

*Exhibit No.:*  
*Issues:* *Report on Revenue  
Requirement Cost of Service,  
Overview of the Staff's Filing*  
*Witness:* *John P. Cassidy*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *ER-2014-0258*  
*Date Testimony Prepared:* *December 5, 2014*

**MISSOURI PUBLIC SERVICE COMMISSION**  
**REGULATORY REVIEW DIVISION**  
**UTILITY SERVICES - AUDITING**

**DIRECT TESTIMONY**

**OF**

**JOHN P. CASSIDY**

Staff Exhibit No. 209  
Date 2-23-15 Reporter KF  
File No. ER-2014-0258

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

**CASE NO. ER-2014-0258**

*Jefferson City, Missouri*  
*December 5, 2014*

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**DIRECT TESTIMONY**

**OF**

**JOHN P. CASSIDY**

**UNION ELECTRIC COMPANY**

**d/b/a AMEREN MISSOURI**

**CASE NO. ER-2014-0258**

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1 DIRECT TESTIMONY

2 OF

3 JOHN P. CASSIDY

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

6 CASE NO. ER-2014-0258

7 Q. Please state your name and business address.

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

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

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

12 Q. Please describe your educational background and work experience.

13 A. I attended Southeast Missouri State University, receiving a Bachelor of  
14 Science degree in Business Administration, with a double major in Marketing and Accounting  
15 in 1989 and 1990, respectively. Since joining the Commission’s Staff in 1990, I have assisted  
16 with and directed audits and examinations of the books and records of utility companies  
17 operating within the state of Missouri.

18 Q. Have you previously filed testimony before this Commission?

19 A. Yes, I have. Please refer to Schedule 1, which is attached to this direct  
20 testimony, for a list of cases in which I have previously filed testimony as well as the issues  
21 that I have addressed in testimony.

22 Q. What knowledge, skills, experience, training and education do you have in the  
23 areas of which you are testifying as an expert witness?

1           A.     I have been employed by this Commission as a Utility Regulatory Auditor for  
2 over twenty-four years and have submitted testimony on ratemaking issues numerous times  
3 before the Commission. I have also been responsible for the supervision of other Commission  
4 employees in rate cases and other regulatory proceedings. Since the time I began my  
5 employment with the Commission, I have received continuous training with regard to  
6 technical ratemaking matters both in-house and through attending National Association of  
7 Regulatory Utility Commissioners ("NARUC") sponsored regulatory seminars as well as  
8 other regulatory symposiums and conferences.

9           Q.     Have you participated in the Commission Staff's audit of Union Electric  
10 Company, d/b/a Ameren Missouri ("Ameren Missouri" or "Company"), concerning its request  
11 for a rate increase in this proceeding?

12          A.     Yes, I have, with the assistance of other members of the Staff. I am the Utility  
13 Services Department case coordinator facilitating the work of Staff members within that  
14 Department, and I interface and work with the Staff members from other Commission  
15 Departments that are involved in the Staff's direct case.

16           **EXECUTIVE SUMMARY**

17          Q.     Please summarize your direct testimony in this proceeding.

18          A.     I am sponsoring the Staff's Revenue Requirement Cost of Service  
19 Report ("Report") in this proceeding that is being filed concurrently with this direct  
20 testimony. I also provide in this direct testimony an overview of the Staff's revenue  
21 requirement determination. The Staff has conducted a review of all the components  
22 (capital structure, return on rate base, rate base, operating revenues and operating expenses)

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John P. Cassidy

1 that determine Ameren Missouri's revenue requirement. My testimony provides an overview  
2 of the Staff's work in each area.

3 **REVENUE REQUIREMENT COST OF SERVICE REPORT**

4 Q. Please explain the organizational format of the Staff's Revenue Requirement  
5 Cost of Service Report.

6 A. The Staff's Report has been organized by topic as follows:

- 7 I. Executive Summary
- 8 II. Background of Ameren Missouri
- 9 III. Test Year/True-Up Period
- 10 IV. Economic Policy
- 11 V. Major Issues
- 12 VI. Rate of Return
- 13 VII. Rate Base
- 14 VIII. Allocations
- 15 IX. Income Statement
- 16 X. Fuel Adjustment Clause (FAC)
- 17 XI. Other Items

18 The Rate Base and Income Statement sections have numerous subsections which  
19 explain each specific area and/or adjustment made by the Staff to the test year ending  
20 March 31, 2014. The individual Staff member responsible for each area of the Staff's  
21 direct case and/or adjustment is identified in the Report following the written discussion he or  
22 she authored, and is the expert/witness with respect to that section of the Staff's Report. The

1 Staff may have a different or an additional expert/witness for rebuttal or surrebuttal testimony  
2 in a given area if this case proceeds to evidentiary hearings.

3 **OVERVIEW OF STAFF'S RECOMMENDED REVENUE REQUIREMENT**

4 Q. In its audit of Ameren Missouri for Case No. ER-2014-0258, has the Staff  
5 examined all of the cost-of-service components comprising the revenue requirement for  
6 Ameren Missouri's electric operations in Missouri?

7 A. Yes.

8 Q. What are the cost-of-service components that comprise the revenue  
9 requirement for a regulated, investor-owned public utility?

10 A. The revenue requirement for a regulated, investor-owned public utility can be  
11 defined by the following formula:

12 Revenue Requirement = Cost of Providing Utility Service (Cost of Service)

13 or

14  $RR = O + (V - D)R$  where,

15 RR = Revenue Requirement

16 O = Operating Costs (Fuel, Payroll, Maintenance, etc.),  
17 Depreciation and Taxes

18 V = Gross Valuation of Property Required for  
19 Providing Service (including plant and additions or  
20 subtractions of other rate base items)

21 D = Accumulated Depreciation Representing Recovery of  
22 Gross Depreciable Plant Investment

23 V - D = Rate Base (Gross Property Investment less  
24 Accumulated Depreciation = Net Property Investment)

25 (V - D)R = Return Allowed on Rate Base

1           The “revenue requirement” calculated by this formula is the utility’s total revenue  
2 requirement, or total cost of service. In rate cases, the term “revenue requirement” generally  
3 refers to the utility’s necessary incremental change in revenues based on the utility’s existing  
4 rates and total cost of service.

5           Q.     What is the objective of an audit of a regulated, investor-owned public utility  
6 for ratemaking purposes?

7           A.     The objective of an audit is to determine the appropriate level of the  
8 components identified in my previous answer in order to calculate the revenue requirement  
9 for such a regulated utility. All relevant factors are examined and a proper relationship of  
10 revenues, expenses, and rate base is maintained. The process for making that revenue  
11 requirement determination can be summarized as follows:

12           (1)    Selection of a test year. The test year income statement represents the  
13 starting point for determining a utility’s existing annual revenues, operating costs and  
14 net operating income. Net operating income represents the return on investment based upon  
15 existing rates. The test year approved by this Commission for Case No. ER-2014-0258, is  
16 the twelve months ending March 31, 2014. “Annualization,” “normalization” and  
17 “disallowance” adjustments are made to the test year results when the unadjusted amounts  
18 do not fairly represent the utility’s most current, ongoing and appropriate annual level of  
19 revenues and operating costs. Annualization, normalization and disallowance adjustments are  
20 explained in more detail later in this direct testimony. Also, as discussed below, additional  
21 information through January 1, 2015, will be considered for inclusion in the cost of service  
22 during the true-up audit agreed to by the Parties and ordered by the Commission.

1                   (2)    Selection of a “test year update period.” A proper determination of  
2 revenue requirement is dependent upon matching the rate base, return on investment,  
3 revenues, and operating costs components at the same point in time. This ratemaking  
4 principle is commonly referred to as the “matching” principle. It is a standard practice in  
5 ratemaking in Missouri to utilize a period beyond the established test year in which to match  
6 the major components of a utility’s revenue requirement. By updating test year financial  
7 results to reflect information beyond the established test year, rates can be set based upon  
8 more current information. Although it is a common practice to update the test year, the  
9 parties to this case agreed that an update was not necessary, and that post-test year financial  
10 results for the determination of revenue requirement could be adequately reflected by  
11 performing a true-up.

12                   (3)    Selection of a “true-up date” or “true-up period.” A true-up date  
13 generally is established when a significant change in a utility’s cost of service occurs after the  
14 end of the test year update period, but prior to the operation-of-law date, and the significant  
15 change in cost of service is one the parties and/or Commission has decided should be  
16 considered for cost-of-service recognition in the current case. The parties have agreed with a  
17 true-up cut-off date of December 31, 2014, except for certain items where a true-up cut-off  
18 date of January 1, 2015 is appropriate. For example, in this proceeding, the Company is  
19 expecting to experience large increases in fuel and fuel transportation prices as well as a  
20 payroll increase on January 1, 2015. In addition, Ameren Missouri will add a significant  
21 amount of plant after the end of the test year, through December 31, 2014. The cost of these  
22 and other changes will be considered for inclusion in the cost of service during the true-up  
23 audit authorized by the Commission for this case, but substantive issues that can be quantified



1 within the timeframe of the main evidentiary hearings will be tried then and not in the true-up  
2 phase of the case.

3 (4) Determination of Rate of Return. A cost-of-capital analysis must be  
4 performed to allow Ameren Missouri the opportunity to earn a fair rate of return on its net  
5 investment ("rate base") used in the provision of utility service. Staff witness David Murray,  
6 of the Commission's Financial Analysis Unit, has performed a cost-of-capital analysis and is  
7 sponsoring a section of the Staff's Revenue Requirement Cost of Service Report to explain  
8 and provide the results of his analysis.

9 (5) Determination of Rate Base. Rate base represents the utility's  
10 net investment used in providing utility service, on which the utility is permitted the  
11 opportunity to earn a return. For its direct filing, the Staff has determined Ameren Missouri's  
12 rate base consistent with the end of the test year established for this case, March 31, 2014,  
13 with use of estimated amounts through the true-up cut-off date, December 31, 2014, for plant,  
14 depreciation reserve and accumulated deferred income taxes. These estimates will be  
15 replaced with actual amounts following the true-up as authorized by the Commission. Other  
16 rate base components reflect the last known balance, which will also be replaced with actual  
17 amounts following the true-up. Rate base includes, e.g., plant-in-service (plant fully  
18 operational and used for service), cash working capital, materials and supplies, prepayments,  
19 fuel inventories, accumulated reserve for depreciation, accumulated deferred income tax, etc.

20 (6) Net Operating Income from Existing Rates. The starting point  
21 for determining net income from existing rates is the unadjusted operating revenues,  
22 expenses, depreciation, and taxes for the test year which is the twelve-month period  
23 ending March 31, 2014, for this case. All of the utility's specific revenue and expense

1 categories are examined to determine whether the unadjusted test year results require  
2 adjustments in order to fairly represent the utility's most current level of operating revenues  
3 and expenses. Numerous changes occur during the course of any year that will impact a  
4 utility's annual level of operating revenues and expenses. The March 31, 2014, test year has  
5 been adjusted to reflect the Staff's determination of the appropriate ongoing levels of  
6 revenues and expenses. These items will be re-examined based on actual data as part of the  
7 true-up process through December 31, 2014 and for certain items January 1, 2015.

8 (7) Determination of Net Operating Income Required. The net income  
9 required for Ameren Missouri is calculated by multiplying the Staff's recommended rate of  
10 return by the rate base. Net income required is then compared to net income available from  
11 existing rates discussed in Item 6 above. The difference, when factored-up for income taxes,  
12 represents the incremental change in the utility's rate revenues required to cover its operating  
13 costs and to provide a fair return on investment used in providing electric service.

14 If a utility's current rates are insufficient to cover its operating costs and provide a fair  
15 return on investment, the comparison of net operating income required (Rate Base x  
16 Recommended Rate of Return) to net income available from existing rates (Operating  
17 Revenue less Operating Costs, Depreciation and Income Taxes) will result in a positive  
18 amount which would indicate that the utility requires a rate increase. If the comparison  
19 results in a negative amount, this indicates that the utility's current rates may be excessive.

20 Q. Please identify the types of adjustments which are made to unadjusted test year  
21 results in order to reflect a utility's current annual level of operating revenues and expenses.

22 A. The types of adjustments made to reflect a utility's current annual operating  
23 revenues and expenses are:

1           (1)     Normalization adjustments. Utility rates are intended to reflect normal  
2 ongoing operations. A normalization adjustment is required when the test year reflects the  
3 impact of an abnormal event. One example of this type of adjustment that is made in all  
4 electric rate cases is the Staff's revenue adjustments to normalize weather. Actual weather  
5 conditions during the test year are compared to 30-year "normal" values. The weather  
6 normalization adjustment restates the test year sales volumes and revenue levels to reflect  
7 normal weather conditions.

8           (2)     Annualization adjustments. Annualization adjustments are required  
9 when changes have occurred during the test year, update and/or true-up period, which are not  
10 fully reflected in the unadjusted test year results. For example, a portion of Ameren  
11 Missouri's employees received a wage increase on July 1, 2013. As a result, only a part of the  
12 twelve months ending March 31, 2014, reflect the impact of this payroll increase. An  
13 adjustment was made to capture the financial impact of the payroll increase for the portion of  
14 the test year prior to the wage increase. The test year level of payroll as adjusted for the  
15 July 1, 2013, wage increase was then fully annualized to reflect another wage increase that  
16 occurred on July 1, 2014, for this same portion of Ameren Missouri employees.

17           (3)     Disallowance adjustments. Disallowance adjustments are made to  
18 eliminate costs in the test year results that are not considered prudent, reasonable, appropriate,  
19 and/or not of benefit to Missouri ratepayers and thus not appropriate for recovery from  
20 ratepayers. An example in this case is certain executive incentive compensation costs. In the  
21 Staff's view, these costs are incurred to primarily benefit shareholder interests and it is not  
22 appropriate policy to pass these costs onto customers in rates, since these costs do not benefit

1 ratepayers. Therefore, these costs should be eliminated from the cost of service borne by  
2 ratepayers and the Staff has proposed to disallow these costs from recovery in rates.

3 (4) Pro forma adjustments. Pro forma adjustments reflect the impact of  
4 items and events that occur subsequent to the test year. These items or events significantly  
5 impact the revenue, expense and rate base relationship and should be recognized to address  
6 the forward-looking objective of the test year. Caution must be exercised when including  
7 pro forma adjustments in a recommended cost of service to ensure that all items and events  
8 subsequent to the test year are also examined and any appropriate offsetting adjustments are  
9 included as well. In addition, some post-test year items and events may not have occurred yet  
10 and/or may not be capable of adequate quantification at the time of the case filing. As a result,  
11 quantification of pro forma adjustments may be more difficult than the quantification of other  
12 adjustments. As a consequence, use of a true-up audit that considers a full range of auditable  
13 items and events that occur subsequent to the test year attempts to address the maintenance of  
14 the proper relationship among revenues, expenses and investment at a consistent point in time  
15 is generally a superior approach than considering stand-alone pro forma adjustments for  
16 inclusion in cost of service.

17 Q. What rate increase amount, based on what return on equity ("ROE")  
18 percentage, did the Company request from the Commission in this case?

19 A. Ameren Missouri requested that its annual revenues be increased by  
20 approximately \$264 million, based on an ROE of 10.40%.

21 Q. Please describe the Staff's direct case revenue requirement filing in this  
22 proceeding.

1           A.     The results of the Staff's audit of Ameren Missouri's rate case request can be  
2 found in the Staff's filed Accounting Schedules and is summarized on Accounting  
3 Schedule I, Revenue Requirement. This Accounting Schedule shows that the Staff's  
4 recommended revenue requirement for Ameren Missouri in this proceeding is \$113,139,943  
5 based upon a mid-point recommended rate of return ("ROR") of 7.50%. Staff is  
6 recommending a mid-point ROE of 9.25% with a range of 9.00% to 9.50% as calculated by  
7 Staff witness David Murray. Staff's revenue requirement at low and high is \$97,685,095 to  
8 \$128,594,790 based upon a ROR range of 7.37% to 7.63%.

9           Q.     What portion of the Staff's recommended increase in the cost of service is the  
10 result of increasing net fuel expense above the amount currently included in base rates?

11           A.     The revenue requirement calculated by the Staff includes an increase of  
12 approximately \$110.7 million in the fuel adjustment clause net base energy cost level that was  
13 established in permanent rates in Case No. ER-2012-0166. This increase primarily  
14 includes the changes in net fuel costs (fuel expense plus purchased power expense less  
15 off-system sales) as well as various other fuel related revenue and cost categories since the  
16 July 31, 2012, true-up cut-off date in Case No. ER-2012-0166 and that are currently being  
17 recovered through Ameren Missouri's FAC mechanism. This increase also includes the  
18 changes in net fuel cost that are estimated to occur through the January 1, 2015, true-up  
19 cut-off date in this rate case. The remainder of the Staff's revenue requirement,  
20 approximately \$2.4 million at the mid-point of its rate-of-return range, is due to increases in  
21 certain non-fuel related costs and increased levels of capital investment, offset by reductions  
22 in other non-fuel related costs and the impact of the lower ROE recommended by the Staff.

1 Q. What items are included in the Staff's recommended rate base in this case?

2 A. The rate base items include: Plant-in-Service, Accumulated Depreciation  
3 Reserve, Cash Working Capital, Materials and Supplies, Prepayments, Fuel Inventories, the  
4 unamortized portion of the Energy Efficiency DSM Regulatory Asset, Customer Advances  
5 for Construction, Customer Deposits, Financial Accounting Standards Board Interpretation  
6 No. 48 ("FIN 48") regulatory liability, unamortized Pension and OPEBs Tracking Liabilities,  
7 and the Accumulated Deferred Income Tax ("ADIT") reserve. The Plant, Depreciation  
8 Reserve and ADIT balances reflect the Staff's estimates through the December 31, 2014,  
9 true-up cut-off date. Other rate base items reflect various levels at or beyond the end of  
10 the March 31, 2014, test year. These rate base components will be trued-up through  
11 December 31, 2014, once the true-up data becomes available.

12 Q. What are the significant income statement adjustments the Staff made in  
13 determining Ameren Missouri's revenue requirement for this case?

14 A. A summary of the Staff's significant income statement adjustments follows:

15 **Operating Revenues**

16 Retail revenues were adjusted for the elimination of unbilled revenue and gross  
17 receipts taxes, customer growth and weather normalization. Other electric revenues were  
18 adjusted for Lake of the Ozark shoreline management fees, coal refinement projects,  
19 off-system sales, capacity sales, bilateral sales and financial swaps, Midwest Independent  
20 System Transmission Operator ("MISO") Day 2 revenues, transmission revenues, ancillary  
21 service market revenues and miscellaneous MISO related revenues. Finally, all Missouri  
22 Energy Efficiency Investment Act ("MEEIA") related revenues and all Keeping Current

1 low-income program revenues that were recorded during the test year were removed from the  
2 cost of service calculation.

3 **Depreciation and Amortization Expense**

4 Depreciation expense was annualized based upon the plant-in-service as of March 31,  
5 2014, plus the Staff's true-up estimate for plant-in-service through December 31, 2014, and  
6 the depreciation rates proposed and sponsored by Staff witness Arthur W. Rice.

7 Staff rebased the amortization period for the remaining balance of the energy  
8 efficiency expense amortization that was established as part of Ameren Missouri electric Case  
9 No. ER-2010-0036 over a two-year period. If left unadjusted, the remaining balance of this  
10 particular amortization would be over-recovered within just 14 months of the May 30, 2015,  
11 effective date of rates established by the Commission in this rate case. The Staff included an  
12 additional energy efficiency amortization to address "Pre-MEEIA" costs that occurred  
13 subsequent to the July 31, 2012, true-up cut-off in the last case. All other existing energy  
14 efficiency amortizations were unadjusted.

15 The Staff is eliminating the test year storm cost amortizations from Case Nos.  
16 ER-2007-0002, EU-2008-0141 and ER-2008-0318 Accounting Authority Order ("AAO")  
17 storm cost amortization, and ER-2008-0318 (for an additional normalization during the test  
18 year) because these amortizations have expired or will expire by the time new rates from this  
19 case will be in effect. Staff is also eliminating the Voluntary Separation Election ("VSE")  
20 and Involuntary Separation Program ("ISP") related severance amortization from Case No.  
21 ER-2010-0036, the Revenue Sufficiency Guarantee ("RSG") amortization established in Case  
22 No. ER-2008-0318 and the SO<sub>2</sub> amortization established in ER-2007-0002 because these  
23 amortizations have expired and Ameren Missouri will in fact over-recover the costs

1 associated with these amortizations through the May 30, 2015, effective date of rates in this  
2 case. In addition, the Staff is eliminating the test year property tax refund amortization  
3 because this amortization has expired and Ameren Missouri will in fact have over-returned  
4 amounts to ratepayers by the May 30, 2015, rates effective date. Staff has excluded two  
5 additional amortizations, equity issuance and storm amortization, both from Case No.  
6 ER-2010-0036, that will expire just one month beyond the effective date of rates in this case.  
7 Staff proposes to net the over and under-collection of all of these amortizations and to  
8 amortize the net balance over three years.

9 Staff rebased the existing Missouri Renewable Energy Standard ("RES") amortization  
10 over two years and included a new amortization to address a deferred regulatory liability  
11 pertaining to RES costs since the time of the true-up cut-off in the previous Ameren Missouri  
12 rate case. In addition, Staff included a three-year amortization of solar rebates paid by  
13 Ameren Missouri to customers through October 31, 2014. Other amortizations that were  
14 included address Callaway post-operations, Sioux construction accounting, vegetation  
15 management and infrastructure inspections, Pensions and OPEB trackers, and the FIN 48  
16 tracker as discussed in the Staff's Revenue Requirement Cost-of-Service Report. Staff has  
17 included costs associated with studies that Ameren Missouri completed to address the Nuclear  
18 Regulatory Commission's mandate that utilities that operate nuclear power plants address  
19 safeguards against problems similar to the Fukushima incident. Staff has also included  
20 approximately \$32 million in amortization expense to reflect a three year recovery of amounts  
21 paid to customers for solar rebates through October 31, 2014.



1 Finally, the Company has proposed an amortization to recover lost revenues  
2 associated with the deferral that it was granted in Case No. EU-2012-0027. Staff opposes  
3 recovery of this amortization in rates.

4 Staff has also addressed a number of other issues in greater detail in the Staff's  
5 Revenue Requirement Cost of Service Report as shown in the partial listing below:

6 **Payroll, Payroll Taxes and Employee Benefit Costs**

- 7 • Payroll expense annualized for all known wage increases through  
8 January 1, 2015, and changes in employee levels through September  
9 30, 2014.
- 10 • Payroll taxes consistent with the payroll annualization.
- 11 • Incentive compensation and restricted stock awards disallowances.
- 12 • Employee benefits including pensions and OPEBs.

13 **Other Non-Labor Expenses**

- 14 • Fuel, purchased-power and off-system sales annualizations to reflect  
15 January 1, 2015, coal commodity and coal transportation prices, Staff's  
16 recommended market energy prices, and the dispatch of power sources  
17 to meet the Staff's determination of Ameren Missouri's generation  
18 requirements.
- 19 • Spent Fuel Fee and DOE Breach of Contract
- 20 • Low Level Radioactive Waste Expense
- 21 • Callaway Refueling Expense
- 22 • Insurance Expense
- 23 • Property Tax Expense
- 24 • Uncollectible Expense
- 25 • Corporate Allocations
- 26 • Lockbox Function
- 27 • New Customer Bill Format Expense
- 28 • Rate case expense adjustment.

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- 1 • Disallowance of all institutional advertising expense, certain dues and
- 2 donations and miscellaneous expenses and Ameren Corporation board
- 3 of directors related costs.
- 4 • Test year storm cost normalization and elimination of storm tracker.
- 5 • Elimination of vegetation management and infrastructure inspection
- 6 trackers.
- 7 • Elimination of MEEIA expense
- 8 • Elimination of all Taum Sauk upper reservoir failure expenses.
- 9 • Income Taxes
- 10 • Depreciation Expense

11 Q. What reliance did you place on the work or conclusions of other Staff members  
12 working on Staff's behalf?

13 A. All of the Staff auditors, including myself, relied on the work from numerous  
14 other Staff members in calculating a revenue requirement for Ameren Missouri in this case.  
15 Weather-normalized sales and the recommended rate of return are some examples of data and  
16 analysis supplied to the Auditing Unit as inputs into the Staff's revenue requirement cost-of-  
17 service calculation. Signed affidavits and the qualifications for all Staff members who are  
18 responsible for a section of the Staff's Revenue Requirement Cost-of-Service Report and for  
19 whom that section constitutes direct testimony in this rate proceeding are attached in an  
20 appendix to the Report. Each Staff member who is responsible for a section of the  
21 Staff's Revenue Requirement Cost-of-Service Report is identified at the conclusion of the  
22 section he or she authored as being the Staff expert/witness responsible for that section.

23 Q. What are the biggest differences between the rate increase request filed by the  
24 Company and the Staff revenue requirement recommendations being filed in this proceeding?

1           A.     From the Staff's perspective, there are seven primary revenue requirement  
2 differences.

3           • Return on Equity (ROE) – Issue Value – (\$61.1 million). As previously stated,  
4 Ameren Missouri's return on equity recommendation is 10.40%, while the  
5 Staff has developed a mid-point recommendation of 9.25%. The dollar  
6 difference between the Ameren Missouri's recommended ROE and Staff's  
7 recommended mid-point for ROE, 10.40% compared to 9.25%, is  
8 approximately \$61.1 million in revenue requirement.

9           • Depreciation – Issue Value – (\$17.2 million). Staff's overall recommendation  
10 for depreciation expense is \$17.2 million lower than Ameren Missouri's due to  
11 differences in depreciation methodologies.

12           • Off System Sales Revenues – Bilateral Sales and Financial Swaps – Issue  
13 Value – (\$16.0 million). Staff has included approximately \$16.0 million in  
14 revenues associated with bilateral sales and financial swaps whereas the  
15 Ameren Missouri has included no revenue associated with these items.

16           • Pension Expense – Issue Value – (\$10.0 million). Staff recommends an overall  
17 level of expense associated with declining pension costs that have occurred  
18 since the test year. Ameren Missouri is recommending a higher level of  
19 pension expense in its case.

20           • Accounting Authority Order (AAO) to Recover Lost Revenues – Issue Value –  
21 (\$7.1 million). Ameren Missouri is seeking permission to include an  
22 amortization in expense of \$7.1 million over five years in order to recover  
23 approximately \$35.6 million of lost revenues that occurred when an ice storm

1 struck southeast Missouri in January 2009 and forced the Noranda Aluminum,  
2 Inc. smelter to shut down for several months. Staff opposes Ameren  
3 Missouri's attempt to recover lost revenues in rates.

- 4 • Ameren Service Company Allocations – Issue Value – (\$6.3 million). Ameren  
5 Missouri has included a projected estimate of increases in expense that are  
6 allocated from its affiliate service company, Ameren Services. Staff has  
7 excluded this adjustment from its cost of service calculation.
- 8 • Property Tax Expense – Issue Value – (\$5.7 million). Ameren Missouri has  
9 reflected a projected property tax expense at the time of the filing of their rate  
10 case. Staff has included actual payments made for calendar year 2013.

11 There are other significant differences between the Staff and the Company, based  
12 upon their respective direct filings. However, these items are less significant than the  
13 differences discussed above.

14 Q. Is it possible that significant differences exist between the Staff's revenue  
15 requirement positions and those of other parties besides Ameren Missouri in this proceeding?

16 A. Yes. However, the other parties are filing their prepared direct testimony,  
17 if any, concurrently with the Staff's direct filing. Until the Staff has a chance to examine the  
18 direct testimony of the other parties, it is impossible for the Staff to determine what  
19 differences exist and how material they may be.

20 Q. Are there other significant differences that exist between the Staff and  
21 Ameren Missouri in their direct filings that are not specifically quantified on the  
22 Accounting Schedules?

Direct Testimony of  
John P. Cassidy

1 A. Yes. Staff Witness Kofi A. Boateng is recommending that Ameren Missouri's  
2 two-way storm tracker to track changes from established base levels between rate cases be  
3 discontinued. Staff witness Lisa K. Hanneken is recommending discontinuance of the  
4 vegetation management and infrastructure trackers. The Staff's recommendations regarding  
5 all of these issues are discussed in its Revenue Requirement Cost of Service Report.

6 Q. Please identify the Staff experts/witnesses responsible for addressing each area  
7 where there is a known and significant difference between the Staff and the Company that is  
8 addressed in this direct testimony or in the Staff Report in Section V, Major Issues.

9 A. The Staff experts/witnesses for each listed issue are as follows:

<u>Issue</u>	<u>Staff Witness</u>
Return on Equity & Capital Structure	David Murray
Depreciation	Arthur W. Rice
Revenues – Bilateral Sales and Financial Swaps	Erin L. Maloney
Pension Expense	Kofi A. Boateng
AAO to Recover Lost Revenues	John P. Cassidy
Ameren Service Company Allocations	Lisa K. Hanneken
Property Tax Expense	Jason P. Kunst
Storm Tracker	Kofi A. Boateng
Vegetation Management and Infrastructure Inspection Tracker	Lisa K. Hanneken

21 Q. When will the Staff be filing its customer class cost of service and rate design  
22 direct testimony and report in this proceeding?

23 A. The Staff's customer class cost of service and rate design direct testimony and  
24 report and schedules will be filed on December 19, 2014.

Direct Testimony of  
John P. Cassidy

1 Q. Does this conclude your prepared direct testimony in this proceeding?

2 A. Yes, it does.



## **JOHN P. CASSIDY**

### **EDUCATIONAL AND EMPLOYMENT BACKGROUND AND CREDENTIALS**

#### **Position**

I am a Utility Regulatory Auditor V in the Auditing Unit, Utility Services Department. My business address is 111 North Seventh Street, Suite 105, St. Louis, Missouri 63101. Since joining the Missouri Public Service Commission's Auditing Department Staff in 1990, I have assisted with and directed audits and examinations of the books and records of utility companies operating within the State of Missouri. I have also conducted numerous audits of small water and sewer companies in conjunction with the Commission's informal rate proceedings. Please refer to the following pages of this schedule for a list of rate case proceedings in which I have previously filed testimony.

#### **Education**

Southeast Missouri State University

Cape Girardeau, Missouri

Bachelor of Science Degree in Business Administration

Double Major: Marketing 1989 and Accounting 1990



**RATE CASE PROCEEDING PARTICIPATION  
JOHN P. CASSIDY**

<u><b>COMPANY</b></u>	<u><b>CASE NO.</b></u>
<b>Missouri Cities Water Company</b> Payroll and Related Pensions OPEBS Insurance Expense Advertising Expense Miscellaneous Expenses  Type of Testimony Filed: Direct and Surrebuttal	<b>WR-91-172</b>
<b>St. Louis County Water Company</b> Tank Painting Main Failures Residue Removal General Insurance Expense PSC Assessment Miscellaneous Expenses  Type of Testimony Filed: Direct	<b>WR-91-361</b>
<b>Southwestern Bell Telephone Company</b> Advertising Expenses Promotional Giveaways Miscellaneous Expenses  Type of Testimony Filed: Direct and Surrebuttal	<b>TC-93-224</b>
<b>Laclede Gas Company</b> Payroll and Payroll Taxes Incentive Compensation 401 (K) Dental and Vision Insurance Data Processing  Type of Testimony Filed: Direct	<b>GR-94-220</b>

**COMPANY**

**CASE NO.**

**The Empire District Electric Company**

**ER-95-279**

Revenues  
Uncollectibles Expense  
Municipal Franchise Taxes  
Postage Expense  
Emission Credits

Type of Testimony Filed: Direct

**Imperial Utility Corporation**

**SC-96-247**

Rate Base  
Depreciation Reserve  
Depreciation Expense  
CIAC  
Property Taxes  
Property Insurance  
Lab Testing Expense  
Sludge Removal Expense

Type of Testimony Filed: Rebuttal

**St. Louis County Water Company**

**WR-97-382**

Payroll and Payroll Taxes  
Employee Benefits  
Employee Savings  
Shared Employees

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GR-98-374**

Payroll and Payroll Taxes  
401 (K)  
Health Care Costs  
Pension Plan  
Director's Pension Plan  
Trustee Fees  
SERP  
Outside Consulting  
Incentive Compensation  
Advertising Expense

Type of Testimony Filed: Direct

**COMPANY**

**CASE NO.**

**United Water Missouri, Inc.**

**WR-99-326**

Payroll and Payroll Taxes  
401 (K)  
Health Care Costs  
Employee Relocation  
Corporation Franchise Tax  
Advertising Expense  
Dues and Donations  
Miscellaneous Expenses

Type of Testimony Filed: Direct

**Union Electric Company**

**EC-2000-795**

Injuries and Damages  
Legal Expense  
Environmental Expense

Type of Testimony Filed: Direct

**Union Electric Company**

**GR-2000-512**

Revenues  
Uncollectibles Expense  
Customer Deposits

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GR-2001-629**

Revenues  
Gross Receipts Tax  
Gas Supply Incentive Plan  
Gas Costs  
Uncollectibles Expense  
Non-Utility Operations

Type of Testimony Filed: Direct

**COMPANY**

**CASE NO.**

**Union Electric Company, d/b/a AmerenUE**

**EC-2002-01**

Fuel Expense  
Callaway Refueling  
Legal Expense  
Environmental Expense  
Capacity Purchases  
Midwest ISO  
Payroll and Related  
Incremental Overtime

Type of Testimony Filed: Direct and Surrebuttal

**Union Electric Company, d/b/a AmerenUE**

**EC-2002-1025**

Legal Expense  
Environmental Expense  
Midwest ISO

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GR-2002-356**

Revenues  
Gross Receipts Tax  
Gas Supply Incentive Plan  
Gas Costs  
Uncollectibles Expense  
Income Taxes

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GT-2003-0117**

Financial Aspects

Type of Testimony Filed: Direct

**COMPANY**

**CASE NO.**

**Missouri-American Water Company**

**WR-2003-0500 & WC-2004-0168**

Allocation of Belleville Labs Cost to MAWC  
National Call Center  
Compensation for Services Provided from MAWC to AWR  
Information Technology Services  
Capitalization of Shared Services  
Transition Costs  
Cost Allocation Manual  
Affiliate Transactions  
Severance Costs  
National Call Center Transition Costs  
National Shared Services Transition Costs

Type of Testimony Filed: Direct & Surrebuttal

**Missouri-American Water Company**

**SM-2004-0275**

Acquisition Adjustment

Type of Testimony Filed: Direct

**The Empire District Electric Company**

**ER-2004-0572**

Interim Energy Charge  
Fuel Expense  
Purchased Power  
Off System Sales  
KCPL Transmission Expense  
Income Taxes

Type of Testimony Filed: Direct & Surrebuttal

**Union Electric Company d/b/a AmerenUE**

**GR-2007-0003**

Environmental Expense

Type of Testimony Filed: Direct

**COMPANY**

**Union Electric Company d/b/a AmerenUE**

Fuel Expense  
Fuel Inventories  
Callaway Refueling Costs  
Combustion Turbine Maintenance Expense  
Environmental Expense  
Gains on the Sale of Sulfur Dioxide Emission Allowances

Type of Testimony Filed: Direct, Rebuttal and Surrebuttal

**CASE NO.**

**ER-2007-0002**

**Missouri-American Water Company**

Belleville Labs Allocation  
Compensation for Services MAWC Provided to AWR  
Income Taxes

Type of Testimony Filed: Direct

**WR-2007-0216**

**Union Electric Company d/b/a AmerenUE**

Fuel and Purchased Power Expense  
Off System Sales  
Fuel Inventories  
Callaway Refueling Costs  
Generating Plant Outages  
Capacity Charges  
Entergy Refunds  
Non-Labor Storm Costs – Test Year  
Non-Labor Storm Cost AAO  
Non-Labor Storm Cost Amortization  
SO2 Emission Allowance Sales and Tracker  
Deferred Income Taxes for Rate Base  
Income Taxes  
Production Cost Model Issues

Type of Testimony Filed: Direct and Surrebuttal

**ER-2008-0318**

**COMPANY**

**CASE NO.**

**Union Electric Company d/b/a AmerenUE**

**ER-2010-0036**

Corporate Allocations  
Potential Refundable Entergy Charges  
Payroll and Payroll Taxes  
Employee Benefits  
Voluntary Separation Election  
Involuntary Separation Program  
Severance Costs  
Callaway Security Force

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GR-2010-0171**

Report on Revenue Requirement Cost of Service  
Overview of Staff's Filing  
Revenue Associated with Propane Sale  
Insulation Financing  
Energy Wise  
NITEC Study  
Home Sales Reinspection Fees  
Gain on Sale of Property  
Emergency Cold Weather Rule AAO  
IFRS AAO  
Gas Safety AAOs  
Line of Credit Fees

Type of Testimony Filed: Direct, Rebuttal and Surrebuttal

**Union Electric Company d/b/a AmerenUE**

**ER-2011-0028**

Accumulated Deferred Income Taxes  
Potential Refundable Entergy Charges  
Payroll  
Payroll Taxes  
Voluntary Separation Election Plan  
Involuntary Separation Program  
Test Year Severance Costs  
Amortization of Severance Costs  
Other Employee Benefits  
Test Year Storm Costs  
Storm Cost AAO Case Nos. EU-2008-0141 and ER-2008-0318  
Rebranding Costs  
Income Tax

Type of Testimony Filed: Direct and Surrebuttal

**COMPANY**

**CASE NO.**

**Union Electric Company d/b/a AmerenUE**

**ER-2012-0166**

Report on Revenue Requirement Cost of Service  
Overview of Staff's Filing  
Plant-in-Service Accounting  
Accumulated Deferred Income Taxes  
Employee Stock Ownership Plan Deduction  
Income Taxes  
Missouri Jurisdictional Allocation Factors  
Lake of the Ozarks Shoreline Management Program  
Storm Assistance Revenues and Expenses  
Renewable Energy Standard Costs

Type of Testimony Filed: Direct, Rebuttal and Surrebuttal

**Union Electric Company d/b/a AmerenUE**

**EA-2012-0281**

Costs Associated with Labadie Energy Center Expansion  
Alternative Site Studies

Type of Testimony Filed: Rebuttal, Cross-Surrebuttal and  
Supplemental

**Union Electric Company d/b/a AmerenUE**

**EC-2014-0223**

Complaint Case – Rate Levels

Type of Testimony Filed: Rebuttal and Surrebuttal