

FILED
May 01, 2023
Data Center
Missouri Public
Service Commission

Exhibit No. 50

Ameren – Exhibit 50
Matt Michels
Direct Testimony
File No. ER-2022-0337

Exhibit No.:
Issue(s): Rush Island Energy Center
Retirement
Witness: Matt Michels
Type of Exhibit: Direct Testimony
Sponsoring Party: Union Electric Company
File No.: ER-2022-0337
Date Testimony Prepared: August 1, 2022

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2022-0337

DIRECT TESTIMONY

OF

MATT MICHELS

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

**St. Louis, Missouri
August 2022**

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DIRECT TESTIMONY

OF

MATT MICHELS

FILE NO. ER-2022-0337

I. INTRODUCTION

1

Q. Please state your name and business address.

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3 A. Matt Michels, One Ameren Plaza, 1901 Chouteau Avenue, St. Louis,
4 Missouri 63103.

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

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6 A. I work in Ameren Services Company's Innovation and Corporate Strategy
7 Department as Director of Corporate Analysis. The Innovation and Corporate Strategy
8 Department provides various corporate support services to Ameren Corporation and its
9 subsidiaries, including Ameren Missouri.

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Q. Please describe your educational and professional background.

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11 A. I joined Ameren Services Company in 2005 as a Consulting Engineer in
12 Corporate Planning. My responsibilities included coordination and monitoring of projects
13 implemented in conjunction with the integration of processes and systems following the
14 acquisition by Ameren Corporation of Illinois Power Company ("Illinois Power") in
15 October 2004. I was subsequently involved in the integration of combustion turbine
16 facilities acquired by Ameren Missouri in 2006. In September 2008, I was promoted to
17 Managing Supervisor of Resource Planning with responsibility for long-range resource
18 planning, including Ameren Missouri's Integrated Resource Plan ("IRP") filings and
19 associated analysis. In February 2013, I was promoted to Corporate Analysis Manager, and

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1 in June 2017, I was promoted to my current position. In that capacity, I continue to have
2 direct responsibility for Ameren Missouri's resource planning process, including plans
3 related to the acquisition of renewable energy resources.

4 I earned a Bachelor of Science degree in Electrical Engineering from the University
5 of Illinois at Urbana-Champaign in May 1990. I have been employed by Ameren or Illinois
6 Power since June 1990 in various positions related to resource and business planning.
7 During most of that time, my responsibilities have included the development, use and
8 oversight of various planning models used for purposes such as production costing,
9 acquisition evaluation, corporate restructuring, financial forecasting, and resource
10 planning. I have previously testified before this Commission in proceedings involving
11 resource planning, renewable energy standards compliance, and energy efficiency cost
12 recovery.

13 II. PURPOSE OF TESTIMONY

14 **Q. What is the purpose of your direct testimony?**

15 A. The purpose of my direct testimony is to present the analysis supporting
16 Ameren Missouri's decision to accelerate the retirement of its Rush Island Energy Center
17 ("Rush Island") rather than install expensive flue gas desulfurization ("FGD") or
18 "scrubber" equipment to comply with a U.S. District Court decision.

19 **Q. Please summarize your testimony.**

20 A. Ameren Missouri's decision to retire Rush Island is based on the same IRP
21 analysis framework the Company uses to make all major resource decisions. The
22 Company's analysis shows that long-run costs to customers as measured by the present

1 value of revenue requirements ("PVRR") will be lower if the Rush Island is retired than if
2 the Company constructed and operated FGD equipment at Rush Island.

3 **Q. Please describe the analysis you performed to determine the relative**
4 **economics of early retirement of Rush Island and the continued operation of Rush**
5 **Island with FGD pollution controls.**

6 A. I began with the model framework and assumptions Ameren Missouri used
7 in the development of its 2020 IRP. Using that framework, I evaluated two plans – one
8 with Rush Island retired at the end of 2025 ("Early Retirement Plan") and one with FGD
9 equipment installed at Rush Island ("Continued Operation Plan"), with continued operation
10 of the units until the end of 2039, the planned retirement date previously established in the
11 Company's 2020 IRP.

12 For the Early Retirement Plan, I evaluated four different operating scenarios, each
13 defined to represent a range of potential operating plans under which the units would be
14 managed prior to the retirement of the units while necessary transmission system
15 infrastructure was built to ensure grid reliability post-retirement. Following is a brief
16 description of the four operating scenarios along with estimated energy margins associated
17 with each scenario:

- 18 • Scenario 1 – Normal dispatch through 2025, then retire (\$212MM margin
19 2022, \$120MM in total, 2023-25)
- 20 • Scenario 2 – Seasonal operation (Jan-Feb, May-Dec) (\$141MM margin
21 2022, \$80MM in total, 2023-25)
- 22 • Scenario 3 – Summer reliability and non-summer emergencies (\$36MM
23 margin 2022, \$25MM in total, 2023-25)

- 1 • Scenario 4 – Summer voltage reliability (\$13MM margin 2022, \$9MM in
2 total, 2023-25)

3 The Early Retirement Plan also reflects certain key assumptions associated with
4 the early retirement. This includes the cost of transmission infrastructure needed to ensure
5 grid reliability post-retirement of ** _____ ** (in current dollars) to be placed in
6 service January 1, 2026, minimal additional plant capital expenditures and reduced O&M
7 expenses. It also reflects recovery of the remaining undepreciated balance of the plant over
8 10 years and inclusion of the remaining undepreciated balance in rate base. Given that the
9 Company intends to instead securitize the remaining undepreciated balance, I would expect
10 the capital cost component of the PVRR of the Early Retirement Plan to be somewhat less
11 than analyzed at the time due to the lower capital costs expected via use of securitization.

12 The Continued Operation Plan reflects the cost of FGD equipment, using a range
13 of \$681 million to \$941 million, placed in service on April 1, 2026.¹ It also reflects an
14 additional \$60 million in capital expenditures for precipitator equipment improvements
15 necessary for the efficient operation of the FGD equipment. Finally, it includes ** _____
16 _____ ** (in current dollars) in transmission system upgrade investments to be placed in
17 service on January 1, 2040, to ensure grid reliability post-retirement.

18 **Q. Does your analysis include consideration of key uncertainties?**

19 A. Yes. As is regularly done as part of our IRP analysis, I evaluated the plans
20 under a range of assumptions for natural gas prices, carbon dioxide emission prices, and
21 power prices, which are in turn influenced by both natural gas prices and carbon dioxide
22 emission prices. I used the same price scenarios the Company used in the analysis

¹ FGD capital costs reflect overnight costs and do not include financing costs during construction.

1 supporting the 2020 IRP. To ensure sufficient information to support the decision, I looked
2 at results explicitly for each level of assumptions for carbon dioxide emission prices. I also
3 explicitly looked at results for a combination of high gas prices and no carbon dioxide
4 emission prices, which would result in the most favorable expectation for margins for the
5 Continued Operation Plan.

6 **Q. Did you evaluate the comparative economics of the two plans given**
7 **different assumptions for the cost of FGD equipment?**

8 A. Yes. I evaluated the economics of the Continued Operations Plan using
9 three levels of capital cost assumptions for the FGD equipment – a low-cost assumption of
10 \$681 million, a high-cost assumption of \$941 million, and a central cost assumption of
11 \$811 million. These cost estimates represent overnight costs and do not include allowance
12 for funds used during construction ("AFUDC"). Ameren Missouri's IRP model calculates
13 and adds AFUDC for inclusion in the economic results.

14 **Q. What do the results of your analysis show?**

15 A. Analysis results are shown in Schedule MM-D1, attached to my direct
16 testimony. Those results show that PVRR would be higher (i.e., greater costs to customers)
17 under just three of the 48 different combinations of assumptions analyzed for the Continued
18 Operations Plan relative to the Early Retirement Plan. Put another way, the Early
19 Retirement Plan is cheaper for customers in 45 of the 48 combinations of assumptions
20 evaluated. Those 48 different combinations of assumptions reflect four different scenarios
21 for natural gas and carbon dioxide prices, four different pre-retirement operating scenarios
22 for Rush Island under the Early Retirement Plan, and three different assumptions for FGD
23 capital costs under the Continued Operations Plan.

1 All three combinations of assumptions that result in higher PVRR under the Early
2 Retirement Plan relative to the Continued Operations Plan reflect a combination of no
3 carbon dioxide emissions price and high gas prices. Of those, two reflect the low
4 assumption for FGD capital costs for the Continued Operations Plan and either operations
5 scenario 3 or 4 for the Early Retirement Plan. The other reflects the midpoint FGD capital
6 costs for the Continued Operations Plan and operations scenario 4 for the Early Retirement
7 Plan.²

8 **Q. Did you evaluate the effect of changes in transmission costs?**

9 A. Yes. Analysis results for each of the 48 combinations of assumptions
10 include an estimated break-even cost for transmission infrastructure. Break-even
11 transmission costs were lower than the assumed **** _____ **** in four of the 48
12 combinations of assumptions, all of which reflect no carbon dioxide emissions price, high
13 gas prices, and operations scenario 3 or 4 under the Early Retirement Plan.

14 **Q. Please state your conclusions given the results of the analysis you've**
15 **described.**

16 A. Under nearly all reasonable combinations of assumptions, Ameren
17 Missouri's customers will realize lower costs under the Early Retirement Plan than under
18 the Continued Operations Plan. This strongly suggests that customers are economically
19 better off as a direct result of the Company's decision to retire the plant instead of installing
20 the significant amount of additional control equipment that would otherwise have been
21 required.

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² Ameren Missouri updated its probabilities for carbon dioxide emissions price scenarios as noted in its June 22, 2022 Notice of Change in Preferred Plan (File No. EO-2022-0362), including assigning zero probability to the "No Carbon Price" scenario.

Direct Testimony of
Matt Michels

1 **Q. Does this conclude your direct testimony?**

2 A. Yes, it does.

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**Schedule MM-D1 is
Confidential in its
Entirety**

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