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Issue(s):	Revenue Requirement, Including the True-Up
Witness:	Mitchell Lansford
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Union Electric Company
File No.:	ER-2021-0240
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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2021-0240

SURREBUTTAL TESTIMONY

OF

MITCHELL LANSFORD

ON

BEHALF OF

UNION ELECTRIC COMPANY

d/b/a Ameren Missouri

St. Louis, Missouri
November 5, 2021

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SURREBUTTAL TESTIMONY

OF

MITCHELL LANSFORD

FILE NO. ER-2021-0240

Q. Please state your name and business address.

A. Mitchell Lansford, Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company"), One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Are you the same Mitchell Lansford that filed direct and rebuttal testimony in this proceeding?

A. Yes, I am.

I. <u>PURPOSE OF TESTIMONY</u>

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. My surrebuttal testimony addresses the following issues raised by the Missouri Public Service Commission Staff ("Staff") and the Office of the Public Counsel ("OPC") related to the following topics: (1) Meramec retirement tracker (Staff witness Lisa Ferguson and OPC witness John S. Riley); (2) equity issuance costs (OPC witness David Murray); and (3) cash working capital (OPC witness John S. Riley). I also provide the Company's revenue requirement and Net Base Energy Costs ("NBEC") as trued-up for applicable items through September 30, 2021.

Q. Do you have any schedules supporting your surrebuttal testimony?

A. Yes. I am sponsoring Schedules MJL-S1 through MJL-S17 relating to the Company's revenue requirement and NBEC.[1] These schedules are the same as Schedules MJL-D1

[1] My direct testimony also included a Schedule MJL-D18, which provides cash working capital information that is not affected by the true-up.

through MJL-D17 included with my direct testimony, except they were prepared using data as of the true-up cutoff date established by the Commission in this case (September 30, 2021) for items being trued-up. In addition, I am sponsoring Schedule MJL-S18, which is an example of the operation of the Company's proposed Meramec retirement tracker.

II. MERAMEC RETIREMENT TRACKER

Q. Staff indicates the Company's proposal is unclear as to whether cost savings experienced subsequent to the retirement of the Meramec facility will be included in the tracking mechanism. Does the Company's proposal include tracking of cost savings subsequent to the retirement of the Meramec facility?

A. Yes. Under the Company's proposal, we compare known and measurable costs directly associated with operating the Meramec facility to the known and measurable base amount established in this rate case from the effective date of rates in this case through the effective date of rates in the Company's next rate case. Further, cost savings will exist and be tracked when actual cost levels are less than the base amount included in rates, as defined in this rate case.

Q. Have you provided an example of how such savings would be captured in the tracker?

A. Yes. Attached to my testimony as Schedule MJL-S18 is an example of the operation of the tracker. I will explain this example for further clarity. On line 4, column B, I have developed a tracker base amount of $11,800,000, representing one-fifth of the remaining costs directly associated with the continued operation of the Meramec facility. Under the Company's proposal, the actual costs incurred in 2022 (beginning on the date new rates become effective in this case) of $58,800,000 on line 4, column C, are compared to the aforementioned tracker base amount. In 2022, the Company will recover $47,000,000 ($58,800,000 actual costs, less $11,800,000 tracker base amount) less than its actual costs and defer this amount (as shown on line 5, column C) to a regulatory asset. This under-recovery of costs carries a cost of capital and I have quantified that as $4,100,000 on line 6, column C. In this example, I have simplified the cost of capital calculation.[2] The total regulatory asset at December 31, 2022 (line 7, column C) is $51,100,000 and is equal to the sum of line 5, column C and line 6, column C. In 2023 (after the retirement of the Meramec facility on December 31, 2022), the Company's costs directly related to the operation of the Meramec facility will be zero (line 4, column D) and cost savings of $11,800,000 ($0 actual costs, less $11,800,000 tracker base amount) will be tracked. The Company will defer, as an offset to the regulatory asset recorded at December 31, 2022, $11,800,000 as noted on line 5, column D. Before consideration of the cost of capital incurred in 2023, the cumulative regulatory asset is $39,300,000 ($51,100,000 at December 31, 2022, less $11,800,000 cost savings tracked in 2023). On line 6, column D, I have quantified the 2023 cost of capital on cumulative under-recoveries as $3,400,000. Adding this 2023 cost of capital to the aforementioned cumulative regulatory asset, results in a total regulatory asset at December 31, 2023 (line 7, column D) of $42,600,000. Columns E through G similarly apply $11,800,000 of cost savings to the cumulative deferral. A residual cumulative regulatory asset of $12,800,000 on line 7, column G is present at December 31, 2026; however, tracking under this mechanism would continue at least until the Company's next general rate case. That under-recovery would then need to be recovered from customers later over some amortization period.

[2] Refer to Mitchell Lansford direct testimony in this case, p. 10, ll. 4-17 for a more detailed explanation of the Company's proposal related to its cost of capital.

Q. How does this example of the Company's proposed tracker compare to an example where no tracker is approved?

A. Schedule MJL-S18 also includes an example where no tracker for the retirement of the Meramec facility is approved. The organization and calculations in this example are consistent with those described above, except for $58,800,000 (line 11, column B) is included in base rates, representing the full amount necessary for the Company to recover its costs by the retirement date of the Meramec facility. As you can see from this schedule, the Company will have over-recovered from customers $290,500,000 (line 14, column G) over the same period as analyzed above my example of the Company's Meramec retirement tracker proposal. That over-recovery would then need to be returned to customers later over some amortization period. Use of the tracker prevents such a large over-recovery from occurring in the first place while also making sure that the reduction in cost of service the Company will experience when Meramec retires is credited to customers.

Q. Setting aside the Company's disagreements with Staff and other parties related to property taxes and insurance expenses, has the Company included all other costs expected to produce cost savings directly related to the closure of the Meramec facility?

A. Yes. Since all costs reasonably expected to reduce to zero and, therefore, result in cost savings subsequent to the facility closure have been included in the tracker base amount, no further costs need to be included in the tracker. However, if Staff or other parties were to believe that the retirement of Meramec produced other cost savings, in addition to costs included in the tracker base, they would be free to propose a related adjustment in the Company's next rate case. As a result, the Commission should order the Company to track only the costs related to the Meramec facility that are included in the tracker base amount set in this rate case.

Q. Staff further recommends measuring the components of the tracker base amount related to rate base at the operation of law date in this case. What will those amounts be?

A. The net plant investment, accumulated deferred income taxes, coal inventory, and materials and supplies inventory balances associated with the Meramec facility at February 28, 2022 (the operation of law date in this case) are not known and will not be known until sometime after February 28, 2022, because the Company will not close its books for February 2022 until sometime in March 2022. There is no way to include these costs, once known, in the tracker base amount and also implement new rates in this rate case by February 28, 2022. My rebuttal testimony further outlines the Company's position with respect to this topic.[3]

Q. At this point in time, has any party quantified the aforementioned amounts as of the operation of law date?

A. Staff has not attempted to quantify these figures at all. MIEC and OPC made an attempt to quantify a part of it, but for the reasons explained earlier, did so using estimates that are not known and measurable.

Q. Why would Staff not have attempted to quantify these amounts at all?

A. Because the activity that occurred through the true-up date was uncertain and unknown until the true-up date had passed. Just like the activity that will occur between the true-up date and the operation of law date is uncertain and unknown until the operation of law date passes and the books for February 2022 are closed. If that were not the case, all parties could and should have included quantification of these amounts in their respective direct or rebuttal testimony.

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[3] File No. ER-2021-0240, Mitchell Lansford Rebuttal Testimony, p.7, ll. 10-18, addresses a similar recommendation by Missouri Industrial Energy Consumers ("MIEC") witness Greg Meyer.

Q. Has any other party taken other positions on the proposed Meramec Energy Center Retirement tracker in its rebuttal testimony?

A. Yes. OPC witness Riley has proposed an alternative method based upon MIEC's alternative method, as outlined in MIEC witness Meyer's direct testimony.

Q. How do you respond to OPC's alternative method?

A. Mr. Riley's proposal is fundamentally inappropriate for the same reasons I described in my rebuttal testimony related to Mr. Meyer's proposal. First, it relies on an investment balance from after the true-up date that is not known and measurable. Second, although Mr. Riley has included some consideration of the undepreciated plant balance in his proposal, his intention also appears to be to deprive the Company of recovering its cost of capital on Meramec's undepreciated balance, because his calculation of the Company's recovery of its cost of capital is only based on the 10-month period ending at the retirement date of the facility. Under this proposal, the Company will not recover its full investment by the retirement date, and therefore, continues to incur and should be allowed to recover its cost of capital on the capital that it deployed, but has not yet recovered until such time as the full investment is recovered. Third and unrelated to Mr. Meyer's proposal, Mr. Riley's proposal cannot be accounted for under the Federal Energy Regulatory Commission Uniform System of Accounts or Generally Accepted Accounting Principles in the manner described. Mr. Riley suggests the establishment and subsequent amortization of a regulatory asset.[4] Presumably, Mr. Riley is suggesting that a regulatory asset be established upon implementation of new customer rates in this rate case. Recognition of such a regulatory asset at that time is inappropriate because the Meramec facility will still be in service. The regulatory asset described is largely comprised of the remaining net book value of the Company's investment in its Meramec facility. As I understand

[4] File No. ER-2021-0240, John Riley Rebuttal Testimony, p. 8, ll. 6-8.

Mr. Riley's proposal, there is no clear way to properly account for it if the Company were ordered to implement it. For these reasons, the Commission should reject OPC's alternative proposal for the retirement of the Meramec Energy Center in its entirety.

III. CASH WORKING CAPITAL

Q. OPC argues a 365-day expense lag should be utilized when calculating the net lag for state income taxes, because it appears Ameren[5] is not currently experiencing a Missouri state income tax liability and will not in the near future. Is Mr. Riley correct that Ameren Missouri is not currently experiencing state income tax liability?

A. No. Mr. Riley apparently misunderstands or did not discover the relevant facts. For the 2020 tax year, Ameren Corporation and Ameren Missouri reported State of Missouri taxable income of $66,305,607 and $111,868,465, respectively.[6] Ameren Missouri's 2020 Missouri state income tax liability was $4,004,506.[7] Additionally, Ameren Missouri expects to generate taxable income and, therefore, pay State of Missouri income taxes in the near future. Further, Ameren Missouri made State of Missouri income tax payments in June 2020, September 2020, December 2020, and September 2021. Given these facts, it is inappropriate to apply a 365-day expense lag to the Company's State of Missouri income taxes. The Company's proposed 38-day expense lag, based on quarterly payment requirements, is appropriate for State of Missouri income taxes.[8]

[5] I believe Mr. Riley should be referring to Ameren Missouri.
[6] Pages 92 and 94 of the Company's State of Missouri income tax return provided in response to Data Request MPSC 0026 TU.
[7] Similarly, the Company reported a federal income tax liability on its 2020 federal income tax return.
[8] While I will not address the details of Mr. Riley's claim that Staff has an error in its income tax calculation, as it is my understanding that Staff will address that claim, I included Staff's revenue requirement positions in the Company's revenue requirement model (including income taxes) and determined the error described by Mr. Riley was not made. Mr. Riley appears to misinterpret Staff's schedules.

IV. EQUITY ISSUANCE COSTS

Q. OPC argues equity issuance costs related to the proceeds from the sale to public investors of new common shares in Ameren Corporation, which were then contributed by Ameren Corporation to Ameren Missouri to fund Ameren Missouri's large wind investments (contributions made in December 2020 and February 2021) should be allocated to all Ameren Corporation subsidiaries in accordance with the allocation methodology of other common costs.[9] Do you agree with Mr. Murray's proposal?

A. No, because the equity issuance costs in question have nothing to do with any other Ameren Corporation subsidiary. To the contrary, they were incurred solely so that Ameren Corporation could make equity contributions to Ameren Missouri that Ameren Missouri could then use to finance a portion of the Company's 700 mega-watt wind generation investment made in late 2020 and in 2021 for the two wind facilities the Company is now using to comply with the Missouri Renewable Energy Standard. Since 100% of the proceeds associated with this particular equity issuance are directly traceable as having been contributed to Ameren Missouri, 100% of the associated equity issuance costs were directly charged to Ameren Missouri.

Q. Were these equity issuance costs charged to Ameren Missouri in a manner consistent with how other costs incurred by an Ameren affiliate for Ameren Missouri's benefit are charged?

A. Yes. Direct charging costs to an affiliate is appropriate when that affiliate receives 100% of the benefits and is precisely how other such costs are charged.

[9] File No. ER-2021-0240, David Murray Rebuttal Testimony, p. 34, ll. 12-14.

V. TRUE-UP REVENUE REQUIRMENT

Q. What is the purpose of your true-up testimony in this proceeding?

A. Pursuant to the Commission's *Order Setting Procedural Schedule and Adopting Test Year* in this case, Ameren Missouri provided updated data through September 30, 2021 for items to be trued-up in this case.[10] The purpose of this portion of my testimony, including the attached schedules MJL-S1 through MJL-S17, is to provide the Commission with the Company's revenue requirement, as updated through the true-up date of September 30, 2021 using the true-up data for those items.[11]

Q. What do Schedules MJL-S1 through MJL-S17 attached to this testimony contain?

A. Schedules MJL-S1 through MJL-S16 show each component of the Company's revenue requirement, as trued-up through September 30, 2021. In my direct testimony, I quantified the Company's revenue requirement using certain pro forma adjustments (projections) through the true-up date, as $299,468,000 more than the pro forma operating revenues at present rates. After replacing all projected amounts with actual results through the true-up date, the Company's revenue requirement is $299,910,000 more than operating revenues at present rates. Consequently, it is necessary to set rates designed to produce $3,211,094,000 annually in order to provide Ameren Missouri an opportunity to collect and recover its cost of service, including an opportunity to recover its cost of capital. Schedule MJL-D17 shows the calculation of total net base energy costs, and the calculation of the Factor BF values for the summer and winter periods. These calculations

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[10] The Company provided true-up data for each item, except for Company Owned Life Insurance investment gains and losses that no party is recommending for inclusion in the revenue requirement, listed in footnote 4 of the referenced order. True-up data was provided for additional items, as referenced in prior testimony.

[11] I followed the same methodology for each item being trued-up as was utilized in proposing a revenue requirement value for each item in my direct testimony.

are based on the applicable true-up data for the components of net base energy costs through September 30, 2021. Finally, I calculated the base amounts of the Meramec retirement tracker and Renewable Energy Standard Rate Adjustment Mechanism at $11,771,000 and $33,727,000, respectively.

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 Tariffs to Adjust Its Revenues for Electric Service.	)))	Case No. ER-2021-0240

AFFIDAVIT OF MITCHELL LANSFORD

STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

Mitchell Lansford, being first duly sworn on his oath, states:

My name is Mitchell Lansford, and on his oath declare that he is of sound mind and lawful age; that he has prepared the foregoing *Surrebuttal Testimony*; and further, under the penalty of perjury, that the same is true and correct to the best of my knowledge and belief.

/s/ Mitchell Lansford
Mitchell Lansford

Sworn to me this 5th day of November, 2021.