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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2016-0179

REBUTTAL TESTIMONY

OF

JERRY GRANT

ON

BEHALF OF

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

**St. Louis, Missouri
January 20, 2017**

REBUTTAL TESTIMONY

OF

JERRY GRANT

FILE NO. ER-2016-0179

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

2 A. My name is Jerry Grant and my business address is 1901 Chouteau
3 Avenue, St. Louis, Missouri 63103.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Ameren Services Company (“Ameren Services”) as
6 Vice President, Financial Services.

7 **Q. Please describe your educational background, employment experience**
8 **and qualifications.**

9 A. I have a Bachelor of Science degree in chemical engineering from the
10 University of Illinois. I have worked for Ameren Services for 18 years in various
11 business planning, budgeting, financial forecasting, and regulatory support roles,
12 including 11 years as leader of the corporate financial modeling team and two years as
13 leader of financial and regulatory services in support of the transmission operations of
14 various Ameren Corporation (“Ameren”) operating subsidiaries that own and operate
15 transmission assets. On January 1, 2017, I was promoted to Vice President, Financial
16 Services. Previous to my employment with Ameren Services, I was employed by Shell
17 Oil Company for seven years in various refinery planning, optimization, and technical
18 support roles. I have previously testified before the Illinois Commerce Commission on

Rebuttal Testimony of
Jerry Grant

1 behalf of Ameren Illinois Company in cases involving electric and gas delivery service
2 rates.

3 **Q. What are your responsibilities in your current position?**

4 A. As Vice President, Financial Services, I oversee i) financial forecast
5 development for Ameren and its subsidiaries, ii) financial services for Ameren Missouri
6 as a whole, and for other Ameren subsidiaries that operate transmission assets which I
7 will collectively refer to as “Transmission,” and for the Business and Corporate Services
8 (“B&CS”) functions that provide support for Ameren and its subsidiaries, including
9 analysis of monthly and quarterly financial statements, budget and forecast development
10 and management, and other business support as needed, and iii) regulatory accounting for
11 Ameren Missouri. I interact with senior leadership, including Ameren Missouri’s
12 President and senior leadership, concerning strategic initiatives, financial forecasts, and
13 reports.

14 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

15 A. The purpose of my rebuttal testimony is to address the analysis of Ameren
16 Missouri’s earnings contained in the direct testimony of Greg Meyer on behalf of the
17 Missouri Industrial Energy Consumers (“MIEC”). Specifically, I will outline why Mr.
18 Meyer’s analysis of Ameren Missouri’s earnings is flawed and misleading. I will also
19 address why his testimony does not provide the Commission with any useful information
20 about Ameren Missouri’s ability to earn its authorized return, the need for a transmission
21 cost and revenue tracker, or Ameren Missouri’s request for lost fixed cost recovery
22 arising from the shut-down of the New Madrid smelter. Furthermore, I will point out

Rebuttal Testimony of
Jerry Grant

1 where Mr. Meyer has performed similar analysis and made similar arguments in the past,
2 and the Commission has firmly rejected them.

3 **Q. Please summarize Mr. Meyer's analysis of Ameren Missouri's**
4 **earnings.**

5 A. Mr. Meyer discusses Ameren Missouri's historical earnings from June
6 2007 through September 2016 on pages 9-11 of his direct testimony, and provides a table
7 comparing authorized and actual returns on equity in Schedule GRM-2 as well as a chart
8 showing the same data in Schedule GRM-3. The underlying source data was from
9 Ameren Missouri surveillance reports. From this data, Mr. Meyer asserts that positive
10 regulatory lag exists and has been prevalent in recent years, that Ameren Missouri is able to
11 earn in excess of its authorized rate of return, and that his historical earnings analysis
12 should be considered when the Commission determines its position on Ameren Missouri's
13 request for lost fixed cost recovery and a transmission cost and revenue tracker.

14 **Q. In what way is Mr. Meyer's analysis flawed and misleading?**

15 A. Mr. Meyer's analysis of Ameren Missouri is flawed and misleading because
16 it is entirely based on surveillance report data. The earnings reported in the surveillance
17 reports are affected by abnormal, non-reoccurring, and extraordinary events and do not
18 result in a meaningful comparison to authorized returns on equity during any particular
19 rolling 12 month time period. Likewise, the revenues reported in the surveillance reports
20 are affected by abnormal, non-reoccurring, and extraordinary events and do not provide
21 useful information about the sufficiency of existing revenues. A simple example is
22 abnormal weather. In any given time period, the weather may be more extreme than
23 normal, leading to higher utility revenues and profits, or milder than normal, leading to

Rebuttal Testimony of
Jerry Grant

1 lower utility revenues and profits. Because the underlying data has not been adjusted to
2 remove abnormal, non-reoccurring, and extraordinary events, the conclusions Mr. Meyer
3 draws from it are invalid.

4 **Q. Does Mr. Meyer’s analysis provide any meaningful information about**
5 **regulatory lag (either positive or negative) or Ameren Missouri’s ability to earn its**
6 **authorized rate of return?**

7 A. No, for the reasons I just outlined, it does not.

8 **Q. What is a more appropriate way to analyze Ameren Missouri’s**
9 **earnings?**

10 A. The comprehensive cost of service studies performed in general rate
11 proceedings remove such abnormalities and provide much more insightful information
12 than the surveillance reports. Furthermore, for purposes of setting just and reasonable
13 rates prospectively, which is the matter before the Commission in this proceeding, the
14 Commission should examine all relevant factors, including known ongoing and future
15 costs. The Commission affirmed this principle in the recent complaint case order (File
16 No. EC-2014-0223, or “Complaint Case”), which arose from claims by Mr. Meyer that
17 Ameren Missouri's rates were too high and were allowing Ameren Missouri to "over-
18 earn":

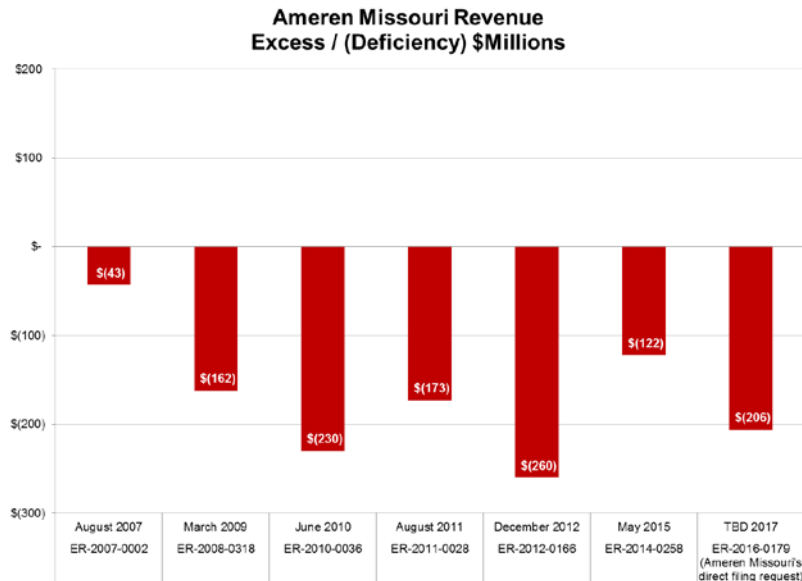
19 Ratemaking is supposed to be forward-looking, with a goal of setting rates
20 that will allow the utility to recover its costs and earn a reasonable return
21 on its investment while those rates are in effect.

22 *Report and Order*, pg. 20.

23 **Q. When the Commission has examined all relevant factors during the**
24 **historical time period analyzed by Mr. Meyer, what have been the results?**

Rebuttal Testimony of
Jerry Grant

1 A. The Commission's final orders in rate cases reflect its examination of all
2 relevant factors, including the comprehensive cost of service studies prepared during the
3 proceedings. The results, as shown in the following chart, have shown a consistent
4 deficiency in Ameren Missouri's revenues as compared to those needed to support just
5 and reasonable rates in every case:¹



6

7 **Q. In recent decisions, has the Commission considered the surveillance**
8 **reports to be a valid indicator of "over-earning" or "under-earning?"**

9 A. No, it has not. In the above-referenced Complaint Case, Mr. Meyer argued
10 that the surveillance reports demonstrated "over-earnings." The Commission firmly
11 rejected this argument, finding that:

12 [I]t is important to understand that the earnings levels reported in the
13 surveillance are actual per book earnings of the utility and cannot be
14 compared directly to an authorized return on equity to determine whether a

¹ The first six cases depict the Commission's final determination. The last case reflects the Company's request in this case, but it should be noted that no party claims that current revenues are adequate or that a rate increase in some amount is not warranted.

Rebuttal Testimony of
Jerry Grant

1 utility is overearning. Actual per book earnings are often computed
2 differently than earnings used for the purpose of establishing rates. When
3 setting rates, the Commission looks at “normal” levels of ongoing revenues
4 and expenses, while book earnings can be affected by abnormal, non-
5 recurring and extraordinary events. A good example of this is the weather;

6 and

7 [R]aw, unadjusted, surveillance reports alone do not provide a complete or
8 accurate picture of Ameren Missouri’s earnings...

9 Respectively, Complaint *Case Report and Order*, p. 8 paragraph 13; and p. 19, first
10 paragraph.

11 In Ameren Missouri’s most recent general rate proceeding (File No. ER-2014-0258,
12 or “2014 Rate Review”), the Commission again rejected the notion that surveillance reports
13 prove "over-earning" or "under-earning" or that they have much relevance to ratemaking at
14 all, finding that:

15 Most fundamentally, in isolation, surveillance reports do not establish that a
16 utility has under or over earned for purposes of setting rates;

17 as well as

18 Consumers Council expresses concern that the existence of the FAC has
19 contributed to “excessive” earnings by Ameren Missouri. That claim of past
20 “excessive” earnings is based on the per-book quarterly surveillance reports
21 that Ameren Missouri has filed since it was first allowed to have an FAC in
22 2009. Such surveillance reports merely provide a snapshot of unadjusted
23 book earnings and are not suitable to establish just and reasonable rates. In
24 any event, those surveillance reports show that Ameren Missouri was
25 earning less than its authorized return on equity more often than it was
26 earning more than its authorized return during the five years since Ameren
27 Missouri was first allowed to implement an FAC;

28 and

29 For calendar year 2014, the per-book surveillance report showed that
30 Ameren Missouri’s actual earned return on equity was 9.71 percent, again
31 compared to an authorized return on equity of 9.8 percent. Over the entire
32 2013 and 2014 period the per-book over-earning would amount to less than
33 0.50 percent.

Rebuttal Testimony of
Jerry Grant

1 Respectively, 2014 Rate Review *Report and Order*, p. 33; pp. 103-104, paragraph 7; and p.
2 26, paragraph 6.

3 **Q. Are surveillance reports completely worthless?**

4 A. No. They can provide value when used appropriately. For example, Staff
5 uses surveillance data to monitor electric utility financial results. If a utility has not had a
6 rate proceeding during the period in surveillance and the surveillance data shows a
7 consistent, material difference between the actual earned return and the authorized return,
8 sustained over a long period of time, a complete examination of the utility's cost of service
9 would be warranted. Only when a full cost of service study is performed can any
10 determination be made whether a utility's rates are too high or too low.

11 **Q. Does Mr. Meyer's analysis provide any meaningful information about**
12 **the need for a transmission tracker?**

13 A. No, it does not. Like any other tracker or surcharge, a transmission tracker
14 should be considered on its own merits, including the magnitude, volatility and level of
15 control Ameren Missouri has over the expense proposed to be tracked, as described in the
16 direct and rebuttal testimony of Ameren Missouri witness Lynn Barnes. Unadjusted
17 earnings data from surveillance reports do not provide a basis for making this
18 determination.

19 **Q. Does Mr. Meyer's analysis provide any meaningful information about**
20 **the need for lost fixed cost recovery?**

21 A. No, it does not. The recovery of lost fixed costs should be considered on its
22 own merits, as described in the direct and rebuttal testimony of Ameren Missouri witness
23 William Davis. Again, unadjusted earnings data from surveillance reports do not provide a

Rebuttal Testimony of
Jerry Grant

1 basis for this determination. Mr. Meyer, as MIEC's witness, raised a similar argument in
2 Ameren Missouri's most recent general rate proceeding, arguing on the basis of
3 surveillance reports that Ameren Missouri had already collected enough revenue above its
4 authorized revenue level to pay for the cost of solar rebates. The Commission firmly
5 rejected this argument, finding:

6 As proof that Ameren Missouri has over-earned, MIEC and Consumers
7 Council point to Ameren Missouri's raw, unadjusted surveillance reports to
8 claim that for most of the period from August 2012 through September
9 2014, Ameren Missouri collected enough revenue above its authorized
10 revenue level to fully recover its solar rebate payments;

11 and

12 However, unadjusted, per-book surveillance reports have only a limited
13 value. In the recent rate complaint case, the complainants attempted to use
14 the same, slightly adjusted surveillance reports as the basis for setting new
15 rates;

16 as well as

17 In this case, MIEC's witness, Greg Meyer simply pointed to the
18 surveillance reports, without making any adjustments, to claim that Ameren
19 Missouri has been over-earning. The Commission finds that the unadjusted
20 per-book surveillance reports are not sufficient to establish that Ameren
21 Missouri over-earned during the period of deferral.

22 Respectively, 2014 Rate Review *Report and Order*, p. 26, paragraph 4; *Id.*, paragraph 5;

23 and *Id.*

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

25 A. Yes, it does.

