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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2019-0335

REBUTTAL TESTIMONY

OF

MATT MICHELS

ON

BEHALF OF

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

**St. Louis, Missouri
January, 2020**

Ameren Exhibit No. 009
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REBUTTAL TESTIMONY

OF

MATT MICHELS

FILE NO. ER-2019-0335

1 **Q. Please state your name and business address.**

2 A. Matt Michels, One Ameren Plaza, 1901 Chouteau Avenue, St. Louis,
3 Missouri 63103.

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

5 A. I am employed by Ameren Services Company as Director of Corporate
6 Analysis. In that capacity, I provide services to Ameren Corporation's operating
7 subsidiaries, including Union Electric Company d/b/a Ameren Missouri ("Ameren
8 Missouri" or "Company").

9 **Q. Please describe your professional background and qualifications.**

10 A. I joined Ameren Services Company in 2005 as a Consulting Engineer in
11 Corporate Planning. My responsibilities included coordination and monitoring of projects
12 implemented in conjunction with the integration of processes and systems following the
13 acquisition by Ameren Corporation of Illinois Power Company ("Illinois Power") in
14 October 2004. I was subsequently involved in the integration of combustion turbine
15 facilities acquired by Ameren Missouri in 2006. In September 2008, I was promoted to
16 Managing Supervisor of Resource Planning with responsibility for long-range resource
17 planning, including Ameren Missouri's Integrated Resource Plan ("IRP") filings a

1 associated analysis. In February 2013, I was promoted to Corporate Analysis Manager. In
2 February 2014, I was promoted to Senior Manager of Corporate Analysis. In June 2017, I
3 was promoted to Director of Corporate Analysis. My current responsibilities include
4 long-range resource planning, load forecasting, environmental compliance planning, fuel
5 budgeting, and other resource related analysis.

6 I earned a Bachelor of Science degree in Electrical Engineering from the
7 University of Illinois at Urbana-Champaign in May 1990. I have been employed by
8 Ameren or Illinois Power since June of 1990 in various positions related to resource and
9 business planning. During most of that time, my responsibilities have included the
10 development, use, and oversight of various planning models used for purposes such as
11 production costing, acquisition evaluation, corporate restructuring, financial forecasting,
12 and resource planning. I have previously testified before this Commission in proceedings
13 involving resource planning, renewable energy standards compliance, and energy
14 efficiency cost recovery.

15 **I. Introduction and Summary**

16 **Q. To what testimony or issues are you responding?**

17 A. I am responding to certain assertions made by Sierra Club witness Avi
18 Allison in his direct testimony. Specifically, I will rebut findings 1-3 listed at pages 3-4
19 of his direct testimony and respond to his recommendations 1 and 2 listed at pages 4-5 of
20 his direct testimony.

21 **Q. Please summarize the findings and recommendations in Mr. Allison's**
22 **direct testimony to which you are responding.**

23 A. Mr. Allison lists the following among his findings:

1 1. That each of Ameren Missouri's Labadie, Rush Island, and
2 Sioux generating units incurred net losses of over \$20 million over the
3 years 2016 through 2018;

4 2. That the Company's recent coal plant investments do not
5 sufficiently account for the environmental compliance costs facing the
6 Company's Rush Island and Labadie units; and

7 3. That the Company's 2017 IRP does not provide a reasonable
8 basis to support continued investment in the Company's coal-fired units.

9 Mr. Allison recommends that 1) the Missouri Public Service Commission
10 ("Commission") disallow recovery of capital costs incurred during and after 2018 at its
11 Labadie, Rush Island and Sioux coal-fired energy centers, and 2) the Commission should
12 require Ameren Missouri to present analysis by the end of 2020 of near-term retirement
13 of its Labadie, Rush Island, and Sioux units in a docketed case with stakeholder review.

14 Mr. Allison notes other findings and recommendations, which are being addressed
15 by other Company witnesses.

16 **Q. Please summarize your response to Mr. Allison's findings outlined**
17 **above.**

18 A. Mr. Allison's evaluation is flawed, incomplete and untimely. The
19 Company's recent and ongoing evaluation of investments in its coal-fired units is
20 reasonable and appropriate, as were its 2018 and 2019 capital investments in these energy
21 centers, given the following:

1 1. The Company's robust 2017 IRP analysis specifically included evaluation of
2 early retirement for eight of the Company's ten coal-fired units.¹ That analysis showed
3 that early retirement of the Rush Island Energy Center would result in increased costs to
4 customers of over \$1 billion and that early retirement of the Labadie Energy Center
5 would result in increased costs to customers over \$1.4 billion.² That analysis was found
6 by the Commission to be in compliance with its IRP rules.³

7 2. As further buttressed by the rebuttal testimony of Company witness Jim
8 Williams, the investments made in these plants were necessary for compliance with
9 regulatory requirements and for safe, reliable, and efficient operation of the units in the
10 near term, regardless of potential future environmental compliance costs or changes in
11 retirement dates.

12 3. The Company's upcoming and required filing of a new triennial IRP by
13 October 1, 2020, which will include specific Commission-required analyses of early coal
14 unit retirements and potential environmental compliance costs that may be necessary for
15 longer-term operation of the Company's coal-fired units.

16 **Q. What do you recommend?**

17 A. I recommend the following: 1) the Commission continue to evaluate
18

¹ See File No. EO-2018-0038.

² File No. EO-2018-0038; Ameren Missouri 2017 IRP, Chapter 10, page 16, Table 10.5. Cost differences reflect differences in present value of revenue requirements ("PVRR") without better information for plans M and N relative to plan A.

³ Pursuant to Commission Rule 20 CSR 4240-22.080(16)(A), the Commission finds that the 2017 triennial Integrated Resource Planning filing made by Union Electric Company d/b/a Ameren Missouri complies with the requirements of this chapter, and that the utility resource's acquisition strategy meets the standards stated in 20 CSR 4240-22." File No. EO-2018-0038, Order Regarding 2017 Integrated Resource Plan, June 27, 2018, p. 3.

1 utility resource planning decisions using the robust and long-established process set forth
2 in its IRP rules; and 2) the Commission should therefore find the investments made by
3 the Company in its coal-fired units are consistent with the Company's IRP preferred plan
4 and the Commission's IRP process, are necessary for the continued provision of safe,
5 reliable, and efficient service to customers, and are therefore reasonable and appropriate
6 for inclusion in rate base.

7 **II. Sierra Club's Economic Evaluation is Flawed**

8 **Q. What kind of evaluation did Mr. Allison conduct to conclude that**
9 **more analysis of the Company's investment decisions is warranted?**

10 A. Mr. Allison implies in his testimony that he has conducted a profit and
11 loss analysis of the Company's Labadie, Rush Island, and Sioux coal-fired energy centers.

12 **Q. Is his analysis appropriate?**

13 A. No. His analysis is oversimplified and flawed. As a result, it has no value
14 in supporting even basic conclusions with respect to the economics of the Company's
15 coal-fired units.

16 **Q. Can you please elaborate?**

17 A. Yes. First, Mr. Allison has essentially presented a limited short-term *cash*
18 *flow* analysis. This is very different from a profitability analysis in one key respect – a
19 proper analysis of profitability reflects the cost of investments over their useful life,
20 rather than only in the year in which the investments are made. In doing so, Mr. Allison
21 has presented a backward-looking and inappropriately truncated analysis that cannot be
22 used to assess the economics of the units in question in even a cursory manner and
23 certainly cannot be used to assess short-term "losses" as Mr. Allison purports. The

1 Commission's IRP rules appropriately recognize that resource evaluations are necessarily
2 forward-looking for the simple reason that decisions can and will only affect results
3 subsequent to when they are made and implemented. The IRP rules do not even suggest
4 the presentation of backward-looking economic analyses as useful or relevant
5 information, let alone require such analysis as relevant to resource decisions.

6 Second, Mr. Allison's analysis only compares the cost of operating and
7 maintaining the coal-fired units to the market revenues earned by the units rather than to
8 a true alternative to continuing these particular units' operation. The Company does not
9 operate as a merchant generator but rather has service obligations a merchant generator
10 simply does not have. Specifically, it must operate as a vertically integrated utility and
11 must meet its obligation to serve. This is the very foundation of the Commission's IRP
12 process and rules governing investor-owned utilities in Missouri. Ameren Missouri must
13 ensure that it is operating sufficient resources to provide its customers with safe, reliable,
14 and efficient service at just and reasonable rates. The IRP process includes consideration
15 of all alternatives to meet this obligation.

16 Third, while the revenues earned by resources in the market have some relevance
17 to an evaluation of resource economics, they are only a part of the picture. Moreover,
18 even if market economics were the sole determinant of the viability of a generating unit
19 or plant (they are not), it is important to make such an evaluation over a reasonable
20 period of time and with a reasonable range of assumptions. Mr. Allison has analyzed a
21 short, three-year historical period, from 2016 through 2018. Such an analysis provides no
22 insight into the long-term economics of a generating unit. Mr. Allison effectively
23 acknowledges this; however, his acknowledgement does not extend to his unreasonable

1 approach of using a very short time period in which prevailing market economics may
2 bear no resemblance to longer-term market economics. The Midcontinent Independent
3 System Operator, Inc. ("MISO") market is currently experiencing an excess of generating
4 capacity relative to load and reliability reserve margin requirements. This is not likely to
5 be sustained over the long term, and changes in supply and demand balance could
6 substantially impact market prices for electric energy and capacity. The IRP process
7 accounts for such long-term market dynamics.

8 **Q. Can Mr. Allison's analysis be readily modified to yield useful**
9 **conclusions?**

10 A. No. An entirely different kind of analysis, the kind performed as part of a
11 robust IRP process, is necessary to draw any useful conclusions regarding the economics
12 of electric generating resources. That is exactly the kind of analysis the Company
13 presented less than two years ago when its 2017 IRP filing was found to be in compliance
14 with the Commission's IRP rules, and is exactly the kind of analysis the Company will be
15 filing less than one year from now. As I mentioned previously, the analysis in the
16 Company's 2017 IRP showed that costs to customers would increase as a result of early
17 retirement of the Rush Island or Labadie Energy Centers by over \$1 billion and over \$1.4
18 billion, respectively.

19 **Q. You mentioned that Mr. Allison included the cost of capital**
20 **investments in his analysis. What would his analysis show if these capital costs were**
21 **excluded?**

1 A. It would show that the operation of the units over the period 2016-2018
2 resulted in net benefits to customers of approximately \$209 million. This is calculated by
3 removing the \$556 million in capital investment from Mr. Allison's calculation of a net
4 \$347 million cost as presented in Table 3 on page 10 of his direct testimony. In essence,
5 the resultant \$209 million benefit can be considered the contribution by the operation of
6 the units to the recovery of fixed asset costs. Once again, I should note that while this
7 may be interesting, it is no substitute for the kind of forward-looking analysis like that
8 performed in the preparation of an IRP, which is the appropriate framework for
9 evaluating unit retirement decisions.

10 **Q. Does Mr. Allison acknowledge that long-term resource planning**
11 **decisions cannot be based on short-term analyses of the kind he presents?**

12 A. He does. In that regard, his evaluation seems to be more of a distraction
13 than a productive analysis. In the end, he acknowledges the fact that resource decisions
14 are appropriately supported through the kind of analysis conducted through a robust IRP
15 process by recommending the Commission require exactly that kind of analysis, which as
16 I just noted, the Company will perform as part of its 2020 IRP analysis and filing.

17 **III. Ameren Missouri's IRP Process Provides a Reasonable and Appropriate**
18 **Basis for Generation Investments**

19 **Q. Mr. Allison asserts that Ameren Missouri's 2017 IRP analysis is not a**
20 **reliable basis for supporting continued (i.e., 2018-2019) investments in the**
21 **Company's coal-fired units. What is your response?**

22 A. The Company's 2017 IRP has in fact provided a reasonable basis for
23 ongoing investments in the Company's units since it was filed and found in compliance

1 with the IRP rules by the Commission, just as it has for the Company's investment in
2 energy efficiency programs and new renewable energy resources during that same time
3 period. As noted earlier, just approximately 18 months ago – on July 27, 2018 – the
4 Commission found that the Company's 2017 IRP complied with the Commission's IRP
5 rules and that the Company's resource acquisition strategy (including both supply-and-
6 demand side resources) meets the standards set forth in the Commission's IRP rules. The
7 IRP rules define an explicit process that accounts for all relevant factors that may affect
8 resource economics and decisions, including uncertainty regarding key assumptions and
9 the comparative economics of viable alternatives, including the retirement of existing
10 resources such as the Company's coal-fired generators. The investments about which Mr.
11 Allison complains were made – and in fact were being made – at the same time the
12 Commission found the 2017 IRP in compliance with the Commission's IRP rules.

13 **Q. Mr. Allison specifically cites an Eastern District Court case regarding**
14 **environmental compliance. Should the Company have included analysis for**
15 **potential remedies that might ultimately be required from that case in its 2017 IRP?**

16 **A.** No. Because the case was still pending and the court had yet to determine
17 the remedy, it would have been inappropriate to prejudge the outcome and use that as the
18 basis for resource decisions. In fact, this exact argument has already been reviewed and
19 rejected by the Commission. The Sierra Club raised this same argument as an alleged and
20 unresolved deficiency in the Company's 2017 IRP filing and the Company responded that
21 such analysis would be inappropriate just as I have done here. Significantly, the
22 Commission declined to recognize the Sierra Club's allegation as a deficiency in its order
23 regarding the Company's 2017 IRP and, in fact, found that the Company's IRP filing and

1 resource acquisition strategy met the requirements and standards set forth in the
2 Commission's IRP rules. Sierra Club's argument now is nothing more than an attempt to
3 re-litigate a position it took in the 2017 IRP docket that was already rejected.

4 **Q. Will the Company be evaluating this issue as part of its 2020 IRP**
5 **filing?**

6 **A.** Yes. Ameren Missouri will be evaluating the cost of complying with the
7 court's specified remedy (which was not even ordered until August 2019) as part of its
8 2020 IRP analysis, even as the District Court's original January 2017 order and its August
9 2019 ruling which specified a remedy are reviewed by the 8th Circuit Court of Appeals.⁴
10 Because the specific remedy the District Court believes appropriate is now known, it is
11 appropriate to include that remedy in the Company's 2020 IRP analysis, although
12 considerable speculation still exists as to whether that remedy would actually be required.
13 It is also worth noting that the Commission has recognized the appropriateness of now
14 evaluating this issue by including it in its order on Special Contemporary Issues (issued
15 on October 30, 2019, after the District Court's remedy had become known) to be
16 addressed by the Company in its 2020 IRP filing.

17 **Q. Do you know what the results of that analysis will show?**

18 **A.** I do not. We are still in the process of preparing our 2020 IRP analysis at
19 this time. This includes consideration of Sierra Club's positions in this case, expected
20 positions of parties including Sierra Club in the 2020 IRP case, and a complete review
21 and update of all the assumptions that go into a complex and robust IRP analysis that

⁴ I should note that all portions of the District Court's judgment that if eventually implemented years from now could require additional expenditures at Rush Island and Labadie have been stayed during the pendency of the appeal to the Eighth Circuit.

1 complies with the Commission's rules. Only after this analysis is performed will we be
2 able to draw any conclusions.

3 **Q. Will the Company also be evaluating early retirement of its coal-fired**
4 **units as part of its 2020 IRP analysis?**

5 A. Yes. We will evaluate early retirement of the coal units at Labadie, Rush
6 Island, and Sioux. A decision to retire the remaining two coal units at Meramec by the
7 end of 2022 has already been made.

8 **Q. Do you know what the results of those early retirement analyses will**
9 **show?**

10 A. No. As with the environmental compliance analysis noted above, we will
11 only be able to draw conclusions once the assumptions and analysis are completed.

12 **Q. Are there any constraints the Company must consider in determining**
13 **when a unit could or should be retired?**

14 A. Yes. In general, there are two major considerations when evaluating unit
15 retirements, and they both get to the heart of the need for a full IRP analysis. First, if
16 replacement generation resources are needed, after consideration of energy efficiency and
17 demand response, there must be sufficient time for siting, contract negotiation,
18 engineering, procurement, construction, and testing. The time needed to execute these
19 steps depends in part on the type of resource, which itself may be constrained by the
20 nature of the need. Second, if new transmission infrastructure may be required as a result
21 of closing a plant, as is typically the case with retirements of large generators, that
22 additional cost must be considered, and any possible retirement date of the generator
23 must also account for the lead time needed to plan and construct the required

1 transmission facilities. For example, the Company's planned retirement of its Meramec
2 Energy Center by the end of 2022, a decision made by the Company in 2014, necessitates
3 the construction of over \$240 million in new transmission infrastructure, which is on
4 track to be placed into operation prior to retirement of the generating units.

5 In the case of replacement generation, it is also important to understand whether
6 new resources are needed to replace generating capacity, energy production, or both. This
7 is especially critical in determining the role of wind, solar, and storage resources to
8 replace retiring generation. Wind resources provide significant energy (generally with
9 capacity factors of 40% or more), but do not provide significant reliable capacity at times
10 of peak demand. Storage resources provide significant capacity but no energy – in fact,
11 they consume energy because they are not 100% efficient. Solar resources provide some
12 capacity benefit and some energy benefit. These and any other replacement resources
13 may themselves require the development and construction of transmission infrastructure.

14 In the case of needed transmission infrastructure to support grid reliability in the
15 absence of retired units, MISO has a process – called the Attachment Y process – that
16 must be followed to determine whether and to what extent new transmission
17 infrastructure is required. MISO may also determine that the units in question may be
18 needed as so-called System Support Resources until such time as new infrastructure is in
19 place and operational. Upon such a determination, new transmission facilities must be
20 designed, constructed, and placed into service before the units in question may be retired.

21 Because the process for identifying and implementing transmission system
22 infrastructure necessitated by the retirement of generating units can take 7-10 years, it is
23 very unlikely that such unit retirements could be carried out in the next 3-5 years.

1 **Q. Aside from new transmission infrastructure needed to support**
2 **reliability of the system once a large unit is retired, are there other transmission**
3 **issues posed by retiring large units such as the plants discussed by Mr. Allison?**

4 A. Yes. Mr. Allison spends time in his testimony discussing replacement of
5 coal-fired generation with renewables, such as wind or solar. However, those resources
6 often require new transmission facilities, and as has recently been evident in the addition
7 of wind resources by Ameren Missouri, there can be significant challenges in getting
8 those necessary transmission facilities in place. Ameren Missouri and the Commission
9 have experienced this first-hand in recent months, as evidenced by the cancellation of the
10 157 megawatt Brickyard Hills wind project in Atchison County, Missouri, which the
11 Commission approved in File No. EA-2019-0021. As the Commission likely recalls,
12 while the project was otherwise on track, it had to be cancelled because the MISO
13 transmission studies resulted in estimated interconnection costs that were simply too high
14 to support the project's economics. This is but one example of the real world issues the
15 Company would have to grapple with if it simply discarded its coal-fired resources in
16 favor of renewables, as Mr. Allison seems to suggest is possible and warranted. The
17 Company will grapple with those issues in its 2020 IRP.

18 **Q. How does Ameren Missouri address such considerations as part of its**
19 **IRP analysis?**

20 A. The Company assesses the potential for early retirements through
21 integrated analysis and consideration of the replacement infrastructure, both generation
22 and transmission, that may be needed as a result of the retirements. For example, the
23 Company determined as part of its 2014 IRP evaluation that its Meramec steam units

1 should be retired by the end of 2022. Included in that decision was the consideration of
2 the need for transmission system infrastructure, which is currently in process and
3 expected to be completed prior to the scheduled retirement date for the generators. The
4 decision to retire Meramec was conveyed to MISO through the Attachment Y process,
5 and the transmission system analysis conducted as part of MISO's review determined the
6 need for the specific infrastructure upgrades now in process. That analysis demonstrated
7 a need for over \$240 million in new transmission infrastructure, which is expected to be
8 completed by the time the units are retired in late 2022.

9 Likewise, we will include such considerations in our 2020 IRP analysis of early
10 retirement of the other eight coal-fired units in Ameren Missouri's fleet. Mr. Allison did
11 not consider these realities in his assessment.

12 **Q. Other than the constraints you just discussed, are retirement decisions**
13 **a simple matter of evaluating the economics of retirement vs. continued operation?**

14 A. No, although that is obviously a major consideration. The economic
15 analysis includes consideration of, to the best of our ability, all of the various factors that
16 can be quantified in economic terms, including ranges of values for key uncertainties.
17 However, our IRP process includes consideration of other important factors as well, such
18 as customer affordability, economic development, portfolio diversity, and financial and
19 regulatory risks. We use a scorecard approach that incorporates all these considerations to
20 evaluate alternatives and support the selection of our preferred resource plan. In
21 conjunction with this, we also have to consider that a retirement decision, once fully
22 committed, is effectively irreversible. If a generator is likely, under certain
23 circumstances, to continue to provide benefits to customers, retirement permanently

1 forecloses on such a possibility. So, while Mr. Allison notes that continued investment in
2 coal units carries with it some risk, so too would a decision to abruptly end continued
3 investments in and operation of assets that support the provision of safe, reliable, and
4 cost-effective service to our customers. A particular risk may even be significant, but it
5 cannot in and of itself be determinative in decisions to retire an existing generator. Such
6 decisions must be reached through the kind of thoughtful analysis and evaluation that is
7 employed in our IRP process.

8 **IV. Sierra Club's Criticisms of Ameren Missouri's 2017 IRP Assumptions are**
9 **Unfounded and Untimely**

10 **Q. Setting aside for a moment that the Company's IRP process, filing**
11 **and plans provide a firm basis for its resource and investment decisions, Mr. Allison**
12 **takes issue with some of the specific assumptions used in the Company's 2017 IRP**
13 **analysis. Please describe the concerns expressed by Mr. Allison with respect to the**
14 **Company's 2017 IRP assumptions.**

15 **A.** Mr. Allison takes issue with three specific categories of assumptions –
16 capacity prices, environmental compliance costs, and costs for renewable resources. He
17 asserts that the Company's assumptions for capacity prices are unreasonably high. He
18 asserts that the Company's assumptions for the cost of renewable generation are
19 unreasonably high. Finally, he asserts that potential environmental compliance costs have
20 not been fully considered.

21 **Q. Has Sierra Club raised these same issues in prior Ameren Missouri**
22 **cases?**

1 A. Yes, as to two of them – renewable costs and environmental compliance.
2 As stated above, despite the fact that the Sierra Club claimed that these two items were
3 deficiencies in the 2017 IRP docket, the Commission declined to find them as such.
4 Sierra Club is simply attempting to relitigate these issues. This is the first time Sierra
5 Club has taken issue with the Company's capacity price assumptions.

6 **Q. Has Sierra Club had opportunities to take issue with the Company's**
7 **capacity price assumptions in the past?**

8 A. Yes, including the Company's 2017 IRP docket and the 2019 IRP Annual
9 Update docket.

10 **Q. Are the capacity price assumptions used for the Company's 2017 IRP**
11 **reasonable?**

12 A. Yes. The assumptions for capacity prices were developed using a planning
13 model that has been used for utility resource planning analyses for decades. They are the
14 result of assumptions for several key driver variables that the Company identified as part
15 of its 2017 IRP analysis. These key driver variables are natural gas prices, load growth
16 and coal plant retirements. These assumptions were applied by the model, which
17 simulates the entire Eastern Interconnect of the United States electric grid to calculate
18 prices for both electric energy and capacity. In short, the Company's assumptions for
19 capacity prices were developed in a manner that was completely consistent with its other
20 assumptions and using a well-accepted model that simulates the function of the electricity
21 markets in detail.

1 **Q. Mr. Allison asserts that the Company's capacity price assumptions**
2 **are too high given the recent results of MISO capacity auctions. How do you**
3 **respond?**

4 A. The short answer is that recent market conditions cannot be relied upon as
5 being representative of long-term, future market conditions. In recent years, MISO has
6 had more generating capacity than is needed for load and reserve margin requirements.
7 This has generally resulted in relatively low capacity prices in MISO. However, as
8 existing units are retired, MISO will be less and less likely to enjoy a capacity surplus,
9 and the resultant capacity prices will reflect this. As the Commission knows, integrated
10 resource planning is a long-term (20 years or more) planning process, and the
11 assumptions used must cover those long planning horizons.

12 **Q. Wouldn't it take a rather large number of coal unit retirements to**
13 **result in significantly higher capacity prices than MISO has experienced in recent**
14 **years?**

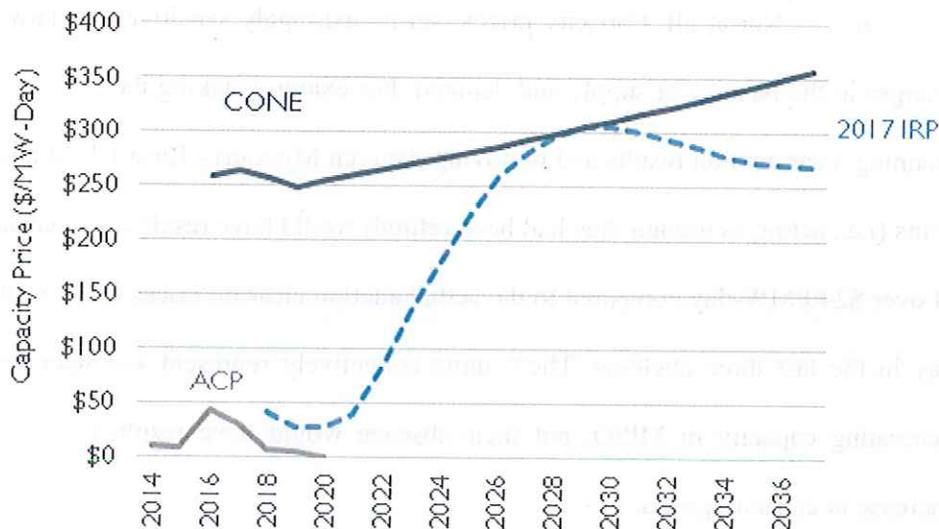
15 A. Not at all. Capacity prices can be extremely sensitive to relatively small
16 changes in the balance of supply and demand. For example, taking the 2019-2020 MISO
17 Planning Year auction results and removing Ameren Missouri's Rush Island and Labadie
18 Units (i.e., acting as though they had been retired) would have resulted in a capacity price
19 of over \$240/MW-day compared to the actual auction clearing prices of \$1.5-10.00/MW-
20 day in the last three auctions. These units collectively represent less than 4% of total
21 generating capacity in MISO, but their absence would have resulted in a very large
22 increase in capacity prices.

1 **Q. Mr. Allison notes that the clearing price for capacity is capped at**
2 **MISO's value for the Cost of New Entry ("CONE") and that the Company's future**
3 **capacity price assumptions exceed recent values for CONE. How do you respond?**

4 A. The Company's forward-looking price assumptions for capacity are at or
5 below the value for CONE once future inflation is accounted for. Including future
6 inflation is essential over the long, 20-year planning horizon because some level of
7 inflation will be a reality over that period of time. To illustrate this, I have taken Mr.
8 Allison's Figure 1 from his direct testimony, I added the 2020/21 value for CONE
9 recently published by MISO, and I added future estimates of CONE using a 2% annual
10 inflation value, the same value we used for general inflation in our recent IRP analyses.
11 The result is shown in Figure 1 below. As is apparent, the future capacity price
12 assumptions used in Ameren Missouri's 2017 IRP reach the value of CONE in one year –
13 2029 – and are otherwise below the value of CONE.

14

Figure 1



1 **Q. Mr. Allison criticizes the assumptions used for renewable resource**
2 **costs used in the Company's 2017 IRP filing. How do you respond?**

3 A. The Company's assumptions for wind and solar resource costs were
4 consistent with actual project bids at the time of the 2017 IRP. These cost assumptions
5 are regularly revisited as new information becomes available. In the case of wind
6 resource costs, a key difference between the Company's assumptions and generic public
7 information is that the generic public information fails to account for transmission
8 network upgrade costs while the Company includes estimates for those upgrade costs.
9 Our estimate was based directly on the cost of wind projects under negotiation at the time
10 the 2017 IRP was prepared. As the Commission knows, transmission network upgrade
11 costs for wind projects can be significant and can directly affect the viability of a
12 particular project. As I noted above, the Commission and the Company have seen that
13 first-hand.

14 Regarding solar resource costs, Sierra Club's assertion that the Company's
15 estimates were based on 2013 costs is erroneous. The Company noted in its response to
16 Sierra Club's comments on its 2017 IRP that this perception is based on a mistaken
17 reading of information in the Company's IRP workpapers. In its response, the Company
18 further noted that:

19 Ameren Missouri updated the 2013 solar cost assumption in 2016 with its
20 subject matter experts as it was preparing the draft reports for the 2017
21 IRP filing. The overnight capital cost for solar from the 2013 study was
22 \$3,777/kW in 2013 dollars, which equates to \$4,008/kW in 2016 dollars.
23 The solar cost for 2016 used in Ameren Missouri's 2017 IRP is
24 \$1,863/kW, which clearly accounts for a sharp decline in solar costs,
25 contrary to Sierra Club's allegation.

26 For its 2019 IRP Annual update, the Company again updated its estimates of wind
27 and solar resource costs, again basing them on the most recent available information.

1 **Q. Mr. Allison contends that the Company's evaluation of early**
2 **retirement of coal-fired units in its 2017 IRP was skewed because of what he claims**
3 **were inflated cost estimates for wind and solar resources. How do you respond?**

4 A. This is simply not true. A key in understanding why is knowing that wind
5 and solar resources receive credit for their capacity that is well below their maximum
6 rated output – typically around 15% of maximum output for wind and 50% for solar.
7 Another key consideration is the logistics of rapidly deploying wind and solar resources
8 at sufficient scale to replace the capacity and energy output of large conventional
9 generation resources. Taken together, these key considerations make evident that near-
10 term replacement of coal-fired generators with wind and/or solar resources alone is
11 infeasible.

12 **Q. Please explain why.**

13 A. For example, replacement of the capacity of Labadie Energy Center,
14 which is roughly 2,400 MW, would require 4,800 MW of solar generation or 16,000 MW
15 of wind generation. Replacement of the energy production from Labadie, which is
16 roughly 16 million MWh annually, would require over 8,000 MW of solar resources
17 costing over \$10 billion and require over 80 square miles of land area or over 4,500 MW
18 of wind generation costing over \$6.5 billion and require over 450 square miles of land
19 area. The numbers cited in the previous sentence reflect costs in line with the estimates
20 Mr. Allison cites, but does not include significant transmission network infrastructure
21 additions which, as noted above, Mr. Allison's estimates omit but which are likely to be
22 required, in order to obtain generator interconnection approval from the regional
23 transmission operator ("RTO"). It should also be noted that additional integration costs to

1 mitigate short-term reliability issues that often arise in systems with high renewable
2 penetration (e.g., the so-called "duck curve" issues seen in California) are not reflected in
3 these costs.⁵

4 **Q. Do these facts mean that there is no place for significant additions of**
5 **wind and solar as part of Ameren Missouri's long-term resource portfolio?**

6 A. Not at all. It simply serves to illustrate the logistical infeasibility of
7 retiring and replacing large amounts of coal-fired generation entirely with renewable
8 generation in the next several years, as Mr. Allison theorizes might be possible. In actual
9 fact, the Company's IRP analysis accounts for the need for new resources, or lack thereof,
10 as part of an integrated analysis of the Company's entire portfolio.

11 **Q. Mr. Allison asserts that the Company's assumptions regarding the**
12 **costs of environmental compliance are deficient and therefore bias the evaluation of**
13 **early retirements of coal-fired units. How do you respond to his assertion?**

14 A. Mr. Allison's assertion relies primarily on the recent court ruling involving
15 the Rush Island Energy Center. Not to be repetitive, but the Company's consideration of
16 the results of that case are best addressed in its upcoming 2020 IRP, and any evaluation
17 of speculative outcomes for that case in prior IRP analyses would have been premature.
18 As I also mentioned previously, this issue was raised by the Sierra Club in Ameren
19 Missouri's 2017 IRP case, rebutted by the Company in its response report in that case,
20 and not found to be a deficiency in the Company's IRP filing by the Commission in its
21 order on the 2017 IRP. The Commission recently recognized that the appropriate forum

⁵ The "duck curve" is a graph of power production over the course of a day that shows the timing imbalance between [peak demand](#) and renewable energy production.

1 for addressing this issue is in the Company's 2020 IRP by including it as a Special
2 Contemporary Issue for that IRP filing.

3 **V. Conclusion**

4 **Q. Please summarize your testimony.**

5 A. Sierra Club's assertion that the Company's continued investment in its
6 coal-fired units is imprudent is unfounded. The Company has appropriately conducted a
7 robust IRP process on which it has based its resource decisions and investments, and the
8 Commission has recognized such by finding that the Company's IRP and resource
9 acquisition strategy meet the requirements and standards set forth in the Commission
10 rules. The Company's 2017 IRP assumptions were appropriate and provided a reasonable
11 basis for analysis. The Company will be filing its 2020 IRP in less than nine months and
12 this is the appropriate forum in which to address long-term resource planning decisions. I
13 recommend that the Commission continue to rely on its robust and long-established IRP
14 planning process to address just these kinds of issues. Because of the foregoing, I further
15 recommend that the Commission find that the Company's investment in its coal-fired
16 resources is reasonable and appropriate and should be included in rate base.

17 **Q. Does this conclude your rebuttal testimony?**

18 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 Decrease Its Revenues for) File No. ER-2019-0335
Electric Service.)

AFFIDAVIT OF MATT MICHELS

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

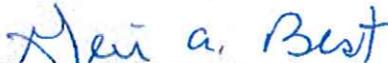
COMES NOW Matt Michels, and on his oath declares that he is of sound mind and lawful age; that he has prepared the foregoing *Rebuttal Testimony*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.



Matt Michels

Subscribed and sworn to before me this 21st day of January, 2020.



Notary Public

My commission expires:

GERI A. BEST Notary Public - Notary Seal State of Missouri Commissioned for St. Louis County My Commission Expires: February 15, 2022 Commission Number: 14839811
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