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Inventory Level  
Witness: Robert K. Neff  
Sponsoring Party: Union Electric Company  
Type of Exhibit: Rebuttal Testimony  
Case No.: ER-2008-0318  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**Case No. ER-2008-0318**

**REBUTTAL TESTIMONY**

**OF**

**ROBERT K. NEFF**

**ON**

**BEHALF OF**

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

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

**St. Louis, Missouri  
October, 2008**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **ROBERT K. NEFF**

4 **CASE NO. ER-2008-0318**

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

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

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

9 A. I am employed by AmerenEnergy Fuels and Services (“AFS”) as Vice  
10 President of Coal Supply.

11 **Q. Are you the same Robert K. Neff who filed direct testimony in this case?**

12 A. Yes, I am.

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

14 A. The purpose of my rebuttal testimony is to respond to certain parts of the  
15 testimonies<sup>1</sup> of Staff witness Lena Mantle, Noranda Aluminum, Inc.  
16 (“Noranda”) witness Donald Johnstone, State of Missouri (“State”) witness  
17 Martin Cohen, and Missouri Industrial Energy Consumers (“MIEC”) witness  
18 Maurice Brubaker. These witnesses all testify to varying degrees regarding  
19 coal cost uncertainty and about AmerenUE’s ability to manage its fuel costs.  
20 In response to these witnesses, I explain AmerenUE’s cost exposure to the  
21 volatile coal markets, the reasons why a fuel adjustment clause (“FAC”) is  
22 needed to protect AmerenUE from the effects of the coal markets, and why

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<sup>1</sup> When I refer to “testimonies,” I am including references to particular Staff members who sponsored portions of the Staff’s August 28, 2008 Cost of Service Report.

1 granting AmerenUE an FAC would not cause coal costs to rise. I also rebut  
2 the portion of Staff witness John Cassidy’s testimony regarding coal inventory  
3 levels, including a discussion of the proper calculation of coal inventory levels  
4 and the appropriate amount to be included in rates.

5 **A. AmerenUE’s fuel cost exposure justifies a fuel adjustment clause.**

6  
7

8 **Q. Are you familiar with the criteria previously considered by the**  
9 **Commission when considering FAC requests, as cited by Staff Witness**  
10 **Mantle (p. 60, Staff Cost of Service Report)?**

11 A. Yes. The Commission has previously considered three non-statutory criteria  
12 relating to FACs, as follows: The degree to which fuel costs are: 1.  
13 Substantial enough to have a material impact upon revenue requirements and  
14 the financial performance of the business between rate cases; 2. Beyond the  
15 control of management, where utility management has little influence over  
16 experienced revenue or costs levels; and 3. Volatile in amount, causing  
17 significant swings in income and cash flows if not tracked. In addition, as  
18 pointed out in the rebuttal testimony of AmerenUE witness Martin J. Lyons,  
19 Jr., there is a statutory criterion contained in SB 179, which provides that an  
20 FAC must be “reasonably designed to provide the utility with a sufficient  
21 opportunity to earn a fair return on equity.”

22 **Q. With regard to the first criterion, are fuel costs, including coal costs,**  
23 **substantial enough to have a material impact upon the financial**  
**performance of the business between rate cases?**

1           A.     Yes. AmerenUE’s coal costs alone are much greater than its net income. As  
2                    Mr. Lyons notes in his direct testimony (page 9), normalized delivered coal  
3                    costs for the test year in this case were \$581 million. AmerenUE’s pretax net  
4                    income for 2007 was \$427 million. In my direct testimony, I stated the  
5                    budgeted delivered coal cost increases for the 2009-2012 time period. The  
6                    *average* of these budgeted annual coal cost increases over the 2009-2012  
7                    timeframe is projected to be **\*\* \_\_\_\_\_ \*\*** million (**\*\* \_\_\_\_\_ \*\*** annually).  
8                    Without an FAC, these annual increases in coal costs would result in  
9                    substantial decreases in net income until time-consuming rate cases to recover  
10                   these increases could be filed and approved. As I address below, the lag  
11                   inherent in the rate case process would result in tens of millions of dollars of  
12                   unrecovered coal cost increases.

13           **Q.     On page 62 of the Staff Cost of Service Report, Staff Witness Mantle**  
14                   **states “AmerenUE does not need a FAC from this case. Higher fuel costs**  
15                   **can be adequately and appropriately addressed in the next rate case.”**  
16                   **Other witnesses, including Mr. Johnstone (at p. 12, l. 7-9 of his direct**  
17                   **testimony), and Mr. Cohen (at pp. 5-10 of his direct testimony) also argue**  
18                   **that a rate case is the proper way to recover fuel costs. Did the last rate**  
19                   **case that AmerenUE filed (Case No. ER-2007-0002) allow AmerenUE to**  
20                   **recover its increased fuel costs in 2007?**

21           A.     No. While the Company timed its last rate case so that it could include  
22                   delivered coal cost increases beginning January 1, 2007, the rates from that

1 case did not go into effect until June 2007. Consequently, AmerenUE lost  
2 five months of coal cost increases, or \$42.2 million, in 2007.

3 **Q. Will the current rate case allow recovery of increased fuel costs that**  
4 **occurred in 2008?**

5 A. No. Further increases in AmerenUE delivered coal costs that are not reflected  
6 in the rates that were set in June 2007 took effect on January 1, 2008. Rates  
7 for this rate case will not take effect until approximately March 1, 2009. This  
8 means that 14 months of coal cost increases effective January 1, 2008, or  
9 **\*\* \_\_\_\_\_\*\*** million, will be unrecovered, even though AmerenUE filed this  
10 rate case less than one year after the end of its last one. These calculations are  
11 reflected in Table RKN-R1.

12 **\*\***

13 **\*\***  
14 **\*\***

15 **Q. What then is the total of this under-recovery of coal cost increases for**  
16 **2007 and 2008, the time period covered by this rate case and the prior**  
17 **rate case?**

18 A. The regulatory delay associated with the current and previous rate case will  
19 lead to a total **\*\* \_\_\_\_\_\*\*** million in unrecovered coal costs over that period.

1           **Q.     After this rate case, even if AmerenUE pursues an aggressive rate case**  
2                   **filing schedule of filing a new rate case on July 1, 2009 and every 12**  
3                   **months thereafter, would AmerenUE still continue to under-recover its**  
4                   **delivered coal costs?**

5           A.     Yes. Additional coal cost increases will occur on January 1, 2009, that will  
6                   not be reflected in the rates set in this case at all. In fact, under a best case  
7                   scenario, where yet another rate case is filed in mid-2009, these higher 2009  
8                   coal costs would not be reflected in rates until approximately June 1, 2010.  
9                   This means that approximately **\*\* \_\_\_\_\_\*\*** million of higher 2009 coal costs  
10                  will also be under-recovered unless an FAC is implemented for AmerenUE.  
11                  In addition, as shown in Table RKN-R1, even if a rate case is filed on July 1,  
12                  2009, and thereafter additional rate cases are filed on an aggressive 12 month  
13                  filing cycle (July 1, 2010, and another on July 1, 2011), a further **\*\* \_\_\_\_\_\*\***  
14                  million under recovery of 2010, 2011 and 2012 coal cost increases is expected  
15                  to occur based on the budgeted coal cost increases I reflected in my direct  
16                  testimony.

17           **Q.     What then is the total projected under-recovery of coal costs for the 2007**  
18                   **to 2012 timeframe assuming no FAC and using actual and budgeted costs**  
19                   **from your direct testimony and assuming rate cases are filed July 1 of**  
20                   **2009, 2010, and 2011?**

21           A.     The estimated under-recovery for this six year time period is **\*\* \_\_\_\_\_\*\***  
22                   million using actual and budgeted costs from my direct testimony. Actual  
23                   future costs could, of course, differ significantly from these budgeted figures.

1                   Importantly, this under-recovery would occur despite AmerenUE's extensive  
2                   forward hedging efforts.

3                   **Q. In your direct testimony, you projected future coal cost increases based**  
4                   **on expected, high and low projections of the coal markets. How much**  
5                   **larger could the total under-recovery of coal costs be for the 2007-2012**  
6                   **timeframe based upon these high and low projections?**

7                   A. As shown in Table RKN-R2, if the high case for coal markets from my direct  
8                   testimony is used instead of the budgeted case, the under-recovery for this  
9                   time period would increase to **\*\* \_\_\_\_\_\*\*** million for the same six-year  
10                  period. The fact that this under-recovery amount exceeds the under-recovery  
11                  under these budgeted amounts by more than **\*\* \_\_\_\_\_\*\*** million also  
12                  illustrates the significant coal cost uncertainties AmerenUE faces despite our  
13                  effort to hedge much of this coal cost uncertainty.

14   \*\*

15   \*\*  
16   \*\*

17                  **Q. Staff witness Mantle states on page 63 of the Staff Cost of Service Report**  
18                  **that “coal prices have not been volatile like natural gas and spot**  
19                  **purchased-power prices.” Is it reasonable to assume that coal prices**



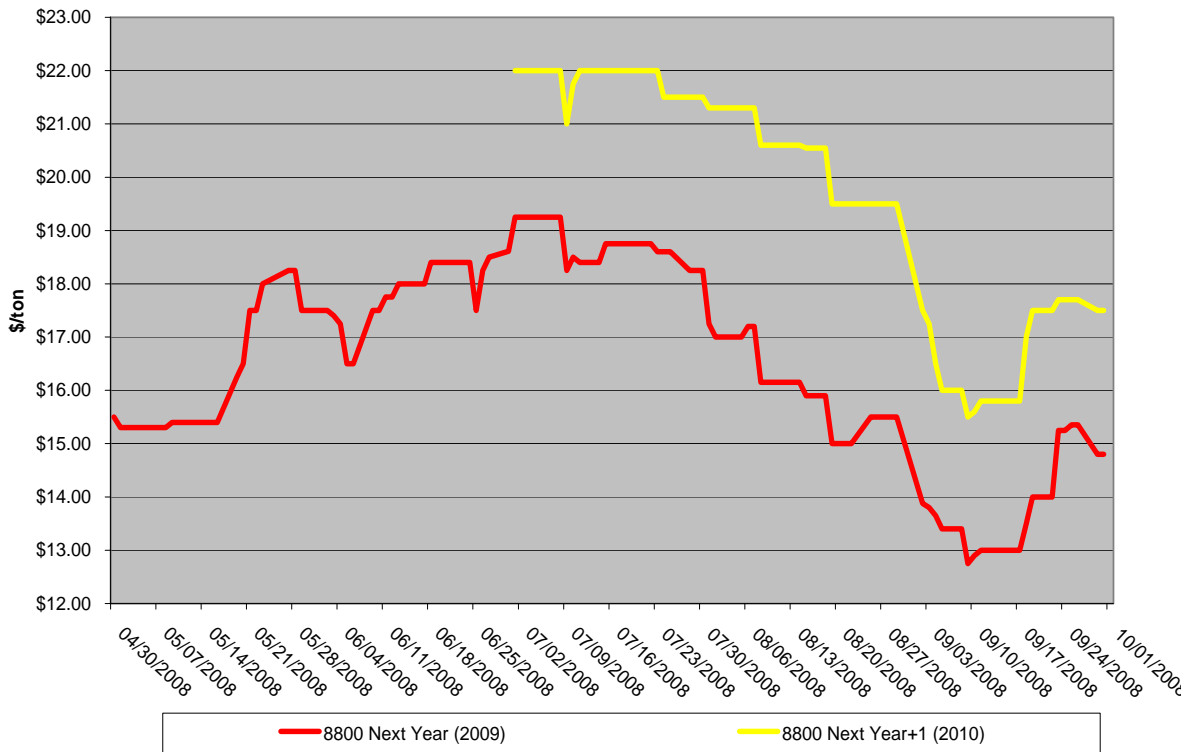
1                   **could ever reach the levels used in the “high case” set out in your direct**  
2                   **testimony?**

3           A.    Yes. Coal markets have seen unprecedented volatility. As AmerenUE witness  
4           Ajay Arora discusses in his rebuttal testimony, coal prices have shown  
5           volatility similar to natural gas prices. In my direct testimony (p. 20, l. 8-11),  
6           I estimated that a possible “high case” for 8800 Btu/lb, 0.80 lb. SO<sub>2</sub>/MMBtu  
7           Powder River Basin (Wyoming) (PRB) coal, based upon information I had as  
8           of the time I prepared that testimony in April of this year. My estimate at that  
9           time of the highest coal price one could reasonably expect through 2012 was  
10          \*\* \_\_\_\_\_ \*\*/ton in 2009, \*\* \_\_\_\_\_ \*\*/ton in 2010, rising to \*\* \_\_\_\_\_ \*\*/ton in  
11          2012. A graph of PRB spot price movement since my direct testimony was  
12          prepared is shown in Figure RKN-R1. As this figure shows, my high  
13          estimates were too low. \*\* \_\_\_\_\_  
14          \_\_\_\_\_  
15          \_\_\_\_\_  
16          \_\_\_\_\_  
17          \_\_\_\_\_  
18          \_\_\_\_\_  
19          \_\_\_\_\_  
20          \_\_\_\_\_  
21          \_\_\_\_\_ \*\*

1

**Figure RKN-R1**

**PRB 8800  
Spot Coal Prices**



2

3

4

5

6

**Q. Do you think it is reasonable to expect that AmerenUE could under-recover coal costs by as much as \*\* \_\_\_\_\_ \*\* million for the 2007 to 2012 timeframe even with an aggressive rate case filing schedule with additional rate cases on July 1, 2009, 2010, and 2011?**

7

8

A. Yes. Given the recent coal market volatility, it is absolutely reasonable to expect that this could occur.

9

10

11

**Q. What if the low projections of the coal markets that you stated in your direct testimony actually occur? Would AmerenUE's under-recovery of coal costs be eliminated?**

1 A. No. Even in the low case, which I believe is unlikely, Table RKN-R3 shows  
2 \*\*\_\_\_\_\_\*\* million of coal cost under-recovery in the 2007-2012 timeframe.

3 \*\*

4  
5 \*\*

6 **Q. Staff witness Mantle (p. 63, Staff Cost of Service Report) also states that**  
7 **“AmerenUE has already addressed fuel price volatility through hedging**  
8 **and therefore does not need an FAC.” Other witnesses, Mr. Cohen (p. 16,**  
9 **l. 11-17) and Mr. Brubaker (p. 8, l. 15-16), also contend that**  
10 **AmerenUE’s coal hedging program allows it to lower the volatility of coal**  
11 **costs, thereby reducing the need for an FAC. If AmerenUE has “fully**  
12 **hedged” its coal costs, transportation and diesel fuel exposure, does this**  
13 **mean that AmerenUE has eliminated all risk of fuel under-recovery?**

14 A. Absolutely not. Even if AmerenUE’s coal costs, transportation and diesel fuel  
15 exposure could be “fully hedged,”<sup>2</sup> in an increasing cost environment an FAC  
16 would still be necessary to permit the Company to recover its increasing fuel  
17 costs each year. For example, to be fully hedged would require that the

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<sup>2</sup> Going into each year, AmerenUE does typically hedge a very high percentage of its coal needs. The percentage of coal hedged at any given time drops for years beyond the next year.

1 budgeted coal “burn” be completely known. If the burn is higher than  
2 budgeted due to weather or power demand, additional fuel must be purchased  
3 at then-current market prices, which could be significantly higher than  
4 budgeted. Other uncertainties could also exist. For example, coal delivery  
5 interruptions at the coal mines or in railroad transportation could also inject  
6 uncertainty into the Company’s coal costs, despite the Company’s “fully  
7 hedged” position.

8 **Q. Can you quantify how much cost exposure is possible due to increased**  
9 **burn?**

10 A. Yes. Over the last five years, AmerenUE’s coal burn was as much as 1.2  
11 million tons over one year’s annual budget. Looking at historical spot PRB  
12 coal prices over the past four years, spot prices have exceeded AmerenUE’s  
13 PRB coal pool price by an average of **\*\* \_\_\_\_ \*\*** per ton. Therefore, coal burn  
14 variation alone could account for unrecovered increased coal costs of  
15 **\*\* \_\_\_\_ \*\*** million in a given year. If additional coal must be purchased in time  
16 of high prices, the spot prices could exceed the pool price by as much as  
17 **\*\* \_\_\_\_ \*\***/ton. Coal burn variation under these circumstances could account  
18 for unrecovered increased coal costs of **\*\* \_\_\_\_ \*\*** million per year.

19 **Q. Are there other risks of under-recovery even if AmerenUE has “fully**  
20 **hedged” its coal costs, transportation and diesel fuel exposure going into**  
21 **a particular year?**

1           A.     Yes, there are risks associated with the diesel fuel surcharge hedges. Because  
2                   there is not a developed market for On Highway Diesel<sup>3</sup> futures contracts,  
3                   AmerenUE uses Heating Oil futures call options to hedge diesel fuel  
4                   exposure. While the Heating Oil futures contract is highly correlated to On  
5                   Highway Diesel pricing and provides a good hedge against movements in  
6                   diesel prices, the correlation does sometimes diminish, decreasing the  
7                   effectiveness of the hedge. For example, if the correlation average deviation  
8                   is \*\* \_\_\_\_\_ \*\* per gallon, there is a possibility of under-recovery of diesel  
9                   fuel surcharge costs of \*\* \_\_\_\_ \*\* million per year, even in cases where  
10                  nominally we were “fully hedged” for a particular year.

11           **Q.     Returning to the criteria previously considered by the Commission**  
12                   **relating to FAC requests, that is, the extent to which fuel costs are beyond**  
13                   **the control of management, Staff witness Mantle (p. 63, Staff Cost of**  
14                   **Service Report) states that AmerenUE “does have some control over the**  
15                   **prices it pays for fuel as a result of its fuel purchasing policies and the**  
16                   **large quantities of fuel it purchases.” Mr. Brubaker suggests the same**  
17                   **thing. Is this an accurate characterization of the coal and transportation**  
18                   **markets that AmerenUE faces?**

19           A.     No. Ms. Mantle and Mr. Brubaker confuse AmerenUE’s control over the way  
20                   in which it chooses to purchase fuel with AmerenUE’s total inability to  
21                   control the level of or the movement of the coal, transportation, and fuel oil  
22                   markets. AmerenUE chooses to purchase coal with a well-structured and  
23                   prudent hedging program to ensure that sufficient coal is available to meet

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<sup>3</sup> The fuel surcharges included in railroad transportation contracts are tied to On Highway Diesel indices.

1 generation for the coming year, but has virtually no ability to influence, much  
2 less any ability to control, these markets. Prices for Eastern domestic coal are  
3 increasingly being set by the export coal market. Prices for Eastern coal set  
4 backfill pricing<sup>4</sup> for Midwest coal, and to some extent, PRB coal as well,  
5 which means that these international markets are also influencing the markets  
6 for the Midwest and PRB coal used by AmerenUE. Rail markets, particularly  
7 PRB movements, are less influenced by volume, and are controlled by  
8 opportunistic rate-setting by the railroads. Oil markets are controlled by  
9 global forces of supply and demand. Therefore, AmerenUE has no control  
10 over the changing world energy markets and new-found railroad pricing  
11 power.

12 **Q. The third criterion the Commission has previously considered relating to**  
13 **FAC requests, that fuel costs are volatile in amount, causing significant**  
14 **swings in income and cash flows if not tracked, has been dismissed as not**  
15 **applicable to AmerenUE by Staff witness Mantle. On page 64 of the Staff**  
16 **Cost of Service Report, Ms. Mantle states that “[w]hile it is expected that**  
17 **AmerenUE’s cost of coal and uranium will increase in the future, the**  
18 **costs are not volatile and will not fluctuate greatly.” Is Ms. Mantle**  
19 **correct in her assessment with regards to coal costs?**

20 A. No. Ms. Mantle and others focus on the very near term and incorrectly  
21 conclude that AmerenUE’s extensive hedging program, which reduces  
22 volatility and provides stability in the short term, somehow provides

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<sup>4</sup> As coal is removed from the Eastern coal market other coal supply regions (in this case the Midwest) will replace or ‘backfill’ the void in the market.

1 AmerenUE with the ability to control markets and remove the volatility of the  
2 market in the long term. However, looking ahead, AmerenUE typically will  
3 only have **\*\* \_\_\_\*\*** of its coal purchased over the next five years. With  
4 approximately **\*\* \_\_\*\*** million tons per year coal burn, this means that at any  
5 given point in time AmerenUE has unhedged coal exposure on **\*\* \_\_\*\***  
6 million tons of coal over a five year period. A run-up in coal prices of  
7 **\*\* \_\_\_\_\_\*\***/ton, as seen in early 2008, increases AmerenUE's five year coal  
8 cost exposure by **\*\* \_\_\_\_\_\*\*** million. It is simply incorrect to state that  
9 AmerenUE's coal costs are not volatile and will not fluctuate greatly. Given  
10 that coal spot price volatility is very similar to spot price volatility for natural  
11 gas and that natural gas can be hedged five years forward, any of Ms.  
12 Mantle's statements about how hedging reduces coal cost uncertainty would  
13 similarly apply to natural gas, at least with respect to base load generation, as  
14 discussed in more detail in AmerenUE witness Scott Glaeser's rebuttal  
15 testimony.

16 **Q. Aren't other components of fuel cost fluctuating as well?**

17 A. Yes. On page 19 of my direct testimony, the possible variation of coal,  
18 transportation and oil were estimated to determine AmerenUE's exposure to  
19 changes in these markets in the 2009 to 2012 timeframe. Individual years  
20 showed a possible uncertainty range of **\*\* \_\_\_\_\_\*\*** million to **\*\* \_\_\_\_\_\*\***  
21 million.

22 **Q. Ms. Mantle has claimed that AmerenUE's extensive hedging program**  
23 **reduces volatility and provides stability in the short term, eliminating the**

1                   **need for an FAC. Should AmerenUE consider reducing or eliminating its**  
2                   **hedging program in order to make AmerenUE’s short-term coal expense**  
3                   **more volatile, thereby eliminating the claim by FAC opponents that**  
4                   **AmerenUE’s coal costs are not volatile enough?**

5           A.    No. It would not be in the best interests of AmerenUE’s customers for the  
6           Company to purchase coal on a short term basis only. Not only would costs  
7           swing up and down with the spot coal market, but there have been times when  
8           coal is not available in the spot market, or it is available only at extremely  
9           high prices.

10          **Q.    Should the Commission consider changing or clarifying how this third**  
11          **criterion should be used in relation to its consideration of requests for**  
12          **FACs?**

13          A.    Yes. The Staff’s and intervener witnesses’ advocacy of how this criterion  
14          should be applied suggests the existence of a perverse incentive to reduce  
15          hedging, or to perhaps hedge coal with un-priced, or index contracts, to  
16          increase volatility. Otherwise, utilities are put in the position of under-  
17          recovering tens of millions of dollars of higher coal costs due to the built-in  
18          delays experienced when relying solely on a string of rate cases to recover  
19          fuel costs, as I discussed earlier. The Commission should not use FAC  
20          criteria which discourage well-structured and prudent hedging programs such  
21          as AmerenUE’s, which ensure that sufficient coal is available to meet  
22          generation needs of customers. The message being sent to utilities that have  
23          an appropriate resource mix and who do a good job of buying fuel, including



1 by reducing (but clearly not eliminating) volatility is that those utilities should  
2 be left at risk for large fuel under-recoveries, like those I outlined earlier,  
3 because of the good job those utilities have done. This is, in my opinion, poor  
4 regulatory policy. It is also not the regulatory policy almost all other  
5 regulatory jurisdictions who also regulate utilities that rely heavily on coal  
6 have adopted, as pointed out in Mr. Lyons' testimony.

7 **B. Granting an FAC to AmerenUE would not cause coal costs to increase.**

8

9 **Q. Several witnesses (Johnstone, p. 11, l. 2-3), Cohen ( p. 7, l.19-22), and  
10 Brubaker, (p. 4, l. 15-18)) contend that if AmerenUE is granted an FAC  
11 as proposed, AmerenUE will no longer have sufficient incentive to control  
12 fuel costs. Additional concern was expressed that less attention would be  
13 given to managing fuel costs. Would changes be made to the Company's  
14 procurement of coal if an FAC is granted to AmerenUE in this case?**

15 A. No. First of all, as I noted earlier, AmerenUE can't "control" fuel costs.  
16 Regardless, management of coal risk is in accordance with Ameren's Risk  
17 Management Policy, which is overseen by a Risk Management Steering  
18 Committee comprised of senior level management. Coal procurement  
19 procedures and methods would not be changed if an FAC is implemented for  
20 AmerenUE. AmerenUE would continue its aggressive efforts to keep fuel  
21 costs as low as possible (consistent with prudent hedging strategies to mitigate  
22 risk) through expanded hedging programs, developing alternate fuel sources  
23 and transportation alternatives where possible, and enhancement of coal  
24 handling facilities and coal combustion improvements at its plants.

1           **Q.     What basis do you have to make that statement?**

2           A.     Although most of my career has been in coal, from 1989 until 1994, I  
3                 supervised the purchase of natural gas for AmerenUE's gas distribution  
4                 systems, which serve 120,000 customers. The cost for the gas, transportation  
5                 and storage was, and still is, 100% passed through to AmerenUE's gas  
6                 customers under the Purchased Gas Adjustment (or PGA) clause. Even  
7                 though the cost is completely passed-through, industry-leading practices were  
8                 developed and implemented by AmerenUE during this timeframe, including:  
9                 one of the first applications in the country of the use of natural gas futures to  
10                hedge peak-season price exposure, the use of private gas storage facilities  
11                instead of regulated pipeline storage for winter withdrawals, and the use of  
12                linear computer programs to optimize pipeline contract demand levels. As  
13                described in Mr. Glaeser's rebuttal testimony, AFS's Gas Supply Department  
14                continues to be recognized as an industry leader for its use of innovative and  
15                cost saving gas distribution practices. To claim that AFS's Coal Supply  
16                Department would no longer provide adequate attention to managing coal  
17                costs because of an FAC is not supported by the long history of competent  
18                management of gas supply under a PGA.

19           **Q.     Are there other incentives for AmerenUE to keep its fuel costs low if a**  
20                 **FAC were to be granted?**

21           A.     Yes. As explained in my direct testimony on pages 8-10, PRB coal purchases  
22                 are pooled for all of Ameren's generating affiliates that burn PRB, including  
23                 AmerenUE and merchant generating companies operating in Illinois. Under

1 the pooling procedures, the unregulated merchant generation affiliates are  
2 charged the exact same coal costs as AmerenUE, thereby providing AFS with  
3 a significant financial incentive to minimize coal cost for both regulated and  
4 unregulated generation, whether AmerenUE has an FAC or not.

5 **Q. Several witnesses (Brubaker, Cohen, Johnstone) contend that the**  
6 **95%/5% sharing mechanism would not be a meaningful incentive for**  
7 **AmerenUE. You previously stated, in your direct testimony, that the**  
8 **average annual budgeted coal cost increase over the 2009-2012 timeframe**  
9 **is \*\* \_\_\_\_\_\*\* million. This means that AmerenUE could annually absorb**  
10 **\*\* \_\_\_\_\_\*\* million under an FAC, or \*\* \_\_\_\*\* million annually. Is**  
11 **\*\* \_\_\_\*\* million a meaningful amount that would provide significant**  
12 **incentives to you and your group?**

13 A. Absolutely. Over the 2009-2012 timeframe, that would equate to \*\* \_\_\_\_\_\*\*  
14 million, an amount which is significant in any context.

15 **Q. Does the Coal Supply Department have other incentives which provide to**  
16 **control fuel costs?**

17 A. Yes, the Coal Supply Department has both individual and department  
18 incentive compensation which provides employees with additional incentive  
19 to control fuel costs. Department criteria are set by Key Performance  
20 Indicator (“KPI”) goals. KPIs are measurable standards, some of which  
21 directly determine each employee’s incentive compensation award each year.  
22 Coal Supply employees have several KPIs related to lowering fuel costs,  
23 including KPIs that reference actual delivered fuel costs, completion of coal

1 related projects, and margin on coal related activities such as coal ash sales.  
2 Specifically 12.5% of a Coal Supply employees' incentive bonus is  
3 determined by the delivered coal cost KPI, 10% by performance on coal  
4 related projects, and 5% on fuel-related revenue generating activities such as  
5 ash sales. Additionally 50% of an employee's incentive compensation is  
6 based on individual employee performance in their specific job duties which  
7 support the department KPIs.

8 **C. Coal inventory costs.**

9  
10 **Q. In the Staff Cost of Service Report, the Staff included a 65-day supply of**  
11 **coal inventory in its cost of service. Do you agree with their conclusions?**

12 A. No. While a 65-day level of coal inventory is reflective of AmerenUE's  
13 current inventory policy, I do not agree with some of the adjustments the Staff  
14 made to the amount of coal inventory included in its cost of service.

15 **Q. What adjustments made by Staff are inappropriate?**

16 A. There are three inappropriate adjustments. First, Staff has excluded from the  
17 coal inventory calculation the amount of coal in the "base coal pile," which is  
18 essential to support the usable portion of the coal pile at each of AmerenUE's  
19 plants. Second, the Staff has excluded the coal in inventory at the Hillcrest  
20 coal terminal at the Meramec Plant because the capital improvement project to  
21 allow this coal inventory to be reclaimed with feeders and belts for the  
22 Meramec Plant will not be completed until after September 30, 2008. Finally,  
23 the Staff has ignored the fact that the Company's coal inventory policy is  
24 based upon maximum burn, not the average burn calculation Staff has used.

1           **Q.     Please address the base coal pile issue.**

2           A.     This coal, which is at the very bottom of the coal pile, is unusable because,  
3                   over time, the weight of the coal pile has caused the coal at the bottom of the  
4                   pile to become mixed with the base soil. However this coal was purchased  
5                   and delivered, and is needed to support the usable portion of the coal pile. It  
6                   therefore is inappropriate to exclude it from the inventory calculations.

7           **Q.     Is using coal as the base at the bottom of a coal storage pile normal**  
8                   **industry practice?**

9           A.     Yes. When a coal pile is initially constructed, coal is placed on top of either  
10                   ash or soil. A certain amount of coal mixes with the soil or ash under the  
11                   weight of the pile and becomes unusable. A rarely used alternative is to  
12                   construct a thick reinforced concrete pad upon which the coal pile can be  
13                   placed. However, this option would be considerably more expensive than  
14                   appropriately reflecting the cost of base coal in the inventory calculations.  
15                   Use of the base coal pile is thus a prudent cost of operating the Company's  
16                   generating plants, and there is no justification for excluding it in the  
17                   determination of the Company's rates.

18          **Q.     How much base coal was excluded from the inventory calculations by the**  
19                   **Staff?**

20          A.     The total base coal inappropriately excluded by Staff for all four AmerenUE  
21                   plants was 198,000 tons.

22          **Q.     Please address the second Staff adjustment with which you disagree,**  
23                   **which relates to the coal inventory at the Hillcrest terminal.**

1           A.     The Staff excluded the coal in inventory at the Hillcrest terminal at the  
2                     Meramec Plant because the capital improvement project to allow this coal  
3                     inventory to be reclaimed with feeders and belts for the Meramec Plant will  
4                     not be completed until after September 30, 2008, the cut-off date for true-up  
5                     items in this case. Staff's theory is apparently that this coal is therefore not  
6                     usable by the Meramec Plant at this time.

7           **Q.     Is Staff correct? Is the capital improvement project necessary for**  
8                     **AmerenUE to be able to use the Hillcrest terminal coal at the Meramec**  
9                     **Plant?**

10          A.     No, Staff is not correct. The coal at the Hillcrest terminal could be moved to  
11                     the Meramec Plant now in the event of a coal delivery interruption simply by  
12                     using front end loaders and trucks. The capital improvement project will  
13                     merely allow the coal at the Hillcrest terminal to be reclaimed more easily.

14          **Q.     Can the Hillcrest terminal coal be used at other AmerenUE plants?**

15          A.     Yes. The Hillcrest terminal coal can also be loaded onto barges and  
16                     transported to the Sioux and Rush Island Plants. Therefore, this coal serves as  
17                     inventory available to three of AmerenUE's four coal-fired plants today,  
18                     without the capital improvements being made at the terminal, and  
19                     consequently should not be excluded from coal inventory calculations. Staff's  
20                     position essentially excludes this coal from inventory because AmerenUE is  
21                     making a prudent capital improvement to improve the efficiency of handling  
22                     this coal. That capital improvement doesn't mean that this coal suddenly  
23                     ceased being inventory for AmerenUE's plants.

1           **Q.    How much coal was inappropriately excluded from the inventory**  
2                               **calculations by the elimination of the Hillcrest inventory?**

3           A.    Staff inappropriately excluded \*\*\_\_\_\_\_\*\* tons.

4           **Q.    Please address the last adjustment with which you disagree, which relates**  
5                               **to coal inventory levels and the Company's coal inventory policy.**

6           A.    The Staff used 65 days of inventory based on an average daily burn calculated  
7                               over the past 5 years. AmerenUE's inventory policy is based on maximum  
8                               daily burn.

9           **Q.    Please describe the difference between an average burn day and a**  
10                              **maximum burn day.**

11          A.    An average burn day is normally calculated by dividing the annual burn by  
12                              365. A maximum burn day is the amount of coal used by the plant when it is  
13                              running at full capacity. AmerenUE uses maximum burn days to measure its  
14                              coal inventory because it is a better indication of the amount of coal available  
15                              to burn. The Staff's calculated average daily burn was 59,307 tons. A  
16                              maximum burn day for AmerenUE is 74,100 tons.

17          **Q.    Why does AmerenUE have a policy of having 65 maximum burn days of**  
18                              **coal inventory available?**

19          A,    Coal inventory policy was discussed in detail in my direct testimony on pages  
20                              5-7. The inventory policy is designed to protect the system from a year-long  
21                              railroad slow-down event without having to take coal conservation measures.  
22                              This is a very important goal.

1           **Q.     What was AmerenUE’s average inventory, as measured in maximum**  
2                   **burn days during the trued-up test year ending September 30, 2008?**

3           A.     AmerenUE’s average inventory during the trued-up test year ending  
4                   September 30, 2008 was **\*\* \_\_\*\*** maximum burn days, or **\*\* \_\_\_\_\_\*\*** tons.

5           **Q.     \*\* \_\_\_\_\_\*\* the 65 days reflected**  
6                   **in the Company’s policy and its filed revenue requirement. Were**  
7                   **inventory levels affected by any unusual events during the trued up test**  
8                   **year?**

9           A.     Yes. The most unusual events had to do with flooding that occurred in the  
10                   Midwest during June and July of 2008. The Burlington Northern-Santa Fe  
11                   Railroad’s tracks to Rush Island and Sioux were impacted as were the Union  
12                   Pacific Railroad’s tracks across Missouri which serve Labadie and Meramec.  
13                   Rush Island and Sioux PRB inventories declined approximately **\*\* \_\_\_\_\_\*\***  
14                   tons as a result of the flooding. In addition, Labadie and Meramec inventories  
15                   declined approximately **\*\* \_\_\_\_\_\*\*** tons.

16           **Q.     Did AmerenUE reach the target 65 maximum burn day level during the**  
17                   **trued-up test year?**

18           A.     **\*\* \_\_\_\_\_**  
19                   **\_\_\_\_\_**  
20                   **\_\_\_\_\_**  
21                   **\_\_\_\_\_,\*\***



1           **Q.     What is the difference in coal inventory levels based on the Staff's 65**  
2                   **average burn day allowance and AmerenUE's 65 day maximum burn day**  
3                   **policy?**

4           A.     \*\* \_\_\_\_\_  
5                   \_\_\_\_\_  
6                   \_\_\_\_\_  
7                   \_\_\_\_\_\*\* (The Staff did not

8                   include non-recoverable inventory and they limited inventory at the Meramec  
9                   Plant to 51 days because the in-progress conveyor work from the Hillcrest  
10                  terminal is not expected to be completed until after September 30, 2008.)

11          **Q.     What is the effect on the Company's rate base and revenue requirement**  
12                   **of excluding base coal and Hillcrest terminal tonnage, and using average**  
13                   **burn days versus maximum burn days to establish inventory levels?**

14          A.     The total Company effect on the rate base is a reduction of \$34.5 million and  
15                   the Missouri jurisdictional share is a reduction of \$34.0 million in rate base.  
16                   The effect on total Company revenue requirement is \$3.7 million and the  
17                   effect on Missouri retail revenue requirement is \$3.6 million.  Approximately  
18                   \$1.96 million of the Missouri retail revenue requirement impact is due to  
19                   Staff's disregard of the Company's maximum burn day policy, approximately  
20                   \$550,000 is due to disregarding use of the base coal pile, and the remaining  
21                   approximately \$1.1 million relates to disregarding the usable coal inventory at  
22                   the Hillcrest terminal.

23          **Q.     What level of inventory would you recommend be included in rate base?**

1           A.     I would recommend that tonnage based on the Company's current inventory  
2                   policy of \*\*\_\_\_\_\_\*\* be included in the  
3                   rate base. This policy was adopted in 2007 and \*\*\_\_\_\_\_\*\*  
4                   \_\_\_\_\_  
5                   \_\_\_\_\_  
6                   \_\_\_\_\_\*\*. The Company should not be put in the position of  
7                   failing to recover its legitimate costs of ensuring that an adequate supply of  
8                   coal is on-hand at its plants because of Acts of God, i.e., the flooding that has  
9                   occurred, that are beyond its control.

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

11          A.     Yes, it does.

**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 Tarriffs Increasing )  
Rates for Electric Service Provided ) Case No. ER-2008-0318  
To Customers in the Company's )  
Missouri Service Area. )

**AFFIDAVIT OF ROBERT K. NEFF**

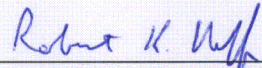
**STATE OF MISSOURI** )  
 ) ss  
**CITY OF ST. LOUIS** )

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

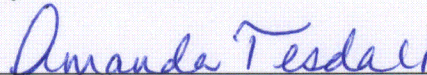
1. My name is Robert K. Neff. I am employed by AmerenEnergy Fuels and Services Company as Vice President.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company, d/b/a AmerenUE, consisting of 24 pages (~~and Schedules RKN-RE6 through RKN-RE8 if any~~), 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

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

  
\_\_\_\_\_  
Notary Public

My commission expires: \_\_\_\_\_

