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Costs
Witness: Robert K. Neff
Sponsoring Party: Union Electric Company
Type of Exhibit: FAC Rebuttal Testimony
Case No.: ER-2010-0036
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Missouri Public
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2010-0036

FUEL ADJUSTMENT CLAUSE REBUTTAL TESTIMONY

OF

ROBERT K. NEFF

ON

BEHALF OF

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

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

St. Louis, Missouri
February 26, 2010

UE Exhibit No. 124NP
Date 3-22-10 Reporter xx
File No. ER-2010-0036

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1 **FUEL ADJUSTMENT CLAUSE REBUTTAL TESTIMONY**

2 **OF**

3 **ROBERT K. NEFF**

4 **CASE NO. ER-2010-0036**

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

6 A. Robert K. Neff, Ameren Energy Fuels and Services Company (AFS), One
7 Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

8 **Q. What is your position with AFS?**

9 A. I am the Vice President of Coal Supply.

10 **Q. What are the duties of your position?**

11 A. My primary responsibilities are to obtain adequate coal supplies and related
12 transportation for eleven coal-fired power plants operated by Ameren Corporation (Ameren)
13 operating subsidiaries, including Union Electric Company d/b/a AmerenUE (AmerenUE or
14 Company).

15 **Q. Are you the same Robert K. Neff who filed direct and rebuttal testimony in**
16 **Case No. ER-2008-0318?**

17 A. Yes, I am.

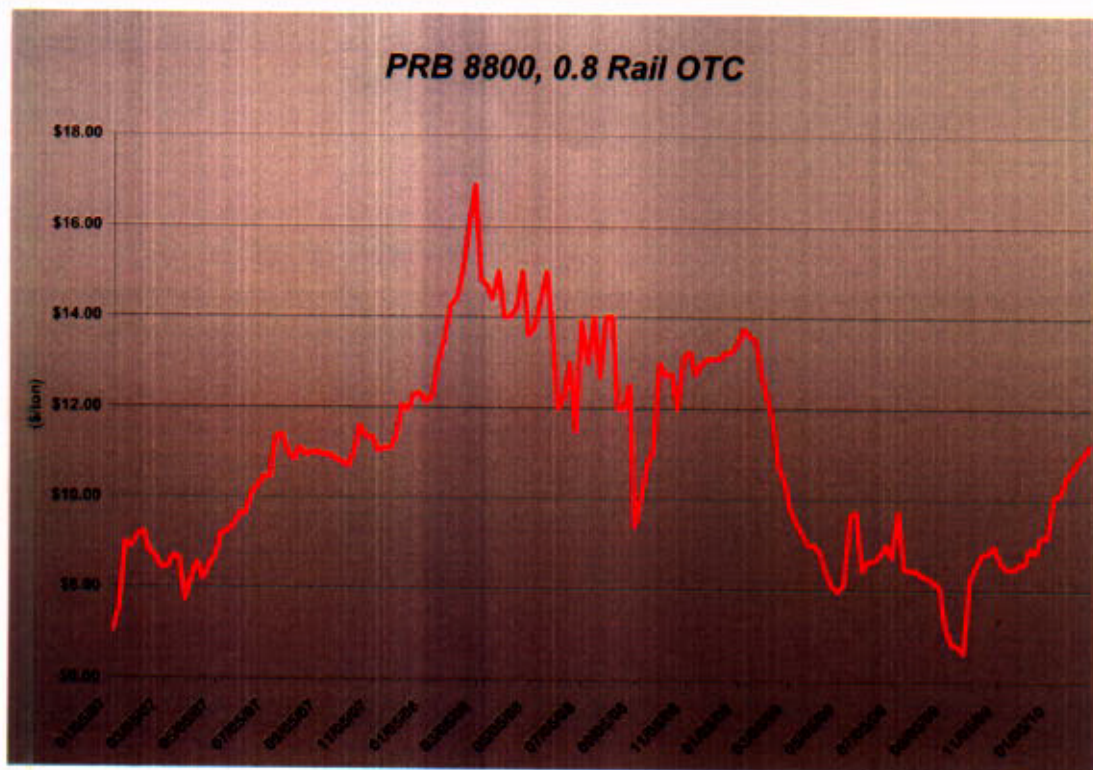
18 **Q. What is the purpose of your rebuttal testimony relating to AmerenUE's fuel**
19 **adjustment clause in this case?**

20 A. The purpose of my rebuttal testimony is to respond to the Commission's
21 February 17, 2010 **Order Directing Parties To Submit Testimony Concerning the**
22 **Appropriateness of AmerenUE's Current Fuel Adjustment Clause.** I will explain
23 AmerenUE's cost exposure to coal markets and the reasons why continuation of AmerenUE's

1 fuel adjustment clause (FAC) is still needed to protect AmerenUE from the substantial
2 uncertainties of the coal markets.

3 **Q. In rebuttal testimony submitted in AmerenUE's prior rate case, Case No.**
4 **ER-2008-0318, you stated at that time that all three of the factors historically examined by**
5 **the Commission in evaluating the appropriateness of utilizing an FAC supported approval**
6 **of an FAC for AmerenUE. Is that still the case?**

7 **A.** Yes, the current FAC remains appropriate because the conditions, facts and
8 circumstances relating to AmerenUE's fuel costs have not changed in any material way since
9 that case was heard and concluded. Because circumstances have not changed materially, my
10 prior testimony in Case No. ER-2008-0318 remains valid respecting the appropriateness of
11 AmerenUE's FAC, including the testimony relating to the sharing percentage contained in
12 AmerenUE's FAC, and I have thus attached portions of it to this testimony as Schedule RKN-
13 FR1. With respect to those three factors: (1) fuel costs in general (and coal costs in particular)
14 remain very large, and in fact have increased since the prior case and have continue to be
15 substantial enough to have a material impact upon both revenue requirements and the financial
16 performance of AmerenUE's business between rate cases; (2) The coal markets continue to be
17 impacted by national and international market forces, and remain beyond the control of
18 AmerenUE's management such that the Company's management has little influence over market
19 levels; and (3) Coal costs remain volatile in amount, which can cause significant swings in
20 income and cash flows if not tracked. We can see this from the large variations in price of 8800
21 BTU Powder River Basin (PRB) coal, which is the largest source of fuel for the Company,
22 shown on the following graph:



As this graph illustrates, in the period between January 2007 and February 2010, PRB 8800 spot coal commodity costs have ranged from \$7.05/ton up to \$16.90/ton (a 140% increase), then declined to \$6.65/ton (a 60% decrease) and then increased to \$11.25/ton (a 70% increase). These price swings occurred in just over a three year period of time, and are indicative of the volatility that is seen in the coal markets.

Q. On page 4 of your rebuttal testimony in Case No. ER-2008-0318, portions of which are included in Schedule RKN-FR1, you presented Table RKN-R-1 which showed the revenue loss due to the effect of regulatory lag on recovering delivered coal costs as totaling \$__** million over a six year period. Based on actual increases and current projections, what is the current estimate of revenue loss which would have occurred had an FAC not been allowed in the prior case?**

A. The revised revenue loss for the six year period would have been (and would be) \$__** million without an FAC. Normalized actual increases for 2009 and 2010 are \$**__** million for 2009 and \$**__** million for 2010 versus the projected \$**__****

1 million for 2009 and the \$**__** million for 2010 shown in the prior testimony. Normalized
2 revised projections for 2011 and 2012 increases are \$**__** million and \$**__** million
3 respectively versus the prior projections of \$**__** million and \$**__** million.

4 **Q. If you were to construct such a table based on your current five year**
5 **delivered coal cost projections, would there be a similar expected revenue loss without an**
6 **FAC?**

7 **A. Yes. Shown below is a new Table RKN FR-1A, which shows the expected**
8 **revenue loss **_____*** due to lag in recovery of increased delivered coal costs over
9 the next five years. This table illustrates the impact if an FAC were not in place in the future
10 (i.e., if recovery would depend on the timing of rate cases and if AmerenUE files a new rate case
11 on an aggressive annual basis every year on July 1st).

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14 **Q. Even with the FAC, will the Company recover all the increased delivered**
15 **cost of coal?**

16 **A. No. The 95%/5% sharing mechanism requires AmerenUE to absorb 5% of any**
17 **fuel increases, or retain 5% of any savings if fuel prices decline. If the projections for increased**
18 **delivered coal costs shown in Table RKN-FR-1A above prove to be accurate, AmerenUE would**
19 **expect a \$**__** million revenue loss relating to coal alone due to the 5% sharing mechanism**

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1 in the FAC over the five year budget period.¹ This fails to account for losses that could occur
2 from higher nuclear fuel costs, higher gas costs, or lower off-systems sales, all of which are
3 tracked in the FAC. Messrs. Irwin, Massman and Haro discuss these issues in their rebuttal
4 testimonies relating to the FAC.

5 **Q. There are suggestions regarding increasing the 95%/5% sharing mechanism**
6 **to 80%/20% in the direct fuel adjustment clause testimony of Office of the Public Counsel**
7 **witness Ryan P. Kind (p. 2, lines 7-18) and Missouri Industrial Energy Consumers witness**
8 **Maurice Brubaker (p. 2, lines 12-15). Is a \$** ____** million revenue loss over the budget**
9 **period a meaningful amount? Does it provide an incentive to keep fuel costs as low as**
10 **possible?**

11 **A. Yes. Focusing on coal alone, \$** ____** million would be a meaningful amount in**
12 **any context, and would certainly be meaningful to AmerenUE. To suggest that four times that**
13 **amount, or \$** ____** million, is needed to produce an appropriate incentive is in my opinion**
14 **punitive and disingenuous in an environment where significant fuel cost increases are expected**
15 **over the next five years. Again, these figures deal with coal costs alone – there is substantial risk**
16 **of higher losses when nuclear fuel, natural gas and off-system sales are taken into account.**

17 **Q. Ms. Mantle states in her supplemental direct testimony (p. 5, lines 1-2), that**
18 **“AmerenUE still purchases large amounts of fuel giving it some control over fuel prices**
19 **...”. Does AmerenUE now have some control over fuel prices?**

20 **A. No. As she did in the Company’s prior rate case, Ms. Mantle continues to**
21 **confuse AmerenUE’s control over the manner in which it chooses to purchase fuel – how it**
22 **manages and hedges fuel cost and availability as part of its risk management efforts — with**

¹ This figure could vary, and could increase, if the expected coal burn is greater than that assumed in our current projections.

1 AmerenUE's total inability to control the level or the movement of prices in the coal,
2 transportation, natural gas and fuel oil markets. AmerenUE chooses to purchase coal with a
3 well-structured and prudent hedging program to ensure that sufficient coal is available to meet
4 generation for the coming year, but has virtually no ability to influence, much less control these
5 markets. This was further explained in prior rebuttal testimony included as Schedule RKN-FR1
6 on page 12.²

7 **Q. Ms. Mantle also states in her supplemental direct testimony (p. 4, lines 19-20)**
8 **that "AmerenUE's coal and nuclear fuel costs have increased, but have remained**
9 **predictable, both in timing and amount." Is her characterization of AmerenUE's coal costs**
10 **as stable and predictable accurate?**

11 **A.** No, it is not. My prior rebuttal testimony (attached as Schedule RKN-FR1)
12 addresses this issue at length on pages 12-13. Ms. Mantle continues to focus on the very near
13 term and incorrectly concludes that AmerenUE's extensive hedging program, which reduces
14 volatility and provides stability in the *short-term*, somehow provides AmerenUE with the ability
15 to control markets and remove the volatility of the market in the *long-term*.

16 **Q. Has the granting of an FAC to AmerenUE in the prior rate case changed the**
17 **manner in which coal is purchased?**

18 **A.** No. Management of coal risk has not changed, and is still in accordance with
19 Ameren's Risk Management Policy, which is overseen by a Risk Management Steering
20 Committee comprised of senior level management. Our hedging procedures and methods have

² I would note, as Ms. Mantle testified in the last case, that Ms. Mantle has no experience in negotiating or even reviewing coal, natural gas, or nuclear fuel contracts, and wasn't really familiar with the details of those negotiations or contracts (e.g., regarding the escalation provisions in AmerenUE's coal contracts).

1 remained essentially the same as prior to the implementation of the FAC.

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

3 **A. Yes, it does**

In the Matter of Union Electric Company d/b/a AmerenUE's Tariffs to Increase its Annual Revenues for Electric Service.) Case No. ER-2010-0036
) Tracking No. YE-2010-0054
) Tracking No. YE-2010-0055

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

1. My name is Robert K. Neff. I work in the City of St. Louis, Missouri, and I am employed by Ameren Energy Fuels and Services Company as Vice President of Coal Supply.

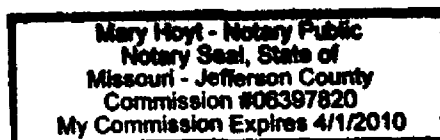
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Robert K. Neff

Subscribed and sworn to before me this 26th day of February, 2010.

Mary Hoyt
Notary Public

My commission expires: 4-1-2010



MISSOURI PUBLIC SERVICE COMMISSION

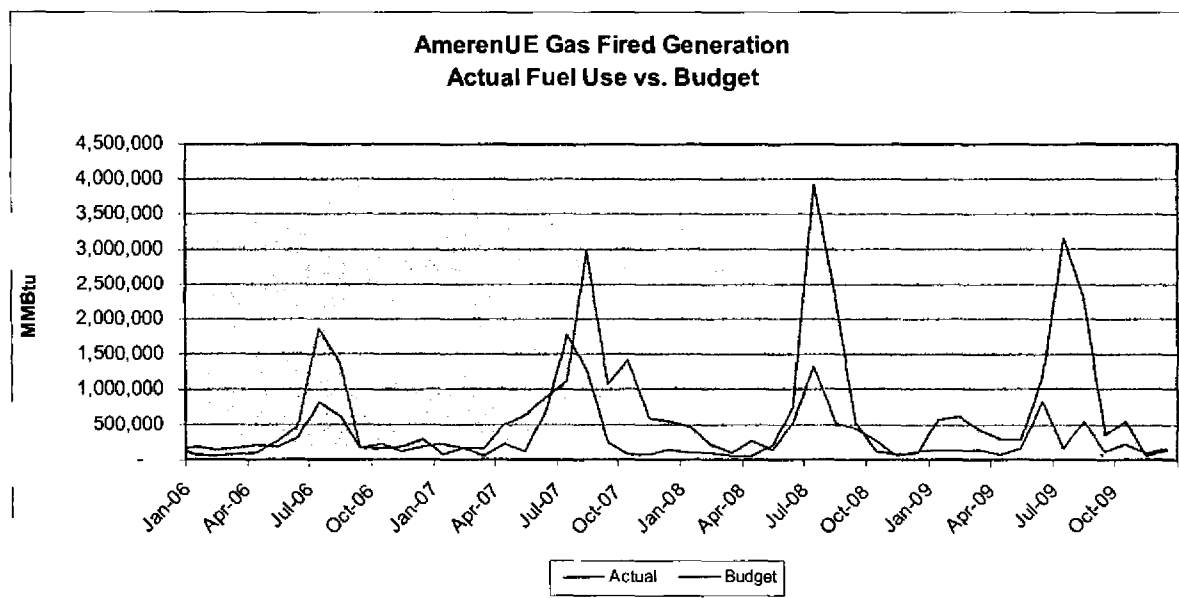
Case No. ER-2010-0036

FUEL ADJUSTMENT CLAUSE REBUTTAL TESTIMONY

OF

ROBERT K. NEFF

SCHEDULE RKN-FR1 IS DEEMED HIGHLY CONFIDENTIAL



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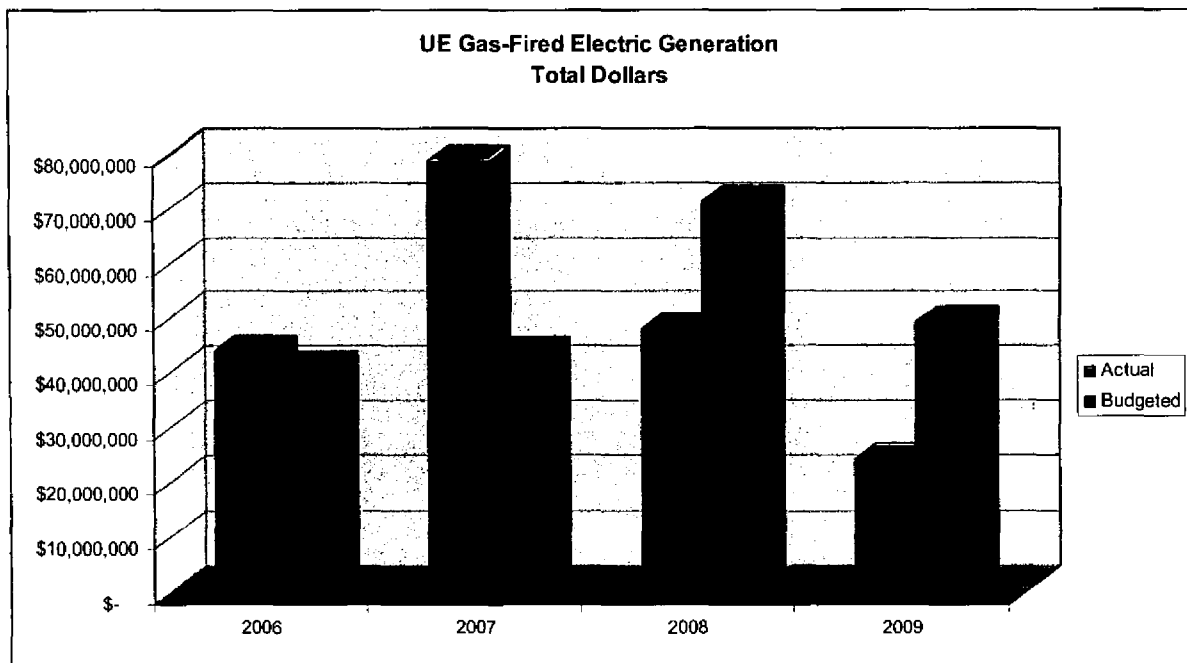
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Q. In Ms. Mantle's testimony she stated that "[f]luctuations in natural gas and purchased power prices did not have a material impact on AmerenUE's fuel and purchased power expense since AmerenUE only used a small amount of natural gas and purchased power to meet its net system input" Has that situation always been true?

A. No. As Mr. Glaeser stated in his direct testimony in Case No. ER- 2008-0318, the total energy produced by the natural gas-fired plants is generally a modest 1 to 2% of total generation (in megawatt-hours). However, the actual cost may be as high as 13% of the total fossil fuel costs in a given year. The following graph illustrates the unpredictability and the magnitude of total cost incurred by AmerenUE from gas-fired generation. The variability in the total cost is material. In 2007 and 2009, the total cost was \$79,029,754 and \$24,262,962 respectively, a difference of \$54,766,793.



1

2 **Q. Looking to future years, what is the projected range of fuel costs for**
3 **AmerenUE's gas-fired generation?**

4 A. Keeping in mind that gas-fired generation fuel costs are highly unpredictable,
5 AmerenUE's current five year forecast projects fuel costs to vary from *****20.2**** million in
6 2010 to *****140.1**** million in 2014. The point is that natural gas costs for generation are
7 significant even at approximately *****20**** million, but they could easily be up to ****seven****
8 times that high.

9 **Q. Mr. Massmann, you showed that the actual magnitude of the price and**
10 **demand forecast uncertainty results in a variance between forecast and budget of over**
11 **\$35 million in 2007, \$23 million in 2008, and \$25 million in 2009. Is it likely similar**
12 **variances will occur in the future?**

13 A. Yes. By the nature of gas-fired generation, demand will continue to be
14 unpredictable and natural gas prices will continue to be volatile. Without the existing FAC,
15 fuel costs for gas-fired generation will expose AmerenUE to the ever-increasing problem of