Exhibit No.:	
Issues:	*Plant-in-Service Accounting; Lake of the Ozark Shoreline Management Revenues and Expenses; Storm Assistance Revenues; Renewable Energy Standard Costs; Income Taxes*
Witness:	*John P. Cassidy*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2012-0166*
Date Testimony Prepared:	*September 7, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

JOHN P. CASSIDY

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2012-0166

Jefferson City, Missouri
September 2012

***** Denotes Highly Confidential Information *****

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d/b/a Ameren Missouri

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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 Auditor V.

Q. Are you the same John P. Cassidy who filed direct testimony and sponsored the Staff's *Revenue Requirement Cost of Service Report* ("Report") that was filed on July 6, 2012 and also sponsored rebuttal testimony that was filed on August 14, 2012, as part of this rate proceeding?

A. Yes.

EXECUTIVE SUMMARY

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

A. My surrebuttal testimony will address some of the arguments that were made in support of the plant-in-service accounting proposal that was made by Union Electric Company, d/b/a Ameren Missouri ("Company" or "Ameren Missouri") witnesses Lynn M. Barnes and John J. Reed in their respective rebuttal testimony filings. I will address the rebuttal testimony of Company witness Gary S. Weiss with regard to shoreline management revenues and expense and renewable energy standard ("RES") costs. I will also address the rebuttal testimony of Company witness David N. Wakeman regarding inclusion of storm assistance revenue in the Company's proposed storm cost tracker. Finally, I will address Company witness James I. Warren with regard to the employee stock option ownership plan ("ESOP") tax deduction, as well as the issue related to the inclusion of construction work in process ("CWIP") related accumulated deferred income tax ("ADIT") balances.

PLANT-IN-SERVICE ACCOUNTING

Q. Please respond to the implication found in the rebuttal testimony of Company witness Lynn M. Barnes on page 18, lines 17 through 23, continuing through page 19, lines 1 through 3, that "...where the regulatory lag harms the Company (e.g., wage increase between rate cases, property tax increases between rate cases), the harm must be absorbed, but when regulatory lag benefits the Company, then there is an expectation that the benefit be returned to the ratepayer (versus being used to offset the negative impact on the Company of regulatory lag in other areas). Examples in this case include positions taken … on the Entergy refund and the property tax refund." Company witness John J. Reed echoes this sentiment at page 12, lines 9 through 20, of his rebuttal testimony.

A. These statements are simply wrong for reasons that have been previously stated in the section of my rebuttal testimony addressing this issue. Ms. Barnes and Mr. Reed are attempting to shift a substantial portion of Ameren Missouri's reasonable and normal business risk directly onto their ratepayers without reflecting any reduction in their proposed return-on-equity recommendation. The Company wishes to implement an unjustified single-issue ratemaking mechanism and to abandon longstanding ratemaking principles such as maintaining a proper relationship of revenue, expenses and rate base for the sake of maximizing its profits.

With regard to wage rate increases and property tax increases between rate cases, the Company knows when each of these increases is going to occur. Ameren Missouri's management employees typically receive increases during April and contract employees receive known increases at set intervals throughout the year. Property tax increases or decreases are known by November of each year. The Company also has complete control over the amount of management employee pay increases. Therefore, the Company can time its rate case filings to address the recovery of these costs if it believes these costs are material enough to trigger a rate case filing when taking into account all of the other relevant factors that must be considered.

The property tax refund that Ms. Barnes references was a result of Ameren Missouri's successful appeal of its 2010 property tax bill before the Missouri State Tax Commission. In Ameren Missouri's last rate proceeding, the Commission included in rates the amounts of property tax that Ameren Missouri had paid but had also appealed. Since there was a chance that Ameren Missouri would receive a refund as a result of this appeal, the Commission also indicated that it wanted these costs tracked. In fact, the Commission's *Report and Order* in Ameren Missouri Case No. ER-2011-0028 stated: "If Ameren Missouri does receive a tax refund, then the Commission would certainly expect that the company would return that refund to its customers who are ultimately paying the tax bill."

As part of Ameren Missouri Case No. ER-2008-0318 the Commission stated in its *Report and Order* that it required the Company to identify costs associated with obtaining potential Entergy equalization refunds and to identify the amount of refunds received, if any.

In Case No. ER-2010-0036, the Commission approved the First Non-Unanimous Stipulation and Agreement that was reached which in part required that: "AmerenUE shall continue to adhere to the Commission's Report and Order from Case No. ER-2008-0318 regarding tracking potential refunds of Entergy Charges." This is outlined in the Staff's July 6, 2012 Report on page 93, lines 1 through 15. The Staff maintains that Ameren Missouri's ratepayers are entitled to this refund of previous payments rather than Ameren's shareholders, because Ameren Missouri's ratepayers have previously paid a level of rates that were sufficient to allow recovery of the equalization charges that Ameren Missouri paid to Entergy, given that Ameren Missouri's management did not believe it necessary to file a rate case or to seek an accounting authority order ("AAO") to address payment of the Entergy equalization costs. The Staff further contends that ratepayers are entitled to receive this refund since Ameren Missouri has received recovery in rates for its external legal costs associated with obtaining this refund.

Q. Company witness Reed comments on page 10, lines 15 through 18, of his rebuttal testimony that: "…to the extent that the Company continues to experience severe storms…Ameren Missouri's future earnings will continue to fall short of the Company's authorized ROE..." Have Ameren Missouri's earnings been recently harmed by storms and their resulting costs?

A. No. As Staff witness Kofi A. Boateng's rebuttal testimony points out, Ameren Missouri has not suffered financial harm as a result of the non-labor operations and maintenance ("O&M") storm restoration costs that it has recently incurred. In fact, Staff's analysis of prior storm costs shows that from April 1, 2007, through May 31, 2012, the

Commission has allowed Ameren Missouri to recover every single dollar expensed for storms (see Boateng Rebuttal page 7, lines 15 through 17).

Q. Please respond to Company witness Barnes' statement found on page 23, at lines 17 through 22 and continuing on page 24, at lines 1 through 2 of her rebuttal testimony:

> Plant-in-Service Accounting is no more single-issue ratemaking than accruing AFUDC on every project and it is no more single-issue ratemaking than continuing to accrue AFUDC and deferring depreciation as the Commission has done when it approved the use of construction accounting. Moreover, Plant-in-Service Accounting is not ratemaking at all…Plant-in-Service Accounting ratemaking will only take place in a future rate proceeding when all relevant factors are considered.

A. Ms. Barnes is technically correct that the application of plant-in-service accounting will not constitute single-issue ratemaking; rather, single-issue ratemaking will result if and when the Commission was to allow in rates the additional non-revenue producing plant costs arising from plant-in-service accounting. Since the sole purpose of the Company's highly unique plant-in-service accounting is for Ameren Missouri to seek to collect the higher plant costs in rates, Staff's position remains that the Commission should reject this proposal on the grounds that it is intended to result in unjustified single-issue ratemaking, among other reasons.

Q. Ms. Barnes and Mr. Reed express concerns throughout their respective rebuttal testimonies about Ameren Missouri's inability to achieve its Commission authorized ROE. What was Ameren Missouri's actual earned ROE for the twelve months ending June 30, 2012 and how does that compare with their current Commission authorized ROE of 10.20% that took effect on July 31, 2011?

A. Based on the required quarterly FAC surveillance report submitted in EFIS on August 21, 2012, Ameren Missouri reports that for the twelve months ending June 30, 2012, it achieved an actual ROE of ** ____ **

SHORELINE MANAGEMENT REVENUES AND EXPENSE

Q. Company witness Weiss recommends in his rebuttal testimony on page 4, lines 1 through 10, that actual true-up amounts for Lake of the Ozark shoreline management revenues and expenses be used to set rates. Does the Staff believe that this is appropriate?

A. The Staff has not received this true-up information from the Company at this time. The Staff will examine this information and make a determination of the appropriateness of Mr. Weiss' proposed treatment for these revenues and expenses once it is made available to the Staff for its review.

RENEWABLE ENERGY STANDARD ("RES") COSTS

Q. Is there a disagreement between Ameren Missouri and Staff with regard to the inclusion of an appropriate base level of RES costs or the proper level of deferred expenditures to be amortized?

A. No. The Staff intends to include the true-up level of RES costs in the cost of service calculation as stated by Mr. Weiss on page 6 of his rebuttal testimony. The Staff also

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agrees with Mr. Weiss to true-up the regulatory asset balance to include deferred expenditures from January 1, 2010 through July 31, 2012, as long this balance properly excludes the $885,266 that is referenced on page 6, line 22, of his rebuttal testimony.

Q. Please respond to Mr. Weiss's statement found on page 7, lines 1 trough 14, of his rebuttal testimony that the regulatory asset balance should be included in rate base similar to the energy efficiency regulatory asset.

A. The Staff's true-up cost of service calculation will reflect an amortization of the deferred expenditures through July 31, 2012, over three years with no rate base inclusion for the unamortized RES deferred regulatory asset balance. However, the Staff indicated in its July 6, 2012 *Report* on page 133, lines 31 through 32 that alternatively it "…would consider amortizing the RES deferred regulatory asset balance over six years with rate base inclusion for the unamortized balance." This alternative treatment would be consistent with the current treatment that Staff has afforded the Company with regard to their energy efficiency regulatory asset. The Staff is still receptive to its previously proposed alternative treatment for this RES deferred regulatory asset balance covering January 1, 2010 through July 31, 2012. Under either scenario, the Staff continues to recommend that as part of Ameren Missouri's next general rate proceeding, the level included in permanent rates in this case be netted against any future deferred expenditures that occur beyond the July 31, 2012, true-up cutoff date as established for the current rate proceeding.

STORM ASSISTANCE REVENUES

Q. Please respond to Company witness David N. Wakeman's proposal in his rebuttal testimony that the revenues that Ameren Missouri receives from sending out its personnel to assist other utilities in restoring service to its customers should not be included in the revenue requirement through annualization and/or normalization but rather should be accounted for in the storm cost tracker.

A. Staff witness Kofi A. Boateng has explained in detail in the Staff's *Report* and also in his rebuttal testimony all of the reasons why the Company's proposed storm cost tracker is inappropriate. That same reasoning also applies to the storm assistance revenues that Ameren Missouri receives from other utilities and, for that matter, to any storm assistance expenses that Ameren Missouri incurs with other utilities under its mutual assistance arrangements. These revenues and expenses are more appropriately accounted for through annualization and normalization methods.

EMPLOYEE STOCK OWNERSHIP PLAN ("ESOP") – INCOME TAX DEDUCTION

Q. In general, what is an "ESOP?"

A. An ESOP is an employee benefit plan which allows the opportunity for employees of a company to become owners of stock in that company. An ESOP can provide certain tax advantages to both the company and participating employees.

Q. On what date did the Company's ESOP begin and how has this plan evolved since the time of its inception?

A. An ESOP originally began for Union Electric Company on January 1, 1976. Employee eligibility for this plan remained unchanged from this date until January 1, 1988. This plan was frozen in 1988, allowing no new employee participation or any additional contributions. Union Electric Company is the original name under which Ameren Missouri conducted business. Ameren Corporation (or "Ameren"), a holding company, was created by the 1997 merger of Union Electric Company and Central Illinois Public Service Company. Subsequent to this merger, in 1998 the Union Electric Company ESOP began to be administered by Ameren Corporation, the parent holding company, as a component of its 401(k) plan. Under the currently maintained ESOP plan, all eligible employees of the entities in the Ameren group, including eligible employees of Ameren Missouri, may elect to participate in the Ameren Corporation 401(k) plan.

Q. Please describe how the current Ameren ESOP plan works.

A. Eligible employees of the Ameren group of corporations may elect to have up to a specified percentage of their salary withheld and contributed to the Ameren 401(k) plan. The employer then matches a percentage of that contribution, up to a certain limit. The employee can select from over 21 different funds in which to invest their contribution and the company match. One of the investment funds that employees may select is the Ameren ESOP. Therefore, eligible employees may decide to place none, some or all of their contribution and company match into Ameren stock.

Q. What tax advantages are associated with employee selection of Ameren's ESOP?

A. In this situation, Ameren Corporation receives the benefit of a tax deduction for the dividend it pays on the stock held in its ESOP. A significant portion of this stock is the result of contributions made by Ameren Missouri employees. The compensation that is paid to these Ameren Missouri employees, including the amount that the employee contributes, as well as the amount that Company matches to the 401(k) plan are included in Ameren Missouri's cost of service. The employees also enjoy a tax advantage since they are not taxed for their contribution or the match that is received until the time that the employee actually receives the funds accumulated in the plan. By seeking to exclude this tax benefit from the revenue requirement calculation, the Staff contends that Ameren Corporation is unfairly attempting to retain all of the tax advantages associated with this tax deduction rather than sharing an appropriate portion with Ameren Missouri.

Q. What was the amount of the tax deduction that Ameren Corporation took during the 2011 tax year for the ESOP?

A. Ameren Corporation took approximately a $9.3 million deduction for the 2011 tax year for the ESOP.

Q. How did the Staff determine the appropriate amount of this ESOP tax deduction to assign to Ameren Missouri?

A. Ameren Services, the subsidiary that provides administrative support services to Ameren and its operating companies and affiliates, maintains a labor related allocation factor that it uses to distribute its costs to the various subsidiaries of Ameren Corporation, including Ameren Missouri. Since the time of its direct filing the Staff has corrected an error in the allocation factor that it used to properly distribute a portion of $9.3 million deduction to Ameren Missouri. The Staff now proposes to use the Ameren Missouri employee count allocation percentage of 56.01% as reflected at December 31, 2011, to allocate the proper $5.2 million portion of the tax deduction to Ameren Missouri that was received by Ameren Corporation as a result of the ESOP during the 2011 tax year. Staff's correction for the allocation factor reduces the cost of service calculation by approximately $175,000 in comparison to its direct testimony position.

Q. Why is it appropriate for Ameren Missouri to be allocated a portion of the deduction taken by Ameren for the ESOP?

A. Company witness Warren ignores the fact that current Ameren Missouri employees contribute funds to this 401(k) plan and are substantially responsible for the overall balance in the plan and the tax deduction that is being claimed by Ameren Corporation. Therefore, it is only fair and reasonable for Ameren Missouri ratepayers to receive an equitable portion of this tax deduction.

Q. Does Staff agree with Company witness Warren's position that, because Ameren Corporation pays a dividend on the stock included in its ESOP out of its Ameren Corporation's retained earnings, that somehow makes Ameren Corporation the only entity entitled to the deduction?

A. No. Mr. Warren's position ignores the fact that Ameren Missouri's cost of service is impacted by a dividend yield rate that is included in the overall rate of return calculation that Ameren Missouri is allowed the opportunity to earn. Staff witness David Murray addressed the Staff's inclusion of the dividend yield rate as a component of the rate of return calculation.

RATE BASE INCLUSION OF CWIP-RELATED ADIT BALANCES

Q. In Ameren Missouri's previous rate case did both the Company and the Staff reduce rate base for amounts pertaining to CWIP-related ADIT balances?

A. Yes.

Q. Has Company reflected a reduction in the current rate case to reduce rate base for amounts pertaining to CWIP-related ADIT balances?

A. No. Company is proposing new treatment for this item by not reflecting a rate base offset for this item as part of its proposed cost of service calculation.

Q. Has the Staff made an adjustment to its cost of service calculation to reflect a rate base offset pertaining to CWIP-related ADIT balances?

A. No. The Staff did not address this issue in its *Revenue Requirement Cost of Service Report* that it filed on July 6, 2012 nor did it make any adjustment to its cost of service calculation to account for this issue. Because the Staff did not timely address this item in its direct filed case, due to an oversight on its part, Staff does not propose to include a new adjustment to address this issue at this late stage of the rate case. However, the Staff supports Midwest Industrial Energy Consumers ("MIEC") witness Michael L. Brosch's direct testimony position that it is appropriate to reduce rate base to reflect the offset associated with CWIP-related ADIT deferred tax balances.

Q. Does this conclude your surebuttal 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 Increase Its Revenues for Electric Service	))))	Case No. ER-2012-0166

AFFIDAVIT OF JOHN P. CASSIDY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

John P. Cassidy, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

John P. Cassidy
JOHN P. CASSIDY

Subscribed and sworn to before me this 7th day of September, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D. Suzie Mankin
Notary Public

SCHEDULE JPC-SUR-1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY