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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2014-0258

REBUTTAL TESTIMONY

OF

JEFFREY S. JONES

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

UE Exhibit No. 21
Date 3-09-15 Reporter KF
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St. Louis, Missouri
January, 2015

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I. INTRODUCTION

Q. Please state your name and business address.

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

Q. What is your position?

A. I am Senior Manager – Fuel Operations, for Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company").

Q. What are the duties of your position?

A. My primary responsibilities are to make sure adequate coal supplies are transported for Ameren Missouri's four coal-fired energy centers.

Q. What is your experience and educational background?

A. I am a mechanical engineer with 25 years of experience in the electric power utility industry. In 1999 I joined Ameren Services Company as an engineer providing engineering services for the Company and its affiliate in Illinois that also owned coal-fired generation. Since then, I have held several positions of increasing responsibility before I accepted a position in the fuel procurement area in 2006 as a Manager – Coal Transportation & Administration. On January 1, 2015, I began my current position as a Senior Manager, Fuel Operations for Ameren Missouri. Prior to joining Ameren I worked nearly 10 years at MidAmerican Energy Company or its predecessor companies in various roles such as power

plant maintenance engineering, construction engineering and fuel purchasing. I have a Bachelor of Science Degree in Mechanical Engineering from Missouri University of Science & Technology and a Master of Business Administration from Maryville University. I am also a registered Professional Engineer in the states of Missouri, Iowa, and Illinois.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the Office of Public Counsel ("OPC") Witness Lena Mantle's direct testimony. More specifically, I will demonstrate that Ms. Mantle's suggestion that we do not face volatility and uncertainty with regard to the fuel components in our Fuel Adjustment Clause ("FAC") is incorrect. I will also respond to Staff Witness Lisa Hanneken's direct testimony regarding the Staff's position to exclude coal-in-transit from the coal inventory rate base level. I will explain why coal-in-transit is a necessary component of Ameren Missouri's coal inventory levels and should be included in the inventory rate base level, as the Commission found in the Company's last rate case.

Q. On page 16, lines 8 and 9, of her direct testimony, Ms. Mantle claims that "Fuel and purchased power costs.... is not significantly increasing." Is that statement accurate?

A. No. Ameren Missouri faces large annual increases in its coal and coal transportation costs[1] under contract which I have summarized in Table 1 below.

[1] I will sometimes refer to the sum of the coal and coal transportation costs as "delivered coal costs."

**[redacted]

[redacted]

**

Q. What components make up coal-related costs?

A. The components included in coal-related costs are the coal itself and the cost to transport the coal from the mines to our generators. Part of the cost of the rail transportation is what is known as a rail fuel surcharge.

Q. Ms. Mantle testifies that "Ameren Missouri testifies that it has in place long-term contracts for coal and coal transportation with predetermined escalators. Therefore, Ameren Missouri knows what its cost of coal is and will be." Do you agree with her claim?

A. No. While it is true that Ameren Missouri does have long-term contracts in place for coal and coal transportation with predetermined escalators, it is also true that the volumes that will be purchased and transported under these contracts is not known and certain. As Ameren Missouri Witness Jaime Haro has testified, cost (which is what is tracked in the FAC) is a function of both price and volume. Ms. Mantle seemingly did not include the volumetric piece of the equation.

Additionally, not all of the components of our coal and coal transportation prices are fixed by long-term contracts – in particular the rail fuel surcharge portion of our coal transportation contracts is not.

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Q. Do you have any other observations regarding Ms. Mantle's claim that Ameren Missouri knows what its costs are and will be?

A. Yes. Even if Ms. Mantle was correct that we did know what our costs will be (which as noted above we don't), it cannot be disputed that the known escalators in these contracts represent a significant increase in costs each year. Additionally, while our coal costs are indeed volatile and significant, they are just one component of the total fuel and purchased power expenses and related revenues which are in the FAC.

II. COAL COMMODITY VARIABILITY

Q. Is the amount of coal used to generate electricity by Ameren Missouri's coal-fired generators a known and certain value?

A. No. As Mr. Haro discusses in his rebuttal testimony, the amount of energy generated at our energy centers is a function of the relationship between our as-offered dispatch costs (which are based on the spot price of fuels) and market energy prices. More specifically, for coal-fired plants it is the spot price of coal that drives the dispatch, and dispatch has nothing to do with our contract prices. Given the volatility in both market energy prices and spot coal prices, the economic dispatch of our coal fleet can vary significantly. As that dispatch changes, so does our coal consumption and so do our delivered coal costs.

Q. What is the potential volumetric variability in Ameren Missouri's coal consumption on an annual basis?

A. Mr. Haro illustrated in his rebuttal testimony the coal consumption volumetric variability can be the same as the variability in generator output. As he pointed out, between 2011 and 2012, Ameren Missouri's coal-fired generation saw a 14% drop in total production.

It should not be surprising therefore that over the same time period we experienced a similar decrease in the amount of coal that was burned.

Q. What is the exposure to variability in terms of coal commodity costs (ignoring transportation) driven by this volumetric variability?

A. Looking back over recent history, we have seen a year-on-year change in volume as great as 3.1 million tons. If we were to use the market price of PRB 8800 coal[2] for calendar year 2015 as of the end of 2014 of $12.70/ton, a 3.1 million ton difference would equal a change in cost of approximately $39 million.

III. COAL TRANSPORTATION VARIABILITY

Q. Is Ameren Missouri's coal transportation volume a known and certain value?

A. No. Our coal transportation volumes are directly related to the volume of coal burned at our energy centers. As a consequence, we have the same uncertainty regarding our transportation volumes as we do our total coal burn volumes. Using the 2015 budgeted weighted average rate of **[redacted]** for base coal transportation, a 3.1 million ton change would result in a change in transportation cost of approximately **[redacted]**.

Q. If Ameren Missouri has long-term coal transportation contracts with known prices, does it still face price uncertainty for those contracts?

A. Yes. We have price uncertainty arising from their rail fuel surcharge provisions.

Q. What is a rail fuel surcharge?

[2] "PRB" stands for "Powder River Basin (Wyoming) coal, and the 8800 designation refers to the British Thermal Units per pound for the coal. PRB 8800 coal is the coal that we burn the most.

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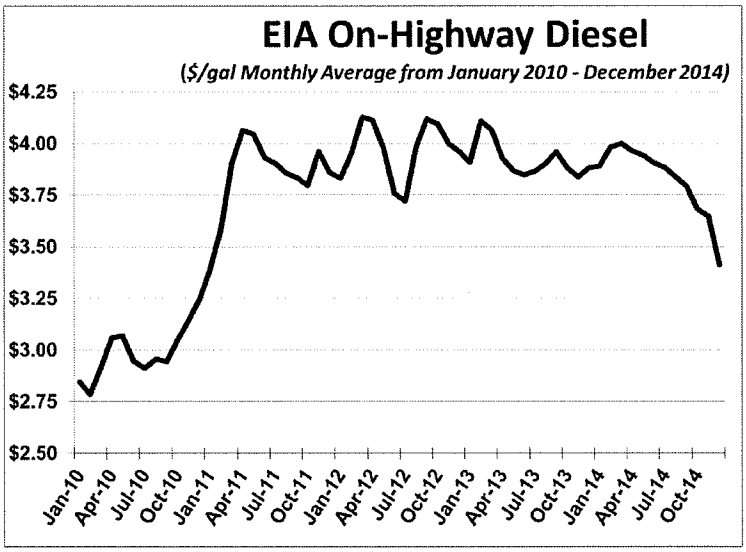
A. A rail fuel surcharge is a variable charge from a railroad based on the difference between their actual cost and a base cost of diesel fuel for their locomotives. It is a self-adjusting rate mechanism. Neither the volume nor the dollar amount of our rail fuel surcharge is a known quantity.

Q. Can you illustrate the price uncertainty for the rail fuel surcharge?

A. Yes. As shown in the graph below, the price for On-Highway Diesel ("OHD") fuel has also fluctuated significantly over the past five years. OHD is the commodity used to calculate the cost of the rail fuel surcharge.



Q. Does Ameren Missouri hedge its rail fuel surcharge exposure?

A. Yes. However, the amount which is hedged varies by year, with lesser amounts hedged in future years. The amount hedged as of September 2014 varied between more than **[redacted]** for 2015 to less than **[redacted]** for 2017. We have not hedged the rail fuel surcharge for **[redacted]**.

Q. What is the magnitude of the price uncertainty on these unhedged amounts?

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A. The potential change in rail surcharge costs arising from changes in the price of OHD is significant, even ignoring the potential impact of changes in volume. A review of the price of OHD over the years 2010-2014 shows a range of monthly average prices from $2.785/gal. to $4.127/gal. At the end of 2014, the price of OHD was approximately $3.43 per gallon. Simply using the $3.43 price as a baseline and comparing it to the highest and lowest prices over the past five years, we can quantify the range of changes in costs that we could expect for those unhedged amounts.

Q. Have you performed that comparison?

A. Yes. As shown in the table below, there is a large range in potential changes in our rail fuel surcharge costs on the unhedged volumes over the next four years.

**[redacted]

[redacted]**

The variability increases in the future years where lower volumes have been hedged. Even 2015, where a large percentage was hedged as of November 2014, has a price-related cost exposure of between +/- **[redacted]**. In 2016, that range increases dramatically – from an increase of **[redacted]** million to a decrease of **[redacted]** – a range in cost of over **[redacted]**. It's even greater in **[redacted]**.

Q. Why would there be a volumetric uncertainty for the rail fuel surcharge?

A. The volume of the surcharge is based on the quantity of coal that we ship. As noted above, our coal consumption has varied greatly from year to year. As a result, the volume of rail fuel surcharge that we are exposed to varies in the same manner.

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Q. Have you calculated the variability that you may see in rail surcharge costs driven by changes in coal volume, as opposed to change in the price of OHD?

A. Yes. As noted above, the largest year-on-year change in coal volume in recent history was approximately 3.1 million tons. A 3.1 million change in volume would result in a change in cost of approximately **[redacted]**, using the year end price of $3.43/gal. as the base.

Q. Please summarize the variability that you could experience related to variations in the volume of coal burned and from diesel surcharges.

A. As noted above, Ameren Missouri could experience substantial variability in its coal and transportation costs due to changes in volume or price. A change in the volume of coal burned at our energy centers would result in a change in the cost of not only the coal, but also our coal transportation, including the rail fuel surcharge. Using the 3.1 million ton change noted above, the change in costs could be just over **[redacted]** (not including any change in prices). This consists of **[redacted]** of coal commodity variability, **[redacted]** of coal transportation variability, and **[redacted]** of rail fuel surcharge variability, all of which are related to volumetric variability alone. The potential for dollar swings in coal costs, even if the variability was one-half of what we have seen in the past few years, is still very significant – about **[redacted]**. While Ameren Missouri does have long-term contracts in place for coal commodity and transportation, we still have significant uncertainty in cost related to the price for the rail fuel surcharge. Changes in the price of OHD could result in changes in our cost for rail fuel surcharges by as much as **[redacted]** per year.

Q. Is there any other price variability that you have not quantified?

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A. Yes. There are coal and rail transportation costs that could have significant price variability. For instance, if additional tons were required due to volumetric changes, then additional coal purchases would be subject to market volatility. And, there is price variability from a rail transportation contract that has a quarterly price adjustment based on an index.

IV. COAL-IN-TRANSIT ISSUE

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

A. While Staff agrees with the amounts of on-site coal inventory that Ameren Missouri is seeking to recover as shown on Schedule LMM-3,[3] Staff has excluded all amounts of coal-in-transit through March 31, 2014, which were included in the coal inventory balances on Schedule LMM-3. Ameren Missouri disagrees with Staff's exclusion of coal-in-transit from coal inventory.

Q. What amount is Ameren Missouri requesting for total coal fuel inventory?

A. Ameren Missouri is requesting total coal fuel inventory of **[redacted]** to be included in rate base. This includes **[redacted]** for on-site coal fuel stock and **[redacted]** for coal-in-transit.

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

A. Staff's position is that only coal that is physically on-site at a coal generation center is usable coal inventory and, therefore, coal-in-transit should not be included in coal inventory balances that are included in rate base.

[3] As revised and presented to Staff on November 14, 2014, as referenced in the Staff Report Revenue Requirement Cost of Service Report at p. 55.

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Q. Why does Ameren Missouri propose to include coal-in-transit in its coal inventory for rate base purposes?

A. Coal becomes Ameren Missouri property as it is loaded in the railcar at the mine, and the value of the coal and transportation is placed in the inventory cost at that point because Ameren Missouri uses an accrual method of accounting. There is one exception to this regarding Sioux Energy Center. At this facility, the coal-in-transit is owned by the coal refiner and not included as Ameren Missouri coal inventory.

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

A. Since Ameren Missouri owns the coal at that point, Ameren Missouri makes the claim with the railroad, and receives payment from the railroad for the lost coal. In situations where the loss of coal-in-transit is not the responsibility of the railroad, Ameren Missouri bears the risk of loss since it owns the coal.

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

A. No. Ameren Missouri takes title to the coal as it is put into its railcars at the mine. At this point, Ameren Missouri owns the coal. The railroad sends Ameren Missouri an invoice for the coal as it is delivered in the railcars. Invoices for the coal are aggregated over 15 days and then sent to Ameren Missouri. Coal invoices are usually due in ten days and invoices for the transportation are usually due in 15 days. Generally, the coal is in transit for three or four days before it is physically on-site at the plant. However, Ameren Missouri would still have to pay for the coal even if for some reason delivery was delayed and the coal was still held in a railcar.

Q. **Do you agree with this Staff's position that coal-in-transit should not be included in rate base because it is not usable inventory?**

A. No. In-transit coal, which is an asset owned by Ameren Missouri, is essential and useful to the energy center because this coal is necessary to ensure future inventories are at the plant to be burned. The coal inventory "usable" to Ameren Missouri and its customers is not a static inventory but a dynamic one; in other words, coal-in-transit is coal that the energy center requires to replenish the continuous removal of on-site coal as it is used to produce electricity. Without the continuous flow of this inventory in the coal supply chain, the ongoing operation of the plant could not be maintained due to the high coal consumption rates. Simply put, coal-in-transit is necessary for Ameren Missouri to generate electricity for its customers, and consequently its costs should be included in rate base.

Q. Staff Witness Lisa Hanneken states in her testimony that Ameren Missouri only included the on-site coal inventory in its analysis of operational needs of each coal plant given that coal-in-transit is not available for use. Is this an accurate statement?

A. No. When analyzing the operational coal inventory needs of each coal plant, Ameren Missouri considers coal supply replenishment (coal-in-transit). In fact, due to the high consumption rates, coal delivery (coal-in-transit) is a very important component of coal inventory levels.

Q. Was the coal-in-transit inventory an issue in the last rate case (File No. ER-2012-0166)?

A. Yes, it was.

Q. One of the arguments for excluding coal-in-transit from rate base made in the last rate case was that Ameren Missouri's cash working capital lead-lag study recognizes a 17.14 day lead for the time between when coal is loaded into railcars and the time Ameren Missouri pays for the coal, and that to allow the Company to include coal-in-transit in rate base would mean the Company would double recover the cost for coal-in-transit. Did the Commission accept that argument?

A. No. The Commission stated in its Report and Order that "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." Report and Order (File No. ER-2012-0166) at p. 60, ¶ 13.

Q. How was the coal-in-transit issue resolved in File No. ER-2012-0166?

A. The Staff's position was rejected, and the Commission ruled that Ameren Missouri should include the value of coal-in-transit in its rate base.

Q. Have there been any changes in the way that Ameren Missouri has treated coal-in-transit since the last rate case?

A. With the exception of the Sioux Energy Center as explained above, there have been no other changes. All of the reasons supporting the Commission's decision to reject the Staff's argument in the last rate case and to include coal-in-transit in our rate base in that case continue to be valid in this case.

Q. Does that conclude your rebuttal testimony?

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 Increase Its Revenues for Electric Service.	)))	Case No. ER-2014-0258

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 Union Electric Company d/b/a Ameren Missouri as Senior Manager, Fuel Operations.

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 12 pages, and Schedule(s) _____, 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 16th day of January, 2015.

Notary Public

My commission expires:
2-21-18

BECKIE J. EAVES
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: February 21, 2018
Commission Number: 14938572