concerning AmerenUE's production system modeling, fuel costs, wholesale power market prices, off-system sales volumes and estimated margins.

Q PLEASE SUMMARIZE THE REVENUE REQUIREMENT ADJUSTMENTS THAT MIEC IS SPONSORING.

A **Michael Gorman:** With regard to cost of equity, Mr. Gorman has determined that an appropriate return on equity for AmerenUE would be 10.20%. As contrasted to AmerenUE's proposed level of 10.9% if an FAC is approved (or 11.15% if an FAC is not approved), Mr. Gorman has determined that an appropriate return on equity for AmerenUE would be 10.20%. This is approximately the mid-point of his range of 9.81% to 10.55%. AmerenUE's requested return on equity is significantly above its cost of capital. At a more appropriate 10.20%, as compared to 10.9%, the claimed revenue increase is reduced by about $34 million.

James Dauphinais: Mr. Dauphinais' analysis of AmerenUE's production system modeling and related issues reveals inconsistencies and deficiencies which cause AmerenUE to understate the amount of sales and margin it would be expected to earn from off-system sales. His analysis indicates that AmerenUE has overstated its revenue requirement in those areas by at least $64.5 million, and perhaps much more if the current forward electricity prices are realized.

Q WHAT IS THE SENSITIVITY OF THE RATE LEVEL TO ROE?

A Each ten basis points (one-tenth of a percentage point) in ROE equals a revenue requirement of approximately $5 million.

Fuel Adjustment Clause

Q WHAT IS THE SUBJECT OF THIS SECTION OF YOUR TESTIMONY?

A I will briefly address AmerenUE's proposed FAC.

Q WHY ARE YOU SUBMITTING THIS TESTIMONY AT THIS TIME?

A Consideration of the implementation of an FAC is somewhat new in Missouri. The Procedural Order is not entirely clear as to whether proposed changes in the fuel adjustment that would affect the level of revenues that a utility would collect should be addressed in the revenue requirement testimony or in the rate design testimony when structural issues concerning the FAC would be addressed. Because of this, I am submitting in this revenue requirement filing a brief description of the concepts which I will embody in my more detailed rate design testimony.

This same procedure of filing the substantive FAC testimony in the rate design phase was utilized in the recent Aquila rate proceeding (Case No. ER-2007-0004) and in the recent Empire District Electric Company rate case (Case No. ER-2008-0093) and accepted by the Commission.

Q PLEASE GIVE AN OVERVIEW OF YOUR POSITION ON AN FAC FOR AMERENUE.

A If AmerenUE is granted an FAC, it is important that it not simply be a pass through of increased costs. One of the dangers with an automatic adjustment clause is that the utility becomes less attentive to managing its costs because of the directly reimbursable nature of these costs under an FAC.

Of course, utilities are held to the prudency standard, but it is very difficult to conduct a detailed audit of all of the decisions that go into a utility's procurement of fuel and purchased power, the maintenance of its generating fleet, and other factors that influence the level of these costs. The complexity of auditing the utility's generation function is overwhelming in comparison to the more limited analysis required for the Purchased Gas Adjustment (PGA) filings of the gas utilities. The

number of decisions required to be investigated in the case of a PGA is relatively small. However, in the case of an electric utility, there are hourly transactions involving purchases and sales, decisions respecting acquisition of various kinds of fuel supplies in different markets, preventive maintenance practices, speed and cost of recovering from forced outages and similar decisions and actions. Thus, a rigorous audit of electric utility generation and purchased power costs is much more difficult to accomplish than a PGA audit.

Q WHAT MECHANISM CAN BE USED TO SHARPEN THE UTILITY'S INCENTIVE TO MANAGE ITS COSTS?

A If some form of FAC is permitted, then an appropriate way to provide the utility with a greater incentive to manage its costs is to include a sharing mechanism of some type, which requires the utility to retain some portion of any cost increases that may be experienced relative to the base costs in the FAC. Similarly, the utility would be permitted to retain a portion of any cost decrease that may be experienced.

By making the utility responsible for a share of increased costs, and allowing it to retain part of the benefits of decreased costs, there is added incentive (compared to 100% pass through) for the utility to focus on management of these costs. Accordingly, the proposal I will make will include a sharing mechanism that is more meaningful than the extremely limited "5% of difference" sharing clause proposed by AmerenUE. My sharing clause will be symmetrical, in that the utility may benefit by retaining a portion of any decreases in costs from the base period.

Q WILL YOU PROPOSE ANY OTHER CHANGES TO AMERENUE'S PROPOSED FAC?

A Yes. AmerenUE has included in its FAC some fixed cost items that are not volatile and certainly do not vary with kWh sold. I will exclude these costs from the FAC and include them in base rates.

Q AMERENUE HAS PROPOSED A FUEL CLAUSE STRUCTURE IN WHICH ALL ELIGIBLE FUEL AND PURCHASED POWER AND RELATED COSTS, APPLICABLE BOTH TO NATIVE LOAD SALES AND TO OFF-SYSTEM SALES, ARE INCLUDED IN THE FAC, AND ALL REVENUES FROM OFF-SYSTEM SALES ARE SUBTRACTED FROM THOSE COSTS IN DETERMINING THE FUEL ADJUSTMENT. DO YOU AGREE WITH THIS STRUCTURE?

A Yes. If AmerenUE is authorized to have an FAC, I believe that the structure which it has proposed is appropriate. In fact, this is the form of FAC that MIEC recommended in AmerenUE's last rate case, Case No. ER-2007-0002, and which AmerenUE ultimately supported in its testimony in that case.

Q WHY IS IT IMPORTANT THAT THE CLAUSE BE OF THIS FORM, RATHER THAN A FORM IN WHICH THE COSTS ASSOCIATED WITH OFF-SYSTEM SALES ARE NOT INCLUDED IN THE FAC, AND A SEPARATELY CALCULATED MARGIN FROM THOSE SALES IS SUBTRACTED FROM NATIVE LOAD FUEL AND PURCHASED POWER AND RELATED COSTS IN DETERMINING THE FUEL ADJUSTMENT?

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.

Appendix A

Qualifications of Maurice Brubaker

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.

Q PLEASE STATE YOUR OCCUPATION.

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

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I was graduated from the University of Missouri in 1965, with a Bachelor's Degree in Electrical Engineering. Subsequent to graduation I was employed by the Utilities Section of the Engineering and Technology Division of Esso Research and Engineering Corporation of Morristown, New Jersey, a subsidiary of Standard Oil of New Jersey.

In the Fall of 1965, I enrolled in the Graduate School of Business at Washington University in St. Louis, Missouri. I was graduated in June of 1967 with the Degree of Master of Business Administration. My major field was finance.

From March of 1966 until March of 1970, I was employed by Emerson Electric Company in St. Louis. During this time I pursued the Degree of Master of Science in Engineering at Washington University, which I received in June, 1970.

In March of 1970, I joined the firm of Drazen Associates, Inc., of St. Louis, Missouri. Since that time I have been engaged in the preparation of numerous studies relating to electric, gas, and water utilities. These studies have included analyses of the cost to serve various types of customers, the design of rates for utility services, cost forecasts, cogeneration rates and determinations of rate base and operating income. I have also addressed utility resource planning principles and plans, reviewed capacity additions to determine whether or not they were used and useful, addressed demand-side management issues independently and as part of least cost planning, and have reviewed utility determinations of the need for capacity additions and/or purchased power to determine the consistency of such plans with least cost planning principles. I have also testified about the prudency of the actions undertaken by utilities to meet the needs of their customers in the wholesale power markets and have recommended disallowances of costs where such actions were deemed imprudent.

I have testified before the Federal Energy Regulatory Commission (FERC), various courts and legislatures, and the state regulatory commissions of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Guam, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia, Wisconsin and Wyoming.

The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and assumed the utility rate and economic consulting activities of Drazen Associates, Inc., founded in 1937. In April, 1995 the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and staff. Our staff includes consultants

with backgrounds in accounting, engineering, economics, mathematics, computer science and business.

During the past ten years, Brubaker & Associates, Inc. and its predecessor firm has participated in over 700 major utility rate and other cases and statewide generic investigations before utility regulatory commissions in 40 states, involving electric, gas, water, and steam rates and other issues. Cases in which the firm has been involved have included more than 80 of the 100 largest electric utilities and over 30 gas distribution companies and pipelines.

An increasing portion of the firm's activities is concentrated in the areas of competitive procurement. While the firm has always assisted its clients in negotiating contracts for utility services in the regulated environment, increasingly there are opportunities for certain customers to acquire power on a competitive basis from a supplier other than its traditional electric utility. The firm assists clients in identifying and evaluating purchased power options, conducts RFPs and negotiates with suppliers for the acquisition and delivery of supplies. We have prepared option studies and/or conducted RFPs for competitive acquisition of power supply for industrial and other end-use customers throughout the Unites States and in Canada, involving total needs in excess of 3,000 megawatts. The firm is also an associate member of the Electric Reliability Council of Texas and a licensed electricity aggregator in the State of Texas.

In addition to our main office in St. Louis, the firm has branch offices in Phoenix, Arizona and Corpus Christi, Texas.