Exhibit No.:	
Issue(s):	*Meramec, Policy*
Witness:	*Keith Majors*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal / True-Direct Testimony*
Case No.:	*ER-2024-0319*
Date Testimony Prepared:	*February 14, 2025*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL / TRUE-UP DIRECT TESTIMONY

OF

KEITH MAJORS

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2024-0319

Jefferson City, Missouri
February 2025

SURREBUTTAL / TRUE-UP DIRECT TESTIMONY

OF

KEITH MAJORS

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2024-0319

Q. Please state your name and business address.

A. A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street, Room 201, Kansas City, Missouri, 64106.

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

A. I am a Utility Regulatory Audit Supervisor employed by the Staff ("Staff") of the Missouri Public Service Commission ("Commission").

Q. Are you the same Keith Majors who previously provided testimony in this case?

A. Yes. I provided direct testimony in this case on December 3, 2024, and rebuttal testimony on January 17, 2025, concerning Staff's revenue requirement recommendation and other various adjustments and topics.

Q. What is the purpose of your surrebuttal / true-up direct testimony?

A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony of Ameren Missouri witnesses Mitchell Lansford and Ann Bulkley.

EXECUTIVE SUMMARY

Q. Please provide a brief summary of your surrebuttal testimony.

A. My surrebuttal testimony will respond to portions of Ameren Witness Mitchell Lansford's rebuttal testimony. Specifically, I respond to the following issue on the corresponding pages of his rebuttal testimony:

- Meramec Regulatory Asset: pages 14-17

Staff does not recommend inclusion in rate base of the remaining Meramec regulatory asset.

I also briefly respond to witness Ann Bulkley's rebuttal testimony concerning regulatory risk. Specifically, I respond to the following issue on the corresponding page of her rebuttal testimony:

- Business and Regulatory Risks: page 124

It is Staff's recommendation that the relatively minor adjustments regarding the High Prairie Energy Center do not change the overall regulatory risk in Missouri.

I sponsor Staff's true-up adjustments for storm restoration, vegetation management, and Meramec obsolete inventory. I also support a new adjustment in the true-up for the regulatory liability for Rush Island rate of return and operations and maintenance expense.

<u>MERAMEC REGULATORY ASSET</u>

Q. On page 15 of his rebuttal testimony, Mr. Lansford references Staff witness Lisa Ferguson's rebuttal testimony in Case No. ER-2021-0240. How did that rate case conclude and how was the Meramec issue resolved?

A. The case concluded with a *Stipulation and Agreement* that established a regulatory asset for the remaining net book value of Meramec to be amortized over five years beginning with the effective date of rates on February 28, 2022.

Q. In regard to Ms. Ferguson's testimony in Case ER-2021-0240, Mr. Lansford claims she supported rate base treatment of any Meramec deferrals. Was this the agreement ultimately struck by the parties?

A. No. The Stipulation and Agreement in that rate case specifically stated "Carrying costs on the unamortized balance as of future rate case, if any, will be addressed in those future rate cases." Most importantly, whatever facets of the recommendations concerning Meramec proffered by Staff and Company in the 2021 Rate Case were set aside when the parties agreed on the specific language in the Stipulation and Agreement.

Q. Has the Commission recently decided the issue of inclusion in rate base of retired generating facilities?

A. Yes. In both the *Report and Order* and the *Amended Report and Order* in Case No. ER-2022-0130, the Commission denied recovery of the net book value of Sibley[1] in rate base. These orders were effective in November and December 2022 which was after Ms. Ferguson's testimony. Staff's recommendation in this case adopts the most recent and relevant Commission guidance on this topic.

Q. How does the Meramec amortization benefit Ameren Missouri?

A. If Meramec were retired like other plant (i.e., without a special amortization), an equal amount would have been removed from plant and accumulated depreciation expense pursuant to mass asset accounting. Meramec had approximately $50 million of undepreciated plant at the time the deferral was established. This would reduce the reserve by a like amount, and increase the net rate base upon which Ameren Missouri would earn a rate of return by $50 million. The $50 million would also increase depreciation accruals as

[1] Sibley 3 was a 420 megawatt (MW) coal fired power plant owned by Evergy West.

depreciation expenses going forward would be increased to adjust for the $50 million deficit. Ameren Missouri would effectively recover the $50 million deficit over the time period of future depreciation expense.

On the contrary, by amortizing the Meramec regulatory asset over five years, Ameren Missouri receives greatly accelerated recovery of the $50 million. Accelerated recovery is one reason why this deferral should not be included in rate base and earn a return.

Q. Ameren Missouri has incurred additional investment at Meramec related to the retirement. Does Staff recommend any adjustments or different accounting treatment for these investments?

A. No. These investments will be included in plant-in-service and be depreciated and included in rate base.

Q. Hypothetically, if the amortization period were longer than five years, would you support rate base treatment of the remaining balance?

A. Possibly. Plant and investment related regulatory assets, such as construction accounting deferrals, have received rate base treatment but have been matched to the remaining lives of the asset in question. In the case of Evergy Metro's Iatan construction accounting assets, those regulatory assets are being amortized between 24 and 47 years which would more appropriately warrant inclusion in rate base.

Q. Can you provide examples of when a public utility commission allowed recovery of an undepreciated plant but denied a rate of return on the investment?

A. Yes. Both the Texas PUC[2] and the Arkansas PSC[3] allowed Southwestern Electric Power Company ("SWEPCO") to establish a regulatory asset for the undepreciated plant at Dolet Hills. The Texas PUC afforded the same accounting treatment to another SWEPCO plant, Welsh Unit 2.[4] The orders by these PUCs rejected SWEPCO's request to earn a rate of return on its investment once the plant retired.

Q. What were Dolet Hills and Welsh Unit 2?

A. Dolet Hills was a lignite coal fired power plant of about 650 MW capacity. It was retired at the end of 2021 due to the inability to supply fuel to run the facility.[5] Welsh Unit 2, also owned by SWEPCO, was a sub-bituminous coal fired power plant of 528 MW capacity. It was retired in April 2016 due to looming environmental compliance costs that proved uneconomic to further operate the unit.

The Arkansas PSC stated in its order, "In this case, customers should not bear 100 percent of the costs when the economic life of Dolet Hills becomes out of sync with its planned useful life."

The Texas PUC stated in its order, "With respect to the period after December 31, 2021 (the post-retirement phase of the Dolet Hills rate rider), the remaining net book values of Dolet Hills should be placed in a regulatory asset to be amortized without a return."

The Texas PUC stated the following concerning Welsh Unit 2, providing more justification for denying a return on the undepreciated balance:

[2] Public Utility Commission of Texas., Docket No. 51415, Application of Southwestern Electric Power Company for Authority to Change Rates, Final Order (Jan. 14, 2022) at paragraphs 44-65, pages 10-13.
[3] Arkansas PSC Docket No, 21-070-U, Application of Southwestern Electric Power Company for Approval of a General Change in Rate and Tariffs, Order No. 14 (May 23, 2022) at page 50.
[4] Public Utility Commission of Texas, Docket No. 46449, Application of Southwestern Electric Power Company for Authority to Change Rates, Final Order (Jan. 11, 2018) at paragraphs 65-71, pages 19-20.
[5] Ibid, at page 49. Dolet Hills burned lignite coal, which was mined in Louisiana.

> 66. Welsh unit 2 no longer generates electricity and is not used and useful to SWEPCO in providing electric service to the public.
>
> 67. Under the FERC uniform system of accounts, the appropriate accounting treatment for the retirement is to credit plant in service with the original cost of Welsh unit 2 and debit accumulated depreciation with the same amount. This would leave a debit balance in accumulated depreciation equal to the undepreciated balance of Welsh unit 2.
>
> 68. Because Welsh unit 2 is no longer used and useful, SWEPCO may not include its investment associated with the plant in its rate base, and may not earn a return on that remaining investment.
>
> 69. Allowing SWEPCO a return of, but not on, its remaining investment in Welsh unit 2 balances the interests of ratepayers and shareholders with respect to a plant that no longer provides service.
> 70. It is reasonable for SWEPCO to recover the remaining undepreciated balance of Welsh unit 2 over the 24-year remaining lives of Welsh units 1 and 3.
>
> 71. The appropriate accounting treatment that results in the appropriate ratemaking treatment is to record the undepreciated balance of Welsh unit 2 in a regulatory-asset account.[6]

REGULATORY RISK

Q. On page 124 of her rebuttal testimony, Ameren Missouri witness Bulkley claims that ratemaking adjustments proposed by Staff, the Office of Public Counsel ("OPC") and Missouri Industrial Energy Consumers ("MIEC") concerning the High Prairie Energy Center would increase the regulatory risk in Missouri. How do you respond?

A. Staff's adjustments are by no means a policy change. Staff evaluates each issue on a case-by-case basis. Staff's adjustments are materially different than those of OPC and MIEC. Taken to its logical conclusion, any disallowance or reallocation of prudently or imprudently incurred costs would somehow cause an increase to the regulatory risk in Missouri

[6] Public Utility Commission of Texas., Docket No. 46449, Application of Southwestern Electric Power Company for Authority to Change Rates, Final Order (Jan. 11, 2018) at paragraphs 66-71, pages 19-20.

and consequently the rate of return. For example, the Commission has routinely disallowed stock compensation and earnings-based cash incentive compensation from the cost of service. Using Ms. Bulkley's logic, the Commission would have to consider increasing the rate of return for this and every other routine disallowance adjustment, thereby mitigating the impact of each adjustment on the cost of service. In my opinion, this is an absurd result.

Q. Can you put Staff's adjustments in this case into context with prior substantial adjustments?

A. Yes. The best example I would point to are the Callaway disallowances. Specifically for Callaway, the Commission permanently disallowed $428.9 million from rate base which represented 7% of Ameren Missouri's[7] rate base. Compared to Staff's updated rate base in this case of $13.9 billion, this disallowance would equate to $982.5 million. In this case, Staff has mitigated the situation at High Prairie by restoring lost revenue, lost Production Tax Credits ("PTC"), and lost Renewable Energy Credits ("REC") for a total of $24.9 million[8] of annual revenue requirement impact. This adjustment represents less than 1% of total operating expenses.[9]

Q. Did Ameren Missouri claim that the Callaway disallowances increased the regulatory risk or change the regulatory paradigm in Missouri?

A. No, not if you assume Ameren Missouri would ask for an increased rate of return if that were true. Ameren Missouri was authorized a return on equity of 15.62% in the Callaway case.[10] Union Electric did not seek a general rate increase for about 20 years,

[7] At that time, known as Union Electric.
[8] As of the true-up at December 31, 2024.
[9] $24.9 million / $3.259 billion Total Operating Expenses = 0.7%. Using true-up operating expenses, this percentage would decrease.
[10] Case No. ER-84-168 and EO-85-17.

until July 2006. In the interim, there is no question Ameren Missouri had a higher regulatory risk than now with no Fuel Adjustment Clause ("FAC"), no Plant-in-Service Accounting ("PISA"), no Renewable Energy Rate Adjustment Mechanism ("RESRAM"), no Missouri Energy Efficiency Investment Act ("MEEIA"), and no property tax tracker.

TRUE UP ADJUSTMENTS

Q. Please identify the rate base items and income statement adjustments that you are sponsoring as part of the Staff's true-up filing.

A. I am sponsoring the following Ameren Missouri cost of service items that have been adjusted through the true-up, December 31, 2024. These adjustments are reflected in Staff's true-up accounting schedules.

- Vegetation Management & Infrastructure Inspections
- Meramec obsolete inventory
- Storm restoration expense

Q. Do you sponsor any new adjustments as of the true-up?

A. Yes. As I noted in my direct testimony, Rush Island retired on October 15, 2024, and as part of the *Amended Report and Order* in Case No. EF-2024-0021 ("Securitization case"), the Commission ordered Ameren Missouri to establish a tracking mechanism for the costs that are currently in rates related to Rush Island:

> The Commission also finds that a tracker would be an appropriate mechanism to track the Rush Island related costs currently recovered in rates after it terminates service, so that the Commission has an accurate accounting of Rush Island costs until rates are effective in Ameren Missouri's next general rate case. The over-collection of Rush Island related costs would be flowed back to customers through an amortization.[11]

[11] *Amended Report and Order*, Case No. EF-2024-0021, pages 120-121.

The initial *Report and Order* was dated June 20, 2024, in the Securitization case and the current rate case was not filed until June 28, 2024. Staff recommends this tracker should be established in the current case as the amounts are known and measurable, Rush Island has retired, and the securitization bonds have been issued.

Q. What is the amount of Staff's recommended deferral?

A. Ameren Missouri established a deferral in October 2024 to account for the order in the securitization case. The annual revenue requirement currently in the cost of service for Rush Island is as follows:

1	Plant in Service	893,926,949
2	Reserve for Depreciation	(365,389,078)
3	ADIT	(138,896,106)
4	Fuel Inventory	1,486,650
5	Materials and Supplies Inventory	17,594,944
6	Total Net Rate Base	408,723,358
7	WACC (Including Income Taxes)	8.36%
8	Return on Rate Base (Including Income Taxes)	34,186,292
9	Depreciation Expense	35,206,296
10	Non-Labor Operating & Maintenance Expense	6,105,702
11	**Total:**	**75,498,290**

Staff's calculations of the amount of Rush Island expenses currently in rates do not differ from Ameren Missouri's. The annual $75.5 million equates to $206,845 per day. Ameren Missouri's tariffs in this case have been suspended until June 1, 2025, which is 228 days after the retirement of Rush Island. Staff has calculated a total regulatory liability through this date of $47.1 million.

Q. This date is subsequent to the true-up date of December 31, 2024. Why has Staff calculated this liability through May 31, 2025?

A. The calculation is consistent with the calculation ordered by the Commission in the Sibley case.[12] As like amounts in the Sibley case were found by the Commission to be known and measurable, the liability was calculated past the true-up cutoff and through the effective date of rates in that rate case.[13]

Q. What amortization period does Staff recommend?

A. In the Sibley case, the amortization period was linked to the approximate time customers had paid Sibley related costs in rates from the date of retirement through the effective date of new rates, or four years. In this case, this time span will be 7.5 months. Staff recommends an amortization period of four years, or $11.8 million per year. A point of comparison would be the Meramec regulatory asset amortization of five years which is currently being amortized with no inclusion in rate base. Staff recommends a four-year amortization with no inclusion, or in this case no reduction, in rate base. A five-year amortization given the Meramec example would not be inappropriate and would result in a $9.4 million annual amortization with no consideration in rate base.

Q. Does this conclude your surrebuttal/true-up direct testimony?

A. Yes, it does.

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[12] Case No. ER-2022-0130.
[13] June 30, 2022 and November 30, 2022, respectively.

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-2024-0319

AFFIDAVIT OF KEITH MAJORS

STATE OF MISSOURI COUNTY OF Jackson	)))	ss.

COMES NOW KEITH MAJORS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal / True-Up Direct Testimony of Keith Majors*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Keith Majors
KEITH MAJORS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 11th day of February 2025.

CHERYL LEVERETTE
MY COMMISSION EXPIRES
9-7-2027
NOTARY SEAL
#01404338
JACKSON COUNTY
NOTARY PUBLIC, STATE OF MISSOURI

Cheryl Leverette
Notary Public