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Witness: Jeffrey S. Jones
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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2019-0335

REBUTTAL TESTIMONY

OF

JEFFREY S. JONES

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

****DENOTES CONFIDENTIAL INFORMATION****

**St. Louis, Missouri
January, 2020**

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Jeffrey S. Jones, Ameren Missouri, One Ameren Plaza, 1901 Chouteau
4 Ave, St. Louis, Missouri, 63103.

5 **Q. What is your position?**

6 A. My title is Senior Manager – Energy & Fuels Trading, for Union Electric
7 Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company").

8 **Q. What are the duties of your position?**

9 A. My primary responsibilities are to direct a team to prudently procure all of
10 Ameren Missouri's fuel for generation (coal, nuclear, natural gas, and oil), and manage
11 emissions control commodities. This includes budget preparation, market analysis, strategy
12 development, risk assessment, contract negotiations, transaction closure, hedging,
13 inventory management, and transportation logistics.

14 **Q. What is your experience and educational background?**

15 A. I am a mechanical engineer with 30 years of experience in the electric power
16 utility industry. In 1999, I joined Ameren Services Company as an engineer providing
17 engineering services for the Company and its affiliate in Illinois that also owned coal-fired
18 generation. I accepted the position of Manager – Coal Transportation & Administration in
19 2006. Since then, I have held several positions of increasing responsibility related to energy
20 and fuel management. My current position is Senior Manager – Energy & Fuels Trading

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1 for Ameren Missouri. Prior to joining Ameren, I worked nearly 10 years at MidAmerican
2 Energy Company and its predecessor companies in various roles in power plant
3 maintenance engineering, construction engineering and fuel purchasing. I have a Bachelor
4 of Science Degree in Mechanical Engineering from Missouri University of Science &
5 Technology and a Master of Business Administration from Maryville University. I am also
6 a registered Professional Engineer in the states of Missouri and Illinois.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to respond to the Missouri Public
9 Service Commission ("Commission") Staff Report Cost of Service dated December 4,
10 2019. More specifically, I will respond to Staff Witness Matthew R. Young's direct
11 testimony, in Section H. Fuel Inventories, regarding on-site coal inventory and the Staff's
12 position to exclude coal-in-transit from rate base in this case. I will explain why coal-in-
13 transit is a necessary component of Ameren Missouri's coal inventory management and
14 should be included in rate base.

15 **II. ON SITE COAL INVENTORY**

16 **Q. Are there any disputes about coal inventory located on site at the**
17 **energy centers?**

18 A. I do not believe so. Ameren Missouri is in agreement with the Staff on using
19 the on-site coal inventory tonnage determined using the thirteen-month average for the
20 period of December 2017 through December 2018 as shown in tab Coal Inv.
21 Normalization, cell C:16 on Matthew R. Young's work paper "Conf_ER-2019-0335_Fuel
22 Inventory_Young_Direct" and using that tonnage when it completes the true-up revenue
23 requirement. Staff and Ameren Missouri are also in agreement that using coal inventory

1 levels for 2019 to update coal inventory balances in rate base would not be representative
2 of coal inventories due to atypical weather events (e.g. bomb cyclone and flooding)
3 significantly hindering the ability to maintain coal inventory during 2019.

4 **Q. Using the agreed-upon tonnage, what is the dollar amount that would**
5 **be included in coal inventory (putting aside the coal-in-transit issue addressed later**
6 **in your testimony)?**

7 A. Using the agreed-upon tonnage, the coal fuel inventory to be included in
8 rate base is **** _____ ****. An additional **** _____ **** of coal-in-transit should also
9 be included in rate base, as addressed below. The total value of tonnage included in rate
10 base should be **** _____ ****, which includes both on site and coal-in-transit tonnage.

11 **III. COAL-IN-TRANSIT ISSUE**

12 **Q. Please summarize the coal-in-transit issue.**

13 A. Staff argues that coal-in-transit should be excluded from rate base because
14 it is en route to Ameren Missouri's energy centers and because of Staff's claim that it is not
15 "usable." Those arguments were rejected by the Commission when this issue was litigated
16 in File No. ER-2012-0166, with the Commission finding that Ameren Missouri owns the
17 coal-in-transit when it is loaded into the coal railcars at the mines. It is recorded on the
18 Company's books at that time and this is what is used, which has been proven to be useful
19 and should be included in rate base. See *Report and Order*, File No. ER-2012-0166, pp.
20 56-60. Absolutely nothing has changed since the Commission ruled that coal-in-transit is
21 a proper rate base item and Staff's position should be rejected in this case, as it was before.
22 For the Commission's convenience, a copy of its decision relating to coal-in-transit is
23 attached to my testimony as Schedule JSJ-R1.

1 **Q. Why should coal-in-transit be included in rate base?**

2 A. For the reasons previously given, with which the Commission has already
3 agreed. The Commission recognized that the coal-in-transit becomes Ameren Missouri's
4 property when it is loaded in the railcar at the mine, which generally takes three to four
5 days to reach the energy center. The value of the coal and transportation is recorded on the
6 Company's books as inventory cost when it is loaded into the railcars because Ameren
7 Missouri uses an accrual method of accounting (Note: The Sioux Energy Center is the
8 exception because the coal-in-transit is owned by the coal refiner and not included as
9 Ameren Missouri coal inventory). *Id.*, pp. 57-59.

10 **Q. If coal is lost in transit, as in a derailment, who is responsible for**
11 **making a claim with the railroad for the lost coal?**

12 A. Since Ameren Missouri owns the coal at that point, Ameren Missouri would
13 be required to make the claim with the railroad and would in turn receive payment from
14 the railroad for the lost coal. In situations where the loss of coal-in-transit is not the
15 responsibility of the railroad (e.g., a derailment for which the railroad has no fault), Ameren
16 Missouri bears the risk of loss since it owns the coal.

17 **Q. Is Ameren Missouri's obligation to pay for coal related to whether or**
18 **not the coal has been delivered to an Ameren Missouri energy center?**

19 A. No. As previously noted, Ameren Missouri takes title to the coal as it is
20 loaded into its railcars at the mine. At this point Ameren Missouri owns the coal. The
21 railroads invoice Ameren Missouri for the coal transportation when it is loaded. The coal

1 suppliers typically invoice Ameren Missouri twice per month. Coal invoices are usually
2 due in ten days and invoices for the transportation are usually due in 15 days. Generally,
3 the coal is in transit for three or four days before it is physically on-site at the energy
4 center. However, Ameren Missouri would still have to pay for the coal even if for some
5 reason delivery was delayed and the coal was still held in a railcar.

6 **Q. Is it Staff's position that coal-in-transit should not be included in rate**
7 **base because it is not usable correct?**

8 A. No, Staff is simply incorrect in claiming that the coal-in-transit is not usable.
9 In-transit coal, which is an asset owned by Ameren Missouri, is essential and useful to the
10 energy center because this coal is necessary to ensure that the plant has enough coal on-
11 site to burn to produce electricity. The coal inventory that is usable to Ameren Missouri
12 and its customers is not static, but instead, is dynamic; in other words, coal-in-transit is
13 coal that the energy center requires to replenish the continuous removal of on-site coal as
14 it is used to produce electricity. Without the continuous flow of this inventory in the coal
15 supply chain, the ongoing operation of the plant could not be maintained due to the high
16 coal consumption rates. Simply put, coal-in-transit is necessary for Ameren Missouri to
17 generate electricity for its customers, and consequently its costs should be included in rate
18 base.

19 **Q. Does Ameren Missouri include both the coal on-site and coal-in-transit**
20 **inventory in its analysis of operational needs of each coal-fired energy center?**

21 A. Yes. When analyzing the operational coal inventory needs of each coal
22 plant, Ameren Missouri considers coal supply replenishment (coal-in-transit). In fact, due

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- 1 to the high consumption rates, coal delivery (coal-in-transit) is a very important component
- 2 of making sure there is sufficient coal available to generate electricity.

3 **Q. Does that conclude your rebuttal testimony?**

4 A. Yes.

**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 Decrease Its Revenues for)
Electric Service.) File No. ER-2019-0335

AFFIDAVIT OF JEFFREY S. JONES

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

COMES NOW Jeffrey S. Jones, and on his oath declares that he is of sound mind and lawful age; that has prepared the foregoing *Rebuttal Testimony*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.



Jeffrey S. Jones

Subscribed and sworn to before me this 21st day of January, 2020.



Notary Public

My commission expires:

GERI A. BEST Notary Public - Notary Seal State of Missouri Commissioned for St. Louis County My Commission Expires: February 15, 2022 Commission Number: 14839811
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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**



In the Matter of Union Electric Company, d/b/a)
Ameren Missouri's Tariff to Increase Its Annual)
Revenues for Electric Service)

File No. ER-2012-0166
Tariff No. YE-2012-0370

REPORT AND ORDER

Issue Date: December 12, 2012

Effective Date: December 22, 2012

Missouri's perspective, RES costs are simply an expense that should be recovered quickly rather than over the life of the equipment. That suggests a short amortization period is appropriate.

6. Typically, the items the Commission will allow a utility to include in its rate base are investments in plant, fuel inventories and other capital items.¹⁶⁴ Since these RES costs are not capital items and will be amortized over a short period, inclusion of those costs in rate base would not be appropriate.

Conclusions of Law:

There are no additional conclusions of law for this issue.

Decision:

Ameren Missouri shall recover \$6.3 million in past RES costs amortized over three years with the unamortized balance not included in rate base.

9. Coal Inventory, Including Coal-in-Transit: Should the value of Ameren Missouri's coal inventory include the value of coal in transit?

Findings of Fact:

1. Ameren Missouri must purchase massive amounts of coal to be burned in its coal-fired electric generating plants. That coal must be shipped to the generating plants from the coal mines. Ameren Missouri takes title to the coal as it is loaded into Ameren Missouri's railcars at the mine. Once the coal is delivered to the generating plant, its cost is added to plant inventory, dumped in a pile, and included within the company's rate base.¹⁶⁵

2. This issue concerns whether the coal-in-transit, in other words, the coal that is sitting in a railcar, or barge, between the mine and the generating plant, should also be

¹⁶⁴ Transcript, Page 1057, Lines 9-13.

¹⁶⁵ Neff Rebuttal, Ex. 18, Page 5, Lines 8-9.

included in rate base. Ameren Missouri contends the coal-in-transit should be included in rate base. Staff and MIEC oppose the inclusion of that coal in rate base.

3. It is important to remember that this is a rate base issue. In other words, the question is whether the company should be able to earn a return on the value of the coal-in-transit. The cost of the coal is not charged to ratepayers until it is actually burned at the power plant.¹⁶⁶

4. At any given moment, Ameren Missouri has large quantities of coal in transit, moving toward its generating plants.¹⁶⁷ The quantities and value of the coal-in-transit are highly confidential so an exact number will not be included in this report and order. However, inclusion of coal in-transit in rate base would increase Ameren Missouri's revenue requirement in this case by less than \$1 million.¹⁶⁸

5. Ameren Missouri takes title to the coal at the time it is put into its railcars at the mine. Thereafter, Ameren Missouri is the owner of the coal as it is being transported.¹⁶⁹ Generally, the coal is in transit for three or four days before it is added to inventory at the coal plant.¹⁷⁰

6. The mine sends Ameren Missouri an invoice for the coal as it is delivered to the railcars. Ameren Missouri typically pays that invoice about two weeks later. As a result, the coal is usually not paid for until it is sitting in the coal pile at the generating

¹⁶⁶ Transcript, Page 1411, Lines 5-13.

¹⁶⁷ Transcript, Page 1405, Lines 10-12.

¹⁶⁸ Transcript, Page 1419, Lines 2-6.

¹⁶⁹ Transcript, Page 1409, Lines 15-25.

¹⁷⁰ Transcript, Page 1408, Lines 20-24.

plant.¹⁷¹ However, payment is simply a timing matter, unconnected to where the coal is located. Ameren Missouri would still have to pay for the coal when invoiced even if for some reason delivery was delayed and the coal was still sitting in a railcar.¹⁷²

7. The amount of coal held in inventory in the coal piles at the generating plants was not at issue at the hearing in this case. However, MIEC argued that inclusion of coal in-transit as part of inventory would increase that inventory to a level higher than necessary.¹⁷³

8. There was a good deal of testimony offered about what would be an optimum amount of coal to hold in inventory at the plant, most of it highly confidential, but all such testimony misses the point. The coal-in-transit is not part of inventory and allowing it in rate base would not make it a part of inventory. Rather, it is a separate rate base item. As Ameren Missouri's witness explained, coal inventory is coal that is on site that the company knows it can burn. Coal that is in transit may never arrive because of some disruption. Therefore, it is not counted as part of the coal inventory reserve for purposes of determining whether there is enough coal on hand to avoid running out of coal and having to shut the plant down.¹⁷⁴

9. As previously indicated, Ameren Missouri actually pays for the coal approximately two weeks after it takes title to the coal at the mouth of the mine. Staff and MIEC contend that payment delay should preclude Ameren Missouri from including the coal-in-transit in rate base.

¹⁷¹ Transcript, Page 1400-1401, Lines 12-25, 1-17. This testimony was offered in camera, but the facts are not highly confidential.

¹⁷² Transcript, Page 1410, Lines 15-20.

¹⁷³ Meyer Surrebuttal, Ex. 511, Page 28, Lines 3-15.

¹⁷⁴ Transcript, Page 1413, Lines 1-16.

10. In response to that argument, Ameren Missouri's witnesses pointed out that it has not yet paid for approximately one quarter of the coal sitting in the coal pile, but no one was arguing that coal in inventory should not be included in rate base.¹⁷⁵ Staff's witness at the hearing did not challenge that argument, but in its reply brief, Staff attempted to change its position impose a new adjustment to reduce "by 25 percent the value of the coal pile to reflect that Ameren Missouri has no investment in that coal."¹⁷⁶ However, such a position was not supported by any witness at the hearing.

11. The arguments about the two-week delay in paying for the coal are without merit. Ameren Missouri uses an accrual method of accounting. The coal goes on the company's books as an owned item when it takes ownership of the coal at the mine.¹⁷⁷ Using an accrual method of accounting, the timing of cash payments for inventory items is not a consideration in determining whether an inventory item should be included in rate base. Qualifying capital cost items are included in rate base whether they are paid for in advance, at the time of delivery, or after delivery. The test is whether those items are used and useful, not when payment is made.

12. Ameren Missouri's lead-lag study recognizes a 17.14-day lead for the time between when the coal is loaded into the railcars and the time Ameren Missouri pays for it. There is also a \$53 million allowance for coal in the company's cash working capital allowance, which is also a rate base item. From this, Staff's witness argued for the first time at the hearing that allowing Ameren Missouri to include coal-in-transit in its rate base

¹⁷⁵ Transcript, Page 1421, Lines 2-12.

¹⁷⁶ Staff's Reply Brief, Page 34. Ameren Missouri filed a motion to strike that portion of Staff's brief on November 26, 2012. Staff responded on December 3 and agreed that its proposal to make a new adjustment in its reply brief was inappropriate and withdrew that portion of its brief. Ameren Missouri's motion to strike is now moot and on that basis is denied.

¹⁷⁷ Transcript, Page 1420, Lines 15-22.

would allow the company to double recover for that cost.¹⁷⁸

13. The double recovery argument is not persuasive. The 17.14-day lead associated with the coal-in-transit measures the amount of time Ameren Missouri has use of the coal before paying for it. In other words, recognizing the 17.14-day lead in the cash working capital allowance means that allowance is lower than it would be if the lead were not taken into account. Since the cash working capital allowance is already in rate base, recognizing the lead tends to reduce rate base. Thus, recognizing coal-in-transit in rate base does not amount to double recovery, rather it simply offsets a reduction to rate base that has already been taken through the adjustment of the cash working capital allowance through the lead-lag study.

14. Staff also argues in its brief that coal-in transit should not be included in rate base “because coal in transit has never been included in rate base in the 100 years of utility regulation in Missouri, that’s why.” Interestingly, Staff’s witness, Lisa Hanneken, indicated at the hearing that she could not make such a broad statement.¹⁷⁹ In any event, whether coal-in-transit has ever before been included in rate base is irrelevant. The Commission will make its decision on the evidence presented to it in this case, not on what may or may have not happened in the past hundred years.

Conclusions of Law:

There are no additional conclusions of law for this issue.

Decision:

Ameren Missouri shall include the value of coal in transit in its rate base.

¹⁷⁸ Transcript, Pages 1423-1424, Lines 3-25, 1-9.

¹⁷⁹ Transcript, Pages 1434-1435, Lines 20-25, 1-2.