Exhibit No.:	
Issue(s):	Coal Inventory, FAC, Refined Coal Lease, Diesel Hedging Costs
Witness:	Robert K. Neff
Sponsoring Party:	Union Electric Company
Type of Exhibit:	Rebuttal Testimony
Case No.:	ER-2012-0166
Date Testimony Prepared:	August 14, 2012

MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2012-0166

REBUTTAL TESTIMONY

OF

ROBERT K. NEFF

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

**** DENOTES HIGHLY CONFIDENTIAL INFORMATION****

St. Louis, Missouri
August, 2012

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ROBERT K. NEFF

CASE NO. ER-2012-0166

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Robert K. Neff. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom and in what capacity are you employed?

A. I am employed by Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company") as Director of Coal Supply.

Q. Please describe your employment history as it relates to the Company.

A. My work experience includes 24 years in positions relating to coal procurement and coal transportation, and 6 years in natural gas procurement and retail electric marketing.

Q. Please describe your duties and responsibilities as Director of Coal Supply.

A. My primary responsibilities are to obtain adequate coal supplies and related transportation for the four coal-fired power plants operated by Ameren Missouri.

Q. Please describe your qualifications.

A. I received a Bachelors Degree in Mechanical Engineering from Washington University in St. Louis and a Masters in Business Administration from Southern Illinois University. I am a registered Professional Engineer in the State of Missouri and I am also a

Certified Energy Manager. Prior to joining Union Electric Company in 1982, I worked at the Missouri Pacific Railroad in various engineering and operating positions. I also worked as a Product Engineer at the railcar manufacturing firm of American Car and Foundry.

Q. What is the purpose of your rebuttal testimony?

A. One purpose of my rebuttal testimony is to explain certain events that affected coal inventory levels in the test year, and to explain why adjustments should be made to the average inventory values traditionally used to set rates in prior rate cases. Another purpose is to address why the change to the Fuel Adjustment Clause ("FAC") sharing mechanism from 95%/5% to 85%/15%, as proposed by Staff, would inappropriately cause the Company to absorb a significant amount of prudently-incurred delivered coal costs at a time when ultra-low sulfur fuel has been purchased to comply with the Cross-State Air Pollution Rule ("CSAPR"). Finally, my testimony will address the appropriate level of revenues from a refined coal lease to include in the Company's revenue requirement and the appropriate level of diesel fuel hedging costs.

II. <u>COAL INVENTORY</u>

Q. How has the amount and value of coal inventory been determined in the rate base calculation in the Company's prior rate cases?

A. The value of coal inventory for inclusion in rate base was determined by multiplying the average amount of coal in inventory (in tons) over a 13-month period ending with the true-up date, by the current price per ton of the coal.

Q. Is this particular average coal inventory level appropriate for this rate case?

A. No, it is not because there were anomalies in coal deliveries during this period that distort the average.

Q. Please explain.

A. The amount of coal in inventory in certain months utilized in Staff's calculation was considerably less than normal due to delivery issues associated with flooding along the Missouri River. These were floods that closed part of I-35 in Northwestern Missouri, and which caused devastating damage in Missouri, Iowa, Kansas and Nebraska last summer. This flooding also covered the tracks used by the railroads to deliver coal to Ameren Missouri plants. Both railroads which haul coal to Ameren Missouri plants, the Union Pacific and the Burlington Northern Santa Fe ("BNSF"), were affected by the flooding, and both declared force majeure under the provisions of the Company's rail contracts. A force majeure condition is an event outside of the railroad's control which prevents its performance under the contract. The BNSF declared force majeure on June 6, 2011, and terminated the force majeure on September 13, 2011. The Union Pacific declared force majeure on June 29, 2011 and terminated the force majeure on September 26, 2011.

Q. What happened in the period of time when flooding disrupted railroad deliveries?

A. The railroads were forced to re-route trains around the flooded areas, slowing transit times and reducing the amount of coal delivered. To maintain plant generation, coal was burned out of inventory to cover the shortfall in railroad deliveries. As a result, inventories were reduced substantially below their normal levels for several months.

Q. What is Ameren Missouri's target coal inventory level at each of its coal-fired plants, and how much were inventories reduced because of the floods?

A. Ameren Missouri's inventory policy states that a **[redacted]** The Meramec, Rush Island, and Sioux plants have a specified target inventory level of **[redacted]** days, while Labadie has a specified target level of **[redacted]** days. As shown in data furnished in response to Staff Data Request 86, system-wide coal inventory fell from **[redacted]** days on May 31, 2011 to **[redacted]** days on August 31, 2011. In the fourth quarter of 2011, railroad performance began to improve, and inventory levels returned to **[redacted]** days on March 31, 2012. The coal inventory level has been at or above the **[redacted]** day level since then.

Q. What adjustments are you recommending to account for the unusual events which occurred beginning in the summer of 2011?

A. Ameren Missouri is recommending that the plant inventory levels be adjusted to account for the disruptions in deliveries. These delivery disruptions were beyond the Company’s control, and were the type of disruptions for which inventory is kept to assure uninterrupted generation. Ameren Missouri is recommending that the months of July 2011 through December 2011 be removed from the average inventory calculation due to the extraordinary events which lowered the inventory in those months.

Q. What is the effect of this change on the average inventory calculation?

A. The average inventory using the data from July 2011 to July 2012 is **[redacted]** tons. Removing July 2011 through December 2011 from the calculation results in an average fuel inventory of **[redacted].** This amount is very close to the Company's inventory target of **[redacted].** Current inventories as of 7/31/12 are **[redacted]** tons. Using the annualized fuel cost calculation, the inventory value is

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[redacted] using the revised calculation versus **[redacted]** for the 13-month average. This calculation produces similar results to what the 13-month average would have been if the coal delivery disruptions had not occurred. A 13-month average has generally been used by both the Staff and the Company in recent rate cases. As discussed above, modifications to that approach are warranted here due to the floods.

Q. Are there other changes that are recommended to determine the proper coal inventory value in rate base?

A. Yes. Ameren Missouri takes title to coal as it is loaded into Ameren Missouri railcars at the mine. This cost is added to plant inventory cost when the trains are unloaded. Therefore Ameren Missouri is also recommending that coal-in-transit, that is, coal that has been purchased and loaded into Ameren Missouri railcars but has not yet arrived at the plant, be added to the amount in inventory at the plant to establish the inventory amount to be included in rate base. This is consistent with practice in prior rate cases.

Q. What quantity of coal do you propose to include as in-transit inventory?

A. An average in-transit inventory for the same 7 month average time period of January 2012 to July 2012 - **[redacted]** tons is proposed.

Q. What is the value of the coal that you propose to include as in-transit inventory?

A. The value of this coal in-transit is **[redacted]** based on the annualized fuel cost calculation.

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III. FUEL ADJUSTMENT CLAUSE

Q. Please address the second topic of your testimony, the sharing mechanism of the FAC.

A. In its Revenue Requirement Cost of Service Report ("Staff Report"), Staff recommends that Ameren Missouri's FAC sharing mechanism be changed to 85%/15% from 95%/5%.

Q. Why does Staff recommend that change?

A. Staff argues that the Commission should "take into consideration how little incentive Ameren Missouri has with its current sharing mechanism to improve the efficiency and cost-effectiveness of its fuel and purchased power procurement activities…. Changing the sharing mechanism of Ameren Missouri's FAC to 85%/15% will increase that incentive." (Staff Report, pp. 166-67).

Q. Do you believe that a change to 15% sharing is necessary to increase the Company's incentives in the fuel area?

A. No. The Company has done an excellent job in procuring reliable and low-cost fuel for its plants, and a change to 15% sharing would be nothing more than a penalty requiring the Company to absorb a significant amount of prudently-incurred costs rather than an incentive.

Q. Why do you call the 15% level a penalty?

A. The 15% sharing would penalize Ameren Missouri for proactively complying with the CSAPR regulations. In 2011, Ameren Missouri signed a **[redacted]** contract with Peabody Coal sales to purchase ultra-low sulfur coal. This coal will allow Ameren Missouri to delay the installation of expensive (estimated $1.5 billion) scrubbers until 2018 or beyond and still meet the CSAPR emissions requirements. This contract has **[redacted] ** prices for the entire **[redacted]** million tons over the **[redacted]** term. The **[redacted]** per year. 5% of this amount is **[redacted]** million, meaning that even at 5% sharing, **[redacted]** million of prudently-incurred coal commodity costs associated with this contract will not be recovered. But if the percentage is increased to 15%, three times as much-- **[redacted]** million of prudently-incurred coal commodity costs--will not be recovered. And if the Company does not file a rate case for several years, these annual losses would multiply.

Q. Are there other penalties associated with the 15% sharing?

A. Yes, corresponding rail contracts were signed in conjunction with the Peabody contract. The rates in these rail contracts also **[redacted]** The **[redacted]** in 2012 are estimated to total **[redacted]** over the **[redacted]**, or an average of **[redacted].** 5% of this amount is **[redacted]**, while the proposed 15% is, again, three times as much, or **[redacted].** Again, these annual sharing amounts would multiply if the Company did not file a rate case for several years.

Q. Is there any way these cost increases could be avoided?

A. No. These contracts are in effect and **[redacted]** Changing the sharing percentage under the FAC would automatically transfer prudently-incurred costs to Ameren Missouri from its customers without any showing of imprudence whatsoever. In the case of the **[redacted]. **

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Q. The Staff testimony also mentions that a sharing mechanism of 85%/15% would provide the Company with a greater incentive to accurately estimate the net base energy cost factors (Staff Report, p. 163, l. 20-22). Are there other means to more accurately estimate these costs?

A. Yes. For example, known future contract increases could be factored into net base fuel cost calculations set in rate cases. For delivered coal costs alone, factoring in known increases taking effect January 1, 2013, which is before the operation of law date in this case, would more accurately reflect net fuel costs by **[redacted].** Based on Staff's concerns, the Company will increase its fuel costs as part of its true-up filing to reflect the January 1, 2013 delivered coal cost increases.

IV. REFINED COAL LEASE

Q. Are there any other coal issues that you would like to address?

A. Yes, the lease payments from Coal Emission Reduction Technologies, LLC ("CERT") for refined coal at the Rush Island plant are currently included as a credit against plant operations and maintenance ("O&M") costs. **[redacted].**

V. DIESEL FUEL HEDGE COSTS

Q. The Staff included **[redacted] per ton for recovery of diesel fuel hedge costs in their average coal cost calculation. Is this a proper amount?**

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A. No. From information provided in response to MPSC DR 440s1, the actual expenditures for the diesel fuel hedging costs for the test year August 2011 to July 2012 were ** [redacted]** per ton. The trued-up test year average is the proper amount to include in the average coal cost calculation. The Company will include this amount in its true-up filing.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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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 Tariffs to Increase Its Annual Revenues for Electric Service.	)))	File No. ER-2012-0166

AFFIDAVIT OF ROBERT K. NEFF

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

Robert K. Neff, being first duly sworn on his oath, states:

1. My name is Robert K. Neff. I am employed by Union Electric Company d/b/a Ameren Missouri as Director of Coal Supply.

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 9 pages and Schedule(s) N/A, 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.

Robert K Neff
Robert K. Neff

Subscribed and sworn to before me this 9 day of August, 2012.

Carletta Giesler
Notary Public

My commission expires: Nov 2, 2013

CARLETTE GIESLER
MY COMMISSION EXPIRES 11/02/13
NOTARY PUBLIC
NOTARY SEAL
COMMISSION #09401289
ST. GENEVIEVE COUNTY
STATE OF MISSOURI