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Witness: Jeffrey S. Jones
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Sponsoring Party: Union Electric Company
Case No.: ER-2016-0179
Date Testimony Prepared: January 20, 2017

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2016-0179

REBUTTAL TESTIMONY

OF

JEFFREY S. JONES

ON

BEHALF OF

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

**St. Louis, Missouri
January 2017**

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

2 A. My name is Jeffrey S. Jones and my business address is 1901 Chouteau
3 Avenue, St. Louis, Missouri 63103.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Union Electric Company d/b/a Ameren Missouri
6 (“Ameren Missouri” or “Company”) as Senior Manager, Energy & Fuels Trading.

7 **Q. Please describe your educational background and employment**
8 **experience.**

9 A. I am a mechanical engineer with 26 years of experience in the electric
10 power industry. In 1999, I joined Ameren Services Company as an engineer providing
11 engineering services for the Company and its affiliate in Illinois that also owned coal-
12 fired generation. Since then, I have held several positions of increasing responsibility
13 before I accepted the position in the fuel procurement area in 2006 as Manager – Coal
14 Transportation & Administration. On September 1, 2016, I began my current position as
15 Senior Manager – Energy & Fuels Trading. Prior to joining the Ameren companies, I
16 worked nearly 10 years at MidAmerican Energy Company or its predecessor companies
17 in various roles such as power plant maintenance engineering, construction engineering,
18 and fuel purchasing. I have a Bachelor of Science Degree in Mechanical Engineering
19 from Missouri University of Science & Technology and a Master of Business

1 Administration from Maryville University. I am also a registered Professional Engineer
2 in the states of Missouri, Iowa, and Illinois.

3 **Q. What are your responsibilities in your current position?**

4 A. My duties as Senior Manager – Energy & Fuels Trading are to direct a
5 team to prudently manage the energy and fuel portfolio for Ameren Missouri.

6 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

7 A. The purpose of my rebuttal testimony is to respond to the Missouri Public
8 Service Commission Staff Report on the Revenue Requirement Cost of Service
9 ("Report") filed on December 9, 2016. More specifically, I will respond to Report
10 Section VI. H. "Coal Inventory On-Site and Coal In-Transit," sponsored by Staff witness
11 Brian Wells. I will address three issues: (1) a change in amount of unusable coal in the
12 Meramec Energy Center's ("Meramec") main coal pile and in the Hillcrest coal pile; (2)
13 why coal that is in transit to the plants is in fact a proper and necessary component of
14 Ameren Missouri's coal inventory and should be included in rate base, as the
15 Commission has already ruled; and (3) why coal owned by coal refiners operating at two
16 of Ameren Missouri's coal-fired energy centers should be excluded from the rate base. I
17 will also clarify the unusable coal inventory at Meramec, and address the appropriate
18 level of oil inventory.

19 **Meramec and Hillcrest Inventory**

20 **Q. Do you agree with Staff's recommendation in the Report regarding**
21 **how the on-the-ground coal inventory levels at Meramec in the main coal pile and in**
22 **the Hillcrest coal pile should be determined?**

1 A. Yes. I agree with the concept that the on-the-ground coal inventory level
2 at Meramec (including the main pile and the Hillcrest pile) should be based on the "last
3 known level of coal inventory." Because inventory is being trued-up in this case through
4 December 31, 2016, the "last known level of coal inventory" is as of December 31, 2016.
5 The Staff's revenue requirement as discussed in the Report uses coal inventory levels as
6 of September 30, 2016, but the Staff indicates it will examine those levels as of
7 December 31, 2016. Consequently, I believe Staff and the Company are in agreement
8 regarding the level of coal inventory for Meramec (including Hillcrest) and that the final
9 inventory figures will use the December 31, 2016 levels.

10 **Coal-In-Transit**

11 **Q. Do you agree with Staff's recommendation in the Report to exclude**
12 **coal-in-transit balances from coal inventory?**

13 A. Not entirely. I agree that the coal-in-transit for the Sioux Energy Center
14 ("Sioux") should be excluded because that coal is owned by the coal refiner operating at
15 Sioux. Consequently, it is not part of Ameren Missouri's coal inventory at all. However,
16 the coal-in-transit for the Labadie Energy Center ("Labadie"), Rush Island Energy Center
17 ("Rush Island"), and Meramec ("Energy Centers" when referred to as a group) is owned
18 by Ameren Missouri and, as such, should be included in rate base consistent with the
19 Commission's decision the last time the Staff chose to pursue this position on coal-in-
20 transit.¹ The coal-in-transit in Ameren Missouri's inventory is just as essential and useful

¹ *Report and Order*, File No. ER-2012-0166, pp. 57 – 60 (Rejecting the argument the Staff is making again in this case, and concluding that coal-in-transit is part of Ameren Missouri's coal inventory for purposes of setting rate base, as is the coal in the coal piles).

1 to the Energy Centers to ensure the proper level of coal needed to produce electricity at
2 the plants is maintained as is the coal in the coal pile at each plant.

3 The coal inventory “usable” to Ameren Missouri and its customers is not a static
4 inventory sitting in a pile, but rather, is a dynamic one. In other words, coal-in-transit is
5 coal that the Energy Centers require to replenish the continuous consumption of on-site
6 coal as it is used to produce electricity. Without the continuous flow of this inventory in
7 the coal supply chain, the ongoing operation of the plants could not be maintained due to
8 the high coal consumption rates. Simply put, coal-in-transit is necessary for Ameren
9 Missouri to efficiently generate electricity for its customers, just as is the coal sitting in
10 the pile. Consequently, the cost of coal-in-transit should be included in rate base when it
11 is owned by Ameren Missouri, just as the cost of the coal sitting in the pile is included in
12 rate base.

13 **Q. What reason does Staff give for excluding coal-in-transit amounts**
14 **from rate base?**

15 A. Staff’s position is that only coal that is physically on-site at an Energy
16 Center is usable coal inventory, and therefore, the coal in Ameren Missouri's inventory
17 that is in transit should not be included in rate base.

18 **Q. Please explain your position that all the coal in Ameren Missouri's**
19 **inventory should be included in rate base.**

20 A. Coal typically becomes Ameren Missouri property (title transfers to the
21 Company) as it is loaded into the railcar at the mine, and the value of the coal and
22 transportation is placed in inventory at that point.² In addition, the coal in inventory,

² The only exception to this is that at Sioux, where Ameren Missouri does not own any coal until after the coal refiner has refined it.

1 even while it is in transit, serves an important purpose. Coal handling costs at the Energy
2 Centers can be minimized by having a nearly constant supply of coal-in-transit. In
3 addition, since Ameren Missouri owns title to this coal, Ameren Missouri has made the
4 investment in the coal and bears the risk of loss.

5 **Q. Does this mean that if coal is lost in transit, as in a derailment,**
6 **Ameren Missouri is responsible for making a claim with the railroad for the lost**
7 **coal?**

8 A. Yes. Since Ameren Missouri owns the coal-in-transit at Labadie, Rush
9 Island, and Meramec, Ameren Missouri must make the claim with the railroad, and
10 would receive payment from the railroad for the lost coal. In a situation where the loss of
11 coal-in-transit is not the responsibility of the railroad, Ameren Missouri would bear the
12 risk of loss since it owns the coal.

13 **Q. Is Ameren Missouri's obligation to pay for the coal dependent on**
14 **whether or not the coal has actually been delivered to one of its Energy Centers?**

15 A. No. As I previously mentioned, Ameren Missouri takes title to the coal as
16 it is put into its railcars at the mine. At that point, Ameren Missouri owns the coal. The
17 railroad sends Ameren Missouri an invoice for the coal as it is delivered in the railcars.
18 Invoices for the coal are aggregated over 15 days and then sent to Ameren Missouri.
19 Coal invoices are usually due in 10 days and invoices for the transportation are usually
20 due in 15 days. Typically the coal is in transit for three or four days before it is
21 physically on-site at the Energy Center. However, Ameren Missouri would still have to
22 pay for the coal even if for some reason delivery was delayed and the coal was still held
23 in railcars.

1 **Q. Does Ameren Missouri consider the volume of coal in its inventory**
2 **that remains in transit when it analyzes and determines the operational coal**
3 **inventory needs of its plants?**

4 A. Yes. When analyzing the operational coal inventory needs of each coal
5 plant, Ameren Missouri considers all of the coal it owns as well as the coal-in-transit at
6 Sioux that is owned by the coal refiner. In fact, due to the high consumption rates, coal-
7 in-transit is a very important component of maintaining proper coal inventory levels.

8 **Q. One of the arguments the Staff has previously made for excluding**
9 **coal-in-transit from rate base was that Ameren Missouri’s cash working capital**
10 **lead-lag study recognizes a 13.7-day lead for the time between when coal is loaded**
11 **into railcars and the time Ameren Missouri pays for the coal, and allowing the**
12 **Company to include coal-in-transit in rate base would mean the Company would**
13 **double-recover the cost of coal-in-transit. Did the Commission accept that**
14 **argument?**

15 A. No. The Commission stated in its Report and Order that “recognizing
16 coal-in-transit in rate base does not amount to double recovery; rather it simply offsets a
17 reduction to rate base that has already been taken through the adjustment of the cash
18 working capital allowance through the lead lag study.”³ That conclusion remains true
19 today.

20 **Q. Was the coal-in-transit inventory an issue in the last two rate cases**
21 **(File Nos. ER-2012-0166 and ER-2014-0258)?**

³ Report and Order (File No. ER-2012-0166) at p. 60, ¶ 13.

1 A. Yes, it was.

2 **Q. How was the coal-in-transit issue resolved in those cases?**

3 A. As noted, in File No. ER-2014-0258, the issue of whether to include in
4 inventory the coal that remained in transit was presented to the Commission, which
5 rejected Staff's position and ruled that this coal was properly part of Ameren Missouri's
6 coal inventory and should be included in rate base like all coal inventory. In File No.
7 ER-2016-0166, Staff made the same argument, but the issue was resolved through
8 settlement and not taken to hearing.

9 **Q. Have there been any changes in the way that Ameren Missouri has**
10 **treated coal remaining in transit since either the 2012 or 2014 cases?**

11 A. No. All the reasons supporting the Commission's decision to reject the
12 Staff's argument the 2012 case continue to be valid in this case.

13 **Coal Refiner-Owned Coal**

14 **Q. Do you agree with Staff's recommendation to include in rate base coal**
15 **refiner-owned coal at the Labadie, Rush Island, and Sioux Energy Centers?**

16 A. No, I believe the Staff made a mistake in including this coal in rate base.
17 The coal refiner-owned coal at the Rush Island and Sioux Energy Centers⁴ should not be
18 included in rate base because this coal is not owned by Ameren Missouri. In addition,
19 excluding these amounts would be consistent with past practice.

20 **Unusable Coal Inventory**

21 **Q. Why did the unusable inventories of the Meramec main pile and**
22 **Hillcrest pile change?**

⁴ There is no such coal at Labadie, as coal refining operations there ceased earlier in 2016.

1 A. In April 2011, Ameren Missouri determined that the unusable inventory of
2 the Meramec main pile was 40,000 tons and that the unusable inventory of the Hillcrest
3 pile was 25,000 tons. Previously, the figures were 45,000 tons for the Meramec main
4 pile and 0 tons for the Hillcrest pile. The 40,000 and 25,000 ton figures have been used
5 since April 15, 2011. These unusable coal inventory estimates were updated by
6 knowledgeable plant operators based on their examination of the coal piles.

7 **Q. Please summarize your position on coal inventory.**

8 A. Conceptually, I agree that coal inventory at all four of the coal-fired
9 Energy Centers should reflect the level of usable coal at the centers as of December 31,
10 2016, the true-up cutoff date in this case, including coal in inventory that is owned by
11 Ameren Missouri and is in transit to the plants. The coal owned by coal refiners should
12 not be included in coal inventory. Finally, the unusable coal in the piles at Meramec and
13 Hillsdale should be 40,000 tons and 25,000 tons, respectively.

14 **Q. Does this conclude your rebuttal testimony?**

15 A. Yes.

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

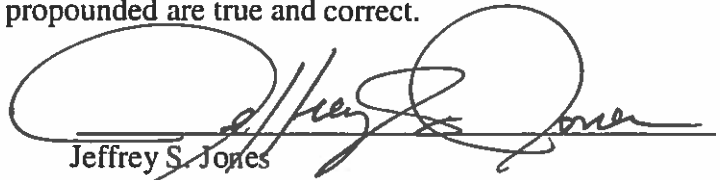
In the Matter of Union Electric Company)
d/b/a Ameren Missouri's Tariffs to) File No. ER-2016-0179
Increase Its Revenues for Electric Service.)

AFFIDAVIT OF JEFFREY S. JONES

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

Jeffrey S. Jones, being first duly sworn on his oath, states:

1. My name is Jeffrey S. Jones. I work in the City of St. Louis, Missouri, and I am employed by Ameren Services Company as Senior Manager, Energy and Fuels Trading.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 8 pages and Schedules NA, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.


Jeffrey S. Jones

Subscribed and sworn to before me this 17th day of January, 2017.


Notary Public

My commission expires:

