Exhibit No.:	
Issues:	*Staff's True-up Audit, Renewable Energy Credits; Solar Rebates; Renewable Energy Standard Costs; Regulatory Liability RES AAO; Callaway Relicensing; Jurisdictional Allocations; Noranda AAO, Lost Revenue / Lost Profit Deferral*
Witness:	*John P. Cassidy*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
File No.:	*ER-2014-0258*
Date Testimony Prepared:	*February 6, 2015*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

JOHN P. CASSIDY

UNION ELECTRIC COMPANY, d/b/a AMEREN MISSOURI

CASE NO. ER-2014-0258

Jefferson City, Missouri
February 6, 2015

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

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JOHN P. CASSIDY

UNION ELECTRIC COMPANY,
d/b/a AMEREN MISSOURI

CASE NO. ER-2014-0258

Q. Please state your name and business address.

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

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

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

Q. Are you the same John P. Cassidy who filed direct testimony and sponsored the Staff's Revenue Requirement Cost of Service Report that was filed on December 5, 2014, and also filed rebuttal testimony on January 16, 2015, as part of this rate proceeding?

A. Yes.

EXECUTIVE SUMMARY

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

A. Since the time that rebuttal testimony was filed, the Staff has received true-up information from Union Electric Company, d/b/a Ameren Missouri ("Company" or "Ameren Missouri") as well as updates to a majority of Staff's data requests. Staff has reflected all known and measurable changes through the true-up period ending December 31, 2014, except for certain items where a true-up cut-off date of January 1, 2015, was appropriate. My surrebuttal testimony will address the results of the Staff's true-up audit and will also provide

Staff's revenue requirement recommendation based upon the completion of its true-up audit. My surrebuttal testimony will also address Staff's true-up audit results with regard to the following five individual issues: (1) the appropriate level of Renewable Energy Credits (RECs) to include in Ameren Missouri's rate base in order to comply with the Missouri Renewable Energy Standard (RES); (2) the amortization of solar rebates paid by Ameren Missouri; (3) the re-establishment of a base level of RES costs for the RES Accounting Authority Order (AAO) to be reflected in the rates in this case; (4) the Staff's proposal to return the regulatory liability balance to ratepayers over three years for the over-recovery that Ameren Missouri received for the RES AAO that was established in Case No. ER-2012-0166; and (5) Ameren Missouri's true-up audit proposal to include the costs associated with the Callaway nuclear power plant relicensing in the cost-of-service calculation.

My surrebuttal testimony will also address the Noranda Aluminum Inc. ("Noranda") Accounting Authority Order (AAO) lost revenue deferral issue that was addressed by Ameren Missouri witness Lynn M. Barnes in her rebuttal testimony filing. I will also address Staff's traditional approach to address Ameren Missouri's commitments to wholesale customers historically in response to Ameren Missouri witness Matt Michels' rebuttal testimony proposal for an alternative rate for Noranda.

TRUE-UP AUDIT REVENUE REQUIREMENT RECOMENDATION

Q. What is Staff's recommended revenue requirement at its midpoint return on equity (ROE) based upon its true-up audit?

A. Based upon the results of the true-up audit, the Staff's recommended revenue requirement for Ameren Missouri is $86.3 million based on Staff's midpoint ROE recommendation of 9.25%. Staff witness David Murray provides an overall low and high ROE range of 9.00% to 9.50%, with a recommended midpoint of 9.25%. Staff's revenue requirement at the low and high end of this ROE range is $71.7 million to $101.1 million.

The Staff is providing these true-up results at this time for two reasons: (1) to provide the Commission with Staff's true-up audit results, and (2) to help facilitate negotiations for all of the parties to this case in order to potentially resolve either some or all of the issues in this case. The Staff would point out to the Commission that true-up information only first became available to the Staff during the afternoon of Tuesday, January 27, 2015. Because Staff has only had a short time to review this true-up information, the Staff requires additional time to assess and analyze both the inputs and the output of the true-up production cost results, and therefore, may be required to make further changes and to address those changes as part of its true-up testimony in this case.

<u>RENEWABLE ENERGY CREDITS (RECs) – RATE BASE</u>

Q. Has Staff examined the need for inclusion of Ameren Missouri RECs balance in rate base?

A. Yes. Staff has received additional explanation regarding these items. In summary, these balances represent wind RECs, customer-purchased solar RECs, third-party solar RECs and purchased solar RECs not yet retired that will be used to comply with the Missouri Renewable Energy Standard (RES) statute. The RES statute allows utilities to bank or inventory RECs for future use for up to three years. The RECs are placed in inventory in the month that renewable power is generated. The RECs are actually paid for when they are recorded in the inventory balance. The RECs are then expensed when the REC is used or retired to meet the compliance requirements of the RES statute. Therefore, Staff has included in rate base a 13-month average of these REC balances at December 31, 2014, as part of it true-up audit cost-of-service calculation.

<u>THREE-YEAR AMORTIZATION OF SOLAR REBATES</u>

Q. Has Staff updated its calculation of solar rebates as part of its true-up audit?

A. Yes. The Staff has determined that Ameren Missouri deferred and accumulated in a regulatory asset account approximately ** __________ **of solar rebates though December 31, 2014. Coupled with a 10% cost added of approximately ** __________ ** Ameren Missouri is eligible to seek rate recovery in total of approximately ** __________ ** Therefore, Staff has included approximately ** __________ ** in amortization expense in the cost-of-service calculation to be consistent with the terms of the *Non-Unanimous Stipulation and Agreement* in Case No. ET-2014-0085.

<u>RE-ESTABLISHMENT OF BASE LEVEL OF RES COSTS FOR THE RES AAO</u>

Q. Has Staff reflected a new base level for the RES AAO since the time of its direct testimony filing on December 5, 2014?

A. Yes. Staff has received updated information through the December 31, 2014, true-up cutoff in this case and has reflected a ** __________ ** base level for the RES AAO as part of the true-up cost-of-service calculation in this case.

<u>RES AAO REGULATORY LIABILITY AMORTIZATION</u>

Q. Has Staff updated its positions with regard to the amortization of the RES AAO regulatory liability balance that resulted from variation in actual expenditures in comparison to the levels that were included in rates as part of Case Nos. ER-2011-0028 and ER-2012-0166, between the July 31, 2012, true-up cut-off established in Case No. ER-2012-0166, through the December 31, 2014, true-up cut-off established in this rate case?

A. Yes. Staff determined that Ameren Missouri's actual spending for this item was $1,235,539 lower than what was actually included in rates during the period covering August 1, 2012 through December 31, 2014. This difference represents a regulatory liability and Staff proposes to return this over-recovery to rate payers over three years consistent with the Commission's Order in Case No. ER-2012-0166.

CALLAWAY NUCLEAR POWER PLANT RELICENSING COSTS

Q. Does Ameren Missouri propose to include an adjustment to reflect the costs associated with it efforts to obtain approval from the Nuclear Regulatory Commission (NRC) for relicensing of the Callaway Nuclear Power Plant as part of its true-up information?

A. Yes. Ameren Missouri is seeking recovery of approximately ** ___________ ** of capital costs associated with the relicensing costs incurred in its effort to obtain approval from the NRC for life extension of the Callaway nuclear power plant. Ameren Missouri's current operating license expires in 2024.

Q. Does Staff agree with this proposed inclusion in rates?

A. No. As of the date of the surrebuttal testimony in this case, Ameren Missouri had not yet received approval from the NRC regarding its application to relicense the Callaway nuclear power plant that would allow it to operate for an additional 20 years beyond 2024. Therefore, Staff opposes recovery of these costs at this time.

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STAFF'S TRADITIONAL DETERMINATION OF JURISDICTIONAL ALLOCATION FACTORS

Q. Please explain Staff's traditional approach towards determining jurisdictional allocation factors for Ameren Missouri.

A. In previous Ameren Missouri rate cases (Case No. ER-2010-0036 and earlier), the Staff used a traditional method of allocating costs to the retail jurisdiction when there was also a wholesale jurisdiction. Several years ago, Ameren Missouri served several municipalities that bought power from Ameren Missouri through wholesale contracts to resell to their citizens. The traditional method for determining the costs allocated to the retail jurisdiction to determine the retail cost-of-service was accomplished by applying a retail jurisdictional allocation factor to Ameren Missouri's total amount of investment and expense. The retail cost-of-service was then compared to retail revenues generated by the current effective retail rates to determine the additional revenue and incremental rate increase for retail customers. Staff allocated rate base and expense to both the retail and wholesale jurisdictions. All wholesale revenue that Ameren Missouri received from the municipalities was excluded from the determination of Ameren Missouri's retail revenues.

By the time of Ameren Missouri rate cases, Nos. ER-2011-0028 and ER-2012-0166, Ameren Missouri had significantly reduced the number of wholesale commitments[1] and both the Staff and Ameren Missouri ultimately determined that revenue that was received from serving these customers exceeded the costs of serving them. In these two rate cases, Staff performed an analysis that determined that it was reasonable to reflect the revenues that Ameren Missouri received from serving the municipalities as off-system sales (OSS) and flowing those OSS

[1] This was largely due to the fact that Ameren Missouri declined to continue serving these wholesale customers and as a result when the contracts for these customers expired they entered into contracts with Ameren Missouri affiliate, Ameren Energy Marketing Company.

revenues as well as the additional generation costs (fuel expense and purchased power expense) to serve these wholesale customers to Ameren Missouri's fuel adjustment clause (FAC). This analysis was accomplished by fuel modeling that included the municipal customers and comparing that to modeling that excluded those municipal customers. The results of the analysis in both of these cases demonstrated that it was reasonable to include the costs to serve the wholesale customers and the revenues generated by the wholesale customers as part of the cost-of-service calculation by reflecting OSS revenue from the generation used to serve the customers and including the fuel costs to make those off-system sales. Essentially, this treatment did not recognize the separate existence of wholesale customer contracts and wholesale customers' generation requirements on Ameren Missouri's system.

As part of the current rate case, Case No. ER-2014-0258, Ameren Missouri reduced its wholesale commitment to just two small municipalities who currently receive a combined load of only 11,949 megawatt hours (MWh) annually. Staff determined that, because the quantity of power that these two small municipalities take on an annual basis was small, an extensive and time-consuming fuel-modeling comparison was not warranted. Instead, the Staff compared the wholesale power price charge per MWh as reflected in the contracts to an average generation cost. This comparison revealed that it was still reasonable to reflect the OSS revenue and the generation cost to serve those two customers as a pass-through in the FAC.

In direct testimony found in the Staff's *Revenue Requirement Cost of Service Report* in Case No. ER-2012-0166, on page 66, lines 16-19, Staff indicated that:

> In general, the Staff is not opposed to departing from the traditional jurisdictional allocation method of determining the retail cost of service. However, the Staff will continue to analyze this treatment on a case by case basis going forward in all future Ameren Missouri rate proceedings.

Q. Does the Staff have the necessary information to perform a jurisdictional allocation assessment of the Noranda rate proposal described in the rebuttal testimony of Ameren Missouri witness Matt Michels?

A. Based on the proposal that Ameren Missouri witness Matt Michels explains in his rebuttal testimony, the Staff believes that performing an assessment of the need for jurisdictional allocation factors will likely be necessary. However, the Staff is unable to perform such an analysis at this time since no specific information has been provided. For additional discussion with regard to this issue please refer to Appendix 1 which is attached to Staff Witness Sarah L. Kliethermes' surrebuttal testimony in this rate case which represents Staff's complete response to Ameren Missouri's Noranda proposal.

<u>NORANDA AAO LOST REVENUE DEFERRAL</u>

Q. What is your response to Ameren Missouri witness Lynn M. Barnes' statement found on page 63, lines 3 through 6 of her rebuttal testimony which indicates that, "The Commission also specifically found [that] revenue not collected by a utility to recover its fixed costs could be an item eligible for deferral, and cited analogous cases where it had allowed deferral of such uncollected revenues in the context of energy efficiency programs and the Cold Weather Rule?"

A. It is fair to say that under some circumstances revenues not collected by a utility represent an item that may be deferred and considered for subsequent ratemaking treatment in the context of a rate case. However, the situations that Ms. Barnes cites involving uncollected revenues pertaining to the emergency cold weather rule and energy efficiency programs, had different circumstances than the 2009-2010 Noranda load reduction event that Ameren Missouri now wishes to ameliorate.

With regard to the emergency cold weather rule, electric and gas utilities were required by statute to provide utility service to customers that were in arrearage during certain dates and during periods of cold weather conditions that under normal circumstances would otherwise have been denied utility service. Emergency cold weather rule standards were enacted by past Commissions in order to protect low income and elderly customers from harm resulting from cold weather conditions and who otherwise would be unable to receive utility service to provide heat to their domiciles. The Commission's enactment of emergency cold weather rule policies represented an attempt to address public safety for low income families and elderly individuals who otherwise may have been denied service by the utility in order to prevent a tragic loss of life. In return for implementing the emergency cold weather rule procedures, the Commission recognized that utilities incurred higher levels costs, primarily through increased levels of uncollectible expense, and therefore, allowed Laclede Gas Company and other utilities to defer and recover certain costs through an AAO in connection with implementation and compliance with provisions of the emergency cold weather rule. This out of the ordinary use of the AAO mechanism was intended by the Commission to mitigate the cost impact on utilities in an effort to address an overarching matter of public safety and compliance with Missouri law.

Likewise, energy efficiency AAOs were intended to assist utilities with compliance with certain Commission approved energy efficiency programs under the Missouri Energy Efficiency Investment Act (MEEIA), in addition to promoting statewide efforts to reduce energy consumption and to avoid costly future utility generation investment. Ameren Missouri's request to defer lost revenues / lost profits due to the reduction in Noranda load is not analogous with the circumstances that existed with AAOs intended to address emergency cold weather rule costs and Commission approved energy efficiency programs, unlike what Ms. Barnes suggests in her testimony.

Instead, Ameren Missouri is seeking to implement an unwarranted recovery of lost revenues / lost profits through an AAO for no other reason than the fact that one of their customers, albeit their largest one, experienced an extended but temporary load reduction. In doing so, Ameren Missouri is attempting to abandon the long standing ratemaking matching principle that requires a proper matching of revenues, expenses and investment. Based on that logic, it would be appropriate for parties to request that Ameren Missouri defer increases in revenues that they receive in between rate cases, that might result from a variety reasons such as an upswing in the economy, the addition of any significant large industrial customers or increases in revenues resulting from much warmer than normal summer temperatures. Staff believes Ameren Missouri would not agree to such a proposal.

Q. Please summarize Staff's position with regard to this issue.

A. As was indicated in my rebuttal testimony, the deferred amounts that Ameren Missouri now seeks recovery for represents ungenerated revenues and lost profits. The Commission has found ungenerated revenues to be unrecoverable in its Report and Order in Case No. GU-2011-0392, which involved Southern Union Company / Missouri Gas Energy. Consistent with that order, Ameren Missouri should not be allowed to recover through an amortization in this case ungenerated revenues that occurred in the past and for which recovery now would create an unearned windfall. This request represents an attempt to offset the financial impact that Ameren Missouri experienced as a result of the Commission's Report and Orders issued in Case Nos. EO-2010-0255 and EO-2012-0074. Ameren Missouri is now merely attempting to inflate their profit margins in the future through an inappropriate deferral of lost revenues / lost profits from a much earlier time period. Finally, Staff Counsel will address in their briefs why Ameren Missouri's proposal represents unlawful retroactive ratemaking.

Q. Does this conclude your surrebuttal testimony?

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 Revenues for Electric Service	)))	Case No. ER-2014-0258

AFFIDAVIT OF JOHN P. CASSIDY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

John P. Cassidy, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

John P. Cassidy

John P. Cassidy

Subscribed and sworn to before me this 6th day of February, 2015.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin

Notary Public