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Witness:	*John P. Cassidy*
Sponsoring Party:	*MoPSC Staff*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL and BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

JOHN P. CASSIDY

UNION ELECTRIC COMPANY
d/b/a AMEREN MISSOURI

CASE NO. ER-2021-0240

Jefferson City, Missouri
October 2021

** Denotes Confidential Information **

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Q. Please state your name and business address.

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

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

A. I am employed by the Missouri Public Service Commission ("Commission") as a Utility Regulatory Supervisor in the St. Louis Unit of the Auditing Department.

Q. Please describe your educational background and work experience.

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

Q. Have you previously filed testimony before this Commission?

A. Yes, I have as part of numerous cases. Please refer to Schedule JPC-r1, which is attached to this rebuttal testimony, for a list of those case and the ratemaking issues that I have addressed in filed testimony before this Commission.

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

A. I have been employed by the Commission for over 31 years. As a Utility Regulatory Supervisor I have been responsible for the supervision of other Commission employees in numerous rate cases and other regulatory proceedings. Since the time that I began my employment with the Commission, I have received continuous in-house training with regard to technical ratemaking matters. I have attended many National Association of Regulatory Utility Commissioners ("NARUC") sponsored regulatory seminars as well as other regulatory symposiums and conferences.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this rebuttal testimony is to respond to the direct testimony of Ameren Missouri witness Ann E. Bulkley.

EXECUTIVE SUMMARY

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

A. My rebuttal testimony will address portions of Ameren Missouri witness Ann E. Bulkley's direct testimony, found on pages 52 through 68, that describes some of Ms. Bulkley's expressed concerns regarding regulatory and business risk for Ameren Missouri. In response, I will provide a general discussion of regulatory lag and business risk from an accounting perspective. I will address ratemaking impacts of Plant-In-Service Accounting ("PISA" or "Plant Accounting" and also commonly referred to as "construction accounting").[1] Ameren Missouri elected PISA on September 1, 2018. Ameren Missouri also implemented a Renewable Energy Standard Rate Adjustment Mechanism ("RESRAM") rider[2] and first began collecting

[1] PISA was authorized through by Missouri General Assembly through passage of Senate Bill 564. For a more complete discussion of PISA please refer to Staff's Revenue Requirement Cost of Service Report, pages 167-169.

[2] The Missouri Renewable Energy Standard ("RES") was enacted as a voter initiative petition, Proposition C, on November 4, 2008. Mo. Rev. Stat. Section 393.1020.

eligible costs through the RESRAM rider on February 1, 2020.[3] I will explain that PISA provides an additional layer of regulatory lag mitigation as well as earnings protection for Ameren Missouri through special deferral accounting treatment applied to qualifying capital costs, while RESRAM provides for more immediate rate recovery of costs associated with the wind and solar generation investment and other renewable costs by adjusting customer rates on an annual basis in between permanent rate cases. I will also provide a high level overview of the protections that are provided to Ameren Missouri as a result of other currently authorized non-traditional ratemaking procedures. I will provide a summary of the impacts of PISA that have occurred since the time of Ameren Missouri's prior electric rate case and provide details concerning the RESRAM collections that have been authorized by the Commission as part of Ameren Missouri's first two RESRAM recovery periods. I will summarize the impact of the protections that Ameren Missouri's authorized non-traditional ratemaking procedures provided to it during the twelve months ending December 31, 2020 which represents the test year authorized by the Commission in this rate proceeding.

It is Staff's position that the implementation of PISA and RESRAM reduces Ameren Missouri's overall business risk. This fact should be considered by the Commission in making its determination of a fair and appropriate rate of return for Ameren Missouri to have a reasonable opportunity to earn as part of establishing new permanent rates in this

[3] Ameren Missouri had previously collected renewable energy standard costs entirely as part of a Commission authorized Renewable Energy Standard ("RES") Accounting Authority Order ("AAO") that was authorized by the Commission as part of Ameren Missouri Case Nos. ER-2011-0028 and ER-2012-0166. As part of Ameren Missouri Case Nos. ER-2019-0335 and ER-2020-0086, the Commission first authorized Ameren Missouri to collect renewable energy standard eligible costs through the RESRAM rider. RES compliance retail rate impact on average retail customer rates may not exceed more than 1% as detailed in 4 CSR 240-20.100-(5). A limited portion of Ameren Missouri's renewable energy standard costs continues to be recovered through the previously authorized RES AAO.

rate proceeding. Please refer to the direct and rebuttal testimony of Staff witness Peter Chari of the Commission's Financial Analysis Department for a complete discussion of Staff's recommendation for a reasonable and appropriate rate of return for Ameren Missouri's electric operations.

REGULATORY LAG

Q. What is regulatory lag?

A. Regulatory lag refers to the time between when a utility experiences a change in cost or sales levels and when that change is recognized in the rates that the Commission allows a utility to charge its customers. One aspect of regulatory lag is that it works in both directions and can either increase or decrease a utility's actual earnings performance in between rate cases. It can be beneficial to customers, as well as to utilities. When a utility's costs increase or its revenues decrease over a period of time, regulatory lag will tend to reduce the utility's profits, adverse to the utility, unless other circumstances either completely offsets (reduces) or mitigates the cost increases or revenue declines. When costs are decreasing or revenues are increasing, regulatory lag will allow a utility to earn increased profits during the interval before the rates are changed by the Commission to address the decreased costs or increased revenues, which is a benefit to the utility. Of course, there can be offsets or mitigation to reduce the benefit to utilities, as well. Since regulatory lag works in both directions, it provides the utility with either a penalty or a reward under traditional cost of service ratemaking, where all costs are considered. This inherent penalty or reward system incentivizes a regulated utility to produce lower cost levels in between rate cases and to maximize efficiency.

Q. Does regulatory lag motivate a utility to act efficiently?

A. Yes. Regulators rely on regulatory lag as an important tool to provide an incentive to a utility to act efficiently. An excessive use of tracking mechanisms and rate riders reduces the incentive for the utility to seek out cost reductions because the utility is insulated from changes in costs and thereby may be able to maintain the utility's profits even when its costs increase. The more that utilities are insulated from the impacts of increased costs through riders and surcharges, the more business risk is shifted to utility customers. If a utility experiences an increase in expense that is being tracked for typical costs authorized by the Commission, its financial results will not be adversely impacted because the impacts are captured on the balance sheet for deferral treatment, with likely certainty of cost recovery. In the meantime, there will not be an overall reduction in earnings related to the increased cost, because the deferred cost is being recorded on the balance sheet to capture the increased cost. In this instance, the utility has less incentive to attempt to minimize any such cost increase for the tracked item. In addition, if a utility experiences a reduction in an expense that is being tracked, the financial result will not increase earnings as a result of the decreased cost level. Once again, the utility will have less incentive to seek out ways to reduce costs. Utilities may even be dis-incentivized to reduce costs if the benefit of those lower costs are quickly flowed to customers through special regulatory mechanisms outside of general rate cases.

Furthermore, the authorized use of trackers and rider mechanisms are types of exceptions to "single-issue ratemaking," in that while they are specifically designed to capture certain costs, they ignore other aspects of the utilities' operations that may be experiencing concurrent cost reductions. This means they are designed to capture changes in costs in between rate cases for one or more particular cost categories only, leaving out any increase in revenue

offsets or reductions to cost components not captured between rate cases by the utility. When too many trackers and special regulatory cost recovery approaches are allowed problems can result, as such approaches ignore the fundamental Missouri based ratemaking criteria of providing consideration and review of "all relevant factors" when setting rates. For example, a utility can recover certain costs through trackers and riders while also over-recovering other costs established in existing rates determined in the last rate case causing the utility to potentially earn above its authorized rate of return.

Examples of positive regulatory lag producing benefits for Missouri utilities have recently occurred with Spire Missouri, Inc., formerly Laclede Gas Company[4] and Evergy Metro, Inc., formerly Kansas City Power & Light Company[5] when both companies were involved in mergers.[6] Both of these utilities experienced significant cost savings through labor reductions and other costs reductions as a result of consolidation. However, much of those savings were captured, or retained by the utility for a period of time because rates set in prior rate cases did not reflect the labor cost savings.

Q. Please explain the Missouri ratemaking criteria which requires a consideration of "all relevant factors."

A. The Missouri Supreme Court ruling in State ex rel. United Consumers Council of Missouri v. Public Service Commission, 585 S.W. 2d 41 (Mo. Banc 1979) ("UCCM")

[4] Laclede Gas Company operating as Spire Missouri, Inc., d/b/a Spire.
[5] Kansas City Power & Light Company now operating as Evergy Metro, Inc., d/b/a Evergy Missouri Metro.
[6] Laclede Gas Company and Laclede Group, Inc. acquired Southern Union Company's operating division known as Missouri Gas Energy as part of Case No. GM-2013-0254. This Commission ordered a rate reduction for Spire Missouri – East in Case Nos. GR-2017-0215 and for Spire Missouri-West in Case No. GR-2017-0216. Great Plains Energy Incorporated, the holding company for Kansas City Power & Light acquired Westar, Inc. as part of Case No. EM-2017-0226. Kansas City Power & Light experienced a rate decrease in Case No. ER-2018-0145 and Kansas City Power & Light Greater Missouri Operations experienced a rate decrease in Case No. ER-2018-0146.

explained the "all relevant factors" requirement that must be applied in the context of any general rate case, whether it is a "file and suspend" rate increase request case made by the utility or an earnings complaint case requested by other parties. In order to meet the UCCM standard, a complete review and audit of the utility's books and records and an assessment of its operations that takes into account all revenues, expenses, investment and rate of return must be addressed when attempting to change rates. Anything less than this type of review that takes into consideration all relevant factors in the determination of permanent rates might represent a form of "single-issue" ratemaking that is prohibited barring specific legislation which permits special rate treatment of certain items. In other words, the inclusion of certain impacts on the revenue requirement to the exclusion of other impacts, results in a "mismatch" of the revenue requirement.

Q. How has the Commission addressed the need to include all relevant factors for purposes of setting permanent rates through use of a test year?

A. The Commission has addressed this matter on a number of occasions. Specifically, in its Report and Order in a 1983 general rate case involving Kansas City Power & Light Company ("KCPL"), Case No. ER-83-49, the Commission stated the purpose of using a test year:

> The purpose of using a test year is to create or construct a reasonable expected level of earnings, expenses and investments during the future period in which the rates, to be determined herein, will be in effect. All of the aspects of the test year operations may be adjusted upward or downward to exclude unusual or unreasonable items, or include unusual items, by amortization or otherwise, in order to arrive at a proper allowable level of all of the elements of the Company's operations. The Commission has generally attempted to establish those levels at

> a time as close as possible to the period when the rates in question will be in effect.[7]

This concept of developing a revenue requirement calculation based on a consideration of all relevant factors has been a long-standing approach practiced by the Commission for purposes of determining permanent rates in Missouri.

BUSINESS RISK

Q. Generally speaking what is business risk for a regulated utility?

A. Business risk refers to the uncertainty linked to the operating cash flows of the utility. Business risk is multi-faceted and includes factors affecting revenues, expenses, and investment costs that could reduce a utility's profit level. In general, a utility with a certificated service area that has the ability to request changes in rates to cover changes in costs and to provide an opportunity to earn a fair return on investment has far less risk than a business or industry that has no such safeguards.[8] For example, local and regionally owned grocery stores must compete with other nearby nationwide discount retailers for a customer's purchase of groceries. Most price sensitive consumers will shop at the store that has the same products but at lower prices. Likewise, if two nearby gas stations have different pricing for gasoline, most price sensitive consumers who need to purchase gasoline will opt to fill their vehicles at the filling station with the lowest price. On the other hand, a regulated utility's customers are captive customers that have, for the most part, no practical choice other than to accept utility

[7] *In the Matter of Kansas City Power & Light Company, 26 Mo.P.S.C. (N.S.) 104, 109 (1983).*

[8] A few specific examples of safeguards that benefit Ameren Missouri include the opportunity to earn a Commission authorized rate of return on investment, deferral accounting mechanisms such as PISA, riders such as the Fuel and Purchased Power Adjustment Clause ("FAC") and the Missouri Energy Efficiency Investment Act ("MEEIA") rider that provide cost recovery protections.

service and utility rates in the area in which they live or do business. Thus, most utility customers are captive to one utility service provider in the area where they live.

STAFF RESPONSE TO AMEREN MISSOURI ASSESSMENT OF BUSINESS RISK AND OTHER CONSIDERATIONS

Q. Please summarize Ms. Bulkley's direct testimony section that addresses business risk and other considerations.

A. Ms. Bulkley provides a brief summary of PISA and RESRAM, which are two of Ameren Missouri's most recently implemented and key regulatory lag mitigation mechanisms that were previously established by the Missouri Legislature. Generally, Ms. Bulkley highlights her perceived limitations of the PISA and RESRAM mechanisms and therefore asserts that Ameren Missouri's business risk has not been reduced by the implementation of PISA or RESRAM in comparison to a proxy group of 13 electric utilities that she selected.[9] Ms. Bulkley postulates that Ameren Missouri's implementation of PISA and RESRAM does not make Ameren Missouri less risky than its peers.[10] Instead, Ms. Bulkley argues that despite the implementation of PISA and RESRAM, Ameren Missouri has greater risk relative to her proxy group in terms of regulatory treatment because, in part, Ameren Missouri is unable to include Construction Work in Progress ("CWIP") in rate base among other alleged shortcomings as some other jurisdictions allow. Ms. Bulkley's other concerns about PISA and RESRAM center on her perceived failure of these mechanisms to entirely eliminate all regulatory lag or to provide immediate cash flow for new construction related costs. Ms. Bulkley concedes that Ameren Missouri's fuel adjustment clause ("Fuel Clause" or

[9] For a listing of the proxy group, see Ms. Bulkley's direct testimony at pages 33-34.
[10] On page 56, lines 18-20 of her direct testimony, Ms. Bulkley states that "…the threshold question is not whether PISA reduces the risk of Ameren Missouri, but rather, is Ameren Missouri's risk reduced below that of the proxy group."

"FAC") is a comparable mechanism to what all of the companies in Ameren Missouri's proxy group also have; however this is not enough to offset her overall concerns. Finally, Ms. Bulkley concludes that since Ameren Missouri is not able to take advantage of other regulatory lag reducing mechanisms such as CWIP in rate base, forecasted test years, use of electric revenue decoupling mechanisms that mitigate volumetric risk, or formula rates, that it appears to her that Ameren Missouri faces somewhat higher regulatory risk than her selected proxy group.

Q. Does Staff agree with Ameren Missouri's position outlined in Ms. Bulkley's direct testimony regarding business risk?

A. No. It is Staff's position that because Ameren Missouri has implemented the PISA and RESRAM recovery mechanisms, Ameren Missouri's business risk has certainly been reduced in absolute terms, and in addition Ameren Missouri's business risk can reasonably be assumed to now be lower in relative terms compared to its utility peers.

Q. Should this Commission take this reduced business risk into consideration in the determination of a reasonable and appropriate rate of return for Ameren Missouri?

A. Yes. Staff is not aware of any policy or statutory impediment to the Commission doing so in relation to the impact of the recent incorporation of the PISA and RESRAM mechanisms into Ameren Missouri's ratemaking.

Q. Please respond to Ms. Bulkley's observation that PISA does not make Ameren Missouri less risky than its peers.

A. I have not assessed other aspects of Ameren Missouri's business risk nor have I conducted any comparison of Ameren Missouri with any of its peers and therefore would refer any questions regarding those matters to Staff witness Peter Chari. My testimony will address Ms. Bulkley's statements only from an accounting perspective. My rebuttal testimony focuses

on my review of PISA and RESRAM. I will also provide high level discussion of various other trackers and riders that are available to Ameren Missouri.

Ameren Missouri's business risk has been reduced because of the implementation of both PISA and RESRAM. These recovery mechanisms have certainly reduced the impact of regulatory lag that exists by enabling Ameren Missouri to defer and later recover significant amounts of investment related costs associated with eligible PISA investment as well as providing for a more immediate recovery of eligible renewable costs through the implementation of RESRAM.

Q. What has been the impact of PISA mechanisms since the time that Ameren Missouri first implemented PISA?

A. As part of the prior electric rate case, Case No. ER-2019-0335, during the period covering September 1, 2018 through December 31, 2019 Ameren Missouri deferred approximately $51.5 million of investment related costs associated with eligible PISA investment. The Commission authorized a $2.6 million annual recovery of this deferred balance over a 20 year period beginning with the April 1, 2020 effective date of rates, with the unamortized balance included in rate base. During that same time period, Ameren Missouri completed approximately $1.47 billion in total investment of which $1.41 billion was PISA eligible investment.[11] This means, during the prior rate case, that the vast majority of Ameren Missouri's investment during this time period, approximately 96%, was eligible for the prescribed 85% recovery of all PISA investment related costs.[12] PISA has provided a substantial boost to Ameren Missouri's earnings that did not exist previously. As part of rates established

[11] Source: Ameren Missouri response to Staff Data Request No. 0233, ER-2019-0335 and Ameren Missouri workpapers.
[12] Ibid.

in the electric last rate case Ameren Missouri's received an approximate $6.8 million earnings benefit.[13] The chart below summarizes the "return of" and "return on" the eligible PISA investment ending December 31, 2019 as well as the revenue requirement impact that Ameren Missouri continues to collect annually in current Commission authorized rates.

Electric plant placed in-service	$ 1,469,757,487
Less: New Business	$ (56,266,943)
Total qualifying electric plant	$ 1,413,490,544[14]
Less: Assets depreciated to clearing accounts	$ (10,920,121)
Less: Retirements of plant related to in-service additions	$ (164,821,183)
Total Plant for Deferred Depreciation	$ 1,237,749,240

Total qualifying electric plant (from above)	$ 1,413,490,544
Less: Change in accumulated depreciation	$ (648,436,332)
Less: Marginal increase in ADIT	$ 16,853,667
Qualifying electric plant rate base for cost of capital return	$ 781,907,879

Depreciation Recovery	$ 25,839,676
Depreciation Recovery: Carrying Cost Recovery	$ 990,945
Equity + Carrying Cost Recovery	$ 10,782,687
Debt + Carrying Cost Recovery	$ 13,894,210
Total Deferral at December 31, 2019	$ 51,507,518
Revenue Requirement Impact	$6,842,796

Once rates are reestablished by the Commission in this rate proceeding, the earnings benefit pertaining to Ameren Missouri's first PISA deferral will be approximately $6.5 million annually.[15]

[13] This calculation was based upon Staff's midpoint rate of return and capital structure as recommended in Case No. ER-2019-0335.
[14] $1,413,490,544 / $1,469,757,487 = 96.2% of investment eligible for PISA treatment.
[15] Based upon a September 30, 2021 balance of the first PISA deferral under Staff's midpoint rate of return and capital structure recommended in Case No. ER-2021-0240.

As part of the current rate proceeding, Case No. ER-2021-0240, during the period covering January 1, 2020 through June 30, 2021, Ameren Missouri deferred approximately $111.8 million of investment related costs associated with eligible PISA investment. This deferral amount will continue to grow through the September 30, 2021 true-up cutoff date that was established by the Commission. The final deferral balance will amortized over a 20 year period beginning with the effective date of rates in this rate proceeding, with the unamortized balance included in rate base. During the period covering January 1, 2020 through June 30, 2021 Ameren Missouri completed approximately $2.58 billion in total investment of which $2.51 billion was PISA eligible investment.[16] As part of this rate case, through June 30, 2021, approximately 97% was eligible for the prescribed 85% recovery of PISA investment related costs. PISA will provide an even larger boost to Ameren Missouri's earnings as part of rates to be established by the Commission in this rate proceeding. Through June 30, 2021, the actual PISA deferral balance will create an approximate $14.8 million annual earnings benefit going forward. Based upon Ameren Missouri's estimated September 30, 2021 ** [redacted] ** The chart below summarizes the "return of" and "return on" the eligible PISA investment ending June 30, 2021 as well as the revenue requirement impact that Ameren Missouri will collect annually in rates that will be authorized by the Commission in this rate proceeding.

[16] Source: Ameren Missouri response to Staff Data Request Nos. 0307, 0353, 0354 and Ameren Missouri workpapers.

Electric plant placed in-service	$ 2,575,236,666
Less: New Business	$ (68,293,923)
Total qualifying electric plant	$ 2,506,942,743[17]
Less: Assets depreciated to clearing accounts	$ (18,917,926)
Less: Retirements of plant related to in-service additions	$ (198,457,152)
Total Plant for Deferred Depreciation	$ 2,289,567,665

Total qualifying electric plant (from above)	$ 2,506,942,743
Less: Change in accumulated depreciation	$ (809,635,073)
Less: Marginal increase in ADIT	$ (2,463,303)
Qualifying electric plant rate base for cost of capital return	$ 1,694,844,367

Depreciation Recovery	$ 53,586,172
Depreciation Recovery: Carrying Cost Recovery	$ 1,866,942
Equity + CC Recovery	$ 24,675,996
Debt + CC Recovery	$ 31,714,894
Total Deferral at June 30, 2021	$ 111,844,004
Revenue Requirement Impact	$14,778,008

The chart below summarizes the earnings impact for Ameren Missouri.

Revenue Requirement Impact – PISA 1 Deferral at December 31, 2019	$6,842,796
Revenue Requirement Impact – PISA 1 Deferral at September 30, 2021	$6,482,612
Revenue Requirement Impact – PISA 2 Deferral at June 30, 2021 (Actual)	$14,778,008
Revenue Requirement Impact – PISA 2 Deferral at September 30, 2021 (Estimated)	** [redacted] **

The key takeaway from these charts and the preceding discussion is that Ameren Missouri's first PISA deferral will result in an approximate $6.5 million of earnings beginning when rates take effect in this rate case. Based on June 30, 2021 actual results Ameren Missouri has already

[17] $2,506,942,743/$2,575,236,666 = 97.4% of investment eligible for PISA.

accumulated an approximate $14.8 million annual boost to earnings for the second PISA deferral. If Ameren Missouri's second PISA deferral balance estimate at September 30, 2021 is accurate, Ameren Missouri will stand to collect ** [redacted] ** that would not have existed absent election of the PISA mechanism. This is clearly a substantial earnings benefit for Ameren Missouri in terms of recovery for PISA eligible investment.[18] As part of the true-up audit, Staff will provide the actual revenue requirement impact of second PISA deferrals in Surrebuttal / True-Up Direct testimony that will be filed before the Commission on November 5, 2021.

Q. What has been the impact of the RESRAM rider, since the time that Ameren Missouri first elected RESRAM recovery?

A. The Commission has authorized two RESRAM tariffs for Ameren Missouri. In Case No. ER-2020-0086, the Commission authorized Ameren Missouri to collect approximately $14.1 million to recover RES costs that were incurred during the first accumulation period covering January 1, 2019 through July 31, 2019. The Commission authorized Ameren Missouri to collect this $14.1 million amount during the period covering February 1, 2020 and through January 31, 2021. Ameren Missouri's second accumulation period RESRAM costs that were incurred during the period covering August 1, 2020 through July 31, 2020 were addressed by the Commission as part of Case No. ER-2021-0090. As part of this case, the Commission authorized Ameren Missouri to collect approximately $5.1 million from ratepayers, during the period covering February 1, 2021 through January 31, 2022.

[18] Recovery time period addressed PISA eligible investment during the 37 month period covering September 1, 2018 through September 30, 2021.

As part of Case No. ER-2022-0091, the Commission will address Ameren Missouri's third accumulation period of RESRAM costs that were incurred during the period covering August 1, 2020 through July 31, 2021. A Commission ruling on this case is not anticipated until December 2021.

Q. What are Ameren Missouri's plans for new capital investment?

A On February 18, 2021 Ameren Missouri submitted a five year capital plan that in Case No. EO-2019-0044. This plan indicates that ** [redacted] [19] [redacted] **

Capital Investment

Year	$ of Investment
2019 actual	** [redacted] **
2020[20] actual	** [redacted] **
2021[21] expected	** [redacted] **
2022 expected	** [redacted] **
2023	** [redacted] **
2024	** [redacted] **
2025	** [redacted] **
Total expected 2021 - 2025	** [redacted] **

[19] Assuming Ameren Missouri receives Commission approval to extend PISA through 2028.

[20] ** [redacted] **

[21] ** [redacted] **

Q. Please respond to Ms. Bulkley's concern that PISA and RESRAM do not eliminate regulatory lag.

A. While neither the PISA nor RESRAM mechanism entirely eliminates regulatory lag, they do significantly reduce it. By not recognizing this reduction of regulatory lag, Ameren Missouri witness Bulkley ignores that it recovers 85% of regulatory lag impacts of all PISA related investments regardless of when construction is completed. The PISA mechanism protects earnings of the Company by deferring the impacts of added plant additions without capturing any corresponding reduction in costs associated with adding new plant absent such deferral treatment. In fact, PISA treatment allows a deferral of cost impacts that the qualified plant would have had on earnings absent this deferral mechanism. Earnings are immediately protected, because PISA eligible amounts are deferred on the balance sheet as a regulatory asset. Ameren Missouri will also recover these deferred "costs" over the life of the PISA qualified plant. Thus, a significant, immediate and long-term benefit to Ameren Missouri shareholders now exists.

The RESRAM mechanism provides more immediate cash flow and profits for Ameren Missouri between rate cases and mitigates the regulatory lag impact for costs incurred to meet the Missouri Renewable Energy Standard ("RES"). Ameren Missouri has purchased significant amounts of capital investment in wind generation and is expecting to invest significant amounts in solar energy generation in the future. RESRAM recovery will provide cash flow and support profits in between rate cases for significant planned investments for qualified renewables in years to come.

Finally, Ameren Missouri now has a great deal of flexibility in how it chooses to recover renewable capital investment related costs. Ameren Missouri can choose to recover renewable

capital investment related costs as well as renewable operating expenses simply by flowing the costs entirely through the RESRAM. Alternatively, Ameren Missouri can recover 85% of the renewable capital investment related costs through PISA and then additionally recover the remaining 15% of these renewable investment related costs through the RESRAM. This provides Ameren Missouri with the ability to recover these costs in multiple ways based upon timing of the completion of such projects as well as other circumstances.

Q. On page 58, lines 2 through 8, of her direct testimony Ms. Bulkley states that PISA may expire in 2023, if not extended. She also mentions that if Ameren Missouri's rates escalated to a level that exceeded the rate cap of 2.85 percent compound annual growth rate[22] ("CAGR") then Ameren Missouri would no longer benefit from the mechanism. What is Staff's response?

A. Ms. Bulkley's statement is correct in some respects but her testimony is ultimately speculative. It is true that PISA would expire after December 31, 2023 if Ameren Missouri did not receive approval from the Commission to extend PISA through December 31, 2028. However, it is not accurate to say that "… if Ameren Missouri were to exceed the 2.85% rate cap, it would no longer benefit from the mechanism."

Q. How can Ameren Missouri benefit from PISA if the 2.85% CAGR cap is exceeded?

A. If the 2.85% CAGR is exceeded due to operation of the FAC or the RESRAM, Ameren Missouri would still be allowed to defer the amount of FAC and RESRAM recoveries that caused the CAGR to exceed the 2.85% CAGR cap as a regulatory asset. As part of a

[22] As compared to rates that were established by the Commission as part of Case No. ER-2016-0179, which went into effect on April 1, 2017.

subsequent rate proceeding, Ameren Missouri could seek recovery from the Commission through an amortization of this regulatory asset balance that would be established as part of base rates in that case.[23] If Ameren Missouri continued to exceed the 2.85% CAGR in the subsequent rate case the regulatory asset deferral balance would remain on Ameren Missouri's balance sheet until such time that an amortization would be appropriate to include in permanent rates.

Q. Has Ameren Missouri evaluated whether it will be able to stay below the 2.85% CAGR rate cap?

A. ** [redacted][24] **

Q. Please respond to Ms. Bulkley's complaint, found on page 58, lines 17 through 21, where she states that Ameren Missouri does not have the ability to include CWIP in rates through its PISA mechanism.

A. I have not performed any assessment of CWIP ratemaking allowed in other states. In November 1976, Missouri passed a referendum prohibiting electric utilities from including CWIP in customers' current rates while under construction. This law is commonly referred to as "Proposition 1" and, in effect, does not allow utilities to receive cost recovery of CWIP until such time that the plant or capital investment is fully operational and used for service.[25] The intention of this law was to protect customers from being forced to pay for capital

[23] As stated in SB 564 on page 19, lines 41-55 and page 20, lines 56-71.

[24] ** [redacted] **

[25] Section 393.135, RSMo (2016) Charges based on nonoperational property of electrical corporation prohibited. Any charge made or demanded by an electrical corporation for service, or in connection therewith, which is based on the costs of construction in progress upon any existing or new facility of the electrical corporation, or any other cost associated with owning, operating, maintaining, or financing any property before it is fully operational and used for service, is unjust and unreasonable, and is prohibited.

investment that is not capable of providing utility service and therefore would not provide an actual benefit to customers.

Q. What is CWIP and how is it accounted for by electric utilities?

A. In general, CWIP represents the costs of construction associated with projects that are not yet in-service and therefore not capable of providing electric utility service to customers during construction. The Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts prescribes the following accounting treatment in Account 107 for these costs:

> A. This account shall include the total of the balances of work orders for electric plant in process of construction.
>
> B. Work orders shall be cleared from this account as soon as practicable after completion of the job. Further, if a project, such as a hydroelectric project, a steam station or a transmission line, is designed to consist of two or more units or circuits which may be placed in service at different dates, any expenditures which are common to and which will be used in the operation of the project as a whole shall be included in electric plant in service upon the completion and the readiness for service of the first unit. Any expenditures which are identified exclusively with units of property not yet in service shall be included in this account.
>
> C. Expenditures on research, development, and demonstration projects for construction of utility facilities are to be included in a separate subdivision in this account. Records must be maintained to show separately each project along with complete detail of the nature and purpose of the research, development, and demonstration project together with the related costs.

Q. Do utilities ever recover CWIP?

A. Yes. While CWIP is not ever included in permanent rates, in Missouri, as determined by the Commission in any particular rate case, the accumulated CWIP balances are included in rate base when the construction is completed and the plant is placed into service.

Once plant is completed and customers start to benefit, the related costs are included in the rate structure of the utility through a rate request. While the costs of the newly completed plant are "deferred" during the time of construction, utilities are made whole through the accrual of an allowance for funds used during construction ("AFUDC"). AFUDC represents a deferred "return" mechanism recognizing the investors' cost of money during the duration of the construction project. The plant construction costs and the related AFUDC are included in the final plant costs that are ultimately included in rate base as part of a general rate case once it is fully operational and used for service.

Q. How do utilities recover these deferred construction costs?

A. When construction is completed, the construction costs accounted for in CWIP are "transferred" to plant in service. This newly completed plant is included in rate base used to determine the appropriate utility rates charged to customers. While in rate base, the completed plant is allowed a current return recovery, known as a return "on" plant. In addition, the completed plant is allowed to be depreciated, which allows a return "of" the investment to its investors and shareholders from the utility customers who benefit from the use of this plant. Thus, utilities may recover through rates a return "on" and return "of" plant throughout the investments useful life of utility service to customers.

Q. Would Staff be supportive of a utility's attempt in Missouri to recover CWIP in customer rates before plant is placed in service?

A. No. Beyond the fact that legal counsel advises the recovery of CWIP in current utility rates is not permitted, as determined by Missouri voters in 1976, allowing CWIP recovery in rates would produce unfair results for customers because:

1. It is not appropriate to charge customers for investment costs for an item such as an electric generating facility that is not capable of providing utility service during the time the plant is being constructed— in essence, customers should not have to pay for plant that is not capable of providing utility service. This construction project that is not capable of providing utility service to customers is not needed until completion. Only when customers start benefiting from use of the completed plant should rate recovery start;

2. Including CWIP in current rates prior to completion increases the likelihood that a utility would construct unnecessary investment-- including CWIP in existing rate structure provides utilities incentives to complete plant that is determined not to be needed;

3. CWIP in current rates can create intergenerational inequities[26] and;

4. Including CWIP in current rates shifts risk from the utility to its customers by requiring customers to pay for plant that may never be completed. Utilities are required to plan and build sufficient facilities to meet existing customer needs, receiving a financial return for accepting this risk. By shifting risk of construction projects to utility customers, there is not typically a corresponding reduction in the utility's expected and requested rates of return. Thus, utility customers will likely pay more in rates for having to accept this additional risk.[27]

None of these consequences are desirable outcomes for Missouri ratepayers.

[26] Intergenerational inequity in that if CWIP were collected in current rates, the utility would get the benefit of collecting the construction costs for investment that is not yet in-service today while at the same time the customers would be receiving no benefits until a later time, if ever.

[27] For example, South Carolina Electric & Gas Company (owned by Dominion Energy) ratepayers paid approximately $2.0 billion in rates for a nuclear power plant located near Jenkinsville, South Carolina that will not be completed. In Georgia, ratepayers are also billed for CWIP. In Georgia, since 2011, Georgia Power (a subsidiary of Southern Company) ratepayers have been paying for construction of two additional reactors at an existing nuclear power plant facility. This project has experienced delays and cost overruns. Originally planned for completion in 2017, the current timeline for completion for each of the two new reactors has been pushed back to second quarter 2022 and first quarter 2023.

Q. Ms. Bulkley states at page 62 of her direct testimony that Missouri utility rates are determined using a "historic test year with limited number of known and measurable changes through a true-up period" and continues on page 63 stating, "Forecasted test years… produce cost estimates that are more reflective of future costs which results in more accurate recovery of incurred costs…" Do you agree with Ms. Bulkley?

A. No. The Commission has used historic test years to determine utility rates for decades. Historic test years represent twelve months of "known and measurable" data that reflects actual, audited financial information. The Commission has upheld this known and measurable approach that actual, audited results represents the most accurate form of ratemaking. In Missouri, the Staff routinely performs annualization, normalization and proposed disallowance adjustments to correct abnormalities that may exist in test year results. In addition, the Commission uses a variety of methods and procedures to ensure the very latest revenue and cost information is used to determine utility rates including updating the test year and completing a true-up audit. Throughout the process of adjusting the test year, performing an update and true-up, the appropriate relationship between revenues, expenses, and rate base must be maintained, often referred to as the "matching principle." Essentially, this means revenue requirement must be developed by ensuring that all known and measurable changes influencing revenues, expenses and investment occur at specific point in time. The test year, any update period and true-up audit cutoff is consistently determined early in the process by this Commission through a Procedural Order in every rate case. During the true-up process various annualization and normalization adjustments are made to the test year results, all with the intent to reflect the best and most recent information available to the Commission to determine rates as close to the time when those rates will be in effect. In fact, the result of this

lengthy and time consuming auditing process is to reduce the impacts of regulatory lag. Also, a variety of riders and mechanisms are implemented by the Commission to set rates which significantly reduces regulatory lag. True-ups are frequently used to address changes to revenues and costs to minimize the impact of regulatory lag. Once the cost of service analysis is completed updating the test year results, the majority of the revenue, expense and investment cost impacts are examined and updated to current levels. All of this provides the Commission with the ability to set rates based on an adjusted historic test year that provides an appropriate forward looking focus as it has done for many years.

CURRENT AMEREN MISSOURI REGULATORY MECHANISMS

Q. Do customers pay in rates for costs that utilities request special accounting treatment?

A. Yes. Frequently, utilities such as Ameren Missouri request from the Commission what is referred to as deferral cost recovery. Often circumstances warrant costs that ordinarily would be treated currently as expenses, to be deferred. The Commission may authorize Ameren Missouri to defer certain costs with an opportunity to request rate recovery in the future.

Q. What kinds of costs does the Commission typically allow deferral treatment?

A. There are situations that may occur during the normal operations of the utility where events happen causing costs to rise above normal levels, and above those in current rates. An ice storm is an example, where the utility is required to immediately repair damage to the transmission and distribution infrastructure, restoring power as soon as is capable. Reasonable and prudent costs to repair damage from storms, damage to equipment and facilities to restore

service are allowed this special accounting treatment, with opportunity for cost recovery in future rate requests.

Q. Does Ameren Missouri have deferred costs that the Commission has authorized the use of deferred cost recovery?

A. Yes. Ameren Missouri has many such deferrals currently in existing rates. The Company has regulatory mechanisms and special accounting treatment that the Commission currently authorizes to mitigate the impacts of regulatory lag.

Ameren Missouri is currently using a number of differing approaches that reduce business risk with regard to cost recovery for a variety of different categories of revenue, expense and investment related costs. Some of these approaches address changes in revenue, expense and investment related costs that occur in between rate cases through a deferral that is recorded on the balance sheet. Subsequently, the Commission has authorized the recovery from customers of the deferrals through an amortization, sometimes with rate base treatment, as part of establishing permanent rates in a general rate case. In addition, Ameren Missouri is allowed to pass on changes in fuel related costs that occur in between rate cases as part of a special rider. Ameren Missouri may also use riders to simply pass certain costs on to the customers outside of a rate case under established rules approved by the Commission. The following is a listing of the approaches that Ameren Missouri has employed to mitigate regulatory lag impacts and to provide more certainty with regard to cost recovery and profitability that are in addition to the previously discussed use of PISA and RESRAM:

1. Fuel Adjustment Clause ("FAC") Rider;

2. Missouri Energy Efficiency Investment Act ("MEEIA") Rider;

3. Pension and Other Post Retirement Employee Benefits ("OPEBS") Tracker - Regulatory Asset and Liability Deferral and Amortization;

4. Various Trackers - Regulatory Asset and Liability Deferrals and Amortizations;

5. Timing of rate cases to address changes in payroll and property tax expense;

6. Callaway Nuclear Power Plant Decommissioning Cost Recovery.

Please refer to Confidential Schedule JPC-r2 for a more detailed explanation of these mechanisms, riders and approaches that help mitigate the impacts of regulatory lag as well as a summary of earnings protections that existed during the test year with regard to Ameren Missouri's total O&M. Confidential Schedule JPC-r2 demonstrates that approximately ** [redacted] ** of Ameren Missouri's test year O&M expense was subject to tracker or rider protection.

ELECTRIC UTILITY ENVIRONMENTAL COST RECOVERY MECHANISM ("ECRM")

Q. Are there any other riders available to Ameren Missouri that it has not yet implemented?

A. Yes. Ameren Missouri has not requested approval for an ECRM as part of this rate case. An ECRM would allow recovery of an electric utility's prudently incurred costs directly related to compliance with federal, state or local environmental laws, rules or regulations. An ECRM would need to first be approved by the Commission in a general rate case and, if approved, recovery would be permitted for net increases or net decreases in actual prudently incurred environmental costs compared to environmental cost levels that were

included in permanent rates. While the ECRM mechanism has been available to electric utilities operating in Missouri since 2009, Ameren Missouri has never implemented the use of this recovery mechanism up to this point.

SECURITIZATION

Q. Is there any provision contained in the new Securitization legislation that you would like to address?

A. Yes. The legislation specifically states the following:

> The commission may not, directly or indirectly, consider the existence of securitized utility tariff bonds or the potential use of securitized utility tariff bond financing proceeds in determining the electric corporation's authorized rate of return used to determine the electrical corporation's revenue requirement used to set its rates.

CONCLUSION

Q. Please summarize Staff's recommendation with regard to business risk.

A. Ameren Missouri enjoys various and considerable protections against the impacts of regulatory lag, and the number of those protections have increased over time. It is important to note that the Commission establishes rates with the intended goal of providing Ameren Missouri with a reasonable opportunity, not a guarantee, to earn a fair rate of return. The recent implementation of PISA and RESRAM have provided additional opportunities to Ameren Missouri to reduce business risk and mitigate regulatory lag. Because of this, Staff recommends that the Commission accept Staff witness Peter Chari's recommendations with regard to rate of return.

Q. Does this conclude your rebuttal 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 JOHN P. CASSIDY

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

COMES NOW JOHN P. CASSIDY and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of John P. Cassidy*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

John P. Cassidy

JOHN P. CASSIDY

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of St. Louis, State of Missouri, at my office in St. Louis, on this 14th day of October 2021.

LISA M. FERGUSON
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: June 23, 2024
Commission Number: 16631502

Lisa M. Ferguson

Notary Public

JOHN P. CASSIDY

EDUCATIONAL AND EMPLOYMENT BACKGROUND AND CREDENTIALS

Position

I am a Utility Regulatory Supervisor in the Auditing Department, Commission Staff Division. 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, directed and coordinated audits and examinations of the books and records of utility companies operating within the State of Missouri. I have participated or sponsored testimony in rate cases, earnings complaint cases, mergers and acquisitions cases, accounting authority order applications and certificate of convenience and necessity applications. I have also supervised and 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

COMPANY	CASE NO.
Missouri Cities Water Company	**WR-91-172**

Payroll and Related
Pensions
OPEBS
Insurance Expense
Advertising Expense
Miscellaneous Expenses

Type of Testimony Filed: Direct and Surrebuttal

St. Louis County Water Company	**WR-91-361**

Tank Painting
Main Failures
Residue Removal
General Insurance Expense
PSC Assessment
Miscellaneous Expenses

Type of Testimony Filed: Direct

Southwestern Bell Telephone Company	**TC-93-224**

Advertising Expenses
Promotional Giveaways
Miscellaneous Expenses

Type of Testimony Filed: Direct and Surrebuttal

Laclede Gas Company	**GR-94-220**

Payroll and Payroll Taxes
Incentive Compensation
401 (K)
Dental and Vision Insurance
Data Processing

Type of Testimony Filed: Direct

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 KCP&L 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	CASE NO.
Union Electric Company d/b/a AmerenUE	**ER-2007-0002**

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

Missouri-American Water Company	**WR-2007-0216**

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

Type of Testimony Filed: Direct

Union Electric Company, d/b/a AmerenUE	**ER-2008-0318**

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

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 Taxes

Type of Testimony Filed: Direct and Surrebuttal

COMPANY	CASE NO.
Union Electric Company, d/b/a Ameren Missouri	**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 Ameren Missouri	**EA-2012-0281**

Costs Associated with Labadie Energy Center Expansion
Alternative Site Studies

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

Union Electric Company, d/b/a Ameren Missouri	**EC-2014-0223**

Complaint Case – Rate Levels

Type of Testimony Filed: Rebuttal and Surrebuttal

COMPANY	CASE NO.
Union Electric Company, d/b/a Ameren Missouri	**ER-2014-0258**

Report on Revenue Requirement Cost of Service
Overview of Staff's Filing
Demand Side Management Costs in Rate Base
Netting of Regulatory Assets and Liability Amortizations
New and Continuing Regulatory Asset and
Regulatory Liability Amortizations
Noranda Accounting Authority Order Lost Revenue Deferral
Energy Efficiency Regulatory Asset Amortizations
Renewable Energy Standard Costs
Renewable Energy Standard Accounting Authority Order –
Regulatory Asset/Liability Amortizations
Maryland Heights Energy Center Fuel Costs
Pioneer Prairie Wind Contract
Solar Rebates
Removal of Missouri Energy Efficiency Investment Act
Costs in Test Year
Callaway Nuclear Power Plant Relicensing Costs
Jurisdictional Allocations

Type of Testimony Filed: Direct, Rebuttal and Surrebuttal

Missouri-American Water Company	**WR-2015-0301**

Report on Revenue Requirement Cost of Service
Overview of Staff's Filing
True-Up Audit
ISRS Collections
Metering Issues

Type of Testimony Filed: Direct and Surrebuttal

COMPANY	CASE NO.
Union Electric Company, d/b/a Ameren Missouri	**ER-2016-0179**

Energy Efficiency / Demand Side Management Regulatory Assets
Energy Efficiency / Demand Side Management Regulatory Amortizations
Renewable Energy Standard Costs
Renewable Energy Standard AAO –Regulatory Asset / Liability Amortizations
Solar Rebates Regulatory Asset Balance Established in Case No. ER-2014-0258
Solar Rebates Regulatory Asset Balance Established in Case No. ER-2016-0179
Over / Under Collection of Solar Rebates
Noranda Lost Revenue Deferral and Amortization
Callaway Life Extension Costs and Regulatory Asset Amortization
Nuclear Safety Study Costs - Amortization
Netting of Regulatory Asset and Liability Amortizations in Case No. ER-2014-0258
Missouri Efficiency Investment Act Costs
Electric Vehicle Charging Stations

Type of Testimony Filed: Direct and Rebuttal

Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities	**GR-2018-0013**

Energy Efficiency and Residential Low Income Weatherization Assistance Regulatory Asset Included In Rate Base
Pension Regulatory Asset/Liability – Rate Base
OPEBS Regulatory Asset/Liability – Rate Base
Case No. GM-2012-0037 Rate Base Offsets
Transition and Transaction Costs
Hannibal Shop and Affiliate Lease
Rent and Lease Expense
Affiliate Transactions
Utility Costs –Hannibal Shop
Energy Efficiency Amortizations
Energy Efficiency and Residential Low Income Weatherization Assistance Funding Levels

Type of Testimony Filed: Direct and Surrebuttal/True-Up Direct

COMPANY	CASE NO.
Union Electric Company, d/b/a Ameren Missouri	**ER-2019-0335**

Plant-In-Service Accounting – Regulatory Asset Balance
Plant-In-Service Accounting - Amortization
Renewable Energy Credits
Emission Allowances
Netting Regulatory Assets and Liabilities – Rate Base
Netting Regulatory Assets and Liabilities – Amortization
Energy Efficiency / Demand Side Management
Regulatory Assets
Renewable Energy Standard Costs
Renewable Energy Standard AAO – Amortizations
Solar Rebates
Callaway Life Extension and Regulatory Asset Amortization
Nuclear Safety Study Costs – Amortization
Regulatory Lag Mitigation – Business Risk Reduction

Type of Testimony Filed: Direct and Rebuttal

OTHER MECHANISMS CURRENTLY USED BY AMEREN MISSOURI

1. FUEL ADJUSTMENT CLAUSE – "FAC"[1]

Ameren Missouri's FAC rider was first authorized by the Commission as part of Ameren Missouri rate case, Case No. ER-2008-0318 and the FAC tariff went into effect on March 1, 2009.[2] The FAC rider allows electric utilities to collect from customers, changes in fuel and purchased power costs net of fuel-related revenue in between rate cases. In each rate case, the Commission establishes a reasonable level of Net Base Energy Costs (NBEC) to be included in permanent rates. In simple terms, the NBEC includes fuel and purchased power costs, net of revenues collected by Ameren Missouri from energy and capacity sales[3] as authorized by the Midcontinent Independent System Operator ("MISO"). Upon the effective date of new rates established by the Commission in each rate case, the Rider FAC requires Ameren Missouri to track and recover 95% of the difference between the NBEC amount established in base rates compared to actual FAC costs or to return to ratepayers 95% of the change that are less than the NBEC level that was established in base rates. Ameren Missouri is permitted to keep or record as profit 5% of all tracked amounts that are ultimately lower than the NBEC level set in base rates. Likewise, Ameren Missouri is at risk for the 5% of all tracked amounts that exceed the NBEC level which produces an incentive to try to reduce fuel costs when possible. Finally, Ameren Missouri's FAC is "symmetrical" meaning that the utility benefits when NBEC costs increase and customers benefit when NBEC costs fall.

[1] Senate Bill 179 was passed by the General Assembly and became effective January 1, 2006. Section 386.266.12 RSMo

[2] Ameren Missouri requested permission from the Commission to implement a FAC mechanism as part of Case No. ER-2007-0002, however the Commission denied Ameren Missouri's request as explained in the Report and Order that was issued in that rate proceeding.

[3] Formerly known as off-system sales.

2. MISSSOURI ENERGY EFFICIENCY INVESTMENT ACT ("MEEIA") RIDER

In 2009, the Missouri legislature passed the MEEIA with an intended goal of reducing demand for electricity by allowing utilities to a) recoup the costs of subsidizing energy efficient products and services such as customer education programs, rebates and incentives; b) recover lost margin revenue resulting from lower retail sales due to programs; and c) receive an earnings opportunity based upon measured and verified energy and demand savings due to these programs. By reducing demand in electricity through energy conservation programs, Ameren Missouri would be able to delay investment in new generation in order to continue to meet customer demand.

Ameren Missouri first received approval for deferral accounting treatment for energy efficiency and demand-side management related program costs as part of Case No. ER-2008-0318. Today, these costs are sometimes referred to as "Pre-MEEIA" costs. Under this treatment, Ameren Missouri was allowed to defer all Pre-MEEIA costs as a regulatory asset and recover the costs through expense amortization in the context of setting rates in a general rate case. Ameren Missouri continued to receive this deferral accounting treatment for Pre-MEEIA costs as part of Case Nos. ER-2010-0036, ER-2012-0166, and ER-2014-0258[4]. As part of a case filed in 2012 (Case No. EO-2012-0142), Ameren Missouri requested approval for new demand-side management programs as well as plans to transition from Pre-MEEIA programs to a Commission approved three-year MEEIA program in 2013. All parties in Case No. EO-2012-0142 entered into a Unanimous Stipulation and Agreement Resolving Ameren Missouri's MEEIA Filing, which was approved by the Commission. The costs associated with this approved Stipulation were included in permanent rates in Ameren Missouri 2012 rate case, Case No. ER-2012-0166. Upon the

[4] Pre-MEEIA costs that were addressed in the 2014 rate case were costs that were incurred subsequent to the true-up cutoff in the 2012 rate case but prior to the establishment of a MEEIA tariff that was approved in ER-2012-0166.

effective date of rates in ER-2012-0166, the Commission discontinued the deferred regulatory asset and expense amortization approach.[5] As part of rates established in Case No. ER-2012-0166, an average of projected MEEIA program costs and lost margin revenues were included in permanent rates and were subject to true-up with any under-collections or over-collections of those amounts in rates being charged to or refunded to customers with interest in Ameren Missouri's general rate proceedings. The first Rider EEIC was established as part of Case No. EO-2014-0075 effective on January 27, 2014. The average of projected MEEIA program costs and lost margin revenue amounts included in permanent rates in Case No. ER-2012-0166 that were subject to true-up were addressed as part of the new Rider EEIC established by the Commission in Case No. EO-2014-0075. From that point forward MEEIA costs were collected by Ameren Missouri as part of the Rider EEIC outside of a general rate case.

The MEEIA rider provides recovery for a utility's energy efficiency program costs, and the "throughput disincentive" as a result of energy efficiency programs, as well as an earnings opportunity for measured and verified energy and demand savings as a result of energy efficiency programs. The MEEIA rider which encourages utilities to value demand-side investments equal to traditional investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs.[6] Cost of such programs as well as reductions in margin revenues are eligible for recovery through the MEEIA rider outside of a general rate case.

[5] The unamortized portion of some of these deferred amounts still exists today.
[6] Section 393.1075.3.

3. PENSION AND OPEBS TRACKERS - REGULATORY ASSET AND LIABILITY DEFERRALS AND AMORTIZATION

As part of Ameren Missouri Case No. ER-2007-0002[7] the Commission first approved tracking of changes in qualified Pension and OPEBs expense from levels established in permanent rates through a deferral account on the balance sheet and expense amortization for those differences in a subsequent rate proceeding.[8] This tracking mechanism has been used in every Ameren Missouri rate case since that time. The tracking mechanism is designed to provide exact recovery of all changes in pension and OPEBs expense over time. In other words, Ameren Missouri is shielded from all cost increases above those set in rates and rate payers are protected from all cost decreases below those set in rates that occur subsequent to the levels included in the Commission established permanent rates in each general rate case. During the twelve months ending December 31, 2020, Ameren Missouri recorded a contra (negative) qualified pension expense of ** [redacted] ** and a contra OPEB expense of ** [redacted]. ** These amounts represent actual costs during this period that are being tracked against levels that were established in the 2019 electric rate case. In addition, during the test year, Ameren Missouri recorded contra-expense annual amortization amounts for the pension and OPEB regulatory liabilities, respectively: ** [redacted] ** and ** [redacted]. ** In total this represents an approximate ** [redacted] ** protection for ratepayers that occurred during the test year. The pension and OPEB tracking provides two-way protection. Regulatory liability balances for pensions and OPEBs have existed since the 2012 rate case which has served as a protection to Ameren Missouri and its ratepayers.

[7] Ameren Missouri also received Commission approval for Pension and OPEB tracking for the Missouri gas utility portion of Pension and OPEB expense as part of Case No. GR-2007-0003.
[8] Deferrals may represent a regulatory asset or a regulatory liability depending upon whether plan costs were higher or lower than amounts established in permanent rates.

4. OTHER TRACKERS - REGULATORY ASSET AND LIABILITY DEFERRALS AND AMORTIZATIONS

Ameren Missouri has various non-Pension and OPEB regulatory asset and liability deferrals that are currently reflected in Ameren Missouri's permanent rates through expense amortization as result of the prior electric rate case. Collectively, Ameren Missouri recorded approximately $8.4 million for these various amortizations[9] during the test year. In addition, Ameren Missouri will begin to receive recovery, upon the effective date of rates in this proceeding, for additional cleaning costs, personal protective equipment, technology upgrades to assist remote work, some potential portion of write-offs of bad debt, other foregone revenues, etc. as part of the Commission approved deferral of these costs as part of the Coronavirus Pandemic ("COVID") AAO that was authorized by the Commission as part of Case No. EU-2021-0027.[10] Staff will determine the appropriate amount of ongoing amortization for these various amortizations as part of its true-audit. These regulatory assets and liabilities represent another form of deferral accounting treatment employed in Missouri that mitigates risk to Ameren Missouri and acts as a hedge against downward pressure to the Company's earnings.

Cost trackers and Accounting Authority Orders ("AAOs") represent exceptions to the traditional ratemaking rules for cost recovery. These types of tracker recovery approaches should be used with caution. Typically, AAO recovery has been allowed under "extraordinary" circumstances, usually involving the occurrence of natural disasters. Relevant criteria for trackers that must be assessed to determine if certain costs are extraordinary in nature and eligible for tracker treatment include the following: (A) the costs in question are largely outside of the control

[9] These amortizations include test year amounts for: Callaway Post Operations, Sioux Scrubbers construction accounting, Fukushima flood study, Callaway life extension, Keeping Current and Low Income, excess income tax tracker and a netting of various prior rate case amortizations.
[10] Also refer to Staff's Revenue Requirement Cost of Service Report, pages 5 through 8.

of the utility; (B) the costs are volatile and; (C) the costs are material and (D) costs that have no prior history.

5. TIMING OF RATE CASES TO ADDRESS CHANGES IN PAYROLL AND PROPERTY TAX EXPENSE

PAYROLL

Payroll is the largest cost category incurred by Ameren Missouri not fully covered by some type of cost recovery mechanism.[11] All Ameren Missouri wage and salary increase occur on January 1 of each year. Ameren Missouri can capture changes in this cost category by assessing all relevant factors in conjunction with wage and salary increase and during time periods when Ameren Missouri is hiring additional employees in order to provide safe and adequate utility service. Based upon this assessment Ameren Missouri can time the filing of rate case to capture all such changes as long as there are no cost reductions in other cost factors that do not already offset such payroll increases, in whole or in part, as it has done for decades.

PROPERTY TAX EXPENSE

Ordinarily, changes in property tax assessments which increase or on occasion decrease Ameren Missouri's property tax expense occur in December of each year, when the taxing authorities are paid. Like payroll, Ameren Missouri must consider all relevant factors as part of any changes in property tax expense that may occur.

6. DECOMMISSIONING RECOVERY FOR CALLAWAY NUCLEAR POWER PLANT

Ameren Missouri recorded approximately $6.8 million for Callaway decommissioning expense during the twelve months ending December 31, 2020. As a result of past legislation, the amount of nuclear decommissioning expense reflected in Ameren Missouri's rates is subject

[11] Portions of capitalized payroll are included in the PISA and RESRAM recovery mechanisms.

to change and adjustment outside of general rate cases. This amount goes into a trust fund annually to provide funding at the time this nuclear generating facility will be retired and/or dismantled.

AMEREN MISSOURI EARNINGS PROTECTION FOR O&M

During the test year ending December 31, 2020, Ameren Missouri recorded a total operation and maintenance ("O&M") expense of approximately ** [redacted] **[12] The following chart summarizes the O&M expense protections that existed during the test year.

O&M Cost Category	Actual Amount	Percentage of O&M Covered by Tracker/Rider	Percentage of O&M Not Covered by Tracker/Rider
Total O&M	** [redacted] **		
Less: FAC expense	** [redacted] **	** [redacted] **	
Less: MEEIA	** [redacted] **	** [redacted] **	
Less: Pension & OPEB Rebase Expense and Tracker Amortization	** [redacted] **	** [redacted] **	
Remaining O&M	** [redacted] **	** [redacted] **	** [redacted] **

Collectively, ** [redacted] ** of Ameren Missouri's total O&M was addressed by a rider or an ongoing tracker during the twelve months ending December 31, 2020.

[12] The Commission established the test year as part of its *ORDER SETTING PROCEDURAL SCHEDULE AND ADOPTING TEST YEAR* issued on June 9, 2021. The exact O&M is ** [redacted] **