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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL and BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

REBUTTAL TESTIMONY
OF
JOHN P. CASSIDY

UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI

CASE NO. ER-2019-0335

Jefferson City, Missouri
January 2020

REBUTTAL TESTIMONY

OF

JOHN P. CASSIDY

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

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **JOHN P. CASSIDY**

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

6 **CASE NO. ER-2019-0335**

7 Q. Please state your name and business address.

8 A. John P. Cassidy, 111 North 7th Street, Suite 105, St. Louis, MO 63101.

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

10 A. I am employed by the Missouri Public Service Commission (“Commission”) as
11 a Utility Regulatory Auditor V.

12 Q. Are you the same John P. Cassidy who filed direct testimony as part of Staff’s
13 Revenue Requirement Cost of Service Report (“Report”) that was filed on
14 December 4, 2019, as part of this rate proceeding?

15 A. Yes.

16 **EXECUTIVE SUMMARY**

17 Q. Please provide a brief summary of your rebuttal testimony in this proceeding.

18 A. My rebuttal testimony will address Ameren Missouri witness Robert B. Hevert’s
19 direct testimony section, found on pages 24 through 29, that addresses business risk and other
20 considerations. In response, I will provide an overview of the various regulatory mechanisms
21 that Ameren Missouri is authorized to use in order to address changes in revenues, expenses
22 and investment related costs that have occurred subsequent to the time that permanent rates

1 were last authorized by the Commission.¹ These in between rate case financial protections
2 have expanded since the time of Ameren Missouri's last general rate proceeding due to the
3 recent enactment of Senate Bill 564 ("SB 564") which permits Plant-In-Service Accounting
4 ("PISA," and commonly referred to as "construction accounting"). Ameren Missouri has also
5 recently implemented a Renewable Energy Standard Rate Adjustment Mechanism
6 ("RESRAM") rider. I will explain that PISA provides an additional layer of regulatory lag
7 mitigation as well as earnings protection for Ameren Missouri through special deferral
8 accounting treatment, while RESRAM provides for more immediate rate recovery of costs
9 associated with the current solar rebate program, wind generation investment and other
10 renewable costs by adjusting customer rates on an annual basis in between permanent rate cases.
11 I will provide a high level overview of the protections that Ameren Missouri's authorized non-
12 traditional ratemaking procedures provided during the twelve months ending September 30,
13 2019. Staff selected this time period for review because this time period represents the first
14 complete year since the time that Ameren Missouri elected to implement PISA. PISA legislation
15 states that the Commission may take into consideration the following:²

16 The commission may take into account any change in business
17 risk to the corporation resulting from the implementation of the
18 adjustment mechanism in setting the corporation's allowed
19 return in any rate proceeding, in addition to any other changes in
20 business risk experienced by the corporation.

21 It is Staff's position that, all things being equal, the implementation of PISA and
22 RESRAM reduces Ameren Missouri's business risk and this factor should be considered by the
23 Commission in making its determination of a fair and appropriate rate of return for Ameren
24 Missouri to have a reasonable opportunity to earn as part of establishing new permanent rates

¹ The Commission last authorized new permanent rates as part of Ameren Missouri Case No. ER-2016-0179. Ameren Missouri was authorized to increase permanent rates by \$92 million annually, effective on April 1, 2017.

² Reference found in SB 564, page 3, lines 83-86.

1 in this rate proceeding. Please refer to the direct and rebuttal testimony of Staff witness
2 Jeffrey Smith of the Commission's Financial Analysis Department for a complete discussion
3 of Staff's recommendation for a reasonable and appropriate rate of return for Ameren Missouri.

4 **REGULATORY LAG MITIGATION AND FINANCIAL PROTECTIONS**

5 Q. Generally speaking what is business risk for a regulated utility?

6 A. Business risk refers to the uncertainty linked to the operating cash flows of the
7 utility. Business risk is multi-faceted and includes factors affecting revenues, expenses, and
8 investment costs that could reduce a utility's profit level. In general, a utility with a certificated
9 service area that has the ability to request changes in rates to cover changes in costs and to
10 provide an opportunity to earn a fair return on investment has far less risk than a business or
11 industry that has no such safeguards. For example, grocery stores must compete with other
12 nearby large discount retailers for a customer's purchase of groceries. Most price sensitive
13 consumers will shop at the store that has the same products but at lower prices. Likewise, if
14 two nearby gas stations have different pricing for gasoline, most price sensitive consumers who
15 need to purchase gasoline will opt to fill their vehicles at the filling station with the lowest price.
16 On the other hand, a regulated utility's customers are captive customers that have, for the most
17 part, no practical choice other than to accept utility service and utility rates in the area in which
18 they live or do business.

19 Q. Please summarize Mr. Hevert's direct testimony section that addresses business
20 risk and other considerations.

21 A. Mr. Hevert provides a summary of some of Ameren Missouri's key regulatory
22 lag mitigation regulatory mechanisms. Overall, Mr. Hevert asserts that Ameren Missouri's

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1 business risk has not been reduced by the implementation of PISA or RESRAM.³
2 Mr. Hevert's direct testimony emphasizes a comparison of Ameren Missouri to a grouping of
3 vertically integrated electric companies in a proxy group⁴ that he selected and postulates that
4 Ameren Missouri's implementation of PISA does not make Ameren Missouri less risky than
5 its peers; rather, PISA increases Ameren Missouri's comparability to the proxy group in terms
6 of regulatory treatment. Mr. Hevert also states that while Ameren Missouri has a RESRAM
7 cost recovery mechanism that it did not have at the time of its last rate case, the PISA and
8 RESRAM do not eliminate regulatory lag. In addition Mr. Hevert states that PISA does not
9 provide immediate cash flow for new construction related costs and indicates that Ameren
10 Missouri has other expenses that are not covered by any regulatory mechanism, although he
11 does not specifically identify these other costs in his direct testimony. Mr. Hevert also states
12 that Ameren Missouri's FAC is comparable to what all of the companies in his proxy group
13 also have. Finally, Mr. Hevert concludes that since Ameren Missouri is not able to take
14 advantage of other regulatory lag reducing mechanisms such as Construction-Work-In-Progress
15 ("CWIP") in rate base, forecasted test years, or formula rates, that it appears to him that Ameren
16 Missouri faces somewhat higher regulatory risk than his proxy group.

17 Q. Does Staff agree with Ameren Missouri's position outlined in Mr. Hevert's
18 direct testimony regarding business risk?

19 A. No. It is Staff's position that because of the implementation of both the
20 PISA and RESRAM recovery mechanisms, Ameren Missouri's business risk has been reduced.

³ See Mr. Hevert's direct testimony at pages 22-24.

⁴ The proxy group is found in Mr. Hevert's direct testimony at page 12. Table 2: Proxy Group Screening Results and as Schedule RBH-D8.

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1 Furthermore, this Commission should take this reduced business risk into consideration in the
2 determination of a reasonable and appropriate rate of return for Ameren Missouri.

3 Q. Please respond to Mr. Hevert's observation that PISA does not make
4 Ameren Missouri less risky than its peers.

5 A. I have not assessed all aspects of Ameren Missouri's business risk nor have I
6 conducted any comparison of Ameren Missouri with any of its peers and therefore would defer
7 to Staff witness Jeffrey Smith with regard to any questions regarding that comparison. Instead,
8 in this rebuttal testimony, I have focused my review on trackers and riders that are available to
9 Ameren Missouri. Nevertheless, while Mr. Hevert has compared Ameren Missouri's business
10 risk to certain peer groups, Mr. Hevert has not compared Ameren Missouri's business risk as it
11 exists today in comparison to Ameren Missouri's business risk at the time of Ameren Missouri's
12 last rate case. Ameren Missouri's business risk has been reduced since the time of its last rate
13 case due to the recent implementation of both PISA and RESRAM. These recovery
14 mechanisms have certainly reduced the impact of regulatory lag that exists on Ameren
15 Missouri's ability to defer and recover significant amounts of investment related costs
16 associated with eligible PISA investment as well as a more immediate recovery of eligible
17 renewable costs through the implementation of RESRAM.

18 Q. What has been the impact of these two regulatory mechanisms implemented
19 since Ameren Missouri's last rate case?

20 A. During the twelve months ending September 30, 2019 Ameren Missouri
21 deferred approximately ** _____ ** of investment related costs associated with eligible
22 PISA investment. During that same time period, Ameren Missouri completed approximately **
23 _____ ** in total investment of which ** _____ ** was PISA eligible

1 investment.⁵ This means that the vast majority of Ameren Missouri's investment during this
2 time period, over 95.1%, was eligible for the prescribed 85% recovery of all
3 PISA investment related costs.⁶ Furthermore, as Ameren Missouri's five year capital plan that
4 was submitted in Case No. EO-2019-0044 indicates, significant investment levels of planned
5 capital investments will continue through 2023 of which, the vast majority of the investment
6 related costs will be eligible for PISA recovery.

7 **Capital Investment**

<u>Year</u>	<u>\$ of Investment</u>
2019	\$1.0 billion
2020 ⁷	\$2.1 billion
2021	\$1.1 billion
2022	\$1.1 billion
2023	\$1.0 billion
Total	\$6.3 billion

8
9 With regard to the RESRAM rider, the Commission recently authorized Ameren
10 Missouri to begin collecting approximately \$14.1 million annually to recover RES costs
11 incurred during the first accumulation period covering January 1, 2019 through July 31, 2019.

12 Q. Please respond to Mr. Hevert's concern that PISA and RESRAM do not
13 eliminate regulatory lag.

⁵ Source: Ameren Missouri response to Staff Data Request No. 452.

⁶ Ibid.

⁷ Ameren Missouri indicates that \$1.0 billion of 2020 capital investment will pertain to the completion of two new wind generation energy centers.

1 A. While neither the PISA nor RESRAM mechanism entirely eliminates regulatory
2 lag, they do significantly reduce it. By not recognizing this reduction of regulatory lag, Ameren
3 Missouri ignores that it recovers 85% of regulatory lag impacts of all PISA related investments
4 regardless of when construction is completed. While PISA recovery may not provide as
5 immediate cash flow benefits as a rider, it does produce higher profit levels for Ameren
6 Missouri now and for decades into the future. As important, the PISA mechanism protects
7 earnings of the Company by deferring the impacts of added plant additions. Certainly this has
8 the effect of reducing Ameren Missouri's business risk in a manner that did not exist at the time
9 of Ameren Missouri's last rate case.

10 In fact, the PISA deferral treatment allows a deferral of cost impacts the affected plant
11 would have on earnings absent this deferral mechanism. While earnings are immediately
12 protected Ameren Missouri will recover these deferred "costs" over the life of the
13 PISA qualified plant. Thus, a significant and immediate benefit to Ameren Missouri
14 shareholders now exists.

15 The RESRAM mechanism will provide more immediate cash flow and profits for
16 Ameren Missouri between rate cases and will mitigate the regulatory lag impact for costs
17 incurred to meet the Missouri Renewable Energy Standard ("RES"). Ameren Missouri is
18 expecting to incur significant amounts of capital investment in wind and solar in the immediate
19 future as well as for customer solar rebates. RESRAM recovery will provide cash flow and
20 guaranteed profits in between rate cases for significant planned investments for qualified
21 renewables in years to come.

22 Finally, Ameren Missouri now has a great deal of flexibility in how it chooses to recover
23 renewable capital investment related costs. Ameren Missouri can choose to recover renewable

1 capital investment related costs by flowing the costs entirely through the RESRAM.
2 Alternatively, Ameren Missouri can recover 85% of the renewable capital investment related
3 costs through PISA and then additionally recover the remaining 15% of these renewable
4 investment related costs through the RESRAM. This provides Ameren Missouri with the ability
5 to recover these costs in multiple ways based upon timing of the completion of such projects as
6 well as other circumstances.

7 Both of these regulatory mechanisms represent a reduction in business risk that did not
8 exist previously.

9 Q. Did Ameren Missouri support the legislation for PISA?

10 A. Yes. It is my understanding that Ameren Missouri lobbied the Missouri
11 Legislature to implement this cost recovery mechanism during prior legislative sessions.
12 Ameren Missouri supported the PISA regulatory mechanism by explaining that it would reduce
13 regulatory risk and cost impacts incurred to upgrade Ameren Missouri's capital infrastructure,
14 clearly a benefit.

15 Q. Please respond to Mr. Hevert's complaint that Ameren Missouri is one of few
16 utilities that do not have the ability to include CWIP in rates.

17 A. I have not performed any assessment of CWIP ratemaking allowed in other
18 states. In November 1976 Missouri voters supported "Proposition 1" which is a law that
19 prohibits electric corporations from receiving cost recovery of CWIP as part of current customer
20 rates.

21 Q. What is CWIP and how is it accounted for by electric utilities?

22 A. In general, CWIP represents the costs of construction associated with projects
23 that are not yet in-service and therefore not capable of providing electric utility service to

1 customers. The Federal Energy Regulatory Commission (“FERC”) Uniform System of
2 Accounts prescribes the following accounting treatment in Account 107 for these costs:

3 A. This account shall include the total of the balances of work
4 orders for electric plant in process of construction.

5 B. Work orders shall be cleared from this account as soon as
6 practicable after completion of the job. Further, if a project, such
7 as a hydroelectric project, a steam station or a transmission line,
8 is designed to consist of two or more units or circuits which may
9 be placed in service at different dates, any expenditures which
10 are common to and which will be used in the operation of the
11 project as a whole shall be included in electric plant in service
12 upon the completion and the readiness for service of the first unit.
13 Any expenditures which are identified exclusively with units of
14 property not yet in service shall be included in this account.

15 C. Expenditures on research, development, and demonstration
16 projects for construction of utility facilities are to be included in
17 a separate subdivision in this account. Records must be
18 maintained to show separately each project along with complete
19 detail of the nature and purpose of the research, development, and
20 demonstration project together with the related costs.

21
22 Q. Do utilities ever recover CWIP?

23 A. Yes. While CWIP is not ever included in permanent rates determined by the
24 Commission in any particular rate case, the accumulated CWIP balances are included in rate
25 base when the construction is completed and the plant is placed into service. Once plant is
26 completed and customers start to benefit, the related costs are included in the rate structure of
27 the utility through a rate request. While the costs of the newly completed plant are “deferred”
28 during the time of construction, utilities are made whole through the allowance for funds used
29 during construction (“AFUDC”). AFUDC represents a “return” mechanism recognizing the
30 investors’ cost of money during the duration of the project. The plant construction costs and
31 the related AFUDC are included in the final plant costs that are ultimately included in rate base
32 as part of a general rate case.

1 Q. Would Staff be supportive of a utility's attempt in Missouri to recover
2 CWIP in customer rates?

3 A. No. Beyond the fact that recovery of CWIP in current utility rates is illegal, as
4 was determined by Missouri voters, allowing CWIP recovery in rates would produce unfair
5 results for customers as follows:

6 1. It is not appropriate to charge customers for investment costs for an item such as an
7 electric generation facility that is not capable of providing utility service in return;

8 2. Including CWIP in rates increases the likelihood that a utility would construct
9 unnecessary investment;

10 3. CWIP in rates can create intergenerational inequities⁸ and;

11 4. Including CWIP in rates shifts all the risk from the utility to its customers by forcing
12 customers to pay for plant that may not ever be completed.⁹

13 None of these consequences would be desirable outcomes for Missouri ratepayers.

14 **CURRENT AMEREN MISSOURI REGULATORY MECHANISMS**

15 Q. Please list the regulatory mechanisms and special accounting treatment that
16 Ameren Missouri is currently authorized to use in order to mitigate the impacts of
17 regulatory lag.

18 A. Ameren Missouri is currently using a number of differing approaches that reduce
19 business risk with regard to cost recovery for a variety of different categories of revenue,

⁸ Intergenerational inequity in that if CWIP were collected in current rates, the utility would get the benefit of collecting the construction costs for investment that is not yet in-service today while at the same time the customers would be receiving no benefits until a later time, if ever.

⁹ South Carolina Electric & Gas Company (owned by Dominion Energy) ratepayers paid approximately \$2.0 billion in rates for a nuclear power plant located near Jenkinsville, South Carolina that will not be completed. In Georgia, ratepayers are also billed for CWIP. In Georgia, since 2011, Georgia Power (a subsidiary of Southern Company) ratepayers have been paying for construction of two additional reactors at an existing nuclear power plant facility. This project has experienced delays and cost overruns. Originally planned for completion in 2017, the current timeline for completion for each of the two new reactors has been pushed back to November 2021 and November 2022.

1 expense and investment related costs. Some of these approaches address changes in revenue,
2 expense and investment related costs that occur in between rate cases through a deferral that is
3 recorded on the balance sheet. Subsequently the impact of those changes are passed to the
4 customers through an amortization, sometimes with rate base treatment, as part of establishing
5 permanent rates in a general rate case. In addition, Ameren Missouri is allowed to pass on
6 changes in fuel related costs that occur in between rate cases as part of a special rider. Ameren
7 Missouri may also use riders to simply pass certain costs on to the customers outside of a rate
8 case under established rules. The following is a listing of the approaches that Ameren Missouri
9 has employed to mitigate regulatory lag impacts and to provide more certainty with regard to
10 cost recovery and profitability:

- 11 1. Fuel Adjustment Clause (“FAC”) Rider;
- 12 2. Missouri Energy Efficiency Investment Act (“MEEIA”) Rider;
- 13 3. Pension and Other Post Retirement Employee Benefits (“OPEBS”) Tracker -
14 Regulatory Asset and Liability Deferral and Amortization;
- 15 4. Other Trackers - Regulatory Asset and Liability Deferrals and Amortizations;¹⁰
- 16 5. RESRAM Rider;
- 17 6. PISA and;
- 18 7. Pilot Programs such as the Community Solar program and the electrical vehicle
19 efficient electrification program.

20 Q. What is regulatory lag?

21 A. Regulatory lag refers to the time between when a utility experiences a change in
22 cost or sales levels and when that change is recognized in the rates that the Commission allows

¹⁰ Includes Renewable Energy Standard Accounting Authority Order (RESAAO) deferrals and amortization and Solar Rebate deferrals and amortization associated with Case No. ET-2014-0085.

1 a utility to charge its customers. One aspect of regulatory lag is that it works in both directions
2 and can either increase or decrease a utility's actual earnings performance in between rate cases.
3 It can be beneficial to customers, as well as to utilities. When a utility's costs increase or its
4 revenues decrease over a period of time, regulatory lag will tend to reduce the utility's profits,
5 adverse to the utility. When costs are decreasing or revenues are increasing, regulatory lag will
6 allow a utility to earn increased profits during the interval before the rates are changed by the
7 Commission to address the decreased costs or increased revenues, a benefit to the utility. Since
8 regulatory lag works in both directions, it provides the utility with either a penalty or a reward
9 under traditional cost of service ratemaking. This inherent penalty or reward system
10 incentivizes a regulated utility to produce lower cost levels in between rate cases and to
11 maximize efficiency.

12 Q. Does regulatory lag motivate a utility to act efficiently?

13 A. Yes. Regulators rely on regulatory lag as an important tool to provide an
14 incentive to a utility to act efficiently. An excessive use of tracking mechanisms and rate riders
15 reduces the incentive for the utility to seek out cost reductions because the utility is insulated
16 from changes in costs and thereby may enhance the utility's profits. The more that utilities are
17 insulated from the impacts of increased costs through riders and surcharges, the more business
18 risk is shifted to utility customers. If a utility experiences an increase in expense that is being
19 tracked, its financial results will not be adversely impacted because the impacts are captured on
20 the balance sheet for deferral treatment, with cost recovery being very certain. There will not
21 be a reduction in earnings related to the increased cost, because the deferred cost is being
22 recorded on the balance sheet to capture the increased cost. In this instance, the utility has less
23 incentive to attempt to minimize any such cost increase for the tracked item. In addition, if a

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1 utility experiences a reduction in an expense that is being tracked, the financial result will not
2 increase earnings as a result of the decreased cost level. Once again, the utility will have less
3 incentive to seek out ways to reduce costs. Utilities may even be dis-incentivized to reduce
4 costs if the benefit of those lower costs are quickly flowed to customers through special
5 regulatory mechanisms.

6 Furthermore, the authorized use of trackers and rider mechanisms are types of “single-
7 issue ratemaking,” in that while they are specifically designed to capture certain costs, they
8 ignore other aspects of the utilities’ operations that may be experiencing concurrent cost
9 reductions. This means they are designed to capture changes in costs in between rate cases for
10 one or more particular cost categories only, leaving out any increase in revenue offsets or
11 reductions to cost components captured elsewhere by the utility. When too many trackers and
12 special regulatory cost recovery approaches are allowed problems can result, because such
13 approaches ignore the fundamental Missouri based ratemaking criteria of providing
14 consideration and review of “all relevant factors” when setting rates. For example, a utility can
15 recover certain costs through trackers and riders while also over-recovering other costs
16 established in rates in the last rate case causing the utility to potentially earn above its authorized
17 rate of return. Examples of this type of situation are Laclede Gas Company¹¹ and Kansas City
18 Power & Light Company¹² which have recently been involved in mergers.¹³
19 Both of these utilities experienced significant cost savings through labor reductions as a result

¹¹ Laclede Gas Company operating as Spire Missouri.

¹² Kansas City Power & Light Company now operating as Evergy.

¹³ Laclede Gas Company and Laclede Group, Inc. acquired Southern Union Company’s operating division known as Missouri Gas Energy as part of Case No. GM-2013-0254. This Commission ordered a rate reduction for Spire Missouri – East in Case Nos. GR-2017-0215 and for Spire Missouri-West in Case No. GR-2017-0216. Great Plains Energy Incorporated, the holding company for Kansas City Power & Light acquired Westar, Inc. as part of Case No. EM-2017-0226. Kansas City Power & Light experienced a rate decrease in Case No. ER-2018-0145 and Kansas City Power & Light Greater Missouri Operations experienced a rate decrease in Case No. ER-2018-0146.

1 of consolidation, however much of those savings were captured by the utility because rates set
2 in prior rate cases reflected higher labor costs. Therefore, under normal circumstances it is
3 desirable to set rates in a general rate case using a historic test year, where the relationship of
4 revenues, expense and investment can be maintained and examined simultaneously under the
5 matching principle.

6 Q. Please explain the Missouri ratemaking criteria which requires a consideration
7 of “all relevant factors.”

8 A. The Missouri Supreme Court ruling in State ex rel. United Consumers Council
9 of Missouri v. Public Service Commission, 585 S.W. 2d 41 (Mo. Banc 1979) (“UCCM”)
10 explained the “all relevant factors” requirement that must be applied in the context of any
11 general rate case, whether it is a “file and suspend” rate increase request case or an earnings
12 complaint case. In order to meet the UCCM standard, a complete review and audit of the
13 utility’s books and records and an assessment of its operations that takes into account all
14 revenues, expenses, investment and rate of return must be addressed when attempting to
15 re-establish permanent rates. Anything less than this type of review that takes into
16 consideration all relevant factors in the determination of permanent rates might represent a form
17 of “single-issue” ratemaking that is prohibited barring specific legislation which permits special
18 rate treatment of certain items. In other words, the inclusion of certain impacts on the revenue
19 requirement to the exclusion of other impacts, results in a “mismatch” of the
20 revenue requirement.

21 Q. How has the Commission addressed the need to include all relevant factors for
22 purposes of setting permanent rates through use of a test year?

1 A. The Commission has addressed this matter on a number of occasions.
2 Specifically, in its Report and Order in a 1983 general rate case involving Kansas City Power &
3 Light (“KCPL”), Case No. ER-83-49, the Commission stated the purpose of using
4 a test year:

5 The purpose of using a test year is to create or construct a
6 reasonable expected level of earnings, expenses and investments
7 during the future period in which the rates, to be determined
8 herein, will be in effect. All of the aspects of the test year
9 operations may be adjusted upward or downward to exclude
10 unusual or unreasonable items, or include unusual items, by
11 amortization or otherwise, in order to arrive at a proper allowable
12 level of all of the elements of the Company’s operations. The
13 Commission has generally attempted to establish those levels at
14 a time as close as possible to the period when the rates in question
15 will be in effect.¹⁴

16 This concept of developing a revenue requirement calculation based on a consideration
17 of all relevant factors has been a long-standing approach practiced by the Commission for
18 purposes of determining permanent rates in Missouri.

19 Q. What are other examples of enacted legislation in Missouri that provide special
20 rate treatment for certain items?

21 A. In addition to PISA, the Missouri legislature has enacted laws to specifically
22 allow for certain non-traditional cost recovery procedures. Examples of single issue ratemaking
23 that allow Missouri’s electric utilities to recover costs in between rate cases include the Fuel
24 Adjustment Clause (“FAC”) rider, the Missouri Energy Efficiency Investment Act (“MEEIA”)
25 rider and the Renewable Energy Standard Rate Adjustment Mechanism (“RESRAM”) rider.
26 The FAC rider allows electric utilities to collect from customers, changes in fuel and purchased
27 power costs net of fuel-related revenue in between rate cases. The MEEIA rider provides

¹⁴ *In the Matter of Kansas City Power & Light Company*, 26 Mo.P.S.C. (N.S.) 104, 109 (1983).

1 recovery for a utility’s energy efficiency program costs, and the “throughput disincentive” as a
2 result of energy efficiency programs, as well as an earnings opportunity for measured and
3 verified energy and demand savings as a result of energy efficiency programs. The RESRAM
4 rider provides recovery for renewable energy costs.

5 Q. Customarily under what circumstances might a tracker (with a “defer and
6 amortize” approach) or the implementation of riders be appropriate?

7 A. Cost trackers and AAOs represent exceptions to the traditional ratemaking rules
8 for cost recovery. These types of tracker recovery approaches should be used with caution.
9 Typically, AAO recovery has been allowed under “extraordinary” circumstances, usually
10 involving the occurrence of natural disasters. Relevant criteria for trackers that must be
11 assessed to determine if certain costs are extraordinary in nature and eligible for tracker
12 treatment include the following: (A) the costs in question are largely outside of the control of
13 the utility; (B) the costs are volatile and; (C) the costs are material and (D) costs that have no
14 prior history. Special riders may also be approved by the Missouri legislature with the intended
15 goal to incentivize utilities to invest in certain areas that they might not do otherwise. Examples
16 of this in Missouri would include the MEEIA rider which encourages utilities to value
17 demand-side investments equal to traditional investments in supply and delivery infrastructure
18 and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side
19 programs.¹⁵ Cost of such programs as well as reductions in margin revenues are eligible for
20 recovery through the MEEIA rider outside of a general rate case. Another example would
21 include the RESRAM which provides for rate recovery between general rate cases for costs

¹⁵ Section 393.1075.3

1 associated with renewable generation and solar rebates for customers that install solar panels
2 on their homes or businesses.

3 Q. Please respond to Mr. Hevert's concern that Ameren Missouri has other costs
4 that are not protected by any regulatory mechanism.

5 A. The fact that Ameren Missouri has costs that are not protected by any regulatory
6 mechanism is an appropriate feature of ratemaking in Missouri. If all of Ameren Missouri's
7 costs were subject to special regulatory mechanisms the penalty / reward system to control costs
8 would be severely harmed.

9 Q. Mr. Hevert states at page 23 of his direct testimony that Missouri utility rates are
10 determined using a "limited number of known and measurable changes." Do you agree with
11 this statement?

12 A. No. The Commission uses a variety of methods and procedures to ensure the
13 very latest revenue and cost information is used to determine utility rates. During the true-up
14 process various annualization and normalization adjustments are made to the test year results,
15 all with the intent to reflect the best information available to the Commission to use in
16 determining rates as close to the time when those rates will be in effect. In fact, the result of
17 this lengthy and time consuming process is to reduce the impacts of regulatory lag. Also, a
18 variety of riders, discussed above and more fully described below are implemented by the
19 Commission to set rates which significantly reduces regulatory lag.

20 **FUEL ADJUSTMENT CLAUSE - FAC**

21 Q. Please provide a brief summary of Ameren Missouri's FAC mechanism and
22 explain how the FAC helps to provide earnings protections for Ameren Missouri.

23 A. Ameren Missouri's FAC was first authorized by the Commission as part of
24 Ameren Missouri rate case, Case No. ER-2008-0318 and the FAC tariff went into effect on

1 March 1, 2009¹⁶. In each rate case, the Commission establishes a reasonable level of Net Base
2 Energy Costs (NBEC) to be included in permanent rates. In simple terms, the NBEC includes
3 fuel and purchased power costs, net of revenues collected by Ameren Missouri from energy
4 and capacity sales¹⁷ as authorized by the Midcontinent Independent System Operator
5 (“MISO”). Upon the effective date of new rates established by the Commission in each rate
6 case, the Rider FAC requires Ameren Missouri to track and recover 95% of the changes in
7 NBEC greater than the amount established in base rates or to return to ratepayers 95% of the
8 changes that are less than the NBEC level that was established in base rates. Ameren Missouri
9 is permitted to keep or record as profit 5% of all tracked amounts that are ultimately lower than
10 the NBEC level set in base rates. Likewise, Ameren Missouri is at risk for
11 the 5% of all tracked amounts that exceed the NBEC level which produces an incentive to try
12 to reduce fuel costs when possible. Finally, Ameren Missouri’s FAC is “symmetrical” meaning
13 that the utility benefits when NBEC costs increase and customers benefit when NBEC
14 costs fall.

15 Q. What was Ameren Missouri’s total operation and maintenance (“O&M”)
16 expense during the twelve months ending September 30, 2019?

17 A. In response to Staff Data Request No. 30, Ameren Missouri indicated that total
18 O&M during the twelve months ending September 30, 2019 was ** _____ . **

19 Q. What portion of Ameren Missouri’s total O&M expense does fuel, purchased
20 power expense and other fuel related costs represent during the same period?

¹⁶ Ameren Missouri requested permission from the Commission to implement a FAC mechanism as part of Case No. ER-2007-0002, however the Commission denied Ameren Missouri’s request as explained in the Report and Order that was issued in that rate proceeding.

¹⁷ Formerly known as off-system sales.

Rebuttal Testimony of
John P. Cassidy

1 A. In response to Staff Data Request No. 448, Ameren Missouri indicated that
2 actual fuel, purchased power expense and other fuel related costs that are tracked by the
3 FAC mechanism totaled to ** _____ ** during the twelve months ending September
4 30, 2019. After deducting the 5% sharing portion of the FAC the remaining total is
5 ** _____ **. This portion of fuel/purchased power expense subject to tracking
6 represents approximately 37% of Ameren Missouri's total O&M during this time period. This
7 percentage can change based on a number of factors such as increased or decreased non-fuel
8 O&M or increased or decreased fuel related O&M. ** _____
9 _____
10 _____ . **

11 Q. What was Ameren Missouri's total operating revenue during the twelve month
12 period ending September 30, 2019?

13 A. In response to Staff Data Request No. 30, Ameren Missouri indicated that total
14 was ** _____ . **

15 Q. What portion of Ameren Missouri's total operating revenue does energy and
16 capacity sales and other FAC tracked revenues represent during the same period?

17 A. In response to Staff Data Request No. 448, Ameren Missouri indicated that
18 actual energy and capacity sales and other FAC tracked revenues totaled to
19 ** _____ ** during the twelve months ending September 30, 2019. After deducting
20 the 5% sharing portion of the FAC, the remaining total is
21 ** _____ **. This remaining balance of FAC tracked revenues not subject to sharing
22 represents approximately 5.6% of Ameren Missouri's total operating revenues during this time
23 period. This percentage can change based on a number of factors such as an increase or

1 decrease in market energy prices, power plant outages, weather, customer growth, rate increases
2 and capacity contracts and resource adequacy auctions.

3 **MEEIA RIDER**

4 Q. Please provide a brief summary of Ameren Missouri's MEEIA rider and explain
5 how the MEEIA rider helps to reduce business risk and provide earnings protections for Ameren
6 Missouri.

7 A. In 2009, the Missouri legislature passed the MEEIA with an intended goal of
8 reducing demand for electricity by allowing utilities to a) recoup the costs of subsidizing energy
9 efficient products and services such as customer education programs, rebates and incentives; b)
10 recover lost margin revenue resulting from lower retail sales due to programs;
11 and c) receive an earnings opportunity based upon measured and verified energy and demand
12 savings due to these programs. By reducing demand in electricity Ameren Missouri would be
13 able to delay investment in new generation in order to continue to meet customer demand.

14 Ameren Missouri first received approval for deferral accounting treatment
15 for energy efficiency and demand-side management related program costs as part of
16 Case No. ER-2008-0318. Today, these costs are sometimes referred to as "Pre-MEEIA" costs.
17 Under this treatment Ameren Missouri was allowed to defer all Pre-MEEIA costs as a
18 regulatory asset and recover the costs through expense amortization in the context of setting
19 rates in a general rate case. Ameren Missouri continued to receive this deferral accounting
20 treatment for Pre-MEEIA costs as part of Case Nos. ER-2010-0036, ER-2012-0166,
21 and ER-2014-0258¹⁸. As part of Ameren Missouri Case No. EO-2012-0142, Ameren

¹⁸ Pre-MEEIA costs that were addressed in the 2014 rate case were costs that were incurred subsequent to the true-up cutoff in the 2012 rate case but prior to the establishment of a MEEIA tariff that was approved in ER-2012-0166.

1 Missouri requested approval for new demand-side management programs as well as plans to
2 transition from Pre-MEEIA programs to a Commission approved three-year
3 MEEIA program in 2013. All parties in the EO-2012-0142 case entered into a
4 Unanimous Stipulation and Agreement Resolving Ameren Missouri's MEEIA Filing, which
5 was approved by the Commission. The costs associated with this approved Stipulation were
6 included in permanent rates in Ameren Missouri rate case, Case No. ER-2012-0166. Upon the
7 effective date of rates in ER-2012-0166, the Commission discontinued the deferred regulatory
8 asset and expense amortization approach.¹⁹ As part of rates established in
9 Case No. ER-2012-0166, an average of projected MEEIA program costs and lost margin
10 revenues were included in permanent rates and were subject to true-up with any
11 under-collections or over-collections of those amounts in rates being charged to or refunded
12 to customers with interest in Ameren Missouri's general rate proceedings. The first Rider
13 EEIC was established as part of Case No. EO-2014-0075 effective on January 27, 2014. The
14 average of projected MEEIA program costs and lost margin revenue amounts included in
15 permanent rates in Case No. ER-2012-0166 that were subject to true-up were addressed as part
16 of the new Rider EEIC established by the Commission in Case No. EO-2014-0075. From that
17 point forward MEEIA costs were collected by Ameren Missouri as part of the Rider EEIC
18 outside of a general rate case.

19 Q. What portion of Ameren Missouri's total operation and maintenance ("O&M")
20 expense was MEEIA related expense during the twelve months ending September 30, 2019?

21 A. In response to Staff Data Request No. 449, Ameren Missouri indicated that
22 MEEIA Rider EEIC program expense totaled to ** _____ ** during the twelve months

¹⁹ The unamortized portion of some of these deferred amounts still exists today.

1 ending September 30, 2019. This represents approximately 3.7% of Ameren Missouri's total
2 O&M expense during this time period. This percentage can change over time due to fluctuation
3 in O&M expense or through modifications made to MEEIA programs. It should be noted that
4 Ameren Missouri also receives recovery through the MEEIA rider for lost or reduced revenues
5 resulting from Ameren Missouri's MEEIA programs, which is not recorded to the general
6 ledger. Rather, a quantification of this reduced revenue level is determined as part of each
7 MEEIA cycle review and that reduced revenue quantification is included in the overall MEEIA
8 rider rate. During the twelve months ending September 30, 2019, Ameren Missouri collected
9 approximately ** _____ ** from customers through the MEEIA rider which
10 presumably was designed to recover Ameren Missouri MEEIA program expense as well as
11 reduced revenues, plus incentives and interest expense, from a prior period. The amount of this
12 collection that exceeded the twelve months ending September 30, 2019 level of
13 ** _____ ** of MEEIA program expense, approximately ** _____ ** was
14 intended to reimburse Ameren Missouri for reduced revenues resulting from MEEIA efforts,
15 along with interest expense and incentive costs.

16 **PENSION AND OPEBS TRACKERS - REGULATORY ASSET AND LIABILITY**
17 **DEFERRALS AND AMORTIZATION**

18 Q. Please briefly explain the Pension and OPEBs expense trackers.

19 A. As part of Ameren Missouri Case No. ER-2007-0002²⁰ the Commission first
20 approved tracking of changes in qualified Pension and OPEBs expense from levels established
21 in permanent rates through a deferral account on the balance sheet and expense amortization

²⁰ Ameren Missouri also received Commission approval for Pension and OPEB tracking for the Missouri gas utility portion of Pension and OPEB expense as part of Case No. GR-2007-0003.

1 for those differences in a subsequent rate proceeding.²¹ This tracking mechanism has been
2 used in every Ameren Missouri rate case since that time. The tracking mechanism is designed
3 to provide exact recovery of all changes in pension and OPEBs expense over time. In other
4 words Ameren Missouri is shielded from all cost increases above those set in rates and rate
5 payers are protected from all cost decreases below those set in rates that occur subsequent to
6 the levels included in the Commission established permanent rates in each general rate case.

7 Q. What portion of Ameren Missouri's total operation and maintenance ("O&M")
8 expense did total pension and OPEB expense represent during the twelve months ending
9 September 30, 2019?

10 A. During the twelve months period ending September 30, 2019 Ameren Missouri
11 recorded a contra (negative) expense of ** _____ ** which represents the qualified
12 pension expense and ** _____ ** which represents the OPEB expense incurred during
13 that time period. These amounts reflect actual costs during this period that are being tracked
14 against levels that were established in rates in the 2016 rate case. In addition, Ameren Missouri
15 recorded as a contra-expense annual amortization amounts for the pension regulatory liability
16 that totaled ** _____ ** and for the OPEB regulatory liability that totaled **
17 _____ **. The total contra-expense recorded during the twelve months ending
18 September 30, 2019 totaled ** _____ **. This represents an approximate 1.4%
19 reduction in Ameren Missouri's total O&M during this time period.

20 Since the time of the last rate case through September 30, 2019, the actual protection
21 that ratepayers have provided through cost difference tracking for both pensions and OPEBs
22 created a regulatory liability that totaled ** _____ **. This amount would be reflected

²¹ Deferrals may represent a regulatory asset or a regulatory liability depending upon whether plan costs were higher or lower than amounts established in permanent rates.

1 as an offset to rate base and a contra-expense amortization of this amount will be returned to
2 ratepayers over five years. The pension and OPEB tracking provides two-way protection.
3 Regulatory liability balances for pensions and OPEBs have existed since the 2012 rate case
4 which has served as a protection to Ameren Missouri and its ratepayers.

5 **OTHER TRACKERS - REGULATORY ASSET AND LIABILITY DEFERRALS AND**
6 **AMORTIZATION**

7 Q. Please briefly explain the various non-Pension and OPEB regulatory asset and
8 liability deferrals that are currently reflected in Ameren Missouri's permanent rates through
9 expense amortization.

10 A. Ameren Missouri has several regulatory asset and liability balances that are
11 currently being collected or returned through rates as a result of the prior rate case. The chart
12 on the following page summarizes the various amortizations that currently exist:

1

Regulatory Asset and Liability Amortization

<u>Regulatory Asset/Liability Type</u>	<u>ER-2016-0179 Stipulated Annual Amortizations Per Attachment C</u>
Callaway Post Op Amortization	\$3,687,465
Storm Tracker Amortization (2014)	(\$1,282,948)
Storm Tracker Amortization (2016)	(\$566,659)
Vegetation & Inspection Regulatory Asset	\$256,635
Vegetation & Inspection Regulatory Liability	(\$70,769)
Energy Efficiency Reg. Asset Amortization 9/2008*	\$76,650
Energy Efficiency Reg. Asset Amortization 02/2011*	\$453,137
Energy Efficiency 7/2012*	\$4,865,934
Energy Efficiency 6/2014*	\$590,052
Sioux Scrubber Construction Accounting	\$2,040,689
FIN 48 Tracker (2012 & 2014)	(\$1,232,765)
FIN 48 Tracker (2016)	\$2,281,179
Solar Rebate Amortization (2014)	\$16,157,748
Solar Rebate (2016)	\$1,246,041
Fukushima Flood Study	\$92,656
Expired and Expiring Amortization Net Over Collection	(\$237,469)
RES Regulatory Liability Amortization (2014)	(\$205,923)
RES Regulatory Asset (2016)	\$1,767,327
Callaway Life Extension	\$87,042
Entergy Dispute	\$248,160
Total Annual Amortization	\$30,254,182

2

*Arising from pre-MEEIA programs

3

As this chart indicates, Ameren Missouri is collecting approximately \$30.2 million in rates from customers as a result of the various trackers that have been approved in the past. These regulatory assets and liabilities represent another form of deferral accounting treatment employed in Missouri that mitigates risk to Ameren Missouri and acts as a hedge against downward pressure to the Company's earnings.

7

1 **RESRAM**

2 Q. Please briefly explain Ameren Missouri’s RESRAM rider.

3 A. Ameren Missouri’s RESRAM rider which will be adjusted annually provides
4 for more immediate rate case recovery of costs collected monthly on customer bills in between
5 general rate cases. The RESRAM rider addresses RES costs associated with Ameren
6 Missouri’s current solar rebate program, as well as various renewable energy credits (“RECs”)
7 and investment related costs for wind generation, solar or other renewable energy generation
8 facilities incurred on or after January 1, 2019. RES amounts included in Ameren Missouri’s
9 first recovery period²² for the new monthly RESRAM rider charge were first approved by the
10 Commission in Case No. ER-2020-0086. As part of that case the Commission established a
11 charge that will begin to appear on customer monthly bills beginning on February 1, 2020. The
12 RESRAM charge addressed certain RES costs not already covered by Ameren Missouri’s RES
13 AAO during the period covering January 1, 2019 through July 31, 2019. Ameren Missouri’s
14 next accumulation period will address RES costs for the period covering August 1, 2019
15 through July 31, 2020 that are not already recovered by Ameren Missouri’s continued RES
16 AAO tracker. Ameren Missouri currently continues to receive deferral and amortization
17 recovery of other RES costs for items such as Maryland Height’s Energy Center fuel costs as
18 well as costs associated with retired wind RECs and solar RECs (“SRECs”) through its RES
19 AAO recovery mechanism that is included in the chart found earlier in this testimony.

20 Q. Please quantify the annual amount of RESRAM costs that will be collected
21 beginning on February 1, 2020.

²² Covering certain RES costs incurred January 1, 2019 through July 31, 2019

1 A. Ameren Missouri is authorized to collect approximately \$14.1 million annually
2 from its customers through the new RESRAM rider.

3 **PLANT-IN-SERVICE-ACCOUNTING - PISA**

4 Q. Has Ameren Missouri sought permission to implement PISA deferral accounting
5 in the past?

6 A. Yes. In Ameren Missouri rate case, Case No. ER-2012-0166, Ameren Missouri
7 requested permission to implement PISA accounting. Ultimately, the Commission denied
8 Ameren Missouri's request as explained in the Report and Order that was issued in that rate
9 case. Please refer to Schedule JPC-r1 for a copy of the Commission's ruling on Ameren
10 Missouri's PISA request in that rate case.

11 Q. Please briefly explain the PISA tracking mechanism.

12 A. As explained in the Staff Revenue Requirement Cost of Service Report, PISA
13 resulted from passage of SB 564 that allows electric utilities to elect to receive special
14 accounting treatment that is applied to all plant additions, with the exception of coal, nuclear
15 and gas generating plant as well as all capital additions necessary to provide new customer
16 service to electric customers. PISA allows electric utilities the option to defer up to 85 percent
17 of all depreciation expense associated with qualifying electric plant recorded to plant in service,
18 while offsetting the qualified plant additions with associated accumulated deferred income
19 taxes, as well as a rate of return and other carrying costs that are applied to the net qualifying
20 plant balance as a regulatory asset. The reasonable and prudently incurred balance of this
21 deferred regulatory asset is included in permanent rates through a 20 year amortization with the
22 unamortized balance being included in rate base.

23 Q. What is Ameren Missouri's deferred PISA regulatory asset balance and the
24 related amortization amount at September 30, 2019?

1 A. Ameren Missouri has accumulated a deferred PISA regulatory asset balance of
2 ** _____ ** . The amortization amount recovered over 20 years from Ameren Missouri’s
3 customers would be ** _____ ** annually.

4 **DECOMMISSIONING RECOVERY**

5 Q. What is the amount of Ameren Missouri’s annual decommissioning costs during
6 the twelve months ending September 30, 2019 for Callaway Nuclear Generating Station?

7 A. Callaway’s decommissioning expense is \$6,758,605. As a result of past
8 legislation, the amount of nuclear decommissioning expense reflected in Ameren Missouri’s
9 rates is subject to change outside of general rate cases. This amount goes into a trust fund
10 annually to provide funding at the time this nuclear generating facility will be retired
11 and/or dismantled.

12 **PILOT PROGRAM TARIFFS**

13 Q. What other pilot program tariffs further insulate Ameren Missouri from changes
14 in costs in between rate cases?

15 A. Since the time of the last rate case Ameren Missouri has implemented or will
16 soon implement a variety of pilot programs that include tariffed collections from customers in
17 between rate cases. Some of these programs include Ameren Missouri’s Community Solar
18 Energy Charge, Charge Ahead – Electric Vehicle Program, Charge Ahead – Corridor Charging
19 Program and the Renewable Energy Choice Program or Green Tariff. Some of these programs
20 protect Ameren Missouri for changes in costs in between rate cases. I have not attempted to
21 calculate the impacts in rates of these various programs.

22 **ENVIRONMENTAL COST RECOVERY MECHANISM (“ECRM”)**

23 Q. Are there any other riders available to Ameren Missouri that it has not
24 yet implemented?

1 A. Yes. Ameren Missouri has not requested approval for an ECRM as part of this
2 rate case. An ECRM would allow recovery of an electric utility's prudently incurred costs
3 directly related to compliance with federal, state or local environmental laws, rules or
4 regulations. An ECRM would need to first be approved by the Commission in a general rate
5 case and, if approved, recovery would be permitted for net increases or net decreases in actual
6 prudently incurred environmental costs compared to environmental cost levels that were
7 included in permanent rates. Ameren Missouri has never implemented the use of this recovery
8 mechanism up to this point.

9 **PAYROLL**

10 Q. What is Ameren Missouri's largest category of cost that is not currently covered
11 by a tracker or special rider?

12 A. Payroll costs would be the largest cost category incurred by Ameren Missouri
13 not covered by some type of cost recovery mechanism.

14 Q. How much payroll cost did Ameren Missouri incur as expense during the twelve
15 months ending September 30, 2019?

16 A. Total payroll costs incurred by Ameren Missouri for this period of time is
17 ** _____ **.

18 Q. How can Ameren Missouri capture changes in this cost category?

19 A. By assessing all relevant factors in conjunction with wage and salary increases
20 and time periods when Ameren Missouri is in a hiring mode. Based upon that assessment
21 Ameren Missouri can time the filing of rate cases to capture all such changes if reductions in
22 other costs factors do not already offset such payroll increases in whole or in part, as it has done
23 for decades.

INCOME STATEMENT FOR THE TWELVE MONTHS ENDING SEPTEMBER 30, 2019 AND PROTECTIONS PROVIDED BY TRACKERS OR RIDERS

Q. What does Ameren Missouri’s income statement reflect during the time period that Staff examined?

A. The following chart provides a summary of Ameren Missouri’s unadjusted income statement for the twelve months ending September 30, 2019:

Total Revenues	** _____ **
Less: Total O&M Expense	** _____ **
Less: Total Depreciation & Amortization	** _____ **
Less: Taxes Other than Income Taxes	** _____ **
Less: Current Income Taxes	** _____ **
Less: Net Provision for Deferred Income Taxes	** _____ **
Less: Investment Tax Credit Adjustment	** _____ **
Add: Gain on Disposition of Utility Property	** _____ **
Net Operating Revenue	** _____ **

Q. Please summarize the revenue related protections that you have described earlier in this testimony in comparison to Ameren Missouri’s total revenues.

A. During the twelve months ending September 30, 2019 the 95% portion of OSS actual energy and capacity sales and other FAC tracked revenues was ** _____ . **

1 During the same time period Ameren Missouri recorded ** _____ ** of MEEIA
2 revenues plus incentives. Collectively these two items totaled to ** _____ ** of
3 revenue that is being addressed by a rider. This represents approximately
4 ** - _____ ** of Ameren Missouri's ** - _____ ** level of total revenue.

5 Q What is the remaining portion of O&M expense that is not currently protected
6 by a tracker or other regulatory mechanism?

7 A. As stated previously in this testimony, Ameren Missouri's total O&M during
8 the twelve months ending September 30, 2019 totals to ** _____ . ** The following
9 chart summarizes the remaining O&M costs that are not currently protected by a tracker
10 or rider:

O&M Cost Category	Actual Amount	Percentage of O&M Covered by Tracker/Rider	Percentage of O&M <u>Not</u> Covered by Tracker/Rider
Total O&M	** _____ **		
Less: FAC	** _____ **	** _____ **	
Less: MEEIA	** _____ **	** _____ **	
Less: Pension & OPEB Rebase Expense and Tracker Amortization	** _____ **	** _____ **	
Remaining O&M	** _____ **		** _____ **

Rebuttal Testimony of
John P. Cassidy

1 Collectively, ** ____ ** of Ameren Missouri's total O&M was addressed by a rider
2 or an ongoing tracker during the twelve months ending September 30, 2019.

3 Q. What portion of Ameren Missouri's O&M was payroll during the time
4 period examined?

5 A. Payroll represents ** ____ ** of Ameren Missouri's total O&M. Dates for
6 pay increases occur on January 1 for management employees and July 1 for union employees
7 each year. In addition Ameren Missouri can monitor the timing and cost impacts associated
8 with new hires and time the filing of a rate case to capture this after conducting an assessment
9 of all relevant factors. Although this cost category is not protected by a rider or tracker, it is an
10 area of cost that Ameren Missouri can anticipate changes and time rate cases to capture those
11 changes.

12 Q. Does the January 1 salary increase correspond with other changes in other
13 significant items?

14 A. Yes. Ameren Missouri pays its property tax bill each December and

15 ** _____
16 _____
17 _____
18 _____
19 _____ **

20 Q. Please discuss the ** _____ ** of depreciation and amortization expense
21 Ameren Missouri recorded during the twelve months ending September 30, 2019.

22 A. The depreciation portion of this amount represents the straight-line book
23 depreciation expense that is recorded each month on the general ledger. The expense is derived

1 from applying Commission approved depreciation rates to the applicable original cost
2 investment levels contained in each depreciable plant-in-service account. All depreciation rates
3 are examined as part of depreciation studies that are required to be performed every five years.
4 Generally, depreciation rates do not change between these comprehensive depreciation studies
5 so that an assessment of all depreciable asset accounts can be examined at the same time. A
6 utility is subject to regulatory lag during the interval of time that passes between the date that
7 new utility investment is placed into service and the date that new permanent rates are
8 implemented to include the investment related costs.

9 However, the majority of Ameren Missouri's investment during the twelve months
10 ending September 30, 2019 was eligible for deferral and recovery through PISA. In addition
11 Ameren Missouri's planned investment during the following four years will be eligible for
12 recovery through PISA, RESAM or by both mechanisms. This means that likely a majority of
13 Ameren Missouri's planned investment through 2024 will be protected from the impacts of
14 regulatory lag. Beginning with the effective date of rates in this case, Ameren Missouri will
15 begin to recover through permanent rates its deferral of 85% of eligible PISA investment related
16 costs through a PISA amortization over the next twenty years.

17 In addition, Ameren Missouri currently collects in rates \$6,758,605 annually for nuclear
18 decommissioning costs. Ameren Missouri has the ability to change decommissioning funding
19 levels in between permanent rate cases, if warranted.

20 Finally, as described earlier in this testimony, during the twelve months period ending
21 September 30, 2019, Ameren Missouri received recovery of \$30,254,182 through amortizations
22 pertaining to a variety of cost trackers that currently exist.

1 Q. Will Staff continue to monitor these regulatory lag protections as part of future
2 Ameren Missouri rate proceedings?

3 A. Yes. Ameren Missouri is clearly receiving considerable protection against
4 regulatory lag. The level of this protection is unprecedented and Staff will continue to examine
5 these regulatory lag protections in future Ameren Missouri rate cases and provide an assessment
6 for the Commission to consider, if appropriate.

7 **AMEREN MISSOURI ACTUAL EARNED RATE OF RETURN ON EQUITY - ROE**

8 Q. How have Ameren Missouri's unadjusted earnings compared to its authorized
9 rate of return in recent years?

10 A. As reported by Ameren Missouri through required quarterly FAC surveillance
11 reporting, on a twelve month ending basis Ameren Missouri has earned both a positive ROE
12 and ROR consistently through the period covering October 1, 2013 through September 30,
13 2019. By earning a positive ROR, Ameren Missouri fully recovered all of its expenses, both
14 fixed and variable in nature and all other costs including depreciation, amortization, interest
15 and all taxes including income taxes. By earning a positive ROE, Ameren Missouri fully
16 recovered all of its expenses as well as its required interest payments to debt holders. In fact,
17 during the period ** _____
18 _____

19 _____ . ** The following chart depicts Ameren Missouri's actual unadjusted ROE in
20 comparison to the Commission authorized ROE:
21

1

Comparison of Actual Earned ROE to Authorized ROE

12 Months Ending	Actual ROE		Authorized ROE	Above (+)/Below(-) Authorized ROE	
September 30, 2019	**	**	9.53%	**	**
June 30, 2019	**	**	9.53%	**	**
March 31, 2019	**	**	9.53%	**	**
December 31, 2018	**	**	9.53%	**	**
September 30, 2018	**	**	9.53%	**	**
June 30, 2018	**	**	9.53%	**	**
March 31, 2018	**	**	9.53%	**	**
December 31, 2017	**	**	9.53%	**	**
September 30, 2017	**	**	9.53%	**	**
June 30, 2017	**	**	9.53%	**	**
March 31, 2017	**	**	9.53%	**	**
December 31, 2016	**	**	9.53%	**	**
September 30, 2016	**	**	9.53%	**	**
June 30, 2016	**	**	9.53%	**	**
March 31, 2016	**	**	9.53%	**	**
December 31, 2015	**	**	9.53%	**	**
September 30, 2015	**	**	9.53%	**	**
June 30, 2015	**	**	9.53%	**	**
March 31, 2015	**	**	9.80%	**	**
December 31, 2014	**	**	9.80%	**	**
September 30, 2014	**	**	9.80%	**	**

2

3

It is important to note that the Commission establishes rates with the intended goal of providing

4

Ameren Missouri with a reasonable opportunity, not a guarantee, to earn a fair rate of return.

1 **CONCLUSION**

2 Q. Please summarize Staff's recommendation with regard to business risk.

3 A. Ameren Missouri enjoys various and considerable protections against the
4 impacts of regulatory lag. The recent implementation of PISA and RESRAM have provided
5 additional opportunities to Ameren Missouri to reduce business risk. Because of this Staff
6 recommends that the Commission accept Staff witness Smith's recommendations with regard
7 to rate of return.

8 Q. Does this conclude your rebuttal testimony?

9 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 Tariff to Increase Its Annual)
Revenues for Electric Service)

File No. ER-2012-0166
Tariff No. YE-2012-0370

REPORT AND ORDER

Issue Date: December 12, 2012

Effective Date: December 22, 2012

CWIP-related ADIT that reduces the utility's actual out-of-pocket investment in the new asset to only \$620,000 after taxes.

However, AFUDC will be accrued at 10 percent on the gross CWIP cost for the full year the asset is in CWIP, resulting in Plant-in-Service added to rate base of \$1.1 million (\$1 million plus \$100,000 of AFUDC) with no recognition given to the CWIP-related ADIT in accruing AFUDC. Clearly, when the AFUDC rate is applied to the entire \$1 million of gross investment, with no reduction for CWIP-related AFUDC, the utility is fully compensated for its gross investment in this asset. In this example, the \$100,000 of allowed AFUDC on a gross \$1 million investment, when the utility's after-tax net investment is only \$620,000, would significantly overstate AFUDC and future rate base.⁷⁴

In other words, failure to recognize the CWIP-related ADIT balance in the company's rate base will overstate the companies AFUDC costs and future rate base, essentially allowing the company to earn AFUDC and a return on capital supplied by ratepayers.

Conclusions of Law:

A. Missouri's Anti-CWIP statute states:

Any charge made or demanded by an electrical corporation for service, or in connection therewith, which is based on the costs of construction in progress upon any existing or new facility of the electrical corporation, or any other cost associated with owning, operating, maintaining, or financing any property before it is fully operational and used for service, is unjust and unreasonable, and is prohibited.⁷⁵

Decision:

As fully explained in the findings of fact, Ameren Missouri must include CWIP-related ADIT balances as an offset to rate base to avoid overstating AFUDC and future rate base, to the detriment of both current and future ratepayers.

4. Plant in Service Accounting (PISA): Should the Commission grant Ameren Missouri accounting authority to accrue a return on invested capital and to defer depreciation for non-revenue-producing plant additions in a regulatory asset during the period between the date when those plant additions begin serving

⁷⁴ Brosch Direct, Ex. 500, Pages 37-38, Lines 13-25, 1-7.

⁷⁵ Section 393.135, RSMo 2000.

customers until the date they are reflected in rate base in a later rate case?

Findings of Fact:

1. This issue is closely tied to Ameren Missouri's frequently repeated concerns about its inability to earn its allowed rate of return due to what it believes to be excessive regulatory lag.⁷⁶ The regulatory lag that plant in service accounting (PISA) aims to address results from the regulatory treatment of newly constructed plant. While the plant is being constructed, the utility is able to accrue AFUDC to compensate it for the money that is being invested in the plant. That money cannot be added directly into rate base because of Missouri's anti-CWIP statute. The AFUDC is accumulated during the construction process and is moved into rate base when the plant goes into service. The utility recovers that AFUDC cost over the remaining service life of the plant.⁷⁷

2. AFUDC stops when the plant goes into service. At that point, the cost of the plant is eligible to be included in rate base and the plant begins depreciating. However, the utility cannot begin to recover the cost of the plant in rates until that cost is added to rate base in a subsequent rate case. There will always be some gap after AFUDC stops and before the cost of the plant can be put into rate base.⁷⁸ It is that gap that Ameren Missouri seeks to bridge through its PISA proposal.

3. PISA is a new concept developed by Ameren Missouri's Vice President, Business Planning and Controller, Lynn Barnes.⁷⁹ Since it is a new concept, it has not

⁷⁶ Barnes Rebuttal, Ex. 12, Page 18, Lines 6-9.

⁷⁷ Barnes Rebuttal, Ex. 12, Page 20, Lines 4-11.

⁷⁸ Barnes Rebuttal, Ex. 12, Page 20, Lines 12-17.

⁷⁹ Transcript, Page 582, Lines 2-4.

been adopted by any other state utility commission.⁸⁰ The PISA proposal would only apply to the net change in plant in service that is unrelated to new business. In other words, it would not apply to new service connections that would generate new revenue for the company.⁸¹

4. In effect, PISA would allow Ameren Missouri to continue to accrue AFUDC on eligible plant additions until that new plant can be added to the company's rate base in a future rate case. In that, it is very similar to the well-known regulatory concept of construction accounting.

5. Construction accounting is frequently used to help a utility recover the cost of single large construction projects, such as Ameren Missouri's recent Sioux Scrubber project. Through PISA, Ameren Missouri would extend that principle of cost recovery to include the many small construction projects that do not produce new revenue for the company, but collectively tie up a large amount of the company's capital outlays.⁸²

6. There are several problems with Ameren Missouri's PISA proposal. First, over time, PISA could place a very heavy financial burden on ratepayers. Adoption of PISA would have no impact on the rates established for this case because the proposal is only to allow Ameren Missouri to begin to defer certain costs for possible recovery in a future rate case. However, if the Commission allows Ameren Missouri to recover the deferred costs in its next rate case there would be an impact on rates at that time.⁸³

7. If PISA had been implemented in the last rate case, \$637 million in plant

⁸⁰ Transcript, Page 580, Lines 17-21.

⁸¹ Barnes Direct, Ex. 11, Page 18, Lines 4-12.

⁸² Barnes Rebuttal, Ex. 12, Page 21, Lines 3-13.

⁸³ Transcript, Page 607, Lines 17-23.

additions would have qualified for PISA treatment during the period between the true-up date in the company's last rate case and the true-up date in this case. Lost depreciation and return that would be included in rate base under the PISA proposal amounted to \$37.6 million during that period. If PISA had been in effect for this rate case, the company's annual revenue requirement would have been increased by \$6.2 million.⁸⁴

8. Although PISA would have an initial impact of around \$6.2 million per year in the next rate case, those costs would not end after one year. The additional revenue Ameren Missouri would recover through PISA would continue to accumulate throughout the 30-40 year life of the assets as they depreciate.⁸⁵ Over forty years, that \$6.2 million per year would total more than \$240 million.⁸⁶ Of course, the PISA would not necessarily end after a single rate case. If the Commission renewed PISA for additional years, additional recoveries would tend to pancake on top of each other and the numbers could quickly become very large.

9. Second, because PISA is a new concept that has never been tested, there are no clear standards for what would be treated as a non-revenue producing asset that should be excluded from the PISA.⁸⁷ Instead, the Commission's Staff would have to sort through all the company's data to determine whether the company has properly classified those assets.⁸⁸ The burden on Staff to review company information in rate cases is already substantial.

10. Third, PISA would violate the test-year principle in that it would routinely draw

⁸⁴ Barnes Surrebuttal, Ex. 13, Pages 5-6, Lines 21-23, 1-5.

⁸⁵ Transcript, Page 669-670, Lines 7-25, 1-16.

⁸⁶ Transcript, Page 675, Lines 2-4.

⁸⁷ Brosch Direct, Ex. 500, Pages 21-22, Lines 17-23, 1-4.

⁸⁸ Transcript, Pages 743-744.

non-test year expenses into the test year for the next rate case. The test year principle is important because it is designed to match revenues and expenses at a given time to try to determine an appropriate revenue requirement for the company.⁸⁹ By drawing in certain out-of-test-year expenses to be matched against test year revenues, while not examining all factors that might demonstrate a corresponding increase in revenue or decrease in expenses, PISA would unfairly increase the company's revenue requirement at the expense of ratepayers.⁹⁰

11. The Commission does on occasion authorize accounting authority orders and tracking mechanisms that allow a utility to defer certain extraordinary costs for possible recovery in a future rate case. Several such mechanisms are authorized in this case. In addition, the Commission has authorized the use of construction accounting to help utilities deal with the financial burden of large construction projects. However, those mechanisms are premised on the existence of some extraordinary circumstance. Ameren Missouri concedes the expenses it would recover through PISA are not extraordinary, are not volatile or unpredictable, and are not outside the company's control.⁹¹

12. Fourth, Ameren Missouri contends PISA is needed to provide the company with a greater incentive to invest limited capital in needed infrastructure repairs and replacement.⁹² However, while Ameren Missouri's witness testified that there are some additional discretionary capital projects the company might like to undertake if it were allowed PISA, it did not demonstrate that there is any great un-met need for additional

⁸⁹ Robertson Direct, Ex. 406, Page 6, Lines 3-6.

⁹⁰ Brosch Direct, Ex. 500, Pages 19-20, Lines 15-22, 1-12.

⁹¹ Transcript, Page 656-657, Lines 18-23, 1-20.

⁹² Barnes Direct, Ex. 11, Page 19, Lines 6-16.

capital investment to ensure delivery of safe and adequate service.⁹³ Indeed, there is reason to be concerned that PISA would encourage Ameren Missouri to undertake capital projects that, while helpful, are not necessary to provide safe and adequate service, thereby unnecessarily driving up rates.

13. Finally, PISA seems to be a solution in search of a problem. Ameren Missouri has had difficulty earning its allowed ROE in the past several years. The company likes to blame that failure on systemic problems in Missouri's regulatory scheme that lead to excessive regulatory lag.⁹⁴ However, many businesses and individuals have been unable to earn as much as they might like in the economic conditions prevailing in recent years.

14. Furthermore, utility ratemaking is forward looking, concerned with current and anticipated financial conditions. What the company has earned in the past does not necessarily tell us what it will be able to earn in this future.⁹⁵ In the past several rate cases, the Commission has implemented several trackers and other regulatory measures that should enhance Ameren Missouri's ability to earn its allowed rate of return. Those previous measures should be allowed an opportunity to work before further measures are undertaken.

15. Indeed, a surveillance report that Ameren Missouri supplied to Staff showed that for the 12 months ended June 30, 2012, within the true-up period for this case, Ameren Missouri's actual earned return on equity was 10.53 percent, which is above the 10.2 percent return on equity allowed in its last rate case.⁹⁶ Ameren Missouri attempted to

⁹³ Transcript, Pages 699-700.

⁹⁴ Baxter Direct, Page 14, Lines 2-4.

⁹⁵ Brosch Direct, Ex. 500, Page 9, Lines 5-9.

⁹⁶ Exhibit 237.

dismiss that 10.53 percent return as being attributable to warmer than normal weather and to other anomalies, but there it is. Under the circumstances, it is not clear that there is a systemic problem that needs to be solved with PISA.

Conclusions of Law:

There are no additional conclusions of law for this issue.

Decision:

After considering Ameren Missouri's PISA proposal, the Commission finds that PISA would be bad public policy and should not be authorized.

5. Rate Case Expense: What is the appropriate amount to include in Ameren Missouri's revenue requirement for rate case expense?

Findings of Fact:

1. Rate case expense is the amount Ameren Missouri has spent to present and defend its rate increase request before the Commission. Ameren Missouri incurs such costs to procure expert testimony and to pay its lawyers to present that testimony.

2. Ameren Missouri estimates it will spend \$1,903,000 for rate case expense in this case.⁹⁷ That number is necessarily an estimate because most rate case expenses are incurred in conjunction with the hearing, which, of course, occurs after the true-up date of July 31, 2012. Indeed, the actual final cost figures will not be known until after this report and order is issued.⁹⁸

3. Ameren Missouri proposes to calculate the amount of rate case expense to be included in rates by averaging the actual rate case expenses from the company's two prior rate cases with its estimate of expenses for this case. Rate case expense for File No.

⁹⁷ Weiss Direct, Ex. 5, Page 28, Lines 7-8.

⁹⁸ Transcript, Pages 862-863, Lines 2-25, 1-12.