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the CCN, RESRAM
Witness: Jason Kunst, CPA
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

JASON KUNST, CPA

STAFF Exhibit No. 107
Date 10/31/18 Reporter SK
File No. 2A 2018 0202

**UNION ELECTRIC COMPANY,
d/b/a AMEREN MISSOURI**

CASE NO. EA-2018-0202

*Jefferson City, Missouri
September 2018*

**** Denotes Confidential Information ****

***** Denotes Highly Confidential Information *****

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OF
JASON KUNST, CPA
UNION ELECTRIC COMPANY,
d/b/a AMEREN MISSOURI
CASE NO. EA-2018-0202**

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1 and the granting of a Certificate of Convenience and Necessity (“CCN”) for the project.¹
2 CCN requests are typically evaluated by five criteria, known as the “Tartan” Criteria.
3 As explained in the surrebuttal testimony of Staff witnesses Jamie S. Myers and Claire M.
4 Eubanks, CCNs are often granted upon a showing the Project meets the Tartan Criteria and
5 is in the public interest. My testimony affirms that the Project meets the economic
6 feasibility criterion.

7 **ECONOMIC FEASIBILITY OF THE CCN**

8 Q. Is it Staff’s position that the proposed TG High Prairie Wind Farm project is
9 economically feasible for Ameren Missouri?

10 A. Yes. Ameren Missouri includes in its application several arguments to support
11 the economic feasibility of the Project:²

- 12 1. The project is a cost-effective means of meeting a part of the RES
13 requirements and provides long-term benefits to Ameren Missouri
14 customers.
- 15 2. The build transfer agreement (“BTA”) structure allows Ameren
16 Missouri to leverage the developer’s expertise with wind generation
17 construction and acquire a late-stage wind project in Missouri.
- 18 3. The BTA arrangement is the best structure for capturing the entire
19 value of the approximately \$400 million in Production Tax Credits
20 (“PTCs”) the Project will generate and to provide the associated cost
21 savings to Ameren Missouri customers.

¹ Rebuttal Testimony of Geoff Marke, pp. 2 and 11.

² Application of Union Electric Company d/b/a Ameren Missouri for Permission and Approval and a Certificate of Public Convenience and Necessity Authorizing it to Construct a Wind Generation Facility, pp. 6-7.

Surrebuttal Testimony of
Jason Kunst, CPA

1 Q. Did Ameren Missouri evaluate using other options to meet RES requirements?

2 A. Yes. In December 2015, Ameren Missouri issued a request for proposal (RFP)
3 to wind project developers to determine if construction of a wind project or entering into a
4 purchase power agreement (PPA) was economically feasible for meeting the Missouri
5 Renewable Energy Standard (RES) requirements.³ Based upon the RFP results,
6 Ameren Missouri determined that wind resources are the lowest cost source of renewable
7 energy available at this time to meet RES requirements. ** _____
8 _____

9 _____⁴ ** Ameren Missouri discovered through analysis and
10 cost/revenue modeling that ownership of a wind farm was the most cost effective means
11 to meet future RES requirements and that a BTA was the most appropriate structure to
12 accomplish that.

13 Q. Describe the response that Ameren Missouri received regarding the wind RFP.

14 A. Ameren Missouri received thirteen solicited and unsolicited offers or
15 "bids" from multiple wind developers and narrowed down the list of potential project
16 candidates to six. While the initial price range for the short listed BTA wind projects was in
17 the range of ** _____
18 _____⁵ _____

19 _____ ** *** _____

3 ** _____

_____ ** _____

4 ** _____ **

5 *** _____ **

Surrebuttal Testimony of
Jason Kunst, CPA

1 _____ *** Ameren Missouri

2 ultimately selected Terra-Gen's High Prairie project *** _____

3 _____ ***

4 Q. Please provide a summary of the projected Project costs.

5 A. *** _____

6 _____

7 _____ ***

8 ***

9 ***

10 *** _____

11 _____ 6 _____

12 _____

13 _____

14 _____

15 _____ ***

6 *** _____

_____ ***

Surrebuttal Testimony of
Jason Kunst, CPA

1 Q. What are the main reasons that the Terra-Gen High Prairie Wind Farm project is
2 economically feasible for Ameren Missouri?

3 A. The main reasons the Project is economically feasible for Ameren Missouri is
4 the recent decline in costs of construction materials as well as the availability of full production
5 tax credit (PTC) benefits associated with its operation.

6 Q. What benefit do the PTCs provide to Ameren Missouri and its customers?

7 A. For wind projects under construction as of December 31, 2016 and placed in
8 service by 2020, the PTC provides tax credits of \$24 per MWh,⁷ with annual adjustments for
9 inflation, generated for the first ten years of operation of eligible wind projects.

10 Q. What is the importance of the December 31, 2016 date stated above in regards to
11 the PTCs?

12 A. Application of 100% of the value of production tax credits are critical to the
13 economics of this wind project and the value of the tax credit is phased down for wind facilities
14 that commence construction after December 31, 2016. The phase-down for wind facilities is
15 described as a percentage reduction in the tax credit amount described above:

- 16 • For wind facilities commencing construction in 2017 and placed in service
17 before December 31, 2021, the PTC amount is reduced by 20%.
- 18 • For wind facilities commencing construction in 2018 and placed in service
19 before December 31, 2022, the PTC amount is reduced by 40%.
- 20 • For wind facilities commencing construction in 2019 and placed in service
21 before December 31, 2023, the PTC amount is reduced by 60%.

⁷ The current inflation adjusted PTC amount for 2018 is \$24 per MWh per Federal Register / Vol. 83, No. 76 /Thursday, April 19, 2018 /Notices.

Surrebuttal Testimony of
Jason Kunst, CPA

1 Q. If Ameren Missouri did not begin construction on the High Prairie wind project
2 prior to December 31, 2016, how can the Company be eligible for 100% of the value of the
3 production tax credits?

4 A. In order for Ameren Missouri to receive full PTC benefits, an eligible project
5 must have "commenced construction" prior to January 1, 2017. The Internal Revenue Service
6 (IRS) has issued guidance on how it evaluates whether construction has commenced at a
7 particular date using two methods: a "physical work" test and a 5% Safe Harbor test.
8 The physical work test may establish the beginning of construction by beginning
9 "physical work of a significant nature." The physical work test is based on the nature of the
10 work performed rather than the cost of the work. The 5% Safe Harbor test with respect to a
11 facility is demonstrated by showing that 5% or more of the total cost of the facility was paid or
12 incurred by the applicable date. Meeting the criteria of either method is sufficient to
13 demonstrate that construction has commenced and that the project can qualify for PTCs
14 depending on the time frame this qualification is met.⁸

15 Q. Has the High Prairie wind project met the safe harboring requirements discussed
16 above?

17 A. *** _____
18 _____
19 _____
20 _____
21 _____

⁸ Renewable Electricity Production Tax Credit, Energy.Gov, <https://www.energy.gov/savings/renewable-electricity-production-tax-credit-ptc>.

Surrebuttal Testimony of
Jason Kunst, CPA

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Q. Does the build transfer agreement (BTA) with Terra-Gen contain consumer
4 protections?

5

A. Yes. The BTA agreement allows Ameren Missouri to walk away from the
6 deal if the project does not meet several criteria such as a *** _____
7 _____, *** loss of the PTCs, or MISO transmission study fees incurred above an acceptable
8 level. *** _____

9

9 ***

10

Q. Does Ameren Missouri know the results of the MISO transmission
11 interconnection study or its associated costs?

12

A. No, Ameren Missouri has not yet received the results of the Mid-Continent
13 Independent System Operator (MISO) regional transmission operator (RTO) interconnection
14 agreement study. The interconnection agreement study is set to be complete by
15 *** _____ *** and the associated costs will be known at that time.

16

Q. Has Ameren Missouri received Federal Energy Regulatory Commission (FERC)
17 approval for the proposed wind project?

18

A. No. Ameren Missouri expects to receive FERC approval by *** _____
19 _____. *** FERC approval is also a requirement contained in the Non-unanimous Stipulation
20 and Agreement ("Stipulation") filed August 17, 2018, between the Staff and Ameren Missouri,
21 and supported by Renew Missouri and as incorporated in the Second Non-Unanimous
22 Stipulation and Agreement filed on September 24, 2015.

9 ***

Surrebuttal Testimony of
Jason Kunst, CPA

1 Q. Has Ameren Missouri successfully completed projects of similar size and scope
2 in the past?

3 A. Yes. Ameren Missouri has completed projects of similar size and scope such as
4 the environmental scrubbers that were placed in service at the Sioux generating facility.
5 The Sioux scrubber project cost approximately \$574.1 million and this investment was
6 included in permanent rates by the Commission as part Case No. ER-2011-0028. Similarly, in
7 the past Ameren Missouri has demonstrated the ability to place into service several complex
8 capital improvement projects that exceeded the total cost of the proposed wind project that is
9 the subject of this case. Between January 1, 2002 and December 31, 2006, Ameren Missouri
10 completed approximately \$2.7 billion of capital improvements that were placed into permanent
11 rates by the Commission in Case No. ER-2007-0002.

12 Additionally, Ameren Missouri has successfully placed over \$1 billion of capital
13 investment into service within a single calendar year and subsequently received recovery of
14 those costs in rate cases.¹⁰ Most recently, Ameren Missouri completed approximately
15 \$1.6 billion of capital investment between the December 31, 2014 true-up cutoff in Case No.
16 ER-2014-0258 and the December 31, 2016 true-up cutoff in Case No. ER-2016-0179. Ameren
17 Missouri has demonstrated the ability to own, operate, control, and maintain the proposed wind
18 facility throughout the facility's expected service life. Additionally, Staff will have the
19 opportunity to fully review and evaluate the prudence of all Project costs in a future Ameren
20 Missouri rate proceeding prior to inclusion in base rates.

21 Q. Please provide a brief summary of your assessment of the economic feasibility
22 of the wind CCN.

¹⁰ In calendar years 2010 and 2014 Ameren Missouri placed approximately \$1.2 billion and \$1.1 billion of capital investment into service.

Surrebuttal Testimony of
Jason Kunst, CPA

1 A. Ameren Missouri has provided documentation of its extensive negotiations as
2 well as cost modeling and other analysis to Staff that indicates it has sufficiently evaluated the
3 necessary capital costs, ongoing operating costs and various available project financing options
4 associated with the proposed project. Ameren Missouri has specifically chosen and negotiated
5 the BTA to have the wind project built to their specifications, to receive the desired level of
6 generation, and for the project to be completed on the desired/required timeline; otherwise
7 Ameren Missouri is not obligated to purchase the wind facilities. Ameren Missouri has
8 specifically included consumer protections to minimize the financial risk of any cost overruns
9 associated with the wind project. Staff has reviewed all RFP responses; the Company analysis
10 of those responses, as well as revenue and cost modeling¹¹ associated with the project and has
11 determined that the wind project is economically feasible, subject to the results of the RTO
12 interconnection agreement study and transmission upgrade costs not exceeding \$100 million.

13 RESRAM ACCOUNTING TREATMENT

14 Q. Provide a brief description of the renewable energy standard rate adjustment
15 mechanism (RESRAM).

16 A. The RESRAM is a rate recovery mechanism for costs associated with
17 compliance with RES. The RESRAM is structured similar to the fuel adjustment clause (FAC)
18 where certain annualized costs and revenue, as outlined in the statute, are used to determine
19 the cost per kWh base factor from which changes in those same costs and benefits will be
20 tracked until the base factor is re-established in a general rate proceeding. However the
21 costs for the RESRAM and the costs for the FAC differ in that RESRAM costs and
22 benefits must be for RES compliance and can be capital or expense in nature; whereas only fuel

¹¹ For a discussion of certain modeling related issues please refer to the surrebuttal testimony sponsored by Staff witness Sarah L.K. Lange.

Surrebuttal Testimony of
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1 and purchased power related expenses, off-system sale revenue, and certain transmission
2 revenues and expense are included in the FAC. In short, no capital investment is recoverable
3 through the FAC.

4 Q. On page 12, lines 12-15, MIEC witness Brubaker states, "To the extent a
5 RESRAM is approved, it should only apply to new projects that have not previously received
6 regulatory considerations. This would include the current 400 MW wind proposal that is the
7 subject of this case, additional wind facilities, additional solar rebates, and possibly other
8 projects." Does the Stipulation reflect such treatment?

9 A. Yes. Both Stipulations exclude existing RES compliance costs¹² from the
10 calculation of the RESRAM base factor, and all changes in existing RES costs that are
11 currently in existing rates will also be excluded from inclusion in the RESRAM rider. Staff
12 supports this treatment for two primary reasons. First, tracking the changes in the existing RES
13 costs would be difficult and time consuming, and also would require that Ameren Missouri
14 develop accounting system enhancements to address changes in such costs. The exclusion of
15 these costs from the RESRAM rider would provide for a simplified and straightforward review
16 process. Secondly, on advice of counsel, continuing the treatment of RES compliance costs
17 currently included in existing rates and excluding them from the RESRAM rider will preserve
18 the terms of prior case stipulations that have been approved by the Commission that address
19 many of these RES compliance costs. Under the terms of both Non-unanimous Stipulations and
20 Agreements in this proceeding, the initial base factor for the RESRAM would be set at \$0.00.

¹² These existing RES compliance costs include RES compliance costs currently being tracked as part of the RES AAO, as well as capital costs, reserve, depreciation expense, ADIT, non-labor O&M expense, and property taxes associated with existing RES compliance assets, which include the Maryland Heights Energy Center, O'Fallon Energy Center, and the solar panels located at the Ameren Missouri corporate headquarters. It also includes existing solar rebates that were the subject of Case Nos. ET-2014-0085 and ER-2016-0179; however, the RESRAM would reflect all new solar rebates not considered in the aforementioned cases.

Surrebuttal Testimony of
Jason Kunst, CPA

1 Q. Are there other special ratemaking mechanisms that will interact with the
2 RESRAM calculation?

3 A. Yes. Senate Bill 564¹³ was signed into law on June 1, 2018 subsequent to the
4 May 21, 2018 date that Ameren Missouri filed its Application and supporting direct testimony
5 in this proceeding. Ameren Missouri indicated in its response to Staff Data Request No. 0037
6 that they intend to use both plant-in-service accounting (PISA) and the RESRAM for RES
7 eligible projects for accounting and ratemaking purposes. Under this approach, the remaining
8 15% of RES eligible plant, reserve, depreciation, ADIT and return on investment not eligible
9 for inclusion in PISA, as well as all non-labor operation and maintenance expense and property
10 taxes will be recovered through the proposed RESRAM rider. The Stipulations reflects the use
11 of PISA accounting as well as use of a RESRAM.

12 To ensure that there is no double recovery of costs in rates as a result of utilizing both
13 the PISA deferral and the RESRAM rider to account for the new wind project, specific and
14 distinct recording of plant, reserve, depreciation, ADIT and return on investment amounts by
15 Ameren Missouri will be necessary. To address this concern, Ameren Missouri committed to
16 the following language in the Stipulations:

17 RESRAM Accounting: In order to ensure RESRAM costs are tracked
18 appropriately and that double recovery is avoided, Ameren Missouri
19 agrees to meet with members of Staff's Auditing group while developing
20 the accounting process to implement the RESRAM. Ameren Missouri
21 anticipates this process will begin in October of 2018.

22 Q. Does this complete your surrebuttal testimony?

23 A. Yes.

¹³ Under the PISA treatment granted by Senate Bill 564, Ameren Missouri can defer 85% of the depreciation expense on the qualifying plant balance amount, and a rate of return applied to the net qualifying plant balance.

JASON KUNST, CPA

Utility Regulatory Auditor IV

Educational Background and Experience

I graduated from the University of Missouri – St. Louis with a Bachelor’s of Science degree in Accounting in December 2007. I am a Certified Public Accountant (CPA) licensed in the state of Missouri.

Prior to joining the Commission in May 2014, I was employed as an Unemployment Insurance Auditor II with the Missouri Department of Labor and Industrial Relations, Division of Employment Security. As an Unemployment Insurance Auditor, I reviewed employer’s books, payroll records, and other related records to determine accuracy and compliance with Missouri Employment Security Law.

Case Participation

Company	Case No.	Issue
Ameren/UE	ER-2014-0258	Formal Rate Case: Advertising, Misc. Expenses, Board of Directors Fees, Dues & Donations, Property Taxes, Property Tax Refund Tracker, Customer Accounting Expense to reflect new full page bill format, Plant in Service, Depreciation Reserve, Materials & Supplies, Prepayments, Customer Deposits, Customer Advances, Interest on Customer Deposits
Laclede Gas Company	GO-2015-0269	ISRS Filing

Cont'd Jason Kunst, CPA

Company	Case No.	Issue
Missouri-American Water Company	WR-2015-0301 SR-2015-0302	Formal Rate Case: Payroll & Related Expenses, Employee Benefits, Tank Painting and Inspection Expense Tracker, Waste Disposal, Transportation Expenses, Leases & Rents, Incentive Compensation, Severance Expense, PSC Assessment
Ameren/UE	ER-2016-0179	Formal Rate Case: Payroll & Related Expenses, Employee Benefits, Incentive Compensation, Severance Expense, Cyber Security Costs, Board of Directors Fees, Dues & Donations, Misc. Expenses, Advertising, Rate Case Expense, Outside Auditor Fees, Scada Revenues & Expenses, Taum Sauk Failure Expenses
Spire, Inc.	GR-2017-0215 GR-2017-0216	Formal Rate Case: Forest Park Property Sale, Rents and Leases, Outside Services, Amortization Expense, NewBlue Software, Credit Card Transaction Fees, Rebranding Costs
Liberty Utilities Corp.	GR-2018-0013	Formal Rate Case: Revenues, Capitalized Depreciation, Rate Case Expense, Cash Working Capital, Outside Services, Postage Expense