

Exhibit No.:
Issue(s): Accounting Standards for
Demands-Side Programs
Witness: Clifford Hoffman
Sponsoring Party: Union Electric Company
Type of Exhibit: Surrebuttal Testimony
File No.: EO-2015-0055
Date Testimony Prepared: April 27, 2015

MISSOURI PUBLIC SERVICE COMMISSION

File No. EO-2015-0055

SURREBUTTAL TESTIMONY

OF

CLIFFORD HOFFMAN

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

**Palm Coast, Florida
April, 2015**

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

2 A. Clifford Hoffman, 39 Jasmine Drive, Palm Coast, Florida 32137.

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

4 A. I am retired after 38 years of experience from Deloitte LLP (“Deloitte”) as an audit
5 Partner. Deloitte is a national public accounting, audit and consulting firm with a large public
6 utility audit and accounting practice.

7 **Q. Please describe your professional background and qualifications.**

8 A. I began my career with Deloitte in Minneapolis, Minnesota in July 1974. I was admitted
9 to Partner in the audit practice in June 1985. I was a market leader for the utility industry in the
10 Midwest. I have served many utilities as the audit Partner, including Black Hills Corporation,
11 Connexus Energy, Great Plains Energy, Great River Energy, MDU Resources, NorthWestern
12 Corporation and Otter Tail Corporation. As an audit Partner, it was my responsibility to ensure
13 that Deloitte’s audit opinions for the utility in question met all United States Securities and
14 Exchange Commission (“SEC”) requirements and to ensure that unqualified audit opinions were
15 only issued if the utility’s financial statements were prepared in accordance with Generally
16 Accepted Accounting Principles (“GAAP”) and SEC requirements. In addition, I served as the
17 audit quality Partner (concurring reviewer) on numerous other utility audits. I retired from
18 Deloitte in October 2012.

1 **Q. Have you previously testified in proceedings before the Missouri Public Service**
2 **Commission (“MPSC” or Commission”) or before another regulatory body regarding**
3 **ratemaking or accounting issues affecting public utilities?**

4 A. No.

5 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

6 A. The purpose of my surrebuttal testimony is to explain the standards that govern a
7 regulated utility’s accounting and financial reporting for demand-side management activities.

8 **Q. Have you reviewed the surrebuttal testimony being filed today by Company witness**
9 **Lynn M. Barnes?**

10 A. Yes.

11 **Q. What other materials have you reviewed?**

12 A. In addition to the applicable accounting standards I discuss later in my testimony, I also
13 reviewed the rebuttal testimony of MPSC Staff witness Mark L. Oligschlaeger and of Missouri
14 Office of the Public Counsel (“OPC”) witness Dr. Geoff Marke.

15 **Q. Do you have general familiarity with the accounting issues that arise from the**
16 **Company’s Missouri Energy Efficiency Act (“MEEIA”) cycle 2 plan?**

17 A. Yes. While I don’t know all of the details of the entire MEEIA cycle 2 plan, I do
18 understand that by their nature energy efficiency programs are designed to reduce energy
19 consumption by utility customers, which consequently reduces utility sales. I also understand
20 that an issue in this case is how the impact of those reduced sales should be determined and how
21 it should be accounted for, with the Company’s position being that if it is accounted for in a way

1 that reduces the Company's revenues the Company will have a disincentive to pursue the energy
2 efficiency programs.

3 **Q. What were you asked to do in this case?**

4 A. I was asked to review other proposals for recovery of what the Company has referred to
5 as the "throughput disincentive," or "TD-NSB," in its MEEIA cycle 2 plan and to provide an
6 opinion on whether revenues arising from the throughput disincentive could be recognized
7 contemporaneously with the operation of the MEEIA cycle 2 programs under those proposals.

8 **Q. What is your understanding of the Company's proposal relating to TD-NSB versus**
9 **the proposals reflected in Mr. Oligschlaeger's and Dr. Marke's rebuttal testimony?**

10 A. The Company has proposed a means by which energy savings caused by its MEEIA
11 cycle 2 programs are determined using energy savings values in a Technical Resource Manual
12 ("TRM") and deemed net-to-gross values. Those values are applied to the number of measures
13 installed (e.g., the number of efficient light bulbs or heat pumps actually installed) and used to
14 determine the TD-NSB share with the Company then receiving revenues under its MEEIA rate
15 rider to cover its TD-NSB share. The design is intended to remove the disincentive the
16 Company indicates it would otherwise have to pursuing energy efficiency programs. The TD-
17 NSB share is determined as the programs progress and is not retroactively changed, although the
18 TRM energy savings values will be updated prospectively using evaluation, measurement and
19 verification ("EM&V") results from the prior years if the EM&V results are outside certain
20 bands.

21 In contrast, the MSPC Staff position is that EM&V results would be used to possibly
22 retroactively change the amount of the TD-NSB share to be recovered from customers as the

1 programs are operated. OPC's position would also apparently require retroactive changes to the
2 TD-NSB share.

3 **Q. Do you have an opinion regarding whether the MPSC Staff's and OPC's positions,**
4 **if adopted, would allow the Company to record revenues associated with its TD-NSB share**
5 **as the programs are operated?**

6 A. Yes, I do. The "true-up" proposed by the MPSC Staff, as well as other approaches that
7 would call for retroactive changes to the TD-NSB (as Dr. Marke's position would do), will
8 prevent the Company from recognizing the revenues the TD-NSB is designed to provide as the
9 programs progress because the Company could not record those revenues consistent with
10 applicable GAAP requirements.

11 **Q. Please explain the accounting standards that govern the accounting for these**
12 **programs.**

13 A. The SEC requires all publicly traded companies (such as Ameren Corporation and its
14 subsidiaries, including Ameren Missouri) to follow GAAP to insure comparability and
15 consistency of financial information that is relied on by investors and creditors. Accounting
16 Standards Codifications ("ASC"), which are issued by the Financial Standards Accounting Board
17 ("FASB") and SEC requirements, are the only authoritative statements recognized by the SEC.

18 **Q. Does specific authoritative literature exist for demand-side activities which**
19 **regulated utilities must follow?**

20 A. Yes. I have experience with many demand-side management initiatives with regulated
21 utilities as an auditor. ASC 980-605-25, "Recognition-Alternative Revenue Programs," is the
22 GAAP standard that must be followed by the Company with respect to accounting for the impact

1 of its MEEIA cycle 2 programs on its financial statements because this standard specifically
2 addresses the criteria required for revenue recognition associated with demand-side activities. A
3 copy of ASC-980-605-25 is attached to Ms. Barnes' surrebuttal testimony.

4 **Q. What are the consequences if a regulated utility with a demand-side activity does**
5 **not follow ASC 980-605-25?**

6 A. A material departure from GAAP could result in an earnings restatement initiated by the
7 utility's Independent Auditors, the SEC or other regulatory groups (e.g., the Federal Energy
8 Regulatory Commission). Failing to follow ASC 980-605-25 would be a material failure to
9 follow GAAP. If the item were material (as here), the Company could also receive a qualified
10 opinion on its internal controls (a "material weakness in internal controls") for its inability to
11 properly apply GAAP. During my career I have never seen a regulated utility have a qualified
12 opinion related to not conforming with GAAP. Put another way, in my opinion, no regulated
13 utility of which I am aware would ever knowingly fail to follow GAAP, nor should it.
14 Moreover, since the federal Sarbanes-Oxley Act was adopted (in 2002), it has been well
15 understood that following GAAP is not only necessary to avoid a qualified audit opinion, but is
16 necessary to comply with SEC requirements.

17 Utility executives are required to provide in writing in their company's SEC Form10Qs
18 and Form 10Ks certifications as to the appropriateness of their financial statements and
19 disclosures and to certify that they fairly present in all material respects, the operations and
20 financial condition of the Company, which means they are certifying compliance with GAAP.

21 **Q. Would you expect a utility to record revenues in violation of GAAP?**

22 A. No. Doing so would call into question the validity of the utility's financial statements
23 and the integrity of its accounting and would violate Sarbanes-Oxley. In my experience, utilities

1 do not knowingly fail to follow GAAP. The consequence of this is that if revenues cannot be
2 recognized under GAAP then the utility's revenues and earnings will be reduced because the
3 utility will not recognize the revenues. Ms. Barnes' surrebuttal testimony indicates that this
4 would be true for the Company as well.

5 **Q. Has Ms. Barnes accurately described the standards that apply under ASC 980-605-**
6 **25 in her surrebuttal testimony?**

7 A. Yes, she has. For convenience, I repeat them here:

8 1) The demand-side management program must be established by an order from the
9 utility's regulatory commission that allows for automatic adjustment of future rates
10 (verification of the adjustment to future rates by the regulator would not preclude the
11 adjustment from being considered automatic); 2) The amount of additional revenues for
12 the period is objectively determinable and is probable of recovery; and 3) The additional
13 revenues will be collected within 24 months following the end of the annual period in
14 which they are recognized.

15 **Q. Please apply those standards to the Company's MEEIA cycle 2 proposal for**
16 **recovering its TD-NSB share.**

17 A. The Company's approach would meet all three of the ASC 980-605-25 criteria for all of
18 the revenues under the demand-side investment mechanism ("DSIM") proposed by the
19 Company. This is because an order approving the DSIM would satisfy the first criterion, the use
20 of the deemed energy savings in the TRM would allow the TD-NSB share to be objectively
21 determinable, and the use of the existing rider would allow revenues to be collected within 24
22 months.

1 **Q. Please apply those standards to the Staff’s proposal for handling of the TD-NSB**
2 **share.**

3 A. Under the Staff’s proposal, the first condition is met if the Commission approves the
4 MEEIA cycle 2 plan and assuming the Company can use the current rider mechanism. The third
5 condition would also be met if the rider mechanism is continued under the same process that is
6 currently in place under the MEEIA cycle 1 DSIM because revenues are being collected on a
7 timely basis (within 24 months). However, the second condition would not be met. As noted
8 earlier, a retroactive “true-up” using the results of EM&V would result in the additional revenue
9 not being objectively determinable and probable of recovery. Therefore, no DSM revenue could
10 be recorded until the retroactive true-up is completed. Until the true-up is completed, the
11 Company would experience a directly related decrease in shareholder earnings because it would
12 not be able to recognize the revenues and comply with GAAP. The same problem exists with
13 OPC’s position, although OPC does not specifically propose a retroactive true-up.

14 **Q. Does this conclude your surrebuttal testimony?**

15 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

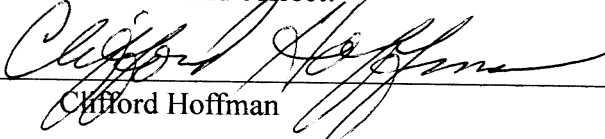
In the Matter of Union Electric Company d/b/a)
Ameren Missouri's 2nd Filing to Implement) File No. EO-2015-0055
Regulatory Changes in Furtherance of Energy)
Efficiency as Allowed by MEEIA.)

AFFIDAVIT OF CLIFFORD HOFFMAN

STATE OF FLORIDA)
) ss
COUNTY OF FLAGLER)

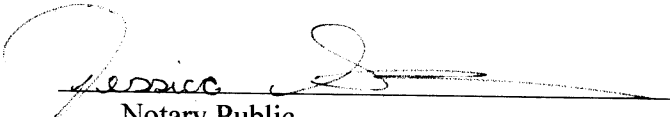
Clifford Hoffman, being first duly sworn on his oath, states:

- My name is Clifford Hoffman. I live in the City of Palm Coast, Florida and I am retired from Deloitte LLP as an audit Partner.
- Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri, which consists of 7 pages and 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.



Clifford Hoffman

Subscribed and sworn to before me this 27 day of April, 2015.



Notary Public

My commission expires: 10/20/2018



Jessica Smith
State of Florida
My Commission Expires 10/20/2018
Commission No. FF 170052