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MISSOURI PUBLIC SERVICE COMMISSION

Case No. ET-2014-0085

DIRECT TESTIMONY

OF

MATT MICHELS

ON

BEHALF OF

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

**St. Louis, Missouri
October 11, 2013**

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1 **DIRECT TESTIMONY**

2 **OF**

3 **MATT MICHELS**

4 **CASE NO. ET-2014-0085**

5 **I. INTRODUCTION**

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

7 A. Matt Michels, One Ameren Plaza, 1901 Chouteau Avenue, St. Louis,
8 Missouri 63103.

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

10 A. I am employed by Ameren Services Company ("Ameren Services") as a
11 Corporate Analysis Manager in the Commercial Transactions Department. Ameren Services
12 provides various corporate support services for Union Electric Company d/b/a Ameren
13 Missouri ("Ameren Missouri" or "Company"), including legal, accounting, financial, and
14 analytical support.

15 **Q. Please describe Ameren Missouri.**

16 A. Ameren Missouri is a public utility subject to the Missouri Public Service
17 Commission's ("Commission") jurisdiction that serves approximately 1.2 million electric
18 customers primarily in the St. Louis Metropolitan area and Eastern Missouri. Ameren
19 Missouri also operates a natural gas utility serving approximately 126,000 customers.

20 **Q. Please describe your employment history with Ameren Services.**

21 A. I joined Ameren Services Company in 2005 as a Consulting Engineer in
22 Corporate Planning. My responsibilities included coordination and monitoring of projects
23 implemented in conjunction with the integration of processes and systems following the

1 acquisition by Ameren Corporation of Illinois Power Company in October 2004. I
2 subsequently was involved in the integration of combustion turbine facilities acquired by
3 Ameren Missouri in 2006. In September 2008, I was promoted to Managing Supervisor of
4 Resource Planning with responsibility for long-range resource planning including Ameren
5 Missouri's Integrated Resource Plan filings and associated analysis. In February 2013, I was
6 promoted to my current position as Corporate Analysis Manager. My responsibilities include
7 long-range resource planning, environmental compliance planning, fuel budgeting and other
8 resource-related analysis. I earned a Bachelor of Science degree in Electrical Engineering
9 from the University of Illinois at Urbana-Champaign in May of 1990. I have been employed
10 by Ameren Services or Illinois Power since June of 1990 in various positions related to
11 resource and business planning. During most of that time, my responsibilities have included
12 the development, use and oversight of various planning models used for purposes such as
13 production costing, acquisition evaluation, corporate restructuring, financial forecasting and
14 resource planning. This includes the model Ameren Missouri currently uses to determine its
15 compliance with the 1% retail rate impact limitation under Missouri's Renewable Energy
16 Standard ("RES").

17 **Q. What is the purpose of your direct testimony?**

18 **A.** The purpose of my direct testimony is to support Ameren Missouri's
19 application for authority to suspend payment of solar rebates. Specifically, I will present
20 Ameren Missouri's expected costs for RES compliance and the calculation on which Ameren
21 Missouri determined that it would exceed the 1% retail rate impact ("RRI") limitation
22 provided for by the RES statute (Section 393.1030.2(1)) and which is also addressed in the
23 Commission's RES rules, including in 4 CSR 240-20.100(5). In doing so, I will demonstrate

1 that Ameren Missouri's calculation for determination of the RRI complies with the
2 Commission's rules. I will also explain the importance of having certainty as to the correct
3 method by which the RRI is determined and the importance of knowing the specific dollar
4 limitation in a given year.

5 **II. AMEREN MISSOURI RES COMPLIANCE COSTS**

6 **Q. Please identify the RES compliance costs that Ameren Missouri expects to**
7 **incur in calendar year 2013.**

8 A. Ameren Missouri's expected 2013 RES compliance costs are presented in
9 Schedule MM-1, which is based on a report that Ameren Missouri uses to track its costs of
10 compliance with the RES modified to reflect the total expected solar rebate costs for the year.
11 The report shows each of the RES compliance cost components and their associated revenue
12 requirement. Costs have been annualized so that the report sets forth a full year of
13 compliance costs. Cost components include the following items:

- 14 • Capital Investment Costs
15 ○ Return on rate base using the Company's most recent Commission
16 allowed return and including associated income taxes
17 ○ Depreciation
18 ○ Property taxes
19 • Expenses
20 ○ Fuel
21 ○ Renewable Energy Credits ("RECs") and Solar RECs ("S-RECs")
22 ○ Operations expense for renewable generation resources, including
23 labor
24 ○ Administrative costs
25 ○ Solar rebates
26 • Benefits
27 ○ Value of energy produced by renewable generation resources
28

29 **Q. Are the costs shown in Schedule MM-1 expected to change before the end**
30 **of the calendar year?**

1 non-renewable revenue requirement in each year. Following the opinion of the appellate
2 court which upheld the Commission's rules, Ameren Missouri updated its model to base the
3 RRI calculation on a ten-year average of revenue requirements. The updated model served
4 as the basis for RRI calculations included in Ameren Missouri's 2013 RES Compliance Plan
5 filed earlier this year. Some minor modifications have subsequently been made to the model.

6 **Q. Has Ameren Missouri changed its RRI calculation since filing its 2013**
7 **RES Compliance Plan?**

8 A. Yes.

9 **Q. Please explain.**

10 A. After considering the positions taken by other parties in Ameren Missouri's
11 RES Compliance Filing and the recent rebate tariff suspension cases filed by Kansas City
12 Power & Light Company ("KCPL") and Kansas City Power & Light Company—GMO
13 ("GMO"), I concluded that it was necessary to change our model approach to better align
14 with the Commission rules and stakeholder expectations based on those rules.

15 **Q. Is it appropriate to change your RRI methodology after the RES**
16 **Compliance Plan was filed?**

17 A. I believe it is. As all parties are aware, the Commission accepts the RES
18 Compliance Plan filings but makes no determination of whether the model filed in the RES
19 Compliance Plan complied with the Commission's regulation. Staff and other parties pointed
20 out potential concerns with our calculation. Not only is it appropriate for Ameren Missouri
21 to revisit the calculation, but the Commission should expect that the Company consider and
22 adopt valid recommended changes. That is exactly what we have done.

1 **Q. How do these changes relate to Ameren Missouri's Preferred Resource**
2 **Plan?**

3 A. The updated RRI calculation is based on the same modeling assumptions and
4 general model framework that was used in Ameren Missouri's most recent Integrated
5 Resource Plan. Based on Ameren Missouri's modeling approach, the differences in results
6 are limited to the impact on new wind resources and new utility-scale solar resources. The
7 table below compares the current model results with the Company's Preferred Resource Plan.
8 The capacity credit for wind resources in MISO is 14.9% of the nameplate rating. This
9 means that the 123 megawatt ("MW") of nameplate wind generation in the Company's
10 preferred plan would be credited with approximately 18 MW of capacity for resource
11 adequacy purposes. Similarly, the 208 MW of nameplate wind generation in the Company's
12 updated RES compliance plan would be credited with approximately 31 MW of capacity for
13 resource adequacy. The results indicate that the changes are clearly outside the
14 implementation period for resource acquisitions and show that the plans are qualitatively the
15 same. For those reasons, Ameren Missouri is not planning to formally update its Preferred
16 Resource Plan. The Company is in the process of completing its 2014 Integrated Resource
17 Plan filing, in which the RRI method approved by the Commission will be incorporated.

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Table 1 – Resource Plan Comparison (Cumulative MW)

Year	Cumulative New Wind Preferred Plan	Cumulative New Wind UPDATED RES Compliance Method	Cumulative New Utility-Scale Solar Preferred Plan	Cumulative New Utility-Scale Solar UPDATED RES Compliance Method
2013	0	0	0	0
2014	0	0	0	0
2015	0	0	0	4
2016	0	0	0	4
2017	0	0	0	4
2018	0	208	0	4
2019	85	208	5	4
2020	100	208	6	4
2021	116	208	7	4
2022	123	208	7	4

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Q. Please describe the general approach used by the model to calculate the

4 **RRI.**

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A. At the highest level, this is a three step process. In Step one, we developed a

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non-renewable portfolio, which I will refer to as the "Baseline." In Step Two, we developed

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a portfolio that is RES compliant regardless of cost, which I will refer to as the

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"Unconstrained RES Portfolio." Finally, in Step Three we scaled down the results from Step

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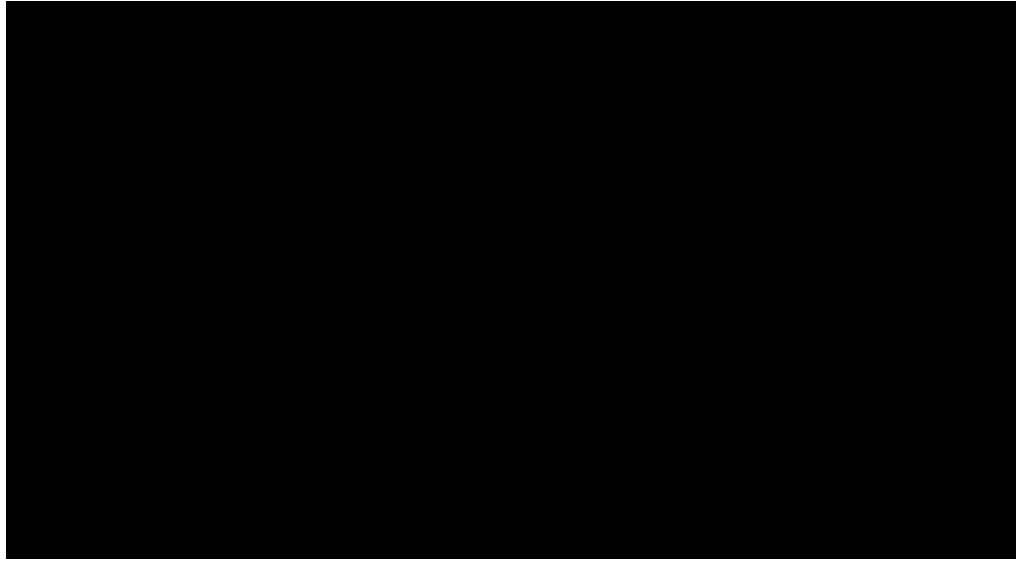
Two to comply with the 10-year average 1% RRI, resulting in what I will refer to as the

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"Constrained RES Portfolio."

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Table 2 – RRI Calculation and Application**



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Q. Can you please elaborate on what you mean by a non-renewable

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portfolio?

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A. In short, the non-renewable portfolio represents a plan that Ameren Missouri

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has constructed to meet the utility's resource needs without adding any new renewable

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resources. The following sections of the Commission's rules address this:

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(5)(A) The retail rate impact shall be calculated on an incremental basis for each planning year that includes the addition of renewable generation directly attributable to RES compliance through procurement or development of renewable energy resources, averaged over the succeeding ten (10)-year period, and shall exclude renewable energy resources owned or under contract prior to the effective date of this rule.

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(5)(B) - ...The non-renewable generation and purchased power portfolio shall be determined by adding to the utility's existing generation and purchased power resource portfolio additional non-renewable resources sufficient to meet the utility's needs on a least-cost basis for the next ten (10) years....

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1 **Q. Does the non-renewable portfolio include any renewable**
2 **resources?**

3 A. Yes. It includes renewable resources that Ameren Missouri owned or to
4 which it had contractual rights prior to the effective date of the RES statute. For example,
5 ignoring the question of eligibility under Missouri law, this portfolio includes Ameren
6 Missouri's Keokuk hydroelectric plant.

7 **Q. If your non-renewable portfolio includes renewable resources then how**
8 **can it be considered a non-renewable portfolio under the rules?**

9 A. While it is true that 4 CSR 240-20.100(5)(B) uses the phrase "non-renewable
10 generation," the section immediately preceding it, 4 CSR 240-20.100(5)(A), explicitly states
11 that renewable energy resources owned or under contract prior to the effective date of this
12 rule are to be excluded from the retail rate impact calculation. In other words, for purposes
13 of the RRI calculation, "pre-existing" renewable resources are treated as if they are not
14 renewable, even though they can be used to comply with the portfolio requirements. This
15 distinction is consistent with the purpose of the RES, as those renewable resources were not
16 added in order to comply with the RES and thus their costs should not be counted as RES
17 compliance costs for purposes of calculating the RRI limitation.

18 **Q. Please describe how Ameren Missouri developed its Unconstrained RES**
19 **Portfolio.**

20 A. To reiterate, this is Step 2 in the process described above. Ameren Missouri
21 evaluated the solar and non-solar requirements separately and developed a portfolio that
22 included enough resources to comply with the RES requirements. The portfolio includes a
23 5 MW expansion to its landfill gas plant in 2018, a 4 MW utility scale solar plant starting

1 operation in 2015 and enough new wind resources in 2018 and beyond to meet the remaining
2 significant non-solar RES requirements. In addition to those costs, Ameren Missouri
3 included a forecast of unconstrained solar rebates, that is, the amount of solar rebates for
4 which we expect we would pay without considering any cost limitations.

5 **Q. Does the Unconstrained RES Portfolio exceed the 1% statutory cost cap?**

6 A. Yes. By looking at the differences between the Baseline and Unconstrained
7 plans, it is clear that the costs over the 10-year planning period exceed the 1% RRI limitation.
8 The total ten-year "budget" under the RRI limitation is about **\$█** million while the
9 Unconstrained RES Portfolio would cost **\$█** billion, over three times the total cost
10 allowed.

11 **Q. Even if all parties were able to agree upon the RRI calculation, would**
12 **there still be uncertainty as to whether Ameren Missouri has reached the RRI cap?**

13 A. Yes. The first step of the RRI calculation can be used to determine a dollar
14 "budget" over the next ten years (**\$█** million) that can be allocated towards RES
15 compliance costs. However, if the cost of an unconstrained RES-compliant portfolio exceeds
16 that "budget" then the next step is to scale the spending to not exceed that budget. The rules
17 do provide some guidance on this issue, but that guidance is limited to ensuring that the
18 portion of renewable energy coming from solar resources is at least 2%. Beyond that, the
19 rules provide no guidance as to how the scaling should be performed.

20 **Q. How did Ameren Missouri scale its RES-compliant portfolio to achieve**
21 **the 1% RRI limitation?**

22 A. Ameren Missouri used a two-step process for scaling. First the dollars spent
23 for each year were scaled based on that year's relative share to the total unconstrained dollar

1 amount for the ten-year period. Then for the years that included new utility solar and wind
2 resources, those resources were scaled to ensure that solar made up 2% of the energy
3 provided, which is consistent with the Commission rules. Site-specific resources in the plan,
4 such as an expansion to our landfill gas generation facility and one utility-scale solar project,
5 were excluded from the amounts subject to scaling as were any costs for resources already
6 acquired, such as our existing landfill gas generation.

7 **Q. How did Ameren Missouri determine that this approach was**
8 **appropriate?**

9 A. With no guidance from the Commission's rules beyond the need to ensure that
10 2% of renewable energy comes from solar resources, Ameren Missouri believed it was
11 important to use an approach that was objective and easily reproduced, limiting the role of
12 subjective judgment.

13 **Q. Would such subjective judgment be precluded by the rules?**

14 A. Not at all. As I mentioned before, the rules provide little guidance as to how
15 the scaling is performed, so almost any approach could be taken.

16 **Q. If costs are allowed to be averaged over ten years, then why is an annual**
17 **cost cap important?**

18 A. The most important reason to enforce an annual cost cap is to ensure the
19 overall ten-year plan is achievable. For instance, if Ameren Missouri needs additional
20 renewable resources in later years but overspends in early years, then the overall plan goals
21 would be unachievable within the 1% RRI limitation. So in this case, Ameren Missouri
22 needs to limit solar rebate funds in order to add other renewable resources in 2018 and

1 beyond when the RES portfolio requirements are higher and the Company will have
2 exhausted its REC bank.

3 **IV. CARRY-OVER PROVISION**

4 **Q. Are there any problems with applying the Commission's rules regarding**
5 **the RRI calculation?**

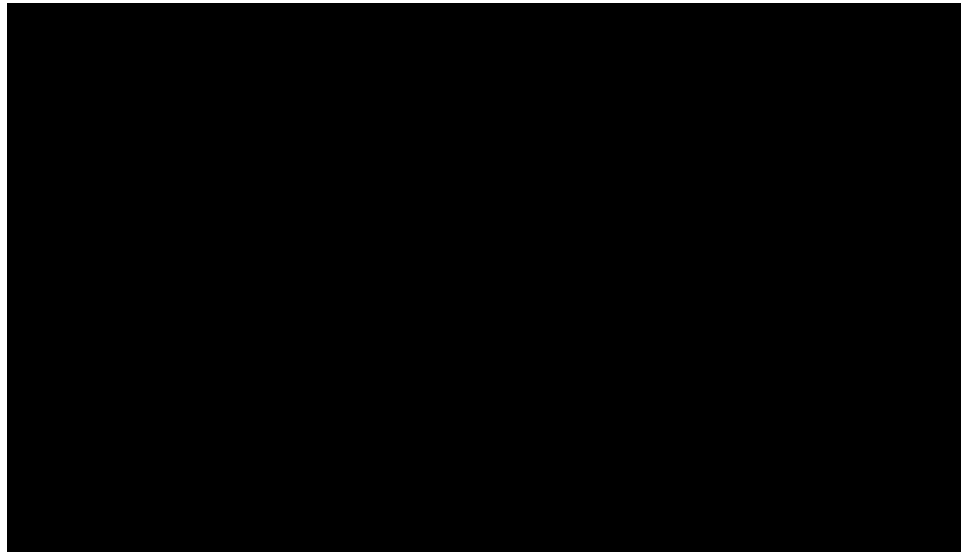
6 A. Yes. The rules require the RRI calculation to be performed looking only at
7 future years' costs. The calculation ignores any amounts previously incurred. As a result, a
8 utility could incur costs well in excess of 1% in the first year of its plan, relying on costs that
9 would be less than 1% in future years to offset the first year costs and yield an average RRI
10 of 1%. The following year, the utility would ignore the costs from the first year of the prior
11 ten-year plan and start over with what amounts to a "clean slate" for RES compliance costs.
12 Thus, the first year costs could again be well in excess of 1%. In an extreme example, the
13 utility could spend its entire ten-year "budget" for RES compliance costs in the first year of
14 each ten-year plan with nothing thereafter. Over time and through ten successive compliance
15 plans, this could result in costs that are not 1% higher than a non-renewable portfolio, but
16 10% higher. At the other extreme, the utility could always spend nothing in the first year of
17 its plan based on the expectation that it would spend more money in later years. In that
18 scenario, no money at all would be spent on additional RES compliance resources.
19 Commission Staff witness Mark Oligschlaeger acknowledged this as a risk in his surrebuttal
20 testimonies in File Nos. ET-2014-0059 and ET-2014-0071.

21 **Q. What does Ameren Missouri propose to address the aforementioned**
22 **problem with the rules?**

23 A. Ameren Missouri proposes a "carry-over" provision be adopted. Simply put,
24 this would involve comparing the cost of the RES-compliant portfolio and the non-renewable

1 portfolio in each actual compliance year, comparing the difference between those portfolios
2 to 1% of the non-renewable portfolio and carrying that difference forward to be included as a
3 RES compliance cost (or savings) in the RRI calculation in subsequent ten-year compliance
4 plans. The table below illustrates how this carry-over provision could work.

5 **Table 3 – Carry-Over Calculations****



6 **

7 **Q. Why does Ameren Missouri believe it is appropriate to include this carry-**
8 **over provision in this proceeding?**

9 A. This issue is very important to consider as part of a forward ten-year average
10 approach if RES compliance costs are truly to be limited to 1% of a non-renewable portfolio.
11 Without some level of assurance from the Commission that this approach is acceptable,
12 Ameren Missouri will need to re-evaluate how it applies the RRI and ultimately revise its
13 annual and ten-year RES compliance plan. Also, it is clear from the KCPL and GMO solar
14 rebate tariff suspension cases that parties are interested in making necessary changes to the
15 RES rules, including changes to address the problems associated with an exclusively
16 forward-looking RRI calculation. If the parties agree that a carry-over is needed in this case
17 then the rulemaking process, as it relates to the RRI calculation, could be greatly simplified.

1 **V. PIONEER PRAIRIE PURCHASE POWER AGREEMENT**

2 **Q. Has Ameren Missouri included costs associated with its Pioneer Prairie**
3 **Purchased Power Agreement (“PPA”) as a RES compliance cost for purposes of its RRI**
4 **calculation?**

5 A. Yes. The portion of the contract price allocated to RECs has been included as
6 a RES compliance cost.

7 **Q. Is it true that the Pioneer Prairie PPA was entered into prior to the**
8 **effective date of the RES rules?**

9 A. Yes.

10 **Q. Given that fact, what basis does Ameren Missouri have for including**
11 **those costs in the RRI calculation?**

12 A. As is set forth in the Application filed in this case, Ameren Missouri is
13 requesting a variance to include the REC costs portion of this PPA in the RRI calculation.
14 Clearly, these costs fit the definition of "RES compliance costs" as that term is defined in the
15 rules. The definition reads, "RES compliance costs means prudently incurred costs, both
16 capital and expense, directly related to compliance with the Renewable Energy Standard."¹
17 The contract was entered into after the RES became law. The RECs from the contract are
18 used to comply with the RES portfolio requirement and there is a cost associated with those
19 RECs. The costs are directly related to compliance. The rules, however, contain an arbitrary
20 restriction on what RES compliance costs can be included in the RRI calculation. That
21 restriction is to require that the renewable resource not be constructed or under contract prior
22 to the effective date of the rules. It is logical to exclude the costs of renewable resources that
23 pre-date the statute since there was no RES prior to that time. However, it is not logical to

¹ 4 CSR 240-20.100(1)(N).

1 exclude renewable energy resources entered into once the utility knew it must meet RES
2 requirements simply because there was a gap between the effective date of the statute and the
3 time when rules could be developed and placed into effect. Ameren Missouri entered into
4 the Pioneer Prairie contract after the statute was in effect, knowing the RECs from the PPA
5 would be needed to comply with the RES statute. Mr. William Barbieri, Director Renewable
6 Strategy Policy and Generation for Ameren Missouri, testified in the RES rulemaking
7 hearing that Ameren Missouri was not selling the RECs obtained through the Pioneer Prairie
8 PPA but rather needed them for the purpose of RES portfolio compliance.² No other
9 Missouri investor-owned electric utility has renewable resources for which the in-service or
10 contract date of the resource falls between the effective date of the statute and the
11 Commission's rules. Had the RES not become law, Ameren Missouri would have had the
12 option of not entering into the PPA or at least of selling the RECs on the open market and
13 reducing the overall cost of the PPA. But the RES did become law and Ameren Missouri did
14 enter into this PPA to comply with it. These unique facts, which won't be repeated given that
15 the statute and the rules are now both in place, justify the granting of a variance so that these
16 obvious RES compliance costs can be accounted for in the RRI calculation.

17 **Q. What impact would it have if the Commission were to exclude the Pioneer**
18 **Prairie REC costs from the RRI calculation?**

19 A. Ultimately there would be more funds available for new renewable resources
20 under the RRI limitation; however, Ameren Missouri believes this would amount to a
21 circumvention of the voter-approved cost limitation as the total of RES compliance costs
22 would exceed the 1% limitation

² File No. EX-2010-0169, Tr. p. 111, l. 9-18.

1 **Q. Could the Pioneer Prairie REC costs be considered a RES compliance**
2 **cost for recovery purposes but then not count against the cost cap?**

3 A. No. These two concepts need to remain in harmony within the rule. It would
4 be illogical to conclude that the Pioneer Prairie REC costs are directly attributable to RES
5 compliance yet should not count against the RRI limitation.

6 **Q. Assuming RES compliance costs and the RRI are mutually inclusive,**
7 **would there be any other implications to Ameren Missouri if the Commission were to**
8 **determine Pioneer Prairie REC costs should not be included in the RRI?**

9 A. Yes. Since January 1st, 2011 Ameren Missouri has been recording the REC
10 costs for Pioneer Prairie into an inventory account, which means those costs are only counted
11 as an expense when the RECs are retired for compliance purposes. As of September 30,
12 2013, the inventory balance is about \$16.9 million. If the Commission were to determine
13 these are not RES compliance costs, by virtue of excluding them from the RRI calculation,
14 then Ameren Missouri's current accounting approach may have to be changed. One potential
15 outcome is that Ameren Missouri stops splitting the cost of the contract between energy and
16 RECs so the entire cost of the contract is included in the Fuel Adjustment Clause as
17 purchased power. It is clear that such an outcome would create unnecessary cost recovery
18 uncertainty and would disrupt how Ameren Missouri has been accounting for these costs for
19 the past several years.

1 **VI. SUSPENDING SOLAR REBATES**

2 **Q. What does the Company's model show is the RRI limit for 2013?**

3 A. The model shows that the RRI limit for 2013 is **\$█** million.

4 **Q. Based on that total RRI limit, how much does Ameren Missouri estimate**
5 **it can pay out in solar rebates before exceeding the total limit?**

6 A. Ameren Missouri estimates it could pay out approximately \$19 million in
7 solar rebates for calendar year 2013 before it exceeds the limit. As Mr. Wright testifies,
8 Ameren Missouri expects to exceed that amount in solar rebates this year.

9 **Q. Since all of the solar rebates in the Company's revised 2013-2022 RES**
10 **compliance plan are shown in 2013, does that mean there will be no further funds**
11 **available for solar rebates after 2013?**

12 A. No. Because the RRI calculation as it is currently defined in the
13 Commission's rules is always forward-looking, a new RRI calculation would be performed
14 for 2014-2023. Using the same approach I've described for calculating the RRI and applying
15 the 1% limitation for 2013-2022, I estimate that approximately \$12 million could be
16 available for solar rebates in 2014. Similarly, I estimate that another \$4 million could be
17 available in 2015 when the RRI calculation is performed again, presuming that the revised
18 RES rules would provide for the same kind of calculation.

19 **Q. If this case isn't resolved until mid-December, why shouldn't Ameren**
20 **Missouri just keep paying rebates for the rest of the year?**

21 A. Understandably, there is a desire on the part of solar installers for Ameren
22 Missouri to keep spending for the last two weeks of the year. However, given how quickly
23 these costs can escalate, it is possible that the cap could be exceeded much sooner than that.

1 In addition, based on the number of applications in the queue, it is entirely possible that
2 Ameren Missouri will need to file to suspend payments early in 2014, even if no additional
3 applications are received. The Commission's decision in this case will impact when the filing
4 will be made because it will clarify how the RRI is to be applied.

5 **VII. SUMMARY AND CONCLUSIONS**

6 **Q. Has there been any specific guidance to date regarding how the RRI is to**
7 **be calculated and applied?**

8 A. No. While investor-owned utilities in Missouri have made various filings that
9 include a calculation of the RRI limitation, and while other parties have challenged these
10 calculations in the context of RES Compliance Plans, the Commission has yet to make a
11 determination as to whether these calculations comply with its RES rule. There is
12 considerable uncertainty and disagreement amongst the parties as to how the RRI works;
13 therefore, clarity will benefit everyone.

14 **Q. Why is it important to have the clarity you mention regarding the RRI**
15 **calculation?**

16 A. Without clarity regarding the RRI calculation, Ameren Missouri and other
17 investor-owned utilities in Missouri are left to guess as to whether and when they will exceed
18 the RRI limitation. They will also tend to be more conservative in their interpretation of the
19 RRI limitation so as to ensure that it is not exceeded under more conservative interpretations.
20 Finally, the process included in Section 393.1030.3 RSMo provides the most viable avenue
21 for getting a determination of the appropriateness of a utility's RRI calculation. Should the
22 Commission simply make a determination in such cases that a utility can or cannot suspend
23 payment of rebates without providing clarity regarding whether and when the specific RRI

1 limitation is reached, Ameren Missouri and other utilities will be left to constantly file
2 applications such as this one -- which must be resolved on a short (60-day) timeline -- to
3 ensure that its RES compliance costs do not exceed the RRI limitation. If the Commission
4 determines once and for all how the RRI limitation is to be calculated, utilities have a much
5 better opportunity to (a) plan their resources such that these kinds of applications may not be
6 necessary and (b) even if they are necessary, the Commission's processing of them would be
7 more orderly and routine because it would only involve verification of documentation and
8 calculations, and would not require the resolution of repeated disputes about the
9 methodology itself.

10 **Q. Can you please summarize the issues in this case?**

11 A. Yes. There are four main issues in this case. The first issue is related to what
12 resources should be included in or excluded from the non-renewable portfolio, or "Baseline"
13 resource plan. I have provided evidence that the rules are clear on this issue and Ameren
14 Missouri is in compliance.

15 The second issue is whether the cost of Pioneer Prairie RECs should count as RES
16 compliance costs and count against the cost cap. Although according to the Commission
17 rules it would not be eligible for inclusion in the RRI calculation, it seems evident to me that
18 this was unintended. As I explained above, Pioneer Prairie was procured for RES
19 compliance purposes even though it went in service but before the rules became effective.
20 The Commission rules include a cut-off date associated with when the rules went into effect
21 as opposed to when the statute went into effect. In addition, Pioneer Prairie is the only
22 resource of any Missouri investor-owned utility that has fallen into this "regulatory dead

1 zone," whereby costs incurred in this window of time are being excluded from the cost
2 limitations of the law. Ameren Missouri is seeking a waiver from this rule provision.

3 The third issue is related to "carry-over." This concept is not in the Commission rule
4 but Ameren Missouri believes it is a necessary component that ultimately should be adopted.
5 The concept is simple: in order for a forward-looking ten-year average RRI to work properly
6 and provide an effective consumer safeguard, one cannot "forget" the compliance costs
7 incurred in historical periods. In short, the carry-over that Ameren Missouri proposes
8 prevents any over/under from "falling through the cracks" and is incorporated into RRI
9 calculations as new RES compliance analyses and plans are developed. Without this
10 provision, the obvious course of action for the utility is to limit spending to 1% on an annual
11 basis, recognizing that even if a utility were to do this, spending under the 1% in any year
12 would not be carried into future years to support additional renewable resource procurement.

13 The fourth issue is related to scaling compliance costs. Ameren Missouri's
14 unconstrained RES-compliant portfolio would clearly exceed the 1% RRI limitation for the
15 ten-year compliance period. The Commission rules provide little guidance on how to scale
16 down RES compliance costs, including solar rebates, other than that the energy from solar
17 resources must be at least 2% of total renewable energy. Ameren Missouri has used an
18 objective approach that scales the RES compliance costs by relative dollar magnitude. The
19 issue of scaling is very important. The "size of the pie", the total dollar limit for the ten-year
20 period, is defined so the challenge is to determine how and when it is spent. With a carry-
21 over provision and a 1% limitation over ten years, this process is ultimately what will
22 determine when the 1% cap has been reached for the next few years; more specifically it
23 determines the amount of funds available to be allocated to solar rebates. I do not believe the

1 Commission can determine if Ameren Missouri has reached the 1% cost cap without ruling
2 on this issue.

3 **Q. What must the Commission determine in cases such as this one to provide**
4 **the kind of clarity that is needed?**

5 A. The Commission must make a determination through specific findings as
6 follows:

- 7 • The RES compliance costs identified by the utility are appropriate, complete,
8 and accurate, in this case, the RES compliance costs presented in Schedule
9 MM-1.
- 10 • The utility's calculation of the RRI limitation is correct and complies with
11 4 CSR 240-20.100(5)(or, if the Commission determines otherwise, it should
12 specify what changes would be needed to make it correct).
- 13 • Specification of the total value (in dollars) of RES compliance costs that the
14 utility can incur before exceeding the RRI limitation.
- 15 • Specification of the total value (in dollars) of solar rebates that the utility can
16 incur before exceeding the RRI limitation, given the estimates of other RES
17 compliance costs that the utility expects to incur.

18 **Q. What do you recommend the Commission find in this case?**

19 A. I recommend the Commission find that:

- 20 • Ameren Missouri has correctly identified all RES compliance costs and
21 estimated the costs to the best of its ability.
- 22 • Ameren Missouri has correctly calculated the RRI limitation for RES
23 compliance costs.

Direct Testimony of
Matt Michels

1 • Ameren Missouri's request for a waiver of the rules allowing it to include the
2 REC costs for its Pioneer Prairie wind PPA as RES compliance costs for
3 purposes of calculating the RRI should be granted.

4 • The total RES compliance costs for Ameren Missouri in calendar year 2013
5 be limited to **\$ [REDACTED] ** and total solar rebates be limited to
6 \$18,811,454.

7 **Q. Does this conclude your direct testimony?**

8 A. Yes, it does.

**SCHEDULE MM-1
IS HIGHLY
CONFIDENTIAL
IN ITS ENTIRETY**