Exhibit No.:	
Issue:	*Complaint Case – Rate Levels*
Witness:	*John P. Cassidy*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*EC-2014-0223*
Date Testimony Prepared:	*July 3, 2014*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

JOHN P. CASSIDY

NORANDA ALUMINIMUM, INC., ET AL, COMPLAINANTS

v.

UNION ELECTRIC COMPANY, d/b/a AMEREN MISSOURI, RESPONDENT

CASE NO. EC-2014-0223

Jefferson City, Missouri
July 2014

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

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d/b/a AMEREN MISSOURI, RESPONDENT

CASE NO. EC-2014-0223

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. Did you file rebuttal testimony in this proceeding on June 6, 2014?

A. Yes.

Q. Why are you filing surrebuttal testimony?

A. I am providing an update to Staff's assessment of Ameren Missouri's earnings for the calendar year ending December 31, 2013. Specifically, I will address an error in the depreciation annualization calculation that necessitates its removal from Staff's previous assessment of Company's 2013 earnings because the corrected level reflects a change in booked depreciation expense of an amount below Staff's $4 million materiality threshold as described in my rebuttal testimony. Based on information provided by the Company, I will also address the impact of the net amount of fuel, purchased power and off-system sales that was not recovered by Ameren Missouri through its fuel adjustment clause ("FAC") on the Company's actual earnings for calendar year 2013.

DEPRECIATION EXPENSE

Q. Why is Staff removing the depreciation annualization calculation from its previous earnings analysis?

A. Based on additional discussion with Company witness Gary S. Weiss, Staff determined that an error existed in one of the formulas in the depreciation information that the Company had previously supplied to Staff. As a result, the calculation of the amount of annualized depreciation associated with Ameren Missouri's December 31, 2013, level of plant-in-service, compared with the actual depreciation expense recorded in calendar year 2013, was overstated in Staff's earnings analysis included in our rebuttal filing by approximately $9 million. Once this error was corrected, the adjustment required to annualize depreciation for all of Ameren Missouri's electric-related investment fell below the Staff's $4 million materiality threshold that was described in its rebuttal testimony. Therefore, Staff has removed the $11.52 million adjustment, previously included to annualize depreciation, from its assessment of Ameren Missouri's 2013 earnings.

PORTION OF NET FUEL COST NOT COVERED BY FAC

Q. How is the Company's current FAC sharing mechanism structured?

A. The current Commission-approved FAC provides an incentive mechanism that requires the Company to pass through to customers, between rate cases, 95 percent of the deviation of fuel and purchased power costs, net of off-system sales, from the base level of net fuel costs established in the most recent rate case. The remaining 5% is either retained or absorbed by the Company.

Q. What impact did the portion of fuel and purchased power costs, offset by off-system sales, that are not passed through the Company's FAC have on Ameren Missouri's calendar year 2013 earnings?

A. In summary, the Company provided Staff with an analysis that reflected an approximate $6.8 million shortfall in 2013 related to the 5 percent portion of net fuel costs that was not addressed by the FAC mechanism during 2013 and that Company necessarily absorbed in its bottom line. The following chart provides a summary of this calculation:

Description	$ Amount
2013 Fuel Costs	$807,643,036
2013 Purchased Power Costs	$ 80,429,469
2013 Total Fuel And Purchased Power	$888,072,505
Less: 2013 Off-System Sales	$183,276,372
2013 Net Fuel Costs	$705,796,133
Net Base Fuel Cost Established in ER-2012-0166	$569,685,787
Total Difference in Base to Actual	$135,110,346
Times: 5% Portion not covered by FAC	5%
Company Absorbed Level of Net Fuel Costs in 2013	$ 6,755,517

Since calendar year 2013 net fuel costs exceeded the net base fuel costs established in ER-2012-0166, the Company's actual net fuel costs were higher than what was collected in permanent rates by approximately $135.1 million. The FAC mechanism has allowed the

Company to recover 95% of this higher net fuel cost; however, 5% or approximately $6.8 million was absorbed by the Company during 2013 and reduced its earnings accordingly, all other things being equal.

Q. Under normal rate case circumstances, how would Staff calculate the appropriate amount of a change in an electric utility's net base fuel costs to incorporate into new permanent rate levels?

A. Typically in a rate case, the Staff would use a fuel model for this purpose, and would include the most current and most representative levels of ongoing fuel and purchased power costs, offset by an ongoing level of off-system sales, into the fuel model in order to determine a net base fuel cost to include in permanent rates. The FAC mechanism would subsequently "track" against the net base fuel costs established in permanent rates to take into account subsequent changes in net fuel costs. However, due to time and resource constraints created by this case, the Staff was unable to "model" fuel costs and off-system sales as it typically does in a traditional rate case. Therefore, in the context of this analysis, Staff must consider not only whether net fuel costs went up or down during 2013, but also whether the shortfall in net fuel cost recovery in 2013 is expected to continue in the near future.

Q. Does Staff expect Ameren Missouri to continue to under-recover its net fuel and purchased power costs compared to the level of net base fuel costs included in its current rates beyond 2013?

A. Yes. As a result of its investigation of Ameren Missouri's 2013 actual electric earnings, Staff is aware that the Company's actual financial results in 2013 reflected a 5.6% increase in coal and coal transportation costs over calendar year 2012 results. Further, the

Company's fuel budgets indicate that coal and coal transportation costs are expected to increase by additional percentages of ** ____ ** for calendar year 2014 and ** ____ ** for calendar year 2015. Much of the expected increases for 2014 and 2015 are associated with scheduled contract escalations for coal commodity and freight transportation costs that will take effect on January 1 of each year. Because Ameren Missouri is currently heavily reliant upon coal-fired generation to meet its customer loads, it is reasonable to expect that the Company's overall trend in incurred net fuel expense will be significantly affected by changes in by its coal and coal transportation cost inputs. Therefore, based upon known contractual increases in these values effective in 2014, Staff would expect that the significant increase experienced by Ameren Missouri in its unrecovered actual net fuel costs in 2013 above the base that was established in the Company's last rate case will likely continue in 2014, absent a general rate proceeding.

Q. Is the approximate $6.8 million under-recovery of net fuel costs absorbed by Ameren Missouri in 2013 a representative amount of the expected loss to the Company in the fuel expense area going forward?

A. No. As previously discussed, the Company expects additional increases to its net fuel and purchased power expenses in 2014, starting on January 1 of that year. Ordinarily, costs changes occurring on January 1, 2014 would be eligible to incorporate into an earnings analysis covering the twelve calendar months of 2013. However, in these circumstances, Staff believes use of a fuel model would be necessary to accurately quantify any further adjustment to Ameren Missouri's actual 2013 net fuel and purchased power expenses to take into account subsequent changes in that cost. Given the time and resource constraints on the Staff in this proceeding, that type of analysis is not practical. Therefore,

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for purposes of its review of Ameren Missouri's 2013 actual earnings, Staff is not putting forth any adjustment to the amount of net fuel and purchased power expense under-recovery experienced by the Company in 2013. However, for the reasons previously discussed, Staff expects that the annualized and normalized amount of the under-recovery of Ameren Missouri's net fuel and purchased power expenses as measured in a future general rate proceeding is likely be greater than what the Company actually experienced in 2013.

STAFF'S ASSESSMENT OF AMEREN MISSOURI'S 2013 EARNINGS

Q. Based upon the Staff's correction to remove the incorrect calculation of the depreciation expense annualization, has Staff's assessment of Company's earnings changed since the time that Staff filed rebuttal testimony?

A. Yes. The following chart reflects an updated summary of the Staff's assessment of Ameren Missouri's calendar year ending December 31, 2013, earnings, as adjusted to conform with normal ratemaking practices:

Description	**$ in thousands**
Ameren Missouri 12/31/13 earnings in excess of 9.8% ROE	** $______ **
Elimination of rate refunds	$ (25,548)
Callaway refueling normalization	$ (12,800)
Non-Labor Steam Production Maintenance Expense	$ 0
Non-Labor Distribution Maintenance Expense	$ 0
Long & Short-Term Incentive Compensation Disallowance	$ (13,388)
Labor	$ 4,325
Weather Normalization	$ 17,380
365-Days Adjustment	$ 7,477

Fuel Offset	$(11,095)
Depreciation Expense Annualization	$ 0
MEEIA	$ 25,700
Staff Adjusted December 31, 2013, Surveillance Earnings	** ________ **

Staff's review indicates that Ameren Missouri's year end adjusted December 31, 2013 level of earnings appears to be approximately ** ____ ** million above the authorized level after elimination of the depreciation expense annualization from the calculation. Staff points out once again that this calculation is still a very high-level approximation and does not take into consideration any other changes that may have occurred since new rates last went into effect for Ameren Missouri in relation to all of the other relevant factors normally considered by Staff in its analysis during a general rate case.

Staff also again stresses that it does not recommend that the Commission re-establish Ameren Missouri's permanent rates based upon this limited analysis, but if it did do so, Staff believes that the ** ____________ ** calculation would need to be offset by an amortization of solar rebate expenses, which would be worth $13.8 million annually based upon information available through March 31, 2014, as was previously described in my rebuttal testimony. When the solar rebates are taken into account, through March 31, 2014, rates could only be effectively reduced by ** ____ **. As I also previously described in my rebuttal testimony, the Company has indicated that it expects that it may fully pay out the $91.9 million level of solar rebates that are eligible for rate recovery over three years by August 31, 2014. When factored up for the 10% carrying cost adder, this equates to $101.1 million that is eligible for recovery over three years. Once the Company achieves full payout of all solar rebates to customers, the solar amortization

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would reach a $33.7 million annual level. Taking this total $33.7 million annual solar amortization into account, this item would ** ______________________________________ ____ ** .

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF JOHN P. CASSIDY

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

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 8 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 2 day of July, 2014.

HEATHER TSCHUDY
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: Feb. 4. 2018
Commission # 14575014

Heather Tschudy
Notary Public