

Exhibit No.:	
Issue:	SO ₂ Emission Allowances
Witness:	James C. Moore, II
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	AmerenUE
Case No.:	ER-2007-0002
Date Testimony Prepared:	January 31, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

REBUTTAL TESTIMONY

OF

JAMES C. MOORE, II

ON

BEHALF OF

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

**St. Louis, Missouri
January 2004**

REBUTTAL TESTIMONY

OF

JAMES C. MOORE, II

UNION ELECTRIC COMPANY

d/b/a AmerenUE

Case No. ER-2007-0002

Q. Please state your name and business address.

A. My name is James C. Moore, II, and my business address is One Ameren

Plaza, 1901 Chouteau Avenue, St. Louis, Missouri, 63103.

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

A. I am employed by Ameren Energy Fuels and Services Company (“AFS”) as a

General Executive.

Q. Please provide your educational background and employment history.

A. My educational background and employment history are outlined in Appendix

A attached to this Rebuttal Testimony.

Q. Please describe your duties and responsibilities as a General Executive.

A. The attached Appendix A describes the duties and responsibilities of my

current position.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my Rebuttal Testimony is to address issues related to Sulphur

Dioxide (“SO2”) emission allowances discussed in the Direct Testimony of Office of the

Public Counsel witness Ryan Kind, State of Missouri witness Michael Brosch and Missouri

Public Service Commission witness John Cassidy.

1 **Q. Mr. Kind states on page 16, line 15 of his Direct Testimony that it is his**
2 **understanding that AmerenUE received 751,813 Phase I SO2 emission allowances. First of**
3 **all, what are Phase I SO2 emissions allowances?**

4 A. Phase I emissions allowances are those issued by the United States Environmental
5 Protection Agency (EPA) with a vintage designation of 1994–1999. Emissions allowances
6 issued with a vintage designation after 1999 have been designated by the EPA as Phase II
7 allowances.

8 **Q. How many Phase I SO2 emission allowances did AmerenUE receive from the**
9 **EPA?**

10 A. AmerenUE received 1,628,119 Phase I SO2 emission allowances from the
11 EPA. It appears that Mr. Kind is referring to an AmerenUE document from 1999 that stated
12 the size of the Company’s SO2 emission allowance bank on that date was 751,813.

13 **Q. Mr. Kind states in his Direct Testimony that the Stipulation and Agreement**
14 **in Case No. EO-98-401 gave AmerenUE limited flexibility to manage its SO2 allowances.**
15 **Mr. Kind states on page 15, line 10 of his Direct Testimony that the Company is authorized**
16 **to manage the entire allowance inventory, but may sell only up to one-half of all Phase I**
17 **allowances without seeking specific Commission approval. Has AmerenUE sold more than**
18 **one-half of its Phase I allowances?**

19 A. No, one-half of the Phase I allowances issued to AmerenUE is 814,059
20 allowances. AmerenUE has sold a total of 559,279 allowances.

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1 **Q. Has AmerenUE managed its inventory of SO2 allowances in other ways?**

2 A. Yes, AmerenUE has used several tools to increase the value of the SO2
3 allowances in its inventory. AmerenUE has utilized loans, vintage swaps, options and sales to
4 manage the inventory.

5 **Q. Were these tools effective?**

6 A. Yes, option premiums brought in a total of \$1,929,831. Loans created 1,428
7 allowances that are worth \$571,200 at current prices. Vintage swaps created 225,144 allowances
8 that are worth \$75,871,136 at current prices.

9 **Q. By how much has AmerenUE's inventory of allowances been reduced if you**
10 **subtract the incremental allowances created by loans and swaps from total sales?**

11 A. AmerenUE's allowance inventory has been reduced by a net amount of 332,707
12 allowances, subtracting 1,428 allowances created by loans and the 225,144 allowances created
13 by vintage swaps from the total sales of 559,279.

14 **Q. Mr. Kind states on page 17, line 19 of his Direct Testimony that "...UE and**
15 **its affiliates were guided by other improper considerations including: (1) the present and**
16 **potential future needs of UE's non-regulated affiliates for SO2 emission allowances and (2)**
17 **the impact that allowance transactions between UE and its affiliates would have on the**
18 **financial performance of UE's unregulated affiliates and the overall financial performance**
19 **of Ameren." Is this true?**

20 A. No, the AmerenUE SO2 emission allowance position is managed separately from
21 the allowance positions of AmerenUE's unregulated affiliates. The needs of the unregulated
22 affiliates and AmerenUE are distinctly different and have required different strategies. Only one
23 transaction has been completed between AmerenUE and the unregulated affiliates. A vintage

1 swap was transacted on 1/22/01 that swapped 40,000 AmerenUE vintage 2000, 2001 and 2002
2 SO2 allowances to Ameren Energy Generating Co. for 54,280 vintage 2006, 2007 and 2008 SO2
3 allowances. The swap allowed AmerenUE to gain 14,280 allowances per year that are currently
4 worth a total of \$18.4 million. This transaction was done as a like kind exchange at market
5 prices at the time. But, with hindsight the transaction helped AmerenUE add significantly to its
6 inventory of allowances without costing any money.

7 **Q. Mr. Kind recommends on page 18, line 17 of his Direct Testimony that the**
8 **Commission use \$16,266,844 as the normalized level of SO2 allowance sales in this case.**
9 **Mr. Brosch on page 39, line 1 of his Direct Testimony calculates that AmerenUE's revenue**
10 **requirement should include an average of \$20,653,000 in annual SO2 allowance sales. Mr.**
11 **Cassidy on page 25, line 7 of his Direct Testimony proposes that the test year level of gains**
12 **on emission allowances be \$3.9 million. Why do these numbers vary so much?**

13 **A.** The numbers all come from different sources and timeframes. Mr. Kind has
14 based his numbers on the AmerenUE annual report to the Commission that identifies SO2
15 emission allowance transactions for the previous year. This report is filed in August every year
16 for the prior year's transactions from July 1–June 30. This is not an audited accounting
17 document focused on pricing. It is a transaction summary designed to report on what trades
18 were done the previous year. Mr. Brosch used AmerenUE's response to Data Request AG/UTI-
19 057 to determine the AmerenUE allowance sales, which also includes mandated EPA sales every
20 year. Mr. Cassidy only used sales completed during the test year.

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1 **Q. Should a set amount of SO₂ allowance sales be included as a reduction to**
2 **AmerenUE's revenue requirement?**

3 A. SO₂ allowance sales vary dramatically from year to year depending on a number
4 of factors. AFS manages the AmerenUE SO₂ allowance position to ensure AmerenUE's
5 compliance with environmental regulations from year to year. This is balanced with the need to
6 install control technology and changing regulations. While AmerenUE added to its allowance
7 bank dramatically using vintage swaps from 2000–2002 and 2005, this bank will dwindle rapidly
8 with the changing regulations starting in 2010 under the Clean Air Interstate Rule promulgated
9 by the EPA. Forcing allowance sales by including a set amount of revenues from those sales in
10 rates could accelerate the need for control technology. The control technology installation
11 decisions are likewise dependent on a number of factors and accelerating the installation
12 schedule might not be possible due to long lead times and potential manpower shortfalls.

13 The uncertainty of future regulation also makes the attribution of a set amount of
14 SO₂ sales per year problematic. The potential for further tightening of SO₂ emissions, ongoing
15 uncertainty surrounding the EPA's mercury rules and potential greenhouse gas legislation make
16 the future of SO₂ allowances difficult to predict. AmerenUE's management of SO₂ allowance
17 depends on future legislation and regulations that are not clear at this time. Based on these
18 considerations, inclusion of an amount of revenues from SO₂ allowance sales above the \$3.9
19 million in the test year would be inappropriate and unwise.

20 **Q. Does this complete your Rebuttal Testimony?**

21 A. Yes.

**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 Tariffs Increasing Rates)
For Electric Service Provided to Customers)
In the Company's Missouri Service Area.)

Case No. ER-2007-0002

AFFIDAVIT OF JAMES C. MOORE, II

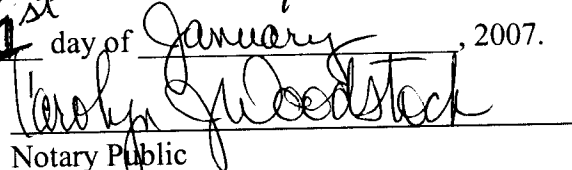
STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

James C. Moore, II, being first duly sworn on his oath, states:

1. My name is James C. Moore, II. I work in the City of St. Louis, Missouri, and I am employed by Ameren Energy Fuels and Services ("AFS") as a General Executive.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony consisting of 5 pages, including Appendix A, all of which has been prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2007-0002 on behalf of Union Electric Company, d/b/a AmerenUE.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.


James C. Moore, II

Subscribed and sworn to before me this 31st day of January, 2007.


Notary Public

My Commission Expires: May 19, 2008

