

Exhibit No.:
Witness: Maurice Brubaker
Type of Exhibit: Additional Direct Testimony
Issues: Fuel Adjustment Clause
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2010-0036

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

**In the Matter of Union Electric
Company, d/b/a AmerenUE's
Tariffs to Increase Its Annual
Revenues for Electric Service**

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Case No. ER-2010-0036
Tariff Nos. YE-2010-0054
and YE-2010-0055

Additional Direct Testimony of

Maurice Brubaker

Fuel Adjustment Clause

On behalf of

Missouri Industrial Energy Consumers

February 22, 2010



Project 9187

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Union Electric
Company, d/b/a AmerenUE's
Tariffs to Increase Its Annual
Revenues for Electric Service

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Case No. ER-2010-0036
Tariff Nos. YE-2010-0054
and YE-2010-0055

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) SS

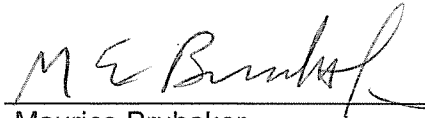
Affidavit of Maurice Brubaker

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 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

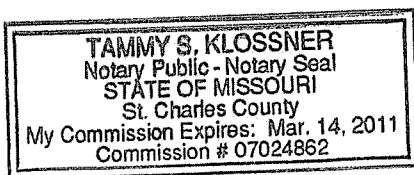
2. Attached hereto and made a part hereof for all purposes is my additional direct testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2010-0036.

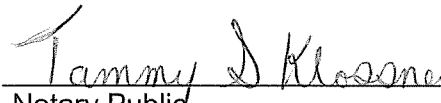
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.



Maurice Brubaker

Subscribed and sworn to before me this 19th day of February 2010.





Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

**In the Matter of Union Electric
Company, d/b/a AmerenUE's
Tariffs to Increase Its Annual
Revenues for Electric Service**

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Case No. ER-2010-0036
Tariff Nos. YE-2010-0054
and YE-2010-0055

Additional Direct Testimony of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q ARE YOU THE SAME MAURICE BRUBAKER WHO HAS PREVIOUSLY FILED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A Yes.

7 **Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**
8 **ANY OF THOSE PRIOR TESTIMONIES?**

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

1 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

2 A This testimony is presented on behalf of the Missouri Industrial Energy Consumers
3 ("MIEC"). These companies purchase substantial quantities of electricity from
4 AmerenUE, principally at the primary and transmission voltage levels.

5 **Q ARE YOU FAMILIAR WITH THE COMMISSION'S ORDER OF FEBRUARY 17,**
6 **2010, INVITING PARTIES TO FILE ADDITIONAL TESTIMONY THAT ADDRESSES**
7 **THE SUBJECT OF THE FUEL ADJUSTMENT CLAUSE ("FAC")?**

8 A Yes.

9 **Q DO YOU BELIEVE THAT THE 95% / 5% SHARING IN THE CURRENT FUEL**
10 **ADJUSTMENT MECHANISM REPRESENTS THE APPROPRIATE PERCENTAGE**
11 **FOR AMERENUE?**

12 A No. In AmerenUE's prior rate case in which the FAC was approved (Case
13 No. ER-2008-0318), I presented testimony supporting an 80% / 20% sharing
14 mechanism. My view as to the appropriateness of that sharing mechanism has not
15 changed.

16 **Q DO YOU HAVE ANY ADDITIONAL TESTIMONY TO SUBMIT AT THIS TIME?**

17 A No. However, I am attaching, for the convenience of the Commission and the parties,
18 those portions of my testimonies in Case No. ER-2008-0318 that addressed FAC
19 issues. The attached testimonies are as follows:

- 20 • **Attachment 1** is my Direct Testimony filed on August 28, 2008, with the non-FAC
21 testimony removed.
- 22 • **Attachment 2** is my Part 2 Direct Testimony and Schedules filed on
23 September 11, 2008.

1 • **Attachment 3** is my Surrebuttal Testimony filed on November 5, 2008, with the
2 non-FAC testimony removed.

3 **Q DOES THIS CONCLUDE YOUR ADDITIONAL DIRECT TESTIMONY?**

4 **A Yes, it does.**

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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) **Case No. ER-2008-0318**
in the Company's Missouri Service Area.)
)

Direct Testimony of

Maurice Brubaker

**Revenue Requirement Issues and
Fuel Adjustment Clause Concepts**

On behalf of

Missouri Industrial Energy Consumers



Project 8983
August 28, 2008

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

STATE OF MISSOURI)

SS

COUNTY OF ST. LOUIS)


Affidavit of Maurice Brubaker

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

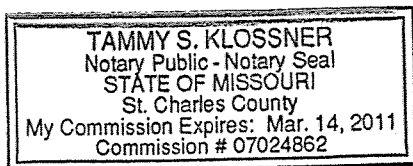
1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

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.




Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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In the Matter of Union Electric Company d/b/a)	
AmerenUE for Authority to File Tariffs Increasing)	Case No. ER-2008-0318
Rates for Electric Service Provided to Customers)	
in the Company's Missouri Service Area.)	
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Direct Testimony of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

4 **Q WHAT IS YOUR OCCUPATION?**

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

7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A This information is included in Appendix A to my testimony.

9 **Introduction**

10 **Q ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY?**

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

**Maurice Brubaker
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20 **Fuel Adjustment Clause**

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

22 **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 prudence 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

**Maurice Brubaker
Page 4**

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

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

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

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

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

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

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

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

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

22 A AmerenUE faces over 30 different Midwest Independent System Operator (MISO)
23 charges and adjustments in the operation of its system. Given the number of

1 different charges, the complexity of the charges, and the volume of the transactions,
2 attempting to separate for purposes of the FAC the costs associated with off-system
3 sales from the costs associated with serving native load customers would expose
4 retail customers to a significant risk of over-allocation of costs. These calculations
5 also would be very difficult to audit with any degree of confidence.

6 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7 **A** Yes, it does.

Appendix A

Qualifications of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

4 **Q PLEASE STATE YOUR OCCUPATION.**

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

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

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

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

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

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

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

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

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

3 During the past ten years, Brubaker & Associates, Inc. and its predecessor
4 firm has participated in over 700 major utility rate and other cases and statewide
5 generic investigations before utility regulatory commissions in 40 states, involving
6 electric, gas, water, and steam rates and other issues. Cases in which the firm has
7 been involved have included more than 80 of the 100 largest electric utilities and over
8 30 gas distribution companies and pipelines.

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

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

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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) **Case No. ER-2008-0318**
in the Company's Missouri Service Area.)
_____)

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
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

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

SS


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.

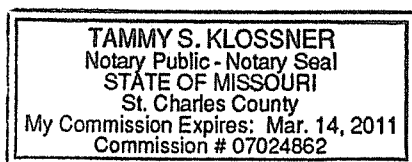
2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2008-0318.


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.



Maurice Brubaker

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





Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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In the Matter of Union Electric Company d/b/a)	
AmerenUE for Authority to File Tariffs Increasing)	Case No. ER-2008-0318
Rates for Electric Service Provided to Customers)	
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Direct Testimony of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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3 St. Louis, Missouri 63141-2000.

4 **Q WHAT IS YOUR OCCUPATION?**

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

7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

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

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

12 A This testimony is presented on behalf of the Missouri Industrial Energy Consumers
13 (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.

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

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

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

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

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

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

19 **AmerenUE's Proposed Sharing Mechanism**
20 **Does Not Provide Adequate Incentives**

21 **Q WHAT HAS AMERENUE PROPOSED FOR THE SHARING MECHANISM?**

22 A Under the structure of AmerenUE's FAC, when the cost of fuel and purchased power
23 that is built into base rates is different than the actual cost of fuel and purchased

1 power experienced in a subsequent period, Missouri retail customers would be
2 responsible for 95% of such variations, while AmerenUE would retain only 5%.

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

7 A No. As AmerenUE witness Lyons stated at page 6 of his direct testimony, the
8 95% / 5% structure is simply based on the outcome of a recent Aquila Networks,
9 Missouri PSC Rate Order (Case No. ER-2007-0004), and not an analysis of the
10 incentives present in this mechanism or the impact on the utility's return on equity of
11 the proposed sharing of the deviations in the level of fuel and purchased power costs
12 from the base.

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

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

19 **Q IN THE AQUILA CASE, DID THE COMMISSION EXPLAIN WHY IT ADOPTED A**
20 **95% COST RECOVERY STRUCTURE?**

21 A Not explicitly. In its Order, the Commission does not reveal how the 95% / 5%
22 sharing formula was derived. The Commission did note that it is important for an FAC
23 to have incentives for the utility to manage its fuel and purchased power costs. In

1 particular, the Commission said the following at page 53 of its May 17, 2007 Report
2 and Order:

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

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

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

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

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

26 A Yes, it did.

1 **Q IN THAT ORDER, DID THE COMMISSION ANALYZE THE EFFECT OF THE**
2 **95% / 5% SHARING MECHANISM, OR EXPLAIN WHY THAT PARTICULAR**
3 **SHARING WAS APPROPRIATE?**

4 **A No, it did not.**

5 **Q HAVE YOU ANALYZED THE IMPACT ON AMERENUE OF ITS PROPOSED**
6 **95% / 5% SHARING MECHANISM?**

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

8 **Q PLEASE EXPLAIN THIS SCHEDULE.**

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

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

1 fuel costs increase by 5% and the sharing mechanism was 95% / 5%, the impact on
2 ROE would be 1.8 basis points.

3 The other lines on Schedule MEB-FAC-1 present the same information
4 assuming different percentage changes in base fuel cost. (It is important to note that
5 while I have presented these as an increase in cost, the illustration would be perfectly
6 symmetrical and the results for a decrease in cost would be the mirror image.) Line 6
7 shows that even at a 35% change in base fuel cost with AmerenUE's proposed 95% /
8 5% sharing that the impact on AmerenUE's ROE would only be about 13 basis
9 points. These are truly very minor impacts and serve to illustrate how weak the price
10 signal and incentives are in the 95% / 5% proposal.

11 **Q WHAT OTHER SHARING PERCENTAGES ARE ILLUSTRATED ON YOUR**
12 **SCHEDULE?**

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

14 **An Alternative Sharing Mechanism That**
15 **Contains Meaningful Incentives Should Be Adopted**

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

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

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

3 **Q WHY IS A MEANINGFUL SHARING MECHANISM APPROPRIATE?**

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

8 **Q CAN A UTILITY REALLY INFLUENCE ITS NET FUEL COSTS?**

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

22 **Q DO YOU HAVE A SPECIFIC PROPOSAL?**

23 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 too 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

1 impact if fuel costs rise, but experiences a positive impact if it is able to control and
2 manage fuel costs to a lower level. This incentive would not be present if there were
3 a full pass through, and is barely noticeable in AmerenUE's proposed 95% / 5%
4 sharing mechanism.

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

9 **Q PLEASE EXPLAIN WHY YOU ARE MAKING THIS SPECIFIC PROPOSAL.**

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

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

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

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

1 As can be seen from Schedule MEB-FAC-1, line 6 of Column 7, with an
2 80% / 20% sharing mechanism the 50 basis point deviation occurs at approximately a
3 35% departure in the level of fuel costs from the base fuel cost.

4 **Q WHEN WOULD THIS NUMBER BE DETERMINED?**

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

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

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

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

21 A No. There is no ongoing requirement to redetermine actual earned return on equity.
22 I have used the illustrative ± 50 basis points along with other parameters of
23 AmerenUE's filing in order to establish a reasonable sharing. The actual earned ROE

1 in between rate cases is not relevant to this FAC structure or amount of permissible
2 fuel adjustment, and need not be calculated.

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

5 A The sharing is expressed on an annual basis. In the context of the filing frequently
6 proposed by AmerenUE, 33.3% of the sharing would be allocated to each period for
7 purposes of the three annual filings proposed by AmerenUE. At the end of each
8 12-month period, the sharing would be applied on an annual basis and reconciled
9 against the amounts applied on an interim basis.

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

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

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

18 A Yes. Please refer to Schedule MEB-FAC-2. This summarizes pertinent statistics
19 from the most recent Aquila and Empire District rate cases and compares them to
20 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
Received from Off-System Sales Should Be Subtracted**

**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

1 retail customers to a significant risk of over-allocation of costs. These calculations
2 also would be very difficult to audit with any degree of confidence.

3 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4 **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 (1)	Dollar Change in Cost ⁽¹⁾ (2)	After Tax Impact ⁽²⁾ (3)	Uncompensated Change in ROE (Basis Points) ⁽³⁾ (4)	Basis Point Change in ROE as a Function of Retention Percentage ⁽⁴⁾		
					5%	10%	20%
					(5)	(6)	(7)
1	5%	\$18	\$11	36	1.8	3.6	7.2
2	10%	\$36	\$22	72	3.6	7.2	14.4
3	20%	\$72	\$44	144	7.2	14.4	28.8
4	25%	\$90	\$55	180	9.0	18.0	36.0
5	30%	\$108	\$66	216	10.8	21.6	43.2
6	35%	\$126	\$77	259	12.6	25.2	50.4
7	40%	\$144	\$88	288	14.4	28.8	57.6

⁽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 (1)	Return on Equity (2)	Earnings on Equity (3)	Base Fuel Cost (4)	Base Fuel Costs as a Percentage of Common Equity (5)	Impact of Retaining 20% of a 35% Change in Base Fuel Cost	
							Amount (6)	Percent of Earnings (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

Exhibit No.:
Witness: Maurice Brubaker
Type of Exhibit: Surrebuttal Testimony
Issues: Fuel Adjustment Clause
and Cost of Service
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

Surrebuttal Testimony of

Maurice Brubaker

**on Fuel Adjustment Clause
and Cost of Service**

On Behalf of

Missouri Industrial Energy Consumers



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 8983
November 5, 2008

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company d/b/a
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Rates for Electric Service Provided to Customers
in the Company's Missouri Service Area.

Case No. ER-2008-0318


STATE OF MISSOURI)
COUNTY OF ST. LOUIS)

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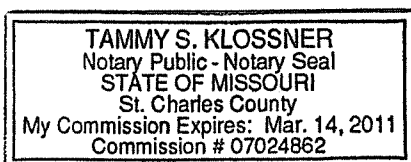
Affidavit of Maurice Brubaker


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 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. 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 surrebuttal 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 4th day of November, 2008.




Notary Public

**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.**

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) Case No. ER-2008-0318
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Surrebuttal Testimony of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, Missouri 63017.

4 **Q ARE YOU THE SAME MAURICE BRUBAKER WHO HAS PREVIOUSLY FILED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A Yes. I have previously filed direct and rebuttal testimony on revenue requirement,
7 cost of service, revenue allocation and fuel adjustment issues.

8 **Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**
9 **ANY OF THOSE PRIOR TESTIMONIES?**

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

Maurice Brubaker
Page 1

1 **INTRODUCTION AND SUMMARY**

2 **Q ON WHOSE BEHALF ARE YOU PRESENTING THIS SURREBUTTAL**
3 **TESTIMONY?**

4 A This testimony is presented on behalf of the Missouri Industrial Energy Consumers
5 (MIEC).

6 **Q PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.**

7 A My surrebuttal testimony may be summarized as follows:

- 8 1. If a fuel adjustment clause (FAC) is approved for AmerenUE, all applicable fuel
9 and purchased power costs (both for native load and for off-system sales) should
10 be included, and all of the revenues from off-system sales should be subtracted.
- 11 2. The rebuttal testimony of AmerenUE witnesses greatly overstates any negative
12 impact that my proposed FAC could have on AmerenUE. The maximum impact
13 of my sharing provision (compared to a 100% recovery FAC) on AmerenUE's
14 return on equity in any given year is 50 basis points, or \$15 million in after-tax
15 earnings.

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26 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL?**

27 A In this surrebuttal I provide limited responses to the rebuttal testimony of certain other
28 parties on the issues of FAC and cost of service. The fact that I do not respond to
29 particular statements of other witnesses should not be interpreted to mean that I

1 agree with those statements. Rather, I have attempted to limit the surrebuttal
2 testimony to clarification and to responses to points raised in the rebuttal testimony of
3 other parties that had not been fully addressed in my prior testimony.

4 **Response to AmerenUE Witness Lyons**

5 **Q ON PAGE 2 OF HIS REBUTTAL TESTIMONY, BEGINNING AT LINE 2,**
6 **AMERENUE WITNESS LYONS STATES YOU HAVE TESTIFIED THAT THE**
7 **STRUCTURE OF THE FAC PROPOSED BY AMERENUE IS APPROPRIATE. IS**
8 **THIS A CORRECT STATEMENT?**

9 **A** It is a correct statement in the context in which it was given. My statement refers to
10 the fact that the AmerenUE proposed FAC includes the cost of all applicable fuel and
11 purchased power (both for native load sales and for off-system sales), with a
12 subtraction of 100% of the revenues received from off-system sales.

13 **Q AT THE SAME POINT IN HIS TESTIMONY, MR. LYONS STATES THAT YOU DO**
14 **NOT OPPOSE AMERENUE'S FAC, BUT ADVOCATE CERTAIN MODIFICATIONS**
15 **TO IT. IS THAT CORRECT?**

16 **A** It is correct as far as it goes. What he did not say, but which is evident from my
17 testimony, is that I am not supporting or opposing an FAC for AmerenUE. My
18 testimony addresses modifications that I believe should be made to the FAC if one is
19 implemented.

1 **Q MR. LYONS COMPLAINS THAT ADOPTION OF YOUR PROPOSAL WOULD**
2 **HAVE A LARGE ADVERSE IMPACT ON AMERENUE, POSSIBLY FORCING IT TO**
3 **ABSORB MILLIONS AND MILLIONS OF DOLLARS OF FUEL COSTS. DO YOU**
4 **HAVE ANY COMMENTS ON MR. LYONS' TESTIMONY?**

5 A Yes. I think Mr. Lyons overstates the impact. For example, on page 24 of his
6 testimony he references increases in coal costs for 2009 and 2010 and then goes on
7 to say that my sharing proposal could force AmerenUE to absorb \$27 million of coal
8 costs in 2010 at budgeted levels and as much as \$60 million under AmerenUE's high
9 coal cost forecast case. It is not clear how Mr. Lyons made these calculations, but it
10 is clear that he has not applied the 50 basis point annual impact on ROE that is part
11 and parcel of my proposal.

12 **Q PLEASE ELABORATE.**

13 A My proposal has a 20% sharing by AmerenUE of cost increases (and a 20% retention
14 of cost decreases by AmerenUE), but it also has a financial protection for AmerenUE.
15 My FAC specifically limits the financial impact on AmerenUE (positive or negative) to
16 50 basis points in return on equity in any year. In dollars, 50 basis points ROE is
17 approximately \$15 million after income taxes, or about \$25 million before income
18 taxes. Thus, the draconian scenarios under which Mr. Lyons suggests I could require
19 AmerenUE to absorb \$60 million of fuel cost simply cannot happen. The maximum
20 annual after-tax impact is \$15 million.

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5 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY ON FUEL**
6 **ADJUSTMENT CLAUSE AND COST OF SERVICE?**

7 **A Yes, it does.**

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