

Exhibit No.:
Issue: Revenue Requirement
Witness: Greg R. Meyer
Type of Exhibit: Reclassified Surrebuttal
Testimony
Sponsoring Party: Noranda Aluminum, Inc.
Case No.: EC-2014-0223
Date Testimony Prepared: July 3, 2014

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

Noranda Aluminum, Inc.
(Complainant)

v.

Union Electric Company, d/b/a
Ameren Missouri (Respondent)

)
)
)
) **Case No. EC-2014-0223**
)
)
)

Reclassified Surrebuttal Testimony of

Greg R. Meyer

On behalf of

Noranda Aluminum, Inc.

REDACTED VERSION
****Highly Confidential Information Removed****

July 3, 2014



BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

_____)	
Noranda Aluminum, Inc.)	
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v.)	Case No. EC-2014-0223
Union Electric Company, d/b/a)	
Ameren Missouri (Respondent))	
_____)	

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) SS

Affidavit of Greg R. Meyer

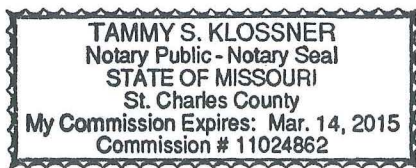
Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Noranda Aluminum, Inc. in this proceeding on its behalf.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. EC-2014-0223.
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

Greg R Meyer

Greg R. Meyer

Subscribed and sworn to before me this 2nd day of July, 2014.



Tammy S Klossner

Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

Noranda Aluminum, Inc. (Complainant))	
v.)	Case No. EC-2014-0223
Union Electric Company, d/b/a Ameren Missouri (Respondent))	

Reclassified Surrebuttal Testimony of Greg R. Meyer

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q ARE YOU THE SAME GREG R. MEYER WHO PREVIOUSLY FILED DIRECT**
5 **TESTIMONY ON BEHALF OF COMPLAINANTS IN THIS CASE?**

6 A Yes.

7 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 A The purpose of my surrebuttal testimony is to update Complainants' position regarding
9 Ameren Missouri's over-earnings situation to include the 12 months ended
10 December 31, 2013. Based on those results, Ameren Missouri is earning in excess
11 of its authorized rate of return.

12 I will also address many of the arguments raised in the rebuttal testimonies of
13 Missouri Public Service Commission Staff ("Staff") witness John Cassidy and
14 Company witnesses Gary Weiss and Lynn Barnes. The fact that I do not address all

**Greg R. Meyer
Page 1**

1 arguments of the Staff or Ameren Missouri should not be constructed as acceptance
2 of those arguments by Complainants.

3 **Updated Earnings Review**

4 **Q YOU MENTIONED PREVIOUSLY THAT YOU HAVE UPDATED AMEREN**
5 **MISSOURI'S EARNINGS FOR THE 12 MONTHS ENDED DECEMBER 31, 2013.**
6 **DID THIS UPDATE RELY ON AMEREN MISSOURI'S SURVEILLANCE REPORT**
7 **FOR THE 12 MONTHS ENDED DECEMBER 31, 2013?**

8 A Yes.

9 **Q WHAT RETURN ON EQUITY ("ROE") WAS REPORTED BY AMEREN MISSOURI**
10 **IN THE SURVEILLANCE REPORT BASED ON THE 12 MONTHS ENDED**
11 **DECEMBER 31, 2013?**

12 A Ameren Missouri reported a 10.34% ROE for the 12 months ended December 31,
13 2013. A 10.34% ROE represents an approximate over-earnings level of \$31 million
14 above the Commission-authorized ROE of 9.8%. It should be noted that Ameren
15 Missouri's surveillance data for the 12 months ended September 30, 2013 reported a
16 10.32% ROE. Thus, the December 31, 2013 surveillance results show a slight
17 increase in the achieved ROE.

1 Q IN YOUR DIRECT TESTIMONY YOU STATED THAT YOU DO NOT BELIEVE THE
2 SURVEILLANCE REPORT RESULTS SHOULD BE THE SOLE BASIS FOR
3 ALLEGING OVER-EARNINGS, AND THAT CERTAIN ADJUSTMENTS NEED TO
4 BE MADE TO THOSE RESULTS. DO YOU STILL SUPPORT THAT STATEMENT
5 AND, IF SO, WHAT WERE THE RESULTS OF YOUR FURTHER ANALYSIS?

6 A Yes. I continue to believe that surveillance data should not be the sole basis for
7 reducing rates. However, I want to make clear that surveillance data is very useful in
8 determining the earnings of a utility for a specified period of time and those earnings
9 should be considered when analyzing other aspects of a utility's costs.

10 For example, recently Kansas City Power & Light Company – Greater
11 Missouri Operations (“KCPL-GMO”) filed a case involving a request by KCPL-GMO
12 for an Accounting Authority Order (“AAO”) for transmission costs. I filed testimony
13 stating that one of the reasons the Commission should reject KCPL-GMO's AAO
14 request was the surveillance reports that showed that KCPL-GMO was earning above
15 its authorized ROE during the period for which the AAO was requested.

16 Based on my further analysis of Ameren Missouri's operations, I contend that
17 Ameren Missouri is over-earning by approximately \$49.5 million in revenue.

18 Q CAN YOU PROVIDE A BRIEF DESCRIPTION OF HOW YOU DETERMINED THE
19 \$49.5 MILLION?

20 A Yes. The \$49.5 million is developed in Table 1. Following Table 1, I will provide a
21 brief description of each adjustment.

TABLE 1

Ameren Missouri's Over-Earnings

Description	Amount (\$000)
1. Ameren Missouri's December 31, 2013 Surveillance Report	(\$31,020)
2. Weather Normalization – Revenues	\$17,380
3. Test Year Days Normalization – Revenues	\$ 7,477
4. Weather and Test Year Days Normalization – Fuel	(\$11,095)
5. Elimination of Rate Refunds	(\$25,548)
6. Callaway Refueling Normalization	(\$12,800)
7. Long-Term Incentive and Stock Compensation Disallowance	(\$13,333)
8. Annualization of Depreciation Expense	\$ 2,873
9. Annualization of Labor Expense	\$ 3,289
10. Interest on Customer Deposits Annualization	\$ 723
11. Missouri Energy Efficiency Investment Act ("MEEIA")	\$25,700
12. Solar Rebates	<u>\$10,000</u>
Subtotal	(\$26,354)
13. Rate of Return	<u>(\$23,110)</u>
Adjusted December 31, 2013 Surveillance Earnings	(\$49,464)

- 1 ➤ **Weather Normalization – Revenues:** Based on Staff's analysis of weather for
2 the 12 months ended December 31, 2013, the Staff has determined that the
3 weather was warmer than normal and recorded revenues should be reduced. I
4 am accepting this adjustment and will discuss it later in my testimony. This
5 adjustment increases revenue requirement.
- 6 ➤ **Test Year Days Normalization – Revenues:** Staff has reviewed the billing
7 days during 2013 and determined that billed revenues exceed the total days
8 (365) in a year. This adjustment eliminates billed revenues over a 365-day
9 period. I also accept this adjustment. This adjustment increases revenue
10 requirement.
- 11 ➤ **Weather and Test Year Days Normalization – Fuel:** Since Staff has proposed
12 to decrease revenues for weather and test year days, an adjustment needs to
13 be developed to recognize the fuel savings associated with these revenue
14 adjustments. I am accepting this adjustment also, which reduces revenue
15 requirement.

- 1 ➤ **Elimination of Rate Refunds:** I am proposing to decrease revenue
2 requirement for the elimination of the rate refunds Ameren Missouri recorded
3 during the 12 months ended December 31, 2013.
- 4 ➤ **Callaway Refueling Normalization:** I am proposing to decrease revenue
5 requirement and expenses associated with the Callaway refueling, which
6 occurred in April-May 2013. This adjustment normalizes the refueling expense
7 to reflect an annual level.
- 8 ➤ **Long-Term Incentive and Stock Compensation Disallowance:** Consistent
9 with the adjustments proposed in Case No. ER-2102-0166, I am proposing to
10 disallow the expenses associated with Ameren Missouri's long-term incentive
11 and stock compensation payments. Staff presented an adjustment for calendar
12 year 2013, which I am accepting. This adjustment decreases Ameren Missouri's
13 revenue requirement.
- 14 ➤ **Annualization of Depreciation Expense:** I am proposing to annualize
15 depreciation expense based on the plant in service at December 31, 2013. This
16 adjustment increases Ameren Missouri's revenue requirement.
- 17 ➤ **Annualization of Labor Expense:** I am proposing to increase labor expenses,
18 including payroll taxes for wage increases for management and contract
19 employees, which took effect in 2013. This adjustment increases Ameren
20 Missouri's revenue requirement.
- 21 ➤ **Interest on Customer Deposits Annualization:** I am proposing to include in
22 cost of service the interest on customer deposits. Since I have included
23 customer deposits as a reduction to rate base, I am including the interest on that
24 balance, which Ameren Missouri is required to pay to customers for the time
25 value of their money. This adjustment increases Ameren Missouri's revenue
26 requirement.
- 27 ➤ **Missouri Energy Efficiency Investment Act ("MEEIA"):** I am proposing to
28 recognize the reduction in revenues associated with the Throughput
29 Disincentive portion of Net Shared Benefits ("TD-NSB"). This adjustment
30 increases Ameren Missouri's revenue requirement.
- 31 ➤ **Solar Rebates:** I am proposing to reflect a three-year amortization of the solar
32 rebates that have been paid by Ameren Missouri through December 31, 2013.
33 This adjustment increases Ameren Missouri's revenue requirement.
- 34 ➤ **Rate of Return:** Mr. Michael P. Gorman continues to support an ROE of 9.4%
35 for Ameren Missouri, which further decreases revenue requirement.

1 **Q IN COMPARING TABLE 1 FROM YOUR DIRECT TESTIMONY THAT YOU FILED**
2 **IN FEBRUARY TO THE SCHEDULE YOU HAVE INCLUDED IN YOUR**
3 **SURREBUTTAL TESTIMONY, THERE APPEARS TO BE A SIGNIFICANT**
4 **CHANGE IN THE LEVEL OF OVER-EARNINGS. COULD YOU GIVE US SOME OF**
5 **THE REASONS WHY THERE HAS BEEN SUCH A SIGNIFICANT CHANGE?**

6 A Yes. The December 31, 2013 analysis (“December analysis”) contained in this
7 testimony has five additional adjustments that were not reflected in the
8 September 30, 2013 analysis (“September analysis”). Namely, adjustments related to
9 weather, the 365 days issue, MEEIA and solar rebates. In addition, I have excluded
10 six adjustments that were included in the September analysis. Those adjustments
11 were disallowance of steam production maintenance expense, distribution
12 maintenance expense, pensions and OPEB expenses, healthcare expense and
13 amortization expense and certain miscellaneous and advertising expenses.
14 Furthermore, a couple of the adjustments (labor, depreciation, Callaway refueling
15 normalization and long-term incentive and stock compensation disallowance) were
16 updated using more current information. I will discuss these adjustments in greater
17 detail below.

18 **Q PLEASE DISCUSS WHY THE DECEMBER ANALYSIS INCLUDES**
19 **ADJUSTMENTS RELATED TO WEATHER AND THE 365 DAYS ISSUE, AND WHY**
20 **THOSE ADJUSTMENTS WERE NOT INCLUDED IN THE SEPTEMBER**
21 **ANALYSIS.**

22 A The September 30, 2013 Ameren Missouri surveillance data was the starting point for
23 reviewing Ameren Missouri’s earnings. In that report, Ameren Missouri lists quarterly
24 and annual cooling degree days.

1 A cooling degree day is the difference between the mean temperature for a
2 day and 65°F. For example, if the high and low temperature for a day was 75°F (low)
3 and 85°F (high), the average (mean) temperature would be 80°F and 15 cooling
4 degree days would be recorded (80° - 65°). Cooling degree days for a period are
5 compared to a normal level of cooling degree days. In Missouri, normal cooling
6 degree days are determined from 30 years of actual historical daily temperatures.
7 For electric utilities, cooler than normal weather means that the utility will collect less
8 revenues than expected, while warmer than normal weather results in a utility
9 collecting more revenues.

10 In the September 30, 2013 Surveillance Report, Ameren Missouri listed the
11 following cooling degree information:

	<u>Quarter Ended</u>	<u>12 Months Actual Ended</u>
Actual Cooling Degree Days	1093	1675
Normal Cooling Degree Days	1124	1723

12 As can be seen from the above information, Ameren Missouri portrayed that actual
13 weather for the 12 months ended September 30, 2013 was cooler than normal. By
14 having fewer cooling degree days than normal, the assumption is that weather was
15 cooler than normal for that period and that Ameren Missouri's revenues were
16 understated.

1 However, when the December 31, 2013 surveillance data was released, a
2 different story was presented. In that report, the following weather information was
3 provided:

	<u>Quarter Ended</u>	<u>12 Months Actual Ended</u>
Actual Cooling Degree Days	62	1690
Normal Cooling Degree Days	39	1550

4 Here the data shows that actual cooling degree days were above normal levels and,
5 thus, Ameren Missouri's revenues were higher than normal. In two surveillance
6 reports, the weather information changed from portraying that weather was milder
7 than normal by 48 degree days (1723 - 1675) to weather being warmer than normal
8 by 140 degree days (1550 - 1690), or a change of 188 degree days. In the filing of
9 two surveillance reports, the actual cooling degree days figure changed only slightly,
10 but normal cooling degree days changed by over 10%.

11 When I performed my September analysis, I relied on the surveillance weather
12 information to determine that no increase in revenue was necessary due to weather.
13 In fact, it was discussed internally at our firm that not proposing a weather adjustment
14 would be a conservative approach for presenting our case since the effect of weather
15 would increase revenues, meaning that a weather adjustment would show even
16 higher over-earnings. I fully recognize that weather can have a significant impact on
17 a utility's earnings, but I cannot compensate for faulty data.

1 Q HOW DID YOU VERIFY THAT THERE WAS AN ERROR IN THE SURVEILLANCE
2 REPORTS?

3 A I submitted Noranda Data Request No. 1.13. I have included the question and
4 response below:

5 **Data Request No.: Noranda 13**

6
7 Please describe the basis for the normal heating and cooling degree
8 day totals included in the September 30, 2013 and December 31, 2013
9 Surveillance Reports. Is the difference in normals due to a
10 methodology change? Please explain in detail.

11 **Response:**

12 The normal heating and cooling degree day totals included in the
13 September 30, 2013 surveillance report were based on an average of
14 observed heating and cooling degree days at St. Louis Lambert Airport
15 over the time period 2001-2010 for the months of October through
16 December and the years 2002-2011 for the months of January through
17 September.

18 The normal heating and cooling degree day totals included in the
19 December 31, 2013 surveillance report were based on an average of
20 observed heating and cooling degree days at St. Louis Lambert Airport
21 over the time period 1981-2010, as adjusted for changes in the
22 observing equipment and location of that equipment.

23 The difference is not due to a methodological change, but a **reporting**
24 **error** in the September surveillance report that was corrected with
25 December report. [Emphasis added.]

26 Q WHAT IS THE BASIS FOR YOUR WEATHER AND 365 DAY ADJUSTMENT?

27 A In response to the direct testimony I filed on behalf of Complainants on February 12,
28 2014, Staff members Shawn Lange and Dr. Seoung Joun Won filed rebuttal
29 testimony on June 6, 2014. Their testimony calculated adjustments to Ameren
30 Missouri's revenues for the 12 months ended December 31, 2013. Their proposed
31 adjustments addressed abnormal weather and a 365 days adjustment for billed
32 revenues.

1 **Q PLEASE DISCUSS WHY YOU INCLUDED AN ADJUSTMENT FOR MEEIA.**

2 A When we were compiling our September analysis, myself and another consultant had
3 two separate conversations with the Staff concerning the accounting treatment for the
4 MEEIA issue, which was included as a significant cost item in Ameren Missouri's rate
5 case cost of service. From both conversations, we both believed that all MEEIA
6 impacts were being tracked through a deferral accounting mechanism and, thus,
7 would not have a financial impact on the reported Ameren Missouri earnings as
8 developed in the surveillance reports.

9 When I reviewed the rebuttal testimony of both Ameren Missouri and the Staff,
10 I discovered that there must have been some misunderstandings in our prior
11 conversations with the Staff. We have, for purposes of our December analysis,
12 included an adjustment for MEEIA.

13 **Q WHAT DOES THE MEEIA ADJUSTMENT REPRESENT?**

14 A As a result of a Stipulation and Agreement ("S&A") in Case No. EO-2012-0142, the
15 parties agreed that Ameren Missouri should receive some reimbursement of
16 throughput disincentive from MEEIA programs. The reimbursement revenues were
17 front-loaded such that Ameren Missouri would collect more revenues in 2013 than
18 necessary to compensate for the throughput disincentive. In 2013, Ameren Missouri
19 collected \$37.1 million of reimbursement revenues while its estimated throughput
20 disincentive totaled \$11.5 million. The difference between these two figures
21 (\$25.7 million) needs to be adjusted out of Ameren Missouri's revenue requirement
22 calculation.

1 **Q PLEASE DISCUSS WHY YOU INCLUDED AN ADJUSTMENT FOR SOLAR**
2 **REBATES.**

3 A Proposition C was approved by the voters of Missouri in November 2008. It imposed
4 a requirement for all electric utilities to generate or purchase electricity generated
5 from renewable energy resources for a portion of its load. One such requirement was
6 the payment of rebates to customers who installed solar panels at their homes or
7 businesses. As a result of a settlement in Case No. ET-2014-0085, the amount of
8 solar rebates included in a regulatory asset are to be considered for recovery in rates
9 after December 31, 2013 in a general rate case. Therefore, I have included the
10 amount of solar rebates paid through December 31, 2013 (\$30 million), amortized
11 over a three-year period. This adjustment increased Ameren Missouri's revenue
12 requirement by \$10 million.

13 **Q PLEASE DISCUSS THE ADJUSTMENTS THAT YOU ELIMINATED FROM YOUR**
14 **SEPTEMBER ANALYSIS.**

15 A From the September analysis, I eliminated adjustments relating to the steam
16 production maintenance expense, distribution maintenance expense, pensions and
17 OPEB expenses, healthcare expense and the disallowance of certain miscellaneous
18 and advertising expense.

19 **Q PLEASE EXPLAIN WHY YOU ELIMINATED THE STEAM PRODUCTION AND**
20 **DISTRIBUTION MAINTENANCE EXPENSE ADJUSTMENTS.**

21 A I reviewed Staff's Data Request Nos. MPSC 0011 and MPSC 0012. Data Request
22 No. MPSC 0011 listed the non-labor steam production maintenance expenses for the
23 years 2009-Budget 2014. I have included those amounts in Table 2.

TABLE 2	
Historic & Budgeted Steam Production Maintenance Expense (Non-Labor)	
<u>Year</u>	<u>Amount</u>
2009	\$54,618,172
2010	\$67,608,559
2011	\$45,711,068
2012	\$49,227,123
2013	\$38,819,072
Budget 2014	** _____ **

Source: Data Request No. MPSC 0011

1 As can be seen from Table 2, the budgeted level for 2014 is only slightly higher than
2 the actual level incurred for 2013. Given the slight change in cost and the general
3 downward trend, an adjustment for steam production maintenance expense is not
4 required.

5 I also reviewed Data Request No. MPSC 0012 that listed non-labor
6 distribution maintenance expenses from 2009-Budgeted 2014. I have included those
7 amounts in Table 3.

TABLE 3	
Historic & Budgeted Distribution Maintenance Expense (Non-Labor)	
<u>Year</u>	<u>Amount</u>
2009	\$81,852,432
2010	\$73,288,794
2011	\$84,816,281
2012	\$69,993,268
2013	\$70,987,672
Budget 2014	** _____ **

Source: Data Request No. MPSC 0012

1 As can be seen from Table 3, the budgeted level for 2014 is only slightly higher than
2 the actual level incurred for 2013. Given the slight change in cost, an adjustment for
3 distribution maintenance expense is not required.

4 **Q PLEASE EXPLAIN WHY YOU ELIMINATED THE PENSIONS AND OPEB**
5 **EXPENSES AND HEALTHCARE EXPENSE ADJUSTMENTS.**

6 **A** In reviewing the testimony of Staff witness John Cassidy, I noted that this area was
7 discussed among Ameren Missouri witness Gary Weiss and Mr. Cassidy and it was
8 determined that pensions and OPEB expenses have not materially changed from
9 what was included in Ameren Missouri's last rate case. I also reviewed Ameren
10 Missouri's FERC Form 1 data. For the years 2010-2013, Ameren Missouri recorded
11 the following amounts for pensions and benefits.

TABLE 4	
<u>Pensions and Benefits</u>	
<u>Year</u>	<u>Amount (\$000)</u>
2010	\$145,243
2011	\$143,976
2012	\$153,430
2013	\$156,717

Source: Distribution of Salaries & Wages – FERC Form 1 data

1 Based on Table 4 above (as well as the testimony of Staff witness Cassidy
2 regarding his discussions with Gary Weiss), I also agree that pensions and OPEB
3 expenses and healthcare expense do not need to be adjusted.

4 **Q PLEASE EXPLAIN WHY YOU ELIMINATED THE AMORTIZATION**
5 **ADJUSTMENT?**

6 A By updating to the December analysis, the amortization expense included in Ameren
7 Missouri’s financial results reflect a full year of the levels included in Case
8 No. ER-2012-0166. Therefore, this adjustment is no longer needed.

9 **Q FINALLY, PLEASE DISCUSS WHY YOU ELIMINATED THE MISCELLANEOUS**
10 **AND ADVERTISING EXPENSE ADJUSTMENT.**

11 A Based on the fact that my original adjustment was an estimate using data from the
12 prior rate case and the significant amount of work required to verify the numerous
13 actual amounts for calendar year 2013, I decided to eliminate that adjustment from
14 the December analysis. I want to make clear though that I believe an adjustment to

1 these expenses is proper and have no doubt that Ameren Missouri is continuing to
2 incur expenses for advertising and miscellaneous costs that are not in conformity with
3 prior Commission orders. As a result of not including the adjustment as part of my
4 December analysis, I believe the over-earnings at December 31, 2013 is a
5 conservative estimate.

6 **Q PLEASE DESCRIBE THE ADJUSTMENTS FOR WHICH THE VALUE HAS**
7 **CHANGED.**

8 A I adjusted the value of the adjustments to labor expense, depreciation expense,
9 Callaway refueling normalization, and long-term incentive and stock compensation
10 expenses.

11 **Q PLEASE DESCRIBE THE LABOR ADJUSTMENT FOR YOUR DECEMBER**
12 **ANALYSIS.**

13 A I annualized payroll expense at December 31, 2013 by reflecting a full year's labor
14 expense for the management and union payroll increases that occurred in 2013.
15 Ameren Missouri management employees received a wage increase on April 1, 2013
16 and union employees received a wage increase on July 1, 2013. I annualized those
17 wage increases to reflect a full-year effect, based on the wages recorded for the 12
18 months ended December 31, 2013. This resulted in an increase for labor and payroll
19 tax expense of approximately \$3.3 million.

20 **Q PLEASE DESCRIBE THE ADJUSTMENT TO DEPRECIATION EXPENSE.**

21 A I annualized depreciation expense for the plant investment included in Ameren
22 Missouri's December 31, 2013 Surveillance Report. I applied the composite

1 depreciation rate by plant function to this investment to determine annualized
2 depreciation.

3 **Q PLEASE DESCRIBE YOUR ADJUSTMENT TO NORMALIZE THE REFUELING**
4 **COST FOR THE CALLAWAY NUCLEAR UNIT.**

5 A I reviewed Ameren Missouri's response to Noranda Data Request No. 1.17.
6 Callaway Refuel 19 (which occurred in the spring of 2013) cost \$38.4 million to
7 complete. Normalizing for this outage requires that one-third of those costs be
8 eliminated from operating expense. One-third of the \$38.4 million results in an
9 adjustment of \$12.8 million to reduce operating expense. This adjustment decreases
10 Ameren Missouri's revenue requirement.

11 **Q PLEASE DESCRIBE THE ADJUSTMENT FOR LONG-TERM INCENTIVE AND**
12 **STOCK COMPENSATION EXPENSES.**

13 A I reviewed Ameren Missouri's response to Noranda Data Request Nos. 1.24 and
14 1.38. Based on those responses, I have determined that the \$11.5 million that was
15 paid by Ameren Missouri in 2013 related to long-term incentive and short-term
16 incentive compensation costs related to earnings per share. To this total, I added the
17 capitalized disallowance from the last rate case of approximately \$1.9 million. The
18 adjustment I have included matches the adjustment discussed by Staff witness
19 Cassidy.

1 Q HAVE YOU REVIEWED ANY RECENT SURVEILLANCE REPORTS FILED BY
2 AMEREN MISSOURI?

3 A Yes. I have reviewed the March 31, 2014 Surveillance Report prepared by Ameren
4 Missouri.

5 Q WHAT WAS THE ACHIEVED ROE FROM THAT REPORT?

6 A Ameren Missouri reported that it earned an ROE of ** _____ **. The ** _____ **
7 ROE suggests that Ameren Missouri collected ** _____ ** in revenues above its
8 authorized return of 9.8%. However, those results would need to be reviewed in a
9 similar fashion as I have done for the September and December analyses. One item
10 that I am aware of that would need to be addressed is the increased electric revenues
11 collected during the first quarter of 2014, as a result of the Polar Vortex anomaly.
12 However, based on my analysis of December and the reported results in March 2014,
13 I believe that Ameren Missouri continued to earn above its Commission-authorized
14 return of 9.8%.

15 Q IN HER REBUTTAL TESTIMONY, AMEREN MISSOURI WITNESS LYNN BARNES
16 DISCUSSES A SIGNIFICANT AMOUNT OF PLANT INVESTMENT THAT AMEREN
17 MISSOURI ANTICIPATES PLACING IN SERVICE FROM MAY THROUGH
18 DECEMBER 2014. HAVE YOU REVIEWED HER TESTIMONY AND COULD YOU
19 PLEASE COMMENT?

20 A Yes. I have read Ms. Barnes' rebuttal testimony. Ms. Barnes presents
21 Schedule LMB-1 which lists all of the projects that Ameren Missouri states it has
22 placed in service from the true-up period in its last rate case, August 1, 2012 through
23 April 30, 2014. Ms. Barnes sums these projects to total ** _____ **. I would

1 suggest that even with this significant investment, Ameren Missouri reported
2 ** _____ ** through March 2014.

3 In Ms. Barnes' Schedule LMB-2, she provides the investment that she
4 estimates Ameren Missouri will place in service from May 1 - December 31, 2014 at
5 ** _____ ** of plant. ** _____

6 _____
7 _____ **

8 **Q DO YOU HAVE ANY COMMENTS REGARDING MS. BARNES' PROPOSED**
9 **PLANT INVESTMENTS?**

10 **A** Yes. It appears from Ms. Barnes' rebuttal testimony that Ameren Missouri does not
11 believe there is any cut-off for addressing the continuous over-earnings of the
12 Company. I believe Ameren Missouri is presenting a list of capital projects to suggest
13 that, at some point in time, its over-earnings position will end.

14 This concept is troubling because, if left unchallenged, a utility could provide
15 information well into the future that would eliminate any arguments of the existence of
16 over-earnings. That is precisely why a test year and update/true-up period would
17 have been meaningful in this case. By adopting a test year and update/true-up
18 period, all parties would have known through what periods of time for which
19 adjustments should be considered. Without a test year or update/true-up period,
20 parties are allowed to propose almost any adjustment through any future period. This
21 is precisely why Ameren Missouri was opposed to the concept of a test year and
22 update/true-up period in this case. In order to try and establish that it will not continue
23 to over-earn, Ameren Missouri had to include future expenditures in an attempt to
24 demonstrate an erosion in its excessive earnings.

1 In conclusion, I recognize that increased levels of investment (especially those
2 identified by Ms. Barnes) would have an impact on the claims of over-earnings made
3 by Complainants. If indeed the Commission considers in isolation the total
4 **** _____ **** investment contemplated through December 31, 2014 to be a factor in
5 assessing this complaint, notwithstanding over a year's worth of over-earning, I
6 believe that Ameren Missouri's earnings would not continue to be excessive.

7 **Q IN THEIR REBUTTAL TESTIMONIES, BOTH THE STAFF AND AMEREN**
8 **MISSOURI ARGUE THAT YOUR ANALYSIS IS NOT SUFFICIENTLY DETAILED.**
9 **PLEASE RESPOND.**

10 **A** Ameren Missouri witness Gary Weiss devotes several pages of testimony to
11 describing the steps and processes he uses to develop Ameren Missouri's cost of
12 service filings. Likewise, Staff witness John Cassidy describes the work entailed to
13 develop the Staff's cost of service report and accounting schedules. Ameren
14 Missouri and Staff describe a more detailed level of review than I have performed in
15 this case.

16 **Q WHY HAVE YOU NOT PERFORMED THAT DETAILED OF A REVIEW IN THIS**
17 **CASE?**

18 **A** I have not been able to do so. While that level of detail is required in a rate increase
19 case filed by a utility, if the Commission requires review in this case to the degree of
20 detail that both Ameren Missouri and the Staff have proposed here, then no party
21 other than the Staff ever could file a revenue requirement rate complaint against any
22 electric utility. Other parties simply do not have the resources to meet this task. In

1 addition, the same level of discovery rights of the Staff are not available to customers
2 to present that type of case described by the Staff and Ameren Missouri.

3 **Q PLEASE DISCUSS YOUR PREVIOUS STATEMENT REGARDING DISCOVERY.**

4 A A significant barrier to filing a complaint against Ameren Missouri is the right of
5 discovery. Unless ordered by the Commission, Ameren Missouri would not respond
6 and would actually refuse to answer any discovery from an outside party wishing to
7 initiate a complaint. If, by chance, discovery was allowed, Ameren Missouri's
8 responses many times would not be direct and comprehensive.

9 **Q ON WHAT BASIS DO YOU MAKE THE PREVIOUS STATEMENTS REGARDING**
10 **DISCOVERY RIGHTS?**

11 A As a prior member of the Missouri Public Service Commission Staff, I have been
12 involved in two Ameren Missouri earnings complaint cases, Case Nos. EC-87-114
13 and EC-2002-01. In both cases, the Staff encountered difficulty in obtaining data
14 from Ameren Missouri in order to present its cost of service results. A belief that
15 Ameren Missouri would have responded to discovery from Complainants (customers)
16 before they filed their earnings complaint is simply unfounded.

17 **Q PLEASE SUMMARIZE THIS SECTION OF YOUR TESTIMONY.**

18 A If the Commission intends to provide a customer or customer group the ability to file
19 an earnings complaint against an electric utility with the possibility of a rate reduction,
20 the Commission must be able to evaluate the case without the degree of detail
21 argued by Ameren Missouri and the Staff. If, instead, the Commission requires that

1 level of detail, no party other than the Staff has the ability to file a complaint against
2 an electric utility.

3 However, if the Commission does not require that degree of detail argued by
4 Ameren Missouri and Staff, then my testimony and the Staff's testimony would be the
5 evidentiary basis to reduce Ameren Missouri's rates. Many of the significant items of
6 cost of service have been addressed by both analyses. For example, plant in
7 service, rate base, rate of return, depreciation, labor, and some operations and
8 maintenance expenses. Furthermore, as Staff discussed, a materiality threshold of
9 \$4 million can be used to negate audit of less valued areas of cost of service. The
10 results of this approach would be to possibly "leave money on the table for
11 customers" but would be preferable to foreclosing the possibility of a revenue
12 decrease.

13 **Q DO YOU BELIEVE THAT AS YOU FILE THIS SURREBUTTAL TESTIMONY THAT**
14 **AMEREN MISSOURI IS EARNING ABOVE ITS AUTHORIZED RATE OF RETURN**
15 **OF 9.8%?**

16 A Yes, I do. I have seen no actual information that would show that Ameren Missouri
17 has not in the recent past, and is not currently, earning in excess of its authorized rate
18 of return. However, as I stated previously, there will be a point in time where,
19 because of Ameren Missouri's investments, those excessive earnings may erode.
20 The question is when?

21 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

22 A Yes, it does.