

Exhibit No.:
Issue: *Fuel Expense*
Witness: *John P. Cassidy*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *ER-2007-0002*
Date Testimony Prepared: *February 27, 2007*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

JOHN P. CASSIDY

**UNION ELECTRIC COMPANY,
d/b/a AmerenUE**

CASE NO. ER-2007-0002

Jefferson City, Missouri
February 2007

****Denotes Highly Confidential Information****

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

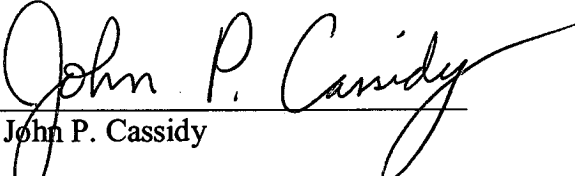
In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File Tariffs)
Increasing Rates for Electric Service)
Provided to Customers in the Company's)
Missouri Service Area.

Case No. ER-2007-0002

AFFIDAVIT OF JOHN P. CASSIDY

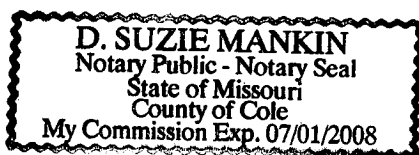
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

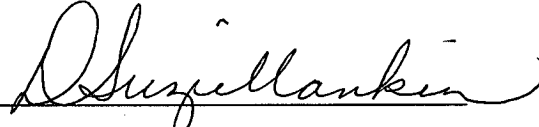
John P. Cassidy, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 14 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



John P. Cassidy

Subscribed and sworn to before me this 27th day of February, 2007.





SURREBUTTAL TESTIMONY
OF
JOHN P. CASSIDY
UNION ELECTRIC COMPANY,
d/b/a AmerenUE
CASE NO. ER-2007-0002

EXECUTIVE SUMMARY	1
CALLAWAY REFUELING NON-LABOR MAINTENANCE EXPENSE	2
DIESEL FUEL SURCHARGE HEDGE COSTS	7
PROPOSED INCLUSION OF NUCLEAR FUEL COSTS BEYOND JANUARY 1, 2007 CUTOFF	10
SO2 EMISSION ALLOWANCES	12
PRODUCTION COST MODEL	13

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24

A. John P. Cassidy, 9900 Page Avenue, Suite 103, Overland, Missouri 63132.

A. I am employed by the Missouri Public Service Commission (Commission) as a
 tory Auditor.

Q. Are you the same John P. Cassidy who has previously filed Direct and Rebuttal testimony in this rate proceeding?

EXECUTIVE SUMMARY

A. My surrebuttal testimony will respond to the rebuttal testimony of the
ing AmerenUE (AmerenUE or Company) witnesses and issues:

Page 1

1 The Staff will explain how its Callaway refueling non-labor maintenance expense amount,
2 which agreed with the Company's filed position in direct and supplemental direct testimony
3 of Gary Weiss submitted during July 2006 and September 2006, respectively, is still the
4 appropriate level. The Staff will also explain why it is unreasonable for the Company to now
5 change its position in rebuttal testimony to reflect Callaway refueling non-labor maintenance
6 costs based on an average of the three most recent Callaway refuelings as proposed by
7 Company witness Alan M. Rutz. The Staff will explain why ratepayers should not be
8 required to pay for diesel fuel surcharge hedge costs as proposed by Company witness
9 Robert K. Neff. The Staff will also explain why Company witness Randall J. Irwin's
10 proposal to include nuclear fuel costs that will not be reflected in expense until early
11 May 2007, well beyond the January 1, 2007 cutoff agreed to by the parties and ordered by the
12 Commission in this case, is inappropriate to include in the cost of service calculation, absent
13 consideration of all the other relevant factors that could change throughout that same time
14 period. The Staff will also address the proposed treatment of the gains on SO₂ emission
15 allowance sales that were described by Company witnesses Warner L. Baxter and James C.
16 Moore, II in their rebuttal testimonies. Finally, the Staff will explain the changes to its
17 production cost model in response to the rebuttal testimony of Company witness Timothy D.
18 Finnell. The Staff believes that these changes have resolved the production cost modeling
19 issues.

20 **CALLAWAY REFUELING NON-LABOR MAINTENANCE EXPENSE**

21 Q. What position did the Staff take with regard to this issue in its direct
22 testimony?

1 A. The Company refuels the Callaway nuclear power plant on an eighteen month
2 cycle. Therefore, the cost of refueling must be normalized to reflect the amount
3 incurred during a twelve month period. Staff Income Statement Adjustment S-6.5 removed
4 one-third or approximately \$7.2 million of the Company's \$21.5 million test year level of
5 Callaway refueling non-labor maintenance expense. In his direct testimony, Company
6 witness Gary S. Weiss also supported the position to remove \$7.2 million of test year non-
7 labor maintenance expense as the proper inclusion in cost of service.

8 Q. Does the rebuttal testimony filed by Company witness Rutz represent a change
9 from the position AmerenUE supported in its filed direct testimony, with regard to Callaway
10 refueling non-labor maintenance expenses?

11 A. Yes. The Company no longer supports the position, as espoused by
12 AmerenUE witness Gary S. Weiss that the test year Callaway refueling non-labor
13 maintenance expenses of \$21.5 million should be reduced by one third, or by \$7.2 million, in
14 order to normalize these expenses. The Company has now introduced a new witness,
15 Mr. Alan M. Rutz, who proposes to change the Company's position with regard to Callaway
16 refueling non-labor maintenance expense, to reflect a level of expense based on an average of
17 the expenses incurred during the last three refuelings.

18 Q. What is the value of this proposed change from the position that is supported
19 by the Company in its direct testimony?

20 A. In the Company's direct testimony, it proposed to include approximately
21 \$14.3 million for Callaway refueling non-labor maintenance expense, two-thirds of the test
22 year \$21.5 million level. Mr. Rutz's rebuttal testimony now proposes to include
23 approximately \$18.7 million, which is based on two-thirds of an approximately \$28.1 million

1 three refueling average (\$22.6 million + \$40.1 million + \$21.5 million / 3). The difference
2 between the position the Company originally supported in its direct testimony and the position
3 it now supports results in a proposed \$4.4 million increase in revenue requirement
4 (\$18.7 million rebuttal position less \$14.3 million direct position).

5 Q. Why does the Staff believe that the Company's proposed new position with
6 regard to Callaway refueling non-labor maintenance expense is inappropriate?

7 A. The Staff believes that this new position is inappropriate for the following
8 three reasons: (1) As was previously discussed, no new information has become available
9 since the time of the Company's direct testimony filing. The Company's new position
10 represents an unwarranted change in methodology. (2) Mr. Rutz based his new position on a
11 three year average of non-labor maintenance expenses which includes the highest level of
12 non-labor related Callaway refuelings maintenance expense that AmerenUE has ever
13 experienced. (3) Mr. Rutz has singled out one component of Callaway operations and
14 maintenance (O&M) expenses (the non-labor Callaway refueling maintenance expense) and
15 ignored the overall change in total Callaway O&M expense.

16 Q. Has any new information or an event occurred since the time of either of
17 Mr. Weiss's direct testimony filings that would have created a need to update Callaway
18 refueling non-labor maintenance expense adjustment?

19 A. No. In fact, the Company's last refueling was completed during November
20 2005. At the time of both its direct testimony filings in July 2006 and September 2006, the
21 Company had all of the information contained within Mr. Rutz's rebuttal testimony filing at
22 its disposal for developing and supporting a position with regard to the proper inclusion of
23 Callaway refueling non-labor maintenance expense. No new information about any of the

1 Company's fourteen previous Callaway refuelings has come to light since the time of the
2 Company's direct testimony filings. The Company's new position now supported by
3 Company witness Rutz represents an unwarranted change in methodology with regard to this
4 issue.

5 Q. Please explain why Staff otherwise believes it is inappropriate to now include a
6 three refueling average of non-labor maintenance expense for the Callaway refueling?

7 A. Mr. Rutz's proposed three year average includes expenses associated with
8 Callaway refueling thirteen, which represents the highest level of costs that the Company has
9 ever incurred with regard to Callaway refueling non-labor maintenance expense. In fact,
10 Callaway refueling non-labor maintenance expenses associated with Callaway refueling
11 thirteen are \$17 million more than the next highest level. The following chart provides a
12 history of the Company's non-labor maintenance expenses associated with all Callaway
13 refuelings:

14 **

15	_____	_____	_____	_____	_____
16	_____	_____	_____	_____	_____
17	_____	_____	_____	_____	_____
18	_____	_____	_____	_____	_____
19	_____	_____	_____	_____	_____
20	_____	_____	_____	_____	_____
21	_____	_____	_____	_____	_____
22	_____	_____	_____	_____	_____
23	_____	_____	_____	_____	_____
24	_____	_____	_____	_____	_____
25	_____	_____	_____	_____	_____
26	_____	_____	_____	_____	_____
27	_____	_____	_____	_____	_____
28	_____	_____	_____	_____	_____
29	_____	_____	_____	_____	_____ **

30 This chart demonstrates that the Company's proposed average, which includes the anomalous
31 Callaway thirteen refueling event, is inappropriate. The Company experienced unexpected

1 problems with Callaway refueling thirteen and the expenses associated with this event
2 inappropriately inflate Mr. Rutz's three refueling average. By including the Callaway thirteen
3 refueling event, the Company is attempting to significantly reflect its highest expense level on
4 record. In fact the resulting three year average of \$28.1 million proposed by Mr. Rutz is
5 \$5.0 million higher than the second highest non-labor maintenance expense ever incurred by
6 AmerenUE.

7 Q. Has Mr. Rutz given consideration to total Callaway O&M expense as part of
8 his proposed adjustment?

9 A. No. In the response to Staff Data Requests Nos. 141 and 529, the
10 Company provided total O&M expense related to the Callaway nuclear plant. The amounts
11 provided in these two data request responses include the subcomponent of Callaway refueling
12 non-labor maintenance expense that Mr. Rutz is now proposing to increase in his rebuttal
13 testimony. ** _____
14 _____
15 _____

16		_____	_____	_____
17	_____	_____	_____	
18	_____	_____	_____	
19	_____	_____	_____	

1 _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____ **

8 **DIESEL FUEL SURCHARGE HEDGE COSTS**

9 Q. Does the Staff agree with Company witness Robert K. Neff's proposal in his
10 rebuttal testimony to include approximately ** _____ ** of diesel fuel surcharge
11 hedge costs as part of the cost of service calculation?

12 A. No. The Staff believes it would be inappropriate to include these hedge costs
13 in the cost of service calculation because ratepayers will not benefit from the inclusion of
14 these costs.

15 Q. Does this hedge cost that AmerenUE proposes for inclusion in rates represent a
16 financial hedge for the actual price of on-highway diesel fuel?

17 A. ** _____
18 _____
19 _____
20 _____
21 _____
22 _____

1 _____
2 _____ **

3 Q. For what time period does the Company's hedges guard against increases in
4 the price of heating oil?

5 A. ** _____
6 _____
7 _____

8 _____ **

9 Q. Please explain why the Staff believes that ratepayers do not stand to benefit
10 from these proxy diesel fuel surcharge hedge costs proposed for inclusion in rates by the
11 Company.

12 A. ** _____
13 _____
14 _____
15 _____
16 _____
17 _____
18 _____
19 _____

20 _____ **

21 Q. Does this hedge against the price of U.S. on-highway diesel going
22 above ** _____ ** serve as a form of protection for ratepayers?

1 A. ** _____

2 _____

3 **

4 Q. What is the current price of U.S. on-highway diesel fuel as reported by EIA?

5 A. On February 26, 2007, EIA reported a U.S. on-highway diesel fuel price

6 of \$2.55.

7 **Fuel Cost Volatility**

8 Q. Please address Company witness Robert K. Neff's rebuttal testimony with

9 regard to comments made about fuel cost volatility.

10 A. The Staff does not disagree that AmerenUE has experienced significant

11 increases in prices that it has paid for coal during the recent past. However, all of the past

12 increases referenced by Mr. Neff on page 7 in his rebuttal testimony will be included as part

13 of the Staff's cost of service calculation that will include all known and measurable fuel prices

14 through the January 1, 2007 true-up cutoff date as established for this rate proceeding.

15 Q. Mr. Neff discusses the volatility associated with transportation costs that are

16 directed to the EIA reported U.S. on-highway diesel price index. What does the Staff believe

17 is AmerenUE's risk of incurring an increased level of transportation costs?

18 A. ** _____

19 _____

20 _____

21 _____

22 _____

____ **

Q. Are the future coal cost increases that AmerenUE is already under contractual obligation to incur similar to increases associated with other significant expense items included in the cost of service?

A. Yes. It is important to remember that the timing of these coal cost increases is largely known. Much like an annual wage increase that occurs on known specific dates in the future, AmerenUE will incur annual increases in its fuel expense for coal and related freight cost at known specific dates in the future.

PROPOSED INCLUSION OF NUCLEAR FUEL COSTS BEYOND JANUARY 1, 2007 CUTOFF

Q. Does the Staff believe it is appropriate to include the nuclear fuel costs as proposed by Company witness Randall J. Irwin in his rebuttal testimony?

A. **

_____ **

Q. On page 6 of his rebuttal testimony, Mr. Irwin proposes to include in the nuclear fuel inventory balance the cost of nuclear fuel assemblies for the next Callaway refueling that will not occur until May 2007. Does the Staff agree with this approach?

A. No. The ** _____ ** inventory balance is based on AmerenUE's projection of the average balance of nuclear fuel in the reactor as of May 2007. The fuel costs that are assumed in this calculation will not be providing service to ratepayers until sometime in May 2007. Since the ** _____ ** average nuclear fuel balance, proposed for inclusion in rate base by AmerenUE, represents fuel assemblies that will not be loaded in the reactor until May 2007, these assemblies are incapable of providing service to ratepayers as of January 1, 2007, the cutoff date established in this rate proceeding. The Staff believes it is inappropriate to include the Company's proposed rate base inclusion in the cost of service calculation for nuclear fuel assemblies that will not be providing service to AmerenUE customers until sometime during May 2007, well beyond the established cut off period for this rate proceeding. This methodology represents a departure from the Company's position as filed in its direct testimony and a departure from the methodology established in previous rate cases. In all previous rate cases, the nuclear fuel inventory was based on an average balance of unburned nuclear fuel actually in the reactor.

Q. What did the Company propose to include in nuclear fuel inventory as part of its direct filed case?

1 recorded in the same regulatory liability account. The net balance of these SO2 premiums
2 expenses (or discounts) and corresponding gains associated with SO2 allowance sales will be
3 addressed as part of the fuel expense calculation in the Company's next rate proceeding. To
4 the extent the Company is allowed a fuel adjustment clause as a result of this case, the tariffs
5 should reflect the inclusion of all SO2 premiums paid (net of discounts) and the inclusion of
6 all gains on the sales of emission allowances.

7 Q. What is the basis for Staff's proposed treatment of SO2 premiums and gains on
8 the sale of emission allowances?

9 A. The SO2 premiums AmerenUE pays to its coal suppliers are related to the
10 price of emission allowances in the open market. Prices of emission allowances have been
11 volatile in the recent past as have the volume of emission sales and SO2 premiums paid. The
12 Staff's proposal would help to mitigate the effects of any volatility associated with SO2
13 premiums (net of discounts) as part of AmerenUE's annualized fuel expense. The Staff's
14 proposal also addresses the fluctuating levels of gains on the sale of emission allowances by
15 offsetting these two items in the regulatory liability account. This tracking approach ensures
16 that the Company receives regulatory treatment as part of its next rate proceeding for any
17 difference that might exist between these two items.

18 **PRODUCTION COST MODEL**

19 Q. Has the Staff made changes to its production cost model to address the
20 concerns that were described in the rebuttal testimony of Company witness Timothy D.
21 Finnell?

22 A. Yes. The Staff has had several discussions with Mr. Finnell regarding the
23 issues that were raised in his rebuttal testimony. Based on these discussions, the Staff

1 completed several changes to its production cost model in order to address the issues that
2 were raised by Mr. Finnell. Specifically, Staff witness Michael L. Rahrer has completed
3 changes to his production cost model to address the following: the scheduling of its planned
4 and forced outages, the modeling approach related to blending coal at the Sioux plant in order
5 to achieve optimal plant operations, the unit availability rates, line losses and a
6 synchronization of hourly load profiles to hourly energy market prices. The Staff provided
7 the revised version of its production cost model to the Company on Tuesday, February 20,
8 2007. Based on discussions with the Company, the Staff believes that these changes will
9 resolve the production cost model issues that were discussed by Mr. Finnell in his rebuttal
10 testimony and will provide a basis for inclusion of the remaining true-up costs that still need
11 to be reflected in the production cost model.

12 Q. Does this conclude your surrebuttal testimony?

13 A. Yes.