

Exhibit No.:
Issues: Fuel Costs/Ash Facility
Witness: Robert K. Neff
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2007-0002
Date Testimony Prepared: January 31, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

REBUTTAL TESTIMONY

OF

ROBERT K. NEFF

ON

BEHALF OF

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

**St. Louis, Missouri
January, 2007**

Public

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **ROBERT K. NEFF**

4 **CASE NO. ER-2007-0002**

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

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

8 **Q. Are you the same Robert Neff that filed Direct Testimony in this**
9 **proceeding?**

10 A. Yes, I am.

11 **Q. What is the purpose of your Rebuttal Testimony in this proceeding?**

12 A. The purpose of my testimony is to clarify certain components of AmerenUE's
13 fuel costs and to explain the Company's investments in ash recycling facilities.

14 **Q. Are there any costs that were not included in Staff witness John Cassidy's**
15 **Direct Testimony that should be included in AmerenUE's fuel costs?**

16 A. Yes. The costs of the hedging program associated with diesel fuel surcharge
17 costs should be included as part of the fuel cost calculation.

18 **Q. What are diesel fuel surcharge hedge costs and why should they be**
19 **included?**

20 A. As described on pages 33-34 of my Direct Testimony, heating oil futures call
21 options are used to limit AmerenUE's exposure to increasing coal transportation costs due to
22 increases in diesel fuel prices. These options allow AmerenUE to capture the benefits of
23 downward diesel fuel price movements while protecting against increases due to upward

1 movements. These are financial hedges only, with no physical commodity being purchased.
2 Since these call options hedge increases in AmerenUE's transportation costs, the costs of
3 these options should be included in AmerenUE's revenue requirement.

4 **Q. Are the costs of hedging diesel fuel exposure under transportation**
5 **contracts known for 2007?**

6 A. The diesel fuel oil riders for all expected volumes of 2007 AmerenUE coal
7 transportation have been hedged with the purchase of heating oil call options. The premiums
8 paid for the purchase of these options total **[REDACTED]**. Of this amount **[REDACTED]** is
9 costs for AmerenUE's 2007 tonnage and should be included in fuel costs in this case.

10 **Q. Why should the cost of these hedges be included in fuel costs? Don't these**
11 **options merely protect the Company's shareholders from exposure to volatility in oil**
12 **prices?**

13 A. The Commission has recognized the prudence of hedging costs in many other
14 areas of fuel procurement, particularly natural gas acquisition. The Company's prudent
15 investment in call options in this case will protect both Company and ratepayers.

16 **Q. How will the fuel oil hedging program protect ratepayers?**

17 A. When the next electric rate case is filed, the fuel oil hedging program will
18 already be in place for the next test year, and will protect ratepayers from unexpected spikes
19 in oil prices during that test year.

20 **Q. Is the exposure to fuel oil riders in the coal transportation contracts**
21 **significant?**

22 A. Yes. A comparison of weekly U.S. On-Highway Diesel prices over the past 2-
23 1/2 years shows a range in price from \$1.80 to \$3.15 per gallon. Comparing AmerenUE's

1 exposure to the transportation fuel oil riders at each of these levels shows a difference of
2 **** [REDACTED] **** annually.

3 **Q. Are there other subjects addressed in the direct testimony of interveners**
4 **to which you would like to respond?**

5 A. Yes, I would like to clarify some points made by State of Missouri witness
6 Michael Brosch.

7 **Q. What specifically would you like to address?**

8 A. On pages 32-33 of his Direct Testimony, Mr. Brosch explains that AmerenUE
9 invested **** [REDACTED] **** in a Labadie plant ash recycling facility which will use 66,000
10 tons of bottom ash per year, and as a result of this investment, AmerenUE expects to be able
11 to avoid future ash disposal costs of about **** [REDACTED] **** per ton. **** [REDACTED] ****
12 **** [REDACTED] **** Mr. Brosch quotes Ameren's business plan: "...utilization of approximately
13 175,000 additional tons of bottom ash for site development, yielding an avoided ash disposal
14 expense of **** [REDACTED] **** immediately." Mr. Brosch states that these immediate savings
15 results in net up-front costs of less than **** [REDACTED] **** and states that the annual savings of
16 **** [REDACTED] **** should more than fully offset the remaining up-front costs.

17 **Q. Why is this explanation not correct?**

18 A. The wording of the business plan may have led Mr. Brosch to conclude that
19 AmerenUE realized an immediate gain from avoiding ash disposal costs that were incurred in
20 the test year. However, there are no ash disposal costs in the test year because these are costs
21 that would be incurred in the future when the ash pond at the Labadie Plant is full and ash
22 must be disposed of off-site. The **** [REDACTED] **** investment was truly a cash flow item
23 and the avoided ash disposal offsets, even though characterized as immediate, were not. The

1 avoided ash disposal savings are the current value of the expected future expenditures, and
2 not a savings of costs that were incurred in the test year. AmerenUE did not spend
3 **[REDACTED]** in ash disposal costs 2006, nor will AmerenUE spend **[REDACTED]** per
4 year in 2006, 2007 or the near term. These are expenses that will be incurred at some future
5 point in time when the ash pond is full and AmerenUE has no other option but to send ash to
6 a commercial landfill.

7 **Q. How should the Commission address AmerenUE's investment in the ash**
8 **recycling facilities?**

9 A. The **[REDACTED]** investment in the ash recycling plant should be included
10 in AmerenUE's rate base because this project and others like it which provide beneficial uses
11 of ash allow AmerenUE to utilize its existing ash ponds for longer periods of time. Such
12 longer use avoids the ash disposal costs which will be incurred when the ponds fill up.

13 **Q. Does this conclude your Rebuttal Testimony?**

14 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)
Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Company's Missouri Service Area.)

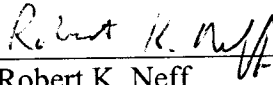
Case No. ER-2007-0002

AFFIDAVIT OF ROBERT K. NEFF

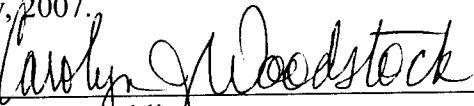
STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

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

1. My name is Robert K. Neff. I work in St. Louis, Missouri and I am employed by AmerenEnergy Fuels and Services Company as Vice President 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 AmerenUE consisting of 4 pages, which has 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 31st day of January, 2007.


Notary Public

My commission expires: May 19, 2008

