analysis indicated that these variables had more explanatory power than a simple dummy variable, where all dates after March 23, 2020 would be given a 1.

Staff normalized the usage for COVID-19 by assuming that continuing customer usage would more reflect the latter months of Staff's update period (i.e. a "new normal") rather than the period before March 2020. The Google mobility data indicates that customers continue to spend less time at work and more time at home when compared to the time before the pandemic. This is likely due to many of Ameren's customers continuing to have the work-from-home option through the update period. The results of this analysis were given to Staff witness Kim Cox as part of the weather normalization factors.

Staff Experts/Witness: Michael L. Stahlman

l. Lighting Revenues

Ameren Missouri has two lighting classes: Street and Outdoor Area Lighting-Company Owned, and Street and Outdoor Area Lighting-Customer Owned. Staff made an adjustment to Ameren Missouri's lighting revenue to update revenue through the twelve months ending April 2021. Staff will update revenue from both lighting classes for growth through September 30, 2021 in the true-up.

m. Total Normalized and Annualized Revenue

Below is Staff's ending revenue after the adjustments discussed above were applied.

Rate Class	Total MO Normalized Revenue	
Res	$	1,273,603,410
SGS	$	269,587,077
LGS	$	507,174,834
SPS	$	216,542,465
LPS	$	188,797,740
Light	$	36,840,553
MSD	$	74,966
Total	$	2,492,621,046

Staff Expert/Witness: Kim Cox

B. Miscellaneous Other Revenues

Ameren Missouri collects revenue for items such as forfeited discounts, late payment charges, rents, disconnects and reconnect fees, customer installation fees, and other miscellaneous revenue. As part of its review Staff has performed an analysis of each of the separate types of revenues listed below to determine an annualized amount to include in the revenue requirement.

> **Customer Late Fees** - Staff is recommending calendar 2019 be used as the annualized level of revenue to include in rates;
>
> **Customer Installations** – Trouble Calls, Collection and Remittance of Taxes, and Other Misc. Bill Adjustments - Staff is recommending a five year average for the months ending June 30, 2020 for due to the high variability from year to year in the accounts;
>
> **Joint Licensing Revenues** - Staff is recommending a three year average for the period ending June 30, 2020 due to the high variability from year to year in the account;

Disconnects/Reconnects, Rentals – Pole Space, Rentals – Other Leased Land, Rentals – Agricultural lands, Rentals – Facilities Other Customers – Staff is recommending the 12 months ending June 30, 2021 as the annualized level of revenue.

For accounts not mentioned above, or detailed below Staff believes that the test year level of revenue is reasonable.

Affiliate Rentals

Ameren Missouri receives rental revenue from its affiliates for the use of space in the Ameren general office building and other facilities. Staff has made an adjustment to reflect these intercompany revenues to reflect the current use of the space.

Bank of America Lease

Ameren Missouri had leased swing space at the Bank of America building located at 800 Market Street in downtown St. Louis while renovations were ongoing at the Ameren general office building. Ameren Missouri was receiving rental income from Ameren Services for the use of the swing space. Due to the cancelation of the lease, Staff has made an adjustment to remove the lease revenue from the test year.

Staff will continue to review miscellaneous revenues through the true-up period and may propose further adjustments as part of its true-up audit.

Staff Expert/Witness: Jason Kunst, CPA

Software Rental Revenue

Ameren Missouri owns several software programs and charges its affiliates rental costs for using them. Staff annualized affiliate software rental revenue by applying the last known amount of rental revenue in June 2021 over a 12-month period. Staff will continue to review this issue through the true up cutoff date of September 30, 2021.

Staff Expert/Witness: Paul K. Amenthor

C. Non-Rate Revenues

1. Coal Refinement Projects

The Cross-State Air Pollution Rule ("CSAPR") issued by the Environmental Protection Agency requires reductions in emissions of pollutants, such as Sulfur Dioxide ("SO_2") and Nitrogen Oxide ("NOx"). To this end, Ameren Missouri installed measures at its Rush Island, Sioux, and Labadie Energy Centers to treat its coal through a refinement process to reduce regulated emissions. Under current IRS guidelines, the Section 45 tax credits regarding refined coal are ending on December 31, 2021. Thus, Staff has removed all revenue and expense which increased the cost of service by approximately $20 million associated with coal refinement related to the amounts received by Ameren Missouri for lease payments, coal handling charges and license fees.

Staff Expert/Witness: Lisa M. Ferguson

2. Energy and Capacity Sales

a. Capacity

When not necessary to serve its own load, Ameren Missouri is able to sell a portion of its generation capacity to other utility companies. Receipt of revenues from capacity sales to other utilities reduces Ameren Missouri's cost-of-service. Ameren Missouri is able to sell its capacity first through independent contracts with other utility parties. Any remaining capacity is sold through the Midcontinent Independent System Operator ("MISO") planning resource auction ("PRA"). The MISO planning year spans the period of June 1 to May 31. The MISO resource adequacy auction is annual, with the PRA only covering the immediate planning year. Ameren Missouri's capacity revenue changes each year as of June 1 as that date coincides with the start of the next planning year. Ameren Missouri clears all available generation remaining after independent contracts in each planning year's PRA. The MISO resource adequacy construct does not differentiate capacity requirements by month, but does establish an annual value. The capacity which satisfies the requirements as set by MISO is a fixed annual volume.

In this case Staff has included a three year average of capacity sales and zonal deliverability benefits based on contracts and MISO expenses from the 2019-2020, 2020-2021, and 2021-2022 planning years. Staff will re-examine the level of capacity sales and any new capacity contracts as part of its true-up audit using information through September 30, 2021.

Staff Expert/Witness: Lisa M. Ferguson

b. Energy

Sales of electricity on the MISO market are made after Ameren Missouri has met all obligations to serve its native load customers, both retail and wholesale. By engaging in energy sales, Ameren Missouri generates profits which represent the net of gross proceeds and the associated cost of generation or purchased power. It is appropriate to include the revenues earned from energy sales in the cost of service because the facilities used in generating the electricity sold are paid for by ratepayers, as is the electricity purchased in order to meet Ameren Missouri's native load. For these reasons, the customers should benefit from these revenues earned by Ameren Missouri. Energy sales represent an efficient utilization of Ameren Missouri's electric facilities and systems that have been put in place to meet the electricity needs of its customers.

Energy sales revenues were calculated in Staff's production cost model by using the hourly-market energy prices as determined by Staff witness Shawn E. Lange, PE. Staff's cost of service calculation includes the annualized energy sales revenue as calculated by Staff witness Shawn E. Lange, PE using Staff's production cost model. It should be noted that Staff has reflected contracts for sale of power to Missouri municipalities as energy sales, consistent with its treatment for these contracts in previous rate proceedings. Staff will continue to examine energy sales revenues through September 30, 2021, which represents the true-up cut-off date.

Staff Expert/Witness: Lisa M. Ferguson

c. Bilateral Sales, Financial Swaps, and Real-time Deviation Adjustments

Physical bilateral transactions and financial swaps are hedging mechanisms used to mitigate some of the volatility in Off-System Sales Revenue. The bilateral adjustment is for net sales (sales minus purchases) made by the Company to counterparties outside the MISO market to increase revenues.

The financial swap adjustment is for transactions made by the Company to lock-in the sales price of underlying generation assets.

The real-time load and generation deviation adjustment is intended to capture the difference in dollars between the production cost model (which looks at day-ahead) and the operation of the MISO market, which has both a day ahead and real-time component.

Staff made three adjustments outside the production cost model to account for revenues earned from net physical bilateral energy trades, financial swaps, and real time load and generation deviation adjustment. Physical bilateral margins, financial swaps, and real time deviation of ** [redacted] ** should be utilized for these adjustments.

Typically to determine the normal level of for Physical bilateral margins, financial swaps, and real time deviation, Staff uses a three year monthly average. In February 2021, winter storm Uri affected the region with cold weather causing increased electricity demand and natural gas demand which increased the prices of electricity and natural gas. For further explanation of the effects of Winter Storm Uri please see Staff's report in AO-2021-0264. Staff made adjustments to normalize the market effects caused by Winter Storm Uri to the bilateral transactions, financial swaps, and real-time deviation adjustments following the same method as outlined in Staff witness J Luebbert's direct report section on Market Prices. Due to the lag of data, it was only possible to include data through May 30, 2021 from data provided as part of 20 CSR 4240-3.190. Reporting Requirements for Electric Utilities and Rural Cooperatives and the virtual data is not being reported by Ameren Missouri. Staff also requested an update for this analysis through June 30, 2021 in DR No. 0577 but Ameren Missouri objected to the request. Staff will update these recommendations with the True-up data Ameren Missouri provides to Staff.

Staff Expert/Witness: Shawn E. Lange, PE

D. Expense

1. Midcontinent Independent System Operator ("MISO")

a. Capacity Expenses

Similar to Staff's discussion of off system sales capacity revenue, the MISO utilizes an annual resource adequacy method to determine the amount of capacity expenses Ameren Missouri incurs. Ameren Missouri owns sufficient generation to meet the MISO resource adequacy requirements; however, to meet MISO's capacity planning requirements during each planning year (June – May), Ameren Missouri utilizes "self-scheduling" for capacity offers and purchases as opposed to using a Fixed Resource Adequacy Plan ("FRAP"), which must be used in "retail choice" states, such as Illinois. Ameren Missouri incurs capacity expense due to self-scheduling whereas it would not from utilizing the FRAP, because with self-scheduling all capacity is offered and purchased in the auction versus only the capacity in excess of demand (and the reserve requirement) with the FRAP method. However, Ameren Missouri also experiences benefits from self-scheduling that it would not be able to enjoy if it utilized the FRAP. The capacity expense for the entirety of the 2021-2022 planning year which ends May 31, 2022, is fixed as a result of the MISO auction. Staff adjusted capacity expense based on the new planning year information. Ameren Missouri's current capacity expenses are not affected by the FERC ROE complaint ruling discussed below. Staff will re-examine the level of capacity expense as part of its true-up audit using information through September 30, 2021.

Staff Expert/Witness: Lisa M. Ferguson

b. Day 2 Revenues and Expenses

Ameren Missouri participates in MISO activities, including the MISO day-ahead and real-time energy markets (often called the MISO "Day 2 Market"). As part of its participation in the MISO Day 2 market, Ameren Missouri received payments during the test year from the MISO related to the Revenue Sufficiency Guarantee ("RSG") provision of MISO's tariff. These payments are determined hourly and are designed to ensure that companies participating in the MISO Day 2 markets are made whole when utilities' total energy offer prices in the market are not covered by the actual market prices. MISO Day 2 revenue is purely energy market related and is not affected by changes in load. However, that is not the case for MISO Day 2 expenses.

MISO Day 2 expenses are based on the amount of energy settled at the "AMMO.UE" Commercial Pricing node. Since these offer prices include a margin for profits, it is important not to exclude the profit margins in the calculation. Currently, Staff is utilizing a 61.15% profit margin rate based on the calculations of margins embedded in the RSG make-whole payments during the recent 12-months ending June 30, 2021. In addition, Staff has annualized both test year revenue and expense levels for Day 2 Market items based on data provided for the 12-months ending June 30, 2021, however there were a couple of costs that required a three year average to normalize them. Staff will re-examine these adjustments through September 30, 2021, during its true-up audit.

In addition, Price Volatility and Net Regulation revenues were received by Ameren Missouri from MISO during the test year. Price Volatility payments are received when there is a deviation from real-time prices and Net Regulation Adjustment revenues are received to make generators price neutral for deploying energy above or below the dispatch target price. Staff has removed this amount from its cost of service calculations and Net Base Energy Cost ("NBEC") calculations given the fact that Staff's fuel model does not model non-economic dispatch; therefore, these revenues would not be reflected in the model's output. However, these items are taken into account in subsequent FAC filings to ensure that the actual revenues and costs experienced by Ameren Missouri are being flowed through to ratepayers.

Staff Expert/Witness: Lisa M. Ferguson

c. Transmission Revenue and Expense

All transmission revenues and expenses since September 2016 reflect the reduced ROE from the order in the first ROE complaint proceeding discussed further below. However, transmission revenue and expense will be subject to change due to the recent decision from those proceedings as well as ongoing activity surrounding this issue. In addition, the decrease in the federal income tax rate was reflected in MISO transmission rates as of January 1, 2018. The flow back of excess deferred income taxes was reflected in Ameren Missouri's revenue requirement as of June 1, 2019 as this calculation was based on 2018 information. Ameren Missouri is reflecting its excess deferred income taxes that flow through the transmission rates in the same manner as was agreed with the parties to the stipulation & agreement in Case No.

ER-2018-0362. The protected excess is being returned using the Average Rate Assumption Method (ARAM) and the unprotected excess is being returned over a 10 year period.

Staff has adjusted the test year level of MISO transmission revenue and expense, including the Transmission schedule 26A charges, by using data provided for the 12-months ending June 30, 2021 as the FERC ROE refunds continue to be an issue that is embedded within the transmission rate schedules. Schedule 26A charges deal with Multi-Value Projects ("MVPs") that are determined by the MISO and for which costs are allocated to the individual transmission owner ("TO") members. These projects are regional projects that originally began as reliability projects and have since developed into market efficiency projects. When determining costs for the next year, MISO will estimate a total "revenue requirement" early each year. Around September or October of the year prior to the new MISO rates being put into effect, the individual TOs will estimate what their individual cost allocation responsibility for the total MISO revenue requirement costs will be regarding schedule 26A charges. Then in January the new MISO rate will be known and will go into effect. For purposes of its direct filing, Staff annualized the schedule 26A expenses using Ameren Missouri's twelve months ending June 30, 2021 expense as the new MISO planning year does not being until January 1, 2022. Staff will continue to review all of Ameren Missouri's transmission transactions and the transmission transactions affecting Ameren Missouri as additional information becomes available through the true-up period.

FERC Return on Equity ("ROE") Complaint Cases

The MISO Transmission Owners' return on common equity of 12.38% was the subject of two FERC complaint proceedings, the November 2013 complaint case (EL14-12-000) and the February 2015 complaint case (EL15-45). These complaint cases challenged the allowed base return on common equity for MISO Transmission Owners and resulted in a 15 month period for which transmission rate refunds may be required. The total allowed return on equity for the Ameren Transmission Owning Companies was reduced to 10.82% until the order issued in the second complaint proceeding made by FERC regarding ROE on November 21, 2019. In Opinion No. 569, issued in November 2019, FERC said it would use the discounted cash flow (DCF) methodology and capital asset pricing model (CAPM) to determine if an existing base ROE is unjust and unreasonable, and, if so, what replacement ROE is appropriate. Applying the new methodology to the complaints against the Midcontinent Independent System Operator (MISO) transmission owners, Opinion No. 569 determined that their base ROE should be 9.88 percent.

On May 21, 2020, the Federal Energy Regulatory Commission (FERC) further refined its methodology for analyzing the base return on equity (ROE) and found that the MISO transmission owners' base ROE should be set at 10.02 percent. The order granted rehearing of Opinion No. 569 to use the risk premium model, DCF model, and CAPM and calculate the ranges of presumptively just and reasonable base ROEs by dividing the overall composite zone of reasonableness into equal thirds, instead of using the quartile approach that was applied in Opinion No. 569. The MISO transmission owners were required adopt a 10.02% base ROE effective September 28, 2016, and were required to provide refunds based on that 10.02% base ROE, with interest, for the First Complaint proceeding's 15-month refund period from November 12, 2013 through February 11, 2015, and for the period from September 28, 2016 to the date of the order. The Commission's dismissal of the Second Complaint was upheld and no refunds will be ordered in the Second Complaint proceeding.

On April 15, 2021, FERC issued a Notice of Proposed Rulemaking ("NOPR") to supplement its March 2020 NOPR regarding its electric transmission incentive policy. The FERC's March 2020 NOPR proposed to provide all utilities that turn over their wholesale transmission facilities to a Regional Transmission Organization ("RTO") a fixed 100 basis-point increase in return on equity ("ROE") ("RTO Participation Incentive"). The Supplemental NOPR proposes instead to codify its current practice of granting a 50 basis-point RTO Participation Incentive for utilities that join an RTO. In addition, FERC proposed that a utility will only be eligible for the incentive for the first three years after transferring operational control of its facilities to an RTO.

The Supplemental NOPR proposes that the 50 basis-point ROE adder for RTO participation will only be available for the first three years after the transmitting utility transfers operational control of its facilities to the RTO. FERC further proposes that each utility that previously received an ROE incentive for joining and remaining in an RTO must, within 30 days of the effective date of the final rule, submit a compliance filing removing the incentive from its tariff, or if it joined an RTO in the last three years, adding language to its tariff to terminate its incentive three years from the date it turned over operational control.

FERC also proposes that a utility will only be eligible for the incentive if it has not previously been a member of an RTO/ISO; to adopt the clarification proposed in the March 2020 NOPR that utilities must turn over operational control of their facilities to the RTO/ISO in order to be eligible for the incentive; and that utilities may not receive the incentive for transmission plant if the asset was already under the operational control of an RTO, whether as part of an affiliate or a separate owner. As Ameren Missouri has been a member of MISO longer than three years, a decision on this NOPR could possibly end Ameren's ROE incentive adder.

Recommendation

Staff was incorrect in its direct testimony regarding this issue in Ameren Missouri's last electric rate case, ER-2019-0335, in that Ameren Missouri has not yet returned FERC ROE refunds back to customers through the FAC, but in fact has still been recording all amounts to the deferral as set up in Case No. ER-2016-0179. Staff recommends that the Commission order Ameren Missouri to continue to continue to defer the FERC ordered refunded amounts in a regulatory liability account from the first complaint case and then again from the time period ordered upon the FERC's last order that are applicable to Ameren Missouri so that appropriate ratemaking treatment can be proposed in Ameren Missouri's next rate proceeding.

d. Ancillary Services Market Revenue and Expense

Ameren Missouri also participates in MISO's Ancillary Services Market ("ASM") where services beyond that of generation and transmission can be acquired to maintain grid stability and security. These services include frequency control, spinning reserves and operating reserves. Ameren Missouri entered the ASM to acquire ancillary services for its retail load and to be able to sell the ancillary services from its generation. Staff has accepted test year ASM revenue and expense levels and will continue to review Ameren Missouri's ASM transactions as additional information becomes available through the true-up period.

Staff Expert/Witness: Lisa M. Ferguson

2. Southwest Power Pool (SPP)

a. Revenue and Expense

Ameren Missouri's wind facilities generate energy that is put into the grid as the company's other generating centers do. The High Prairie wind facility generates electricity into the Midwest Independent System Operator (MISO) regional transmission organization (RTO) due to the facility's location in Northeast Missouri. The Atchison wind facility is located in northwest Missouri and its generation goes into the Southwest Power Pool (SPP) regional transmission organization (RTO).

In its most basic form, the SPP marketplace operates similarly to the MISO marketplace where generation is offered in day ahead and real-time that is then settled and cleared (purchased and sold). The RTO's then determine the energy needs and locations in which to send generation that the members of the RTO need. The main difference between SPP and MISO is that SPP does not have a capacity market where generator capacity can be purchased or sold nor do they have a rate schedule for Real-Time Price Volatility Make-Whole Payments. These payments protect the day ahead margin for generators if they offer their full ramp rate and follow independent system operator (ISO) dispatch instructions in real time. MISO and SPP both have the standard make-whole payment, however MISO also offers this other type of make-whole payment. Ameren Missouri offers up all of its generation into MISO, and now SPP, and then purchases back what it needs to meet native load. Any additional generation not used to meet native load is sold as energy sales. The Atchison wind facility does not need to transport any of their energy as that energy can be directly inserted into the grid within close proximity to the facility, thus the Atchison wind farm does not incur transmission costs as Ameren Missouri's other generators do in MISO. Atchison has just begun to interconnect into SPP and very little data exists regarding the energy revenues and expenses related to the facility. Staff is including an annualized level using the data from January 1, 2021 through June 30, 2021 of ancillary revenue and an annualized level using the data from January 1, 2021 through June 30, 2021 of expense related to the SPP in its cost of service. Staff will review these costs as part of its true up audit.

Staff Expert/Witness: Lisa M. Ferguson

3. Fuel and Purchased Power Expense

Ameren Missouri's electric supply is primarily generated from Company owned generation centers; however Ameren Missouri does at times purchase power in instances such as when energy centers have outages, extreme weather conditions, or availability of power at a lower cost than generation. As part of its audit in this rate case, Staff reviewed Ameren Missouri's coal commodity and coal transportation contracts, as well as nuclear, natural gas, fuel oil prices and purchased power agreements as provided in Ameren Missouri's fuel reports, workpapers, and responses to Staff data requests. The chart below identifies the generating facilities that Ameren Missouri owns and operates for the production of electric power with descriptions of each facility:

Unit	Type	Year Placed in Service	Summer Net MW Capability	Primary Fuel
Callaway	Base Load	1984	1,194 MW	Nuclear
Rush Island 1 - 2	Base Load	Unit 1: 1976 Unit 2: 1977	1,178 MW	Coal
Labadie 1 - 4	Base Load	Unit 1: 1970 Unit 2: 1971 Unit 3: 1972 Unit 4: 1973	2,372 MW	Coal
Sioux 1 - 2	Base Load	Unit 1: 1967 Unit 2: 1968	972 MW	Coal
Meramec 1 - 2[105]	Base Load/ Cycled Based on Economics	Unit 1: 2016 Unit 2: 2016	236 MW	Natural Gas
Meramec 3 - 4	Base Load/ Cycled Based on Economics	Unit 1: 1958 Unit 2: 1961	591 MW	Coal
Keokuk	Run of River	1914	144 MW	Water
Osage	Ponded Hydro	1931	235 MW	Water
Taum Sauk	Pump Storage	1963	440 MW	Pumped Water
Kirksville	Peaking	1967	Retired 6/30/18	Natural Gas

[105] Meramec units 1 and 2 converted to natural gas in early 2016.

Unit	Type	Year Placed in Service	Summer Net MW Capability	Primary Fuel
Venice CT 2 - 5	Peaking	Unit 2: 2002 Unit 3-5: 2006	492 MW	Natural Gas
Fairgrounds	Peaking	1974	55 MW	Natural Gas
Meramec CT 1	Peaking	1974	Retired 12/29/20	Oil
Meramec CT 2	Peaking	2000	46 MW	Natural Gas
Mexico	Peaking	1978	54 MW	Natural Gas
Moberly	Peaking	1978	54 MW	Natural Gas
Moreau	Peaking	1978	54 MW	Natural Gas
Peno Creek 1 - 4	Peaking	2002	192 MW	Natural Gas
Pinckneyville 1 - 8	Peaking	Units 1-4: 2000 Units 5-8: 2001	316 MW	Natural Gas
Kinmundy 1 - 2	Peaking	2001	210 MW	Natural Gas
Audrain 1 - 8	Peaking	2001	608 MW	Natural Gas
Goose Creek 1 - 6	Peaking	2003	438 MW	Natural Gas
Raccoon Creek 1 - 4	Peaking	2002	304 MW	Natural Gas
Maryland Heights	Renewable	2012	8 MW	Methane Gas
O'Fallon	Renewable	2014	3 MW	Solar
BJC	Renewable	2020	1.5 MW	Solar
Lambert	Renewable	2019	1 MW	Solar
High Prairie	Renewable	2020	400 MW	Wind
Atchison County	Renewable	2021	300 MW*	Wind

*One turbine has not yet been placed in service that is 4.2 MW.

Staff witness Shawn E. Lange, PE also reviewed multiple years of market energy prices. Staff's annualized and normalized level of fuel and purchased power expense was calculated to be sufficient for Ameren Missouri to serve its native load and to enable it to make off-system sales through the MISO day-ahead market. Staff's fuel expense adjustment includes all changes to coal commodity and transportation costs based upon contracts in effect January 1, 2021. Staff's fuel expense adjustment for nuclear fuel is based on generation and cost data for the 16 month period from Refuel 23 through September 30, 2020 prior to Refuel 24 as there is no data to rely on past the date Callaway went down for the Refuel 24.

Staff's fuel cost calculation also includes the fixed and variable demand cost of natural gas and costs associated with fly ash, both of which are discussed in their respective sections of testimony in this cost of service report. Staff's annualized purchased power expense is based upon the output of the fuel model, as sponsored by Staff witness Shawn E. Lange, PE. Staff will continue to examine each component of fuel expense through the true-up period ending September 30, 2021, so that any significant changes that occur through that date are addressed.

Staff Expert/Witness: Lisa M. Ferguson

a. Accounting Coal Prices

Staff's coal prices are used to compute Ameren Missouri's fuel costs based on the total coal unit generation that is determined by Staff's production cost model. Staff performed a review of all of Ameren Missouri's current coal commodity and transportation contracts. Staff's coal prices on a per-MMBtu basis reflect Ameren Missouri's mine-specific coal commodity, coal rail car costs including depreciation, and coal rail and barge transportation contracts that will be in effect as of January 1, 2021. Staff also included an ongoing level of expense of fuel hedge surcharges associated with rail transportation. These hedges are tied to the prices of on-highway diesel as reported by the Energy Information Administration, an agency of the U.S. Department of Energy ("DOE").

Staff Expert/Witness: Lisa M. Ferguson

i. Fly Ash

Historically, Ameren Missouri's expenses associated with fly ash have been partially or entirely offset by revenues generated by selling the fly ash to third parties. Staff has proposed to include the twelve months ending June 30, 2021 for both fly ash revenue and expense in its cost of service. Staff will continue to review information regarding fly ash costs and sales through the true-up cut-off in this case.

Staff Expert/Witness: Lisa M. Ferguson

b. Nuclear Fuel Prices

Uranium is a naturally radioactive metal that undergoes a complex three-stage process, involving conversion, enrichment, and fabrication, in order to be transformed into fuel rod assemblies (long metal tubes filled with precisely fashioned small fuel pellets) that are used in the Callaway reactor as its source of fuel. The nuclear fuel price calculated by Staff represents the cost of all of the fuel rod assemblies that are currently loaded into the reactor. Callaway has been down due to an unplanned outage that lasted from December 24, 2020 to August 7, 2021 and as such Staff used available data for calendar 2020 (test year) to calculate the fuel price used in its direct filing. Staff will reexamine the actual nuclear fuel prices through September 30, 2021 as part of its true-up audit, and will reflect these costs as part of its true-up filing.

Staff Expert/Witness: Lisa M. Ferguson

c. Fixed Natural Gas Cost

Staff has included a three year average ending December 31, 2020 of the fixed demand cost of gas, in its recommended revenue requirement. Staff's production cost model only includes variable commodity gas costs. Therefore, the cost of fixed gas must be added to the production cost model's results to determine the total net fuel and purchased-power expense. Staff will examine this cost through the true-up cut-off date of September 30, 2021, in this case.

Staff Expert/Witness: Lisa M. Ferguson

d. Variable Natural Gas Cost

Staff has provided a three year average of variable natural gas costs as an input to Staff's production cost model. The annualized amount that will be produced from the production cost model will be utilized to determine the net fuel and purchased power expense. Staff will examine this cost through the true-up cut-off date of September 30, 2021, in this case.

Staff Expert/Witness: Lisa M. Ferguson

e. Fuel Oil

Fuel oil represents a small portion of the total fuel costs for Ameren Missouri, it is mainly used for startup and auxiliary purposes at generating stations. Staff included a three year average of fuel oil costs as an input to Staff's Production Cost Model. Staff will examine this cost through the true-up cutoff date, September 30, 2021.

Staff Expert/Witness: Lisa M. Ferguson

f. Market Prices

The market price represents the dollar-per-megawatt-hour amount paid for electric energy in the Midcontinent Independent System Operator ("MISO") market in any given hour. A market price for each hour of the test year was provided to Staff witness Shawn E. Lange, PE as a key input in Staff's fuel modeling. For each hour, the fuel model is programmed to economically dispatch each unit based on the inputs provided. The market price therefore sets the marginal generator, determines which of the Company's generators will run, and the cost of fuel for those generators.

In order to account for the variability of market prices, Staff developed a normalized set of prices by looking at three years of market data ending May 2021 and calculating monthly peak and off-peak prices. Generally, Staff calculated peak and off-peak adjustment factors for each month based on the ratio of the three-year averages to the monthly averages in the test period. The adjustment factors were then applied to the hourly weighted average market price for the Ameren Missouri generation fleet. This method minimizes extreme price points caused by such things as weather, new market operation, and economic downturns while reasonably representing peak and off peak prices. However, Staff altered its method for the month of February due to the high market prices experienced during 2021 as a result of Winter Storm Uri. Market prices in February of 2021 were higher than expected. As a point of reference, the average market price for the Ameren Missouri aggregate load node[106] in February 2021 ** [redacted][107] [redacted].[108] ** Therefore, Staff based the February adjustment factors on the ratio of the two-year average of February peak and off-peak prices in 2019 and 2020. The adjustment factor was then applied to the market price data of February 2020 as a proxy for the February 2021 data set (adjusted slightly to account for

[106] AMMO.UE.

[107] ** [redacted] **.

[108] Ameren Missouri response to Staff DR No. 0684.

the difference in the timing of weekends and weekdays), because February 2020 is the nearest data set for that month that did not include the effects of Winter Storm Uri.[109]

Staff Expert/Witness: J Luebbert

4. <u>Fuel and Purchased Power Cost Modeling</u>

a. Normalization of Hourly Load Requirements at Transmission

i. System Energy Losses

System energy losses largely consist of the energy losses that occur in the electrical equipment (e.g., transmission and distribution lines, transformers, etc.) of Ameren Missouri's system. Historically, this calculation has represented the amount of losses between its generating sources and the customers' meters. However, with its participation in the Midcontinent Independent System Operator ("MISO") market, Ameren Missouri sells its generation into the MISO market and buys back from MISO what is to be delivered to its customers' loads, an amount referenced as the Load Requirement at Transmission ("LRT"). In addition, small, fractional amounts of energy either stolen (diversion) or not metered are included as system energy losses.

The basis for calculating system energy losses is that LRT equals the sum of "Total Sales," "Company Use," and "System Energy Losses." Thus, System Energy Losses can be expressed mathematically as:

$$\text{System Energy Losses} = \text{LRT} - (\text{Total Sales} + \text{Company Use})$$

The System Energy Loss Percentage can be expressed as:

$$\text{System Energy Losses X 100\%}$$

LRT is also equal to the sum of the Company's net generation and net interchange, considered to be at the transmission level. Net generation is the total energy output of each generating plant minus the energy consumed internally to enable the production of electricity at each plant. Net interchange is the difference between off-system purchases and off-system sales.

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109 ** [redacted] **

The output of each generating plant is monitored continuously, as is the net of off-system purchases and sales.

Staff has calculated a system energy loss percentage of 4.602%. This system energy loss calculation has been provided to Staff witness Michael L. Stahlman to be utilized in the development of hourly loads that are used in Staff's fuel model.

ii. Loss Study As It Applies To The Fuel Adjustment Clause

Ameren Missouri supplied Staff with a Loss Study in its Response to Staff DR No. 0239. This loss study includes analyses based on data collected during calendar year 2018. Therefore, Ameren Missouri is in compliance with the rule requiring a current loss study be provided in conjunction with a request to continue a Rate Adjustment Mechanism ("RAM"), i.e. its Fuel Adjustment Clause ("FAC") in the current case, per 20 CSR 4240-20.090(13).[110]

Voltage adjustment factors ("VAF"s) account for the energy losses experienced in the delivery of electricity from the generation level to the retail customer. The existing FAC tariff utilizes two VAFs: "Secondary" and "Primary." In its Direct Testimony, Ameren Missouri has proposed two additional voltage adjustment factors for customers that receive electric service at higher voltage levels: VAFs for "High Voltage Primary" and "Transmission" levels. Ameren witness Michael Harding indicates that this is being proposed in view of the Stipulation and Agreement in the 2019 Ameren rate case. Therefore, in its recommended revised FAC tariff, attached to the Direct Testimony of Michael Harding, Ameren Missouri is proposing four VAFs (Transmission, $HV_{Primany}$, $LV_{Primany}$, and Secondary voltage levels) instead of the current two VAFs.

Adding additional voltage level factors better reflects costs for those customers taking service at higher voltages and thus Ameren's proposal seems reasonable. VAFs for each of the four voltage levels is calculated based upon information included in the aforementioned loss study.

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[110] 20 CSR 4240-20.090(13) Rate Design of the RAM. The design of the RAM rates shall reflect differences in losses incurred in the delivery of electricity at different voltage levels for the electric utility's different rate classes as determined by periodically conducting Missouri jurisdictional system loss studies. ...When the electric utility seeks to continue or modify its RAM, the end of the twelve- (12-) month period of actual data collected that is used in its Missouri jurisdictional system loss study must e no earlier than four (4) years before the date the utility files the general rate proceeding seeking to continue or modify its RAM.

Staff has calculated the following VAFs:

Transmission	0.9954
$HV_{Primany}$	1.0085
$LV_{Primany}$	1.0248
Secondary	1.0567

The VAFS will be utilized by Staff witness Brooke Mastrogiannis in determining Fuel Adjustment Rates ("FARs"). The FARS are applicable to the individual voltage service classification of a particular customer in the corresponding FAC tariff, if the Commission authorizes Ameren Missouri to continue its utilization of its FAC tariff.

Staff Expert/Witness: Alan J. Bax

b. Variable Fuel Expense

Staff estimates the variable fuel and purchased power expense for Ameren Missouri for the update period, as defined in the Rate Revenue Section of Staff's Cost of Service Report, ending June 30, 2021, to be $ 348,740,175.

Staff uses the Plexos production cost model to perform an hour-by-hour chronological simulation of a utility's generation and power purchases. Staff uses this model to determine annual variable cost of fuel and net purchased power energy costs and fuel consumption necessary to economically serve the utility's load and operate within the Midcontinent Independent System Operator ("MISO") energy market. These amounts are supplied to the Auditing Department Staff who use these inputs in its calculation of the annualization of net fuel and purchased power expense.

Staff used market prices in its fuel model dispatch to simulate Ameren Missouri's operations in the MISO Integrated Marketplace ("IM"). The price for energy in the IM dictates the amount of energy Ameren Missouri sells in the IM. Consequently, Staff's fuel run dispatches Ameren Missouri's generation to match the MISO market price, thus simulating how the MISO would dispatch generation if it were being dispatched into the MISO IM based on prices set by the MISO's regional load requirements. Similar to constraints applied in Ameren Missouri's modeling, Staff applies constraints within the model to reasonably align the modeled unit performance with historical unit performance. This is intended to simulate Ameren Missouri's IM bidding strategies.

The model operates in a chronological fashion, meeting each hour's energy demand before moving to the next hour. It will schedule generating units to dispatch in a least cost manner based upon fuel cost and purchased power cost while taking into account generation unit operation constraints and firm purchased power contract requirements. This model closely simulates the way a utility should dispatch its generating units and purchase power to meet the net system load in a least cost manner.

Model inputs calculated by Staff are: fuel prices, spot market purchased power prices and availability, hourly load requirements at transmission, and unit planned and forced outages. Staff relied on Ameren Missouri responses to data requests and workpapers for factors relating to each generating unit. These factors include: capacity of the unit, unit heat rate curve, primary and startup fuels, ramp-up rate, startup costs, fixed operating and maintenance expense as well as information from Ameren Missouri's wholesale loads. Firm purchased power contract information, such as hourly energy available and prices, are also inputs to the model.

The Staff model was benchmarked by using Ameren Missouri's model inputs. The difference between Staff's model benchmark results and the Ameren Missouri model results, supported by Mark Peters' direct testimony, was, for the coal and nuclear generation units, less than 1.5% difference in the level of generation.

Staff Expert/Witness: Shawn E. Lange PE

c. Capacity Contract Prices and Energy

Capacity contracts are contracts for a specific amount of capacity (megawatts or MW) and a maximum amount of hourly energy (megawatthours or MWh). Prices for the energy from these capacity contracts are based on either a fixed contract price or the generating costs of providing the energy. The contract relevant to this case is the Horizon Pioneer Prairie wind contract.

Actual hourly contract transaction prices were obtained from the Horizon Pioneer Prairie contract provided by Ameren Missouri. The hourly energy was developed by averaging the actual hourly energy from 2010 through May 2021 from data Ameren Missouri supplied to comply with 20 CSR 4240-3.190 Reporting Requirements for Electric Utilities and Rural Cooperatives.

Staff Expert/Witness: Shawn E. Lange, PE

d. Planned and Forced Outages

Planned and forced outages are infrequent in occurrence, and variable in duration. In order to capture this variability, the Ameren Missouri generating unit outages were normalized by averaging six years (January 2015 through May 2021) of actual values taken from data Ameren Missouri supplied to comply with 20 CSR 4240-3.190.

Staff witness Charles T. Poston, PE has testimony on the forced outage at Callaway starting on December 24, 2020. Staff models normal outages, since this forced outage was not normally occurring, Staff has removed it from the Callaway forced outage rate in this case.

Staff Expert/Witness: Shawn E. Lange, PE

5. <u>Other Fuel-Related Items</u>

a. Fuel Additive – Limestone for Sioux Scrubbers

In order to properly operate the Sulfur Dioxide ("SO_2") scrubbers at the Sioux Energy Center ("Sioux"), Ameren Missouri utilizes limestone as a fuel additive. After being purchased, but before being transported to Sioux, the limestone must undergo a pulverization process in order to meet the standards of quality necessary for use in the scrubbers. Ameren Missouri maintains contracts with three vendors for this operation—one from whom the limestone is purchased, one to process the limestone so that it is useable, and one who will transport the processed limestone to Sioux.

Staff included a three year average ending December 31, 2020 price for limestone applied to Staff's normalized kWh generation as modeled in Staff's fuel model for limestone and will continue to review limestone data through September 30, 2021 to be reflected in its true-up filing.

Staff Expert/Witness: Lisa M. Ferguson

b. Fuel Additive – Activated Carbon

In order for Ameren Missouri to comply with mercury emission limits established by the EPA's Mercury and Air Toxics Standards ("MATS"), powdered activated carbon is used at Ameren Missouri's generating units to reduce mercury emissions. The activated carbon is processed (or "activated") so that it produces carbon particles with high porosity and greater surface area. The activated carbon is injected into and absorbed by the flue gas and is then captured in the electrostatic precipitators at the Labadie, Rush Island, Meramec, and Sioux Energy Centers. Ameren Missouri has contracted with a handful of vendors to acquire and transport activated carbon to its plants as necessary.

Staff annualized the cost of activated carbon by including a three year average ending December 31, 2020 as applied to Staff's normalized kWh generation as modeled in Staff's fuel model for activated carbon.

Staff will continue to review activated carbon use data at all energy centers through September 30, 2021 to be reflected in its true-up filing.

Staff Expert/Witness: Lisa M. Ferguson

c. Heat Rate and Efficiency Testing

Whenever an electric utility requests that a rate adjustment mechanism ("RAM") such as a Fuel Adjustment Clause ("FAC") be continued or modified, Commission Rule 20 CSR 4240-20.090(2)(A)(15) specifies that the electric utility shall file supporting information, in electronic format where available, with all links and formulas intact, as part of, or in addition to, its direct testimony as part of its direct filing in a general rate proceeding.

> 20.090(2)(A)(15). A level of efficiency for each of the electric utility's generating units determined by the results of heat rate/efficiency tests or monitoring that were conducted or obtained on each of the electric utility's steam generators, including nuclear steam generators, heat recovery steam generators, steam turbines and combustion turbines within twenty-four (24) months preceding the filing of the general rate increase case.

Heat rates of generating units are an indicator of each unit's performance. A heat rate is a calculation of total volume of fuel burned for electric generation multiplied by the average heat content of that volume of fuel for a given time period divided by the total net generation of electricity in kilowatt hours (kWh) for that same time period. Heat rates are inversely related to the operating efficiency of the generating unit. Increasing heat rates of specific units over time may indicate that a specific unit's efficiency is declining. Heat rates can vary greatly depending on operating conditions including but not limited to load, hours of operation, shutdowns and startups, unit outages, derates[111], and weather conditions. Therefore, a good indication of unit performance for a utility's frequently used units is an analysis of the trend of heat rates over time.

Ameren Missouri witness Andrew Meyer included Schedule AMM-D1 (Section O) in his testimony that stated the results of the most recent heat rate/efficiency tests for Ameren's generating units would be sent in a "separate workpaper specifically denominated as such." On April 7, 2021, Rachel DuMey provided Staff with an email containing some of the relevant workpapers. Staff also received a disc containing work papers as some of the work papers were too large to be emailed. Staff has conducted a review of the results contained in those workpapers and found them to be reasonable based on comparisons with data filed in previous FAC prudency reviews, general rate case proceedings and known changes in power plant operating parameters. All of the testing dates submitted by Ameren Missouri were found to be in accordance with the twenty-four (24) month requirement of 20 CSR 4240-20.090(2)(A)(15).

Staff Expert/Witness: Jordan T. Hull

d. Spent Fuel and Department of Energy (DOE) Breach of Contract Settlements with Ameren Missouri

Ameren Missouri has maintained with the United States Department of Energy an executed settlement agreement regarding spent nuclear fuel fees that began in 2011 with several addendums to the original agreement in 2014 and 2017. The current addendum was executed on November 1, 2020 and Ameren Missouri intends to extend the Settlement Agreement beyond 2022. The Settlement Agreement and addendums to extend said agreement delineate the original reimbursement amount as well as sets out the process for subsequent claims for reimbursement related to spent nuclear fuel costs, allowable costs and cost categories to be claimed, modifications to the generation plant, final determinations of costs and other legal requirements.

During the calendar year after a calendar year where costs are incurred related to its Independent Spent Fuel Storage Installation (ISFSI), Ameren Missouri submits a written claim per the terms of the settlement agreement to the DOE. The DOE assesses Ameren Missouri's

[111] Derate - To lower the rating of (a device), especially because of a deterioration in efficiency or quality.

claim against the regulations set out in the Settlement Agreement and then determines the amount to reimburse to Ameren Missouri at a later date.

Ameren Missouri has requested and received the following reimbursements:

Year	Requested Reimbursement	Reimbursement Received	Disallowed by DOE
2009/2010	$79,634	$73,894*	$5,740
2011	$849,544	$818,692	$30,851
2012	$6,264,937	$6,227,978	$36,959
2013	$15,107,849	$14,933,364	$174,485
2014	$15,032,120	$13,847,006	$1,185,114
2015	$23,682,151	$23,586,656	$95,495
2016	$2,960,860	$2,920,420	$40,440
2017	$11,859,249	$11,035,375	$823,874
2018	$21,293,549	$21,176,040	$117,508
2019	$21,176,549	$21,176,040	$509
2020	$9,896,559	$9,896,559	$0
2021	$9,519,159	Currently Pending Review	------

*The total amount received for 2009/2010 from the DOE was $10,551,468. This amount includes reimbursement for spent fuel racks of $10,477,574 in addition to the dry cask storage reimbursement shown above

The difference between the amounts claimed and the amounts reimbursed were due to the DOE determining that certain costs claimed for reimbursement did not meet the criteria set forth in the Settlement Agreement.

Ameren Missouri has received the reimbursement for all capital costs incurred relative to the ISFSI for which the DOE has classified as meeting the criteria set out in the Settlement Agreement. The costs requested for reimbursement fluctuate based on actual expenses that are incurred based on the tasks that are completed during any calendar year. Typically during the year prior to a loading of spent fuel into the ISFSI, significant costs for materials are incurred. Also, the reimbursements for years where spent fuel loading takes place can differ due to the number of fuel canisters loaded into dry cask storage and labor. Ameren Missouri is not incurring capital costs at this time but continues to receive reimbursements for ongoing spent nuclear fuel expenses. Ameren Missouri is recording the ongoing spent nuclear fuel costs as a receivable on its balance sheet and then offsetting that receivable when the reimbursement is applied. Staff has no changes to this method at this time.

Staff Expert/Witness: Lisa M. Ferguson

6. Payroll and Benefits

a. Payroll

Staff computed annualized payroll by adjusting the test year labor costs, as of the twelve months ending December 31, 2020, in order to reflect:

A) Staff's inclusion of wage increases to each payroll class, which were ** [redacted] ** for contract employees and ** [redacted] ** for management, on January 1, 2021[112];

B) Staff's removal of portions of certain employees' salaries dedicated to lobbying activities, as Staff witness Jane C. Dhority proposes;

C) Staff's inclusion of the current O&M ratio for the 12 months ending June 30, 2021,

D) Staff's inclusion of the change in headcount of ongoing management and contract employees through June 30, 2021; and,

E) Staff's normalization of the overtime associated with the Callaway nuclear refueling that occurs every 18 months, as addressed by Staff witness Lisa M. Ferguson.

Staff's adjustment for payroll expense was distributed by account based on Ameren Missouri's actual payroll distribution during the test year ending December 31, 2020.

There were no severance costs during the test year. Staff will reexamine payroll and any payroll related costs during its true up audit to determine whether any further adjustments to the cost of service are necessary.

Staff Expert/Witness: Paul K. Amenthor

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[112] For the purposes of calculating the annualized effect of the wage increases, Staff removed all incentive compensation and bonus payments from the test year payroll expense in order to isolate base payroll expense before applying the wage increases.

b. MEEIA Labor

A component of Ameren Missouri's Missouri Energy Efficiency Investment Act (MEEIA) is a portfolio of demand-side programs which are funded through the Demand-Side Investment Mechanism (DSIM) rider.

On December 5, 2018 the Commission approved a Stipulation and Agreement in Case No. EO-2018-0211 approving Ameren Missouri's 2019-2021 MEEIA Energy Efficiency Plan. As part of its plan, Ameren Missouri may include incremental labor costs in the MEEIA rider until those costs are included in base rates if four requirements are met. The employee must have been 1) hired after Commission approval of this plan, 2) not hired to replace an existing employee, 3) hired to work exclusively on MEEIA programs, and 4) not an existing Ameren Missouri or Ameren Services employee. Between January 1, 2020 and April 1, 2020 Ameren Missouri hired three incremental MEEIA employees. The payroll and benefits for these employees was charged through the MEEIA rider until April of 2020. Staff made an adjustment to remove these employees' labor costs incurred in the test year that were recovered through the MEEIA rider.

Additionally as part of Staff's prudence review in Case No. EO-2021-0157, Ameren Missouri indicated that it charged additional incremental labor through the MEEIA rider for work performed on billing upgrades in the Pay as You Save ("PAYS") program. However, Ameren stated that it did not hire additional employees to do this work, so the labor would not meet the four requirements above. Staff made no adjustment to remove the incremental labor performed on the PAYS billing program, and these costs should be removed as part of Ameren Missouri's next MEEIA review.

Staff Expert/Witness: Paul K. Amenthor

c. Payroll Taxes

Staff applied the current 2021 tax rates for the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA), and the State Unemployment Tax Act (SUTA) to Staff's annualized payroll to determine the ongoing level of payroll taxes. Staff's payroll tax adjustment reflects Ameren Missouri's level of payroll as of June 30, 2021. Staff will re-examine this issue as part of its true up audit.

Staff Expert/Witness: Paul K. Amenthor

d. Other Employee Benefits

Ameren Missouri offers employee benefits comprised of medical, dental, and vision insurance, as well as a 401k. Staff annualized these expenses based on the benefit plan in place during the test year, as applied to the actual level of employees for each payroll class (contract and management) on June 30, 2021. Staff will reexamine employee benefits costs and any new benefit plans as part of its true up audit.

Staff Expert/Witness: Paul K. Amenthor

e. Pensions and Other Post-Employment Benefits ("OPEBs")

Defined benefit pension costs and postretirement benefit costs consist of several components, referred to as service costs and non-service costs, and these costs are grouped in a company's financial statements. Service costs represent the present value of pension benefits earned during the year, whereas non-service costs are mostly related to employees' prior service. The Financial Accounting Standards Board ("FASB") issued ASU-2017-07, an accounting standard update ("ASU") in March 2017 regarding topic 715, Compensation–Retirement Benefits. The update was released to improve the presentation in the financial statements of net periodic pension cost and net periodic postretirement benefit cost in order to improve the consistency, transparency, and usefulness of financial information. Further, the Federal Energy Regulatory Commission ("FERC") Office of Enforcement issued an accounting guidance order on December 28, 2017 on how to apply the accounting and reporting requirements when adopting ASU-2017-07. FERC directed that there would be no change in recording non-service costs. Those costs are to remain in account 926. However, FERC provided two options to utilities:

> 1. Continuance of capitalizing all or a portion of service and non-service net benefit costs; or
>
> 2. Follow the capitalization requirements under the ASU, and elect to make a one-time non-revocable election to switch to fully expensing the non-service costs to conform to generally accepted accounting principles ("GAAP") reporting and then provide notice of that change to FERC. Ameren Missouri instituted the new FASB guidance in January 2018 and utilized FERC's one-time election for expense treatment. Staff agreed to reflect this treatment for regulatory purposes. Since its adoption, Ameren Missouri has been fully expensing the non-service pension and

> OPEB costs and capitalizing a portion of the service cost component.

Pensions - Accounting Standards Codification ("ASC") 715-30 (Formerly FAS 87)

Ameren has a qualified pension plan, called the Ameren Retirement Plan, and a non-qualified pension expense program, called the Ameren Supplemental Retirement Program. Ameren's actuarial consultants, Willis Towers Watson, determines the allocation valuation for Ameren Missouri's portion of net benefit cost. Staff included Ameren Missouri's estimated pension cost (forecast as of 12/31/2020) in its direct filing. The most current actuarial report is expected to be reviewed at the true-up September 30, 2021. Staff will reflect the most current plan costs available for the qualified pension plan in its true-up calculation.

ASC-715-30 Pension Tracker

In Case No. ER-2007-0002, the Commission accepted a stipulation and agreement that required Ameren Missouri to fund its qualified annual pension expense through an external trust and track the difference between the annual funded pension expense and the level included in rates as established in a previous rate case. The agreement between the parties established the ongoing ratemaking treatment for annual qualified pension cost under FASB ASC Subtopic 715-30 (formerly FAS 87). Ameren Missouri's pension expense and rate base amounts include direct charged costs as well as allocated costs from Ameren Services. To calculate whether an addition or reduction to ongoing pension expense should be applied, Staff accumulates the difference between the annual funded pension cost and the amount included in rates in the tracking mechanism and then includes that balance in rate base and amortizes it over a period of five years.

Non-qualified pension expense is not included in the pension tracking mechanism as it is a supplemental benefit program.

Staff updated the pension tracker amounts through June 30, 2021. Staff recommends a five-year amortization of the new pension tracker balance and to reset the prior case tracking mechanisms over 3 years. In this current case, Staff recommends that only the service portion of the tracking amounts receive rate base treatment. Since the time that Ameren Missouri adopted the one-time election to fully expense the non-service portion of Pensions, only the service portion has been allocated to capital. Thus only the service portion of the tracker amount should receive rate base treatment. Staff is recommending that this change in rate base treatment for the tracker balances be applied prospectively, starting with the current tracker balance for this rate case. Staff will re-examine the amounts in the pension tracking mechanism, associated amortization, and reflect the expensed amounts and updated plan costs through September 30, 2021, the true up cut-off date in this case.

Annualization

Staff annualized the qualified pension expense to reflect the 2021 plan estimated expense for FAS 87, as recommended by the actuarial firm Willis Towers Watson, for Ameren Missouri's qualified pension plan. Staff includes this amount to ensure that the amount collected in rates is sufficient to recover the estimated pension expense provided by Willis Towers Watson. This is the new base expense level that will be utilized in the pension tracker, after rates are established in this case, in order to determine the difference between pension expense included in rates and the amount actually incurred and funded by Ameren Missouri on an ongoing basis for qualified pension expense. Staff included in its direct filing the current amount provided by Ameren Missouri's actuary, Willis Towers Watson for qualified pension expense, until Staff can update these estimated amounts with updated plan costs.

Staff will re-examine pension expense through the September 30, 2021 cut-off date, during its true-up audit.

Staff Expert/Witness: Paul K. Amenthor

Other Post-Employment Benefits ("OPEBs") - ASC 715-60 (formerly FAS 106)

Ameren has a postretirement benefit plan called the Ameren Retiree Welfare Benefit Plan, which covers all of Ameren's operations and provides health benefits to eligible retirees, their spouses and other eligible dependents.

Staff included Ameren Missouri's current estimated OPEB cost in its direct filing. The most current actuarial report is expected to be reviewed at the true-up September 30, 2021. Staff will reflect the most current plan costs available for the post employment benefit plan in its true-up calculation.

ASC 715-60 OPEBs Tracker

The stipulation and agreement in Case No. ER-2007-0002 also addresses the ratemaking treatment for the annual OPEB cost under FASB's ASC Subtopic 715-60 (formerly FAS 106).

As with pension expense, the agreement among the parties requires Ameren Missouri to externally fund annual OPEB expense and establish a tracker for the difference between the amount of OPEB expense in rates from the previous rate case and the actual expense incurred. The agreement between the parties established the ongoing ratemaking treatment for annual OPEBs under FASB ASC Subtopic 715-60, formerly known as Financial Accounting Standard No. 106 ("FAS 106"). Ameren Missouri's OPEB expense and rate base amounts include direct charged costs as well as allocated costs from Ameren Services. Staff accumulates the difference between the annual funded OPEB cost and the amount included in rates in the tracking mechanism, and includes that balance in rate base and amortizes it over a period of five years as an addition or reduction to OPEB expense. Staff updated the OPEB tracker amounts through June 30, 2021. Staff recommends a five-year amortization of the new OPEB tracker balance and to reset the prior case tracking mechanisms over 3 years. In this current case, Staff recommends that only the service portion of the tracking amounts receive rate base treatment. Since the time that Ameren Missouri adopted the one-time election to fully expense the non-service portion of OPEBs only the service portion has been allocated to capital. Thus, only the service portion of the tracker amount should receive rate base treatment. Staff recommends that this change in rate base treatment for the tracker balances be applied prospectively, starting with the current tracker balance for this rate case. Staff will re-examine the amounts in the OPEB tracking mechanism and associated amortization, and reflect the expensed amounts and updated plan costs through the September 30, 2021 cut-off date in its true-up audit.

Annualization

Staff also annualized OPEB expense to reflect the projected ASC 715-60 cost provided by Ameren Missouri's actuary, Willis Towers Watson. This level will be the amount used in the OPEB tracker, after rates are established in this case, to determine the difference between ASC 715-60 expense included in rates and the amount actually incurred and funded by Ameren Missouri. Staff adjusted test year OPEB expense to reflect the 2021 plan estimated expense for FAS 106 provided by Willis Towers Watson for Ameren Missouri's post-retirement benefit plan. Staff used this estimated amount to determine the adjustment necessary to ensure the amount collected in rates is sufficient to recover the estimated OPEBs expense provided by Willis Towers Watson. Staff included in its direct filing the current amount Willis Towers Watson provided for OPEB expense, until Staff can update these estimated amounts with updated plan costs. Staff will re-examine OPEB expense through September 30, 2021, the true up cut-off date in this case.

Staff Expert/Witness: Paul K. Amenthor

Non-Qualified Pension Expense

Ameren Missouri has a non-qualified pension plan, called the Ameren Supplemental Retirement Plan, which is a benefit to qualified executives, in addition to Ameren Missouri's qualified pension plan. This plan is unfunded and the plan benefit payments are made on either a lump sum or an annuity disbursement basis. Non-qualified pension expense is not included in the tracking mechanism due to it being a supplemental plan. Staff has included a normalized amount of actual non-qualified pension expense in the cost of service, as the amount provided by Ameren Missouri's actuary is merely an estimate, not known actual expense. Staff included test year for annuity payments and a five year average of lump sum payments. Staff will review non-qualified pension expense again as part of its true-up audit.

Staff Expert/Witness: Paul K. Amenthor

7. <u>Short-Term and Long-Term Incentive Compensation</u>

Ameren Missouri has both short-term and long-term incentive compensation plans; additionally Ameren Missouri has an exceptional bonus award program. The annual incentive compensation expense consists of incentive compensation paid to Ameren Missouri employees as well as incentive compensation costs that are allocated from Ameren Services Corporation ("Ameren Services") which provides various management and administrative functions to Ameren Missouri.

Staff has relied upon the criteria established by the Commission in the Report and Order In re Union Electric Co., Case No. EC-87-114:

> At a minimum, an acceptable management performance plan should contain goals that improve existing performance and the benefits of the plan should be ascertainable and reasonably related to the plan."29 Mo. P.S.C. (N.S.) 313, 325, (1987). Additionally, Staff took guidance from the Report and Order issued in Kansas City Power & Light Case No. ER-2006-0314 where the Commission noted, that "maximizing [Earnings Per Share

> ("EPS")] could compromise service to ratepayers, such as by reducing customer service or tree trimming costs, the ratepayers should not have to bear that expense.

Based upon the guidance received in those two cases, Staff recommends the disallowance of any incentive compensation that is based on Ameren Missouri achieving EPS goals.

Short Term Incentive Compensation

The short-term incentive compensation is broken into four plans:

**

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted] **

Long Term Incentive Compensation

** [redacted]

[redacted] **

Exceptional Performance Bonus

In addition to the above plans, Ameren Missouri offers an Exceptional Bonus Plan ("EPB") to non-Ameren Leadership Team ("ALT") employees for exceptional performance. The awards are limited to performance that is truly outstanding. Staff has reviewed the historical payouts related to the EPB and is recommending an adjustment to normalize the payouts.

Capitalized Incentive Compensation

Similar to payroll dollars, a portion of Ameren Missouri's short-term and long-term incentive compensation payments are capitalized and included in rate base. Staff has made an adjustment based upon its removal of the expense portion of incentive compensation to assign a portion of the capitalized incentive compensation to shareholders. Staff will continue to review capitalized incentive compensation through the true-up cut-off date in this case.

Staff Expert/Witness: Jason Kunst, CPA

E. Other Expenses

1. <u>Rate Case Expenses</u>

Rate case expenses are the costs incurred by a utility for the preparation and filing of a rate case. In the current case, Ameren Missouri has incurred expenses associated with external legal counsel, outside consultants, and expert witnesses. In this case Staff is recommending that the rate case expense be split between the shareholders and the ratepayers of Ameren Missouri on a 50/50 basis with the exception of Commission ordered costs such as the deprecation study and customer notices. Staff's recommended level of rate case expense includes one fifth of the most recent Ameren Missouri depreciation study costs. This is split is based upon the guidance from the Commission in the recent Spire Missouri Inc. ("Spire Missouri") rate cases, Case Nos. GR-2017-0215 and GR-2017-0216. The total amount of rate case expense is based upon the average of the three most recent Ameren Missouri rate cases.

Staff's recommendation to share rate case expense is based upon the following:

1) The sharing of rate case expenses creates an incentive for the utility to control rate case expenses to a reasonable level, while eliminating the disincentive for the utility to control the rate case expenses;

2) Ratepayers and shareholders both benefit from the rate case process. While the ratepayer receives safe and adequate service at a just and reasonable rate, the shareholder is afforded the opportunity to earn an adequate return on their investment;

3) Ratepayers will continue to pay for the majority of the rate case expenses regardless of any sharing mechanism when including the internal labor costs that are not included in the sharing mechanism, therefore it is a fair and equitable to allocate a portion of the rate case expenses to the shareholders; and

4) It is highly probably that some recommendations advocated by the utility through the rate case process will ultimately be determined to be not in the public interest by the Commission.

Rate case expenses are defined to be all incremental costs incurred by a utility directly related to an application to change its general rates. Normally, these applications are initiated by a utility filing, however rate case expenses could also be incurred as a result of an earnings complaint case filed by another party. While rate case expenses do include costs for document preparation and filing, the largest costs incurred during a rate case are typically for external legal, consultants, and outside expert witnesses contracted by the utility for the rate case proceeding.

Utility management typically has a high degree of control over rate case expense. Attorneys, consultants, and other services used during a rate case can be provided by existing utility personnel or sourced from an outside party. Some Missouri utilities employ in-house counsel and primarily utilize internal labor to processes rate filings; thus it is not always necessary to contract with outside attorneys and consultants in rate proceedings. The incremental rate case expenses included in the sharing mechanism proposed by Staff in this case do not include the cost for internal labor as those cost are reflected in the annualized level of payroll included in Staff's revenue requirement. Those non-incremental costs are fully included in the cost of service calculation.

There are four categories of costs that are incurred during a regulatory filing and in particular a rate case filing:

1) The costs incurred by the Commission for itself and Staff,
2) The cost incurred by the Office of the Public Counsel
3) The cost incurred by interveners in Commission proceedings, and
4) The costs incurred by the utility itself during the regulatory process

Category 1 are the costs incurred by the Commission. This includes all operating expenses, salaries, wages, and benefits of the Commission and Staff. The Commission's operating expenses are limited to the amount the Missouri General Assembly appropriates for that purpose. On an annual basis, the Commission assesses each utility it regulates an amount of operating expenses, which are subsequently passed on to ratepayers through rates. The utility is not charged for the direct costs of processing its filings or company-specific activities. Ameren Missouri is charged based on an assignment of the Commission's budget to regulation of the electric industry, which is allocated based upon the percentage of Ameren Missouri's regulated revenues compared to the total of electric regulated revenues in Missouri.

Category 2 are the costs incurred by the OPC. The Office of the Public Counsel represents the public and the interests of the utility's customers in proceedings before the Commission. An amount for OPC's annual operating expenses is appropriated by the Missouri General Assembly, which is sourced from general revenue paid by Missouri taxpayers.

Category 3 are the costs incurred by interveners to the Commission's proceedings. Interveners may be involved in a Commission proceeding for various reasons, but rate design and revenue requirement are the typical concerns brought up by interveners in a general proceeding. Intervening parties can represent a large individual utility customer or a group of utility customers. In this case, there are several interveners, some of which who have retained their own experts and legal counsel to review Ameren Missouri's proposed rate increase. The interveners to a case are responsible for their own rate case expenses.

Category 4 are the costs incurred by the utility itself during the regulatory and rate setting process. In prior rate cases, utilities were allowed to pass through the full amount of normalized and prudently incurred rate case expense and regulatory expenses to the ratepayer through rates. If utilities are allowed to pass full rate case costs to ratepayers, the utilities are the only participant who does face an inherit limit in the amount of rate case expenses they choose to incur. The other participants in the rate case processes are constrained by the amount of rate case expense they can occur by budgetary decisions of the General Assembly or by the willingness of an intervening party to fund rate case activities. When allowed full recovery of rate case expenses, utilities are free to plan their rate case activities with the knowledge that the associated costs will be passed on to customers and recovered in rates.

By allowing a utility to recover all, or almost all, of its rate case expense from ratepayers creates an inherent disincentive for the utility to control rate case expenses. For every other participant in the rate case proceeding, their funds are ultimately limited by a budgetary and financial constraints. The ability to pass through the entire amount of expenses along with significant financial resources creates what can be viewed as an unfair advantage over the parties during a rate case proceeding.

Other discretionary utility expenses are not recovered by the utility during the rate setting process. Charitable contributions, which are discretionary amounts paid to individuals or organizations for charitable reasons that have no direct business benefit, are examples of costs that have not historically been included as an expense in the cost of service calculation. While the utility believes it has the responsibility to be a "good corporate citizen," these donations would represent an involuntary contribution by the ratepayer if they were to be included in rates. Another cost that is routinely disallowed by Staff is for political activities ("lobbying"). Lobbying and charitable contributions represent costs which are not necessary for the provision of safe and adequate service, and not recovered through rates. The lack of recovery of those costs has not dissuaded utilities from participating in them. While the sharing of rate case expense may act as an incentive to control those costs, Auditing Staff has not identified any substantial curtailment of incremental rate case expenses by the utilities affected by sharing.

In 2011, the Commission established Case No. AW-2011-0330 to investigate current rules and practices regarding the recovery of rate case expense by Missouri utility companies. The report included discussion of both sharing rate case expense 50/50 as well as sharing based upon ordered rate increase versus requested rate increase were discussed in that report.

> In KCPL's rate Case No. ER-2014-0370, the Commission ordered sharing of KCPL's rate case expenses.
>
> The Commission finds that in order to set just and reasonable rates under the facts of this case, the Commission will require KCPL shareholders to cover a portion of KCPL's rate case expense. One method to encourage KCPL to limit its rate case expenditures would be to link KCPL's percentage recovery of rate case expense to the percentage of its rate increase request the Commission finds just and reasonable. The Commission determines that this approach would directly link KCPL's recovery of rate case expense to both the reasonableness of its issue positions and the dollar value sough from customers in this rate case.
>
> The Commission concludes that KCPL should receive rate recovery of its rate case expenses in proportion to the amount of revenue requirement it is granted as a result of this Report and Order, compared to the amount of its revenue requirement rate increase originally requested. This amount should be normalized over three years. The Commission also finds that it is appropriate to require a full disclosure to ratepayers of the expenses for KCPL's depreciation study, recovered over five years, because this study is required under Commission rules to be conducted every five years. [Footnotes omitted][113]

The omitted footnote in the reference above provides further clarification for the Commission's conclusions regarding the recovery of rate case expenses:

> It is understood that some of the issues litigated in this case do not directly affect the overall revenue requirement granted by the Commission; but it is also clear that the vast majority of litigated issues do have a direct or indirect impact on the revenue requirement. Accordingly, percentage sharing is a reasonable approach to correlating recovery of rate case expense to the relationship between the amount of litigation that benefited both ratepayers and shareholders and that which benefited only shareholders[114]

In the more recent, Spire Missouri rate cases, the Commission ordered a 50/50 sharing of rate case expense between the ratepayers and the shareholders:

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[113] Report and Order, Case No. ER-2014-0370 page 72.

[114] Report and Order, Case No. ER-2014-0370, page 72, Footnote 251.

> Therefore, it is just and reasonable that the shareholders and the ratepayers, who both benefited from the rate case, share in the rate case expense. The Commission finds that in order to set just and reasonable rates under the specific facts in this case, the Commission will require Spire Missouri shareholders to cover half of the rate case expense and the ratepayers to cover half with the exception of the cost of customer notices and the depreciation study.[115]

After reviewing the facts and circumstances in Ameren Missouri's filings, Staff is recommending that the Commission order a 50/50 sharing of incremental rate case expense.

To normalize rate case expense, Staff divides rate case expense over the period of time that will pass before the utility's next rate case and includes an annual amount in the revenue requirement. These costs are not "amortized" for ratemaking purposes, and the utility's recovery of these expenses are not tracked versus actual rate case expense for any over- or under-recovery. It is Staff's recommendation that these costs should be "normalized" by including a normal level in the revenue requirement calculation. In this case Staff is proposing a two year normalization due to the frequency of Ameren Missouri's rate case filings. Staff has also included the costs of Ameren Missouri's most recent depreciation study costs over five years outside of the sharing mechanism, as the study is required to be completed every five years.

Staff is recommending including a 50% sharing of the average of the rate case expense incurred by Ameren Missouri over its three most recent general rate Case Nos. ER-2014-0258, ER-2016-0179, and ER-2019-0335. The actual costs incurred for those cases is summarized below:

Case No.	Total Rate Case Expense
ER-2014-0258	$2,588,900
ER-2016-0179	$792,2111
ER-2019-0335	$1,127,833
Three Case Average	$1,502,981
50% Shared Amount	$751,491
Two Year Normalization	$375,745

[115] Report and Order, Case Nos. GR-2017-0215 and GR-2017-0216, page 52.

For perspective Ameren Missouri has incurred $249,730 of rate case expense through June 30, 2021 for processing this rate proceeding.

To summarize, Staff is recommending a 50% share of the average incremental rate case expenses from the most recent three Ameren Missouri rate cases and then normalizing that expense over a two year period. Staff is including $375,745 as the annualized amount of rate case expense in its recommended revenue requirement in this case. The recommended rate case expense would not be subject to true-up in this case for any actual expenses incurred, nor would it be tracked for any over- or under-recovery.

Staff is also recommending to include the annualized amount of Ameren Missouri's most recent depreciation study in the revenue requirement. Staff used the most recent costs from the depreciation study from Ameren Missouri's last general rate Case No. ER-2019-0335. Staff has included one fifth of expense to determine the annualized amount to include in rates, which resulted in a deduction to the test year level expense of $12,095.

Staff Expert/Witness: Jason Kunst, CPA

2. <u>Dues and Donations</u>

Staff reviewed all membership dues paid and donations made by Ameren Missouri, or allocated to Ameren Missouri from Ameren Corporate and Ameren Services, to various organizations during the test year ending December 31, 2020. Staff proposed adjustments to disallow various dues and donations to organizations that were incurred during the test year as they are not necessary for the provision of safe and adequate service. Examples of such disallowances include memberships to the Missouri Athletic Club and the St. Louis Zoo Association as well as donations to the St. Louis Symphony Orchestra, among others.

There is growing concern within utility regulation as to whether investor owned utilities are ultimately passing lobbying costs through to ratepayers when lobbying has either been removed from the cost of service by the utility itself (e.g. recording the lobbying portion of a membership expense below the line) or through proposed adjustment by other parties to a rate case (see Appendix 4).[116] There is concern that while utilities are required to remove the lobbying portion of membership dues to certain trade groups, some of the remaining membership amount paid may still go toward these group's efforts to shape policy. Some memberships provide the utilities invoices with a lobbying percentage specifically delineated and some do not. However there is still concern that there is a lack of understanding of what that percentage amount of lobbying that is billed to the utility is based on. In addition there is concern that the remaining membership fee that is not delineated as lobbying could ultimately be used by the organization to pursue lobbying activities. Staff has analyzed Ameren Missouri's memberships in certain trade groups and at this time has removed 50% of all memberships that may have lobbying activity or for which Staff does not know how the organization determines the invoiced lobbying percentage Staff will continue to work with Ameren Missouri to ensure a proper amount of test year membership dues are included in the cost of service in this case.

Staff discovered that some of the memberships that Staff disallowed were recorded in capital overhead accounts. Staff has removed the charge from plant and has also removed estimated reserve from Account 398. These amounts will be addressed further once Staff has determined what capital accounts these charges were finally recorded in as well as calculate the actual reserve based on that account's depreciation rates.

Edison Electric Institute Dues

Based on information from the Edison Electric Institute's (EEI's) website (www.eei.org), EEI is an association of investor-owned electric utilities and industrial affiliates. From the information concerning EEI reviewed by the Staff in this case, it is clear that part of EEI's function is to represent the interests of the electric utility industry regarding legislative and regulatory matters on local, state and federal levels. This role includes engagement in lobbying activities by EEI.

In Case No. ER-83-49, *In the Matter of Kansas City Power & Light Co.*, 26 Mo.P.S.C. 104, 155 (1983), the Commission stated its position respecting EEI dues:

> In the Company's last rate case, ER-82-66, the Commission reiterated its position that while there may be some possible benefit

[116] "MISSOURI, KANSAS UTILITIES MAY USE LOOPHOLE TO CHARGE CUSTOMERS FOR FOSSIL FUEL LOBBYING", Allison Kite, The Missouri Independent, June 7, 2021. APPENDIX 4 IS INCLUDED HEREIN.

> to the Company's ratepayers from Company's membership in EEI, the dues would be excluded as an expense until the company could better quantify the benefit accruing to both the Company's ratepayers and shareholders.

This position has been re-affirmed by the Commission in subsequent rate proceedings.

In *Re: Kansas City Power & Light Co.*, Case Nos. EO-85-185 et al., Report and Order, 28 Mo.P.S.C. (N.S.) 228, 259 (1986), the Commission stated:

> The argument that allocation is not necessary if the benefits lessen the cost of service to the ratepayers by more than the cost of the dues misses the point.
>
> It is not determinative that the quantification of benefits to the ratepayer is greater than the EEI dues themselves. The determining factor is what proportion of those benefits should be allocated to the ratepayer as opposed to the shareholder. It is obvious that the interests of the electric industry are not consistently the same as those of the ratepayers. The ratepayers should not be required to pay the entire amount of EEI dues if there is benefit accruing to the shareholders from EEI membership as well. The Commission finds this to be the case. The Company has been informed in prior rate cases that it must allocate its Quantified benefits from membership in EEI. That has not been done herein. Therefore, no portion of EEI dues will be allowed in this case.

Based on the above criteria and the lack of providing quantification of benefits exceeding costs on the part of Ameren Missouri, Staff has disallowed all EEI dues incurred during the test year.

Staff Expert/Witness: Jane C. Dhority

3. Lobbying

Staff reviewed the dues and donations expense recorded during the test year and has determined that some of the organizations to which Ameren Missouri is a member, use a portion of member payments to fund government affairs or lobbying activities. Staff traditionally disallows costs related to lobbying recorded above the line and, therefore, has removed any portion of costs related to lobbying from test year expenses. Staff also reviewed the calendars and itineraries of certain executives who dedicated time to lobbying activities during the test year and removed a portion of their salaries proportionate to the time spent on those activities.

Staff has also removed expenses relating to economic development activities as these costs are recovered through Ameren Missouri's economic development tariff stemming from Senate Bill 564.

Staff Expert/Witness: Jane C. Dhority

4. <u>Insurance Expense</u>

a. Annualization

Ameren Missouri maintains insurance policies with various third-party insurance providers for the purpose of mitigating potential risk of financial loss. Insurance coverage for Ameren Missouri includes crime, nuclear property, non-nuclear property, nuclear liability, boiler and machinery, directors and officers, workers' compensation, fiduciary, cyber liability, marine, and cyber liability. Staff's annualization reflects the most current amounts as of July 2021 in order to determine an ongoing level of insurance expense. Staff also removed a portion of the marine insurance policy relating to coverage of the non-utility property. In addition to the portion of the insurance removed for the non-utility property, Ameren Missouri indicated in response to Staff DR No. 0344 that maintenance costs for the non-utility boat were incorrectly charged to Ameren Missouri. Staff made an adjustment to remove these costs from the test year. Staff will review this issue as part of true-up and further examine policy renewals.

Staff reviewed all insurance policies through July 31, 2021, however, certain insurance contracts have been renewed as of September 1, 2021 were not available for Staff to review at this time. Staff will continue to review this issue through the true-up cutoff.

Due to the impending retirement of the Meramec generating facility at the end of 2022 and the establishment of a tracking mechanism in this proceeding, Staff determined it was appropriate to include one fifth (1/5) of Meramec's insurance expense in the cost of service and include four fifths (4/5) of the insurance expense in the tracking mechanism. In order to determine the amounts to include in the cost of service and tracking mechanism, an allocation of the overall insurance expense applicable to the Meramec facility was calculated. Ameren Missouri's response to Staff DR No. 0032.1, describes insurance costs as not assignable to specific assets or investments but rather to the entirety of the Company or grouping investments. Ameren Missouri suggested the method of allocation, which entails calculating the relevant amounts for Meramec by using the "Statement of Values" (SOV)[117] to calculate a ratio that is then applied to the overall annualized insurance expense. Staff utilized the suggested method of allocation and has included one fifth of this allocated amount for Meramec insurance in the cost of service and provided four fifths of the allocated amount for inclusion in the tracking mechanism. The reason this method was suggested is because on September 1, 2019, Ameren Missouri's coverage for Meramec was reduced to demolition and debris removal only. However, the value of the plant on the SOV must remain at full value for modeling purposes for the insurance carriers, then the carriers will make an adjustment for the reduced coverage.

b. NEIL Distributions/Credits

Nuclear Electric Insurance Limited (NEIL) is an insurance company that is owned and controlled by its members that provides insurance coverage related to replacement power for long-term interruptions of electric supply, damage to insured sites, decontamination expenses incurred at sites arising from nuclear contamination and premature decommissioning costs. In 2001, NEIL expanded its insurance product lines and began to provide conventional, non-nuclear coverage to its members. The U.S. Government imposes a federal tax, referred to the NEIL Excise Tax, on these insurance policies since the insurance policies are issued by foreign insurers. NEIL coverage is issued in the country of Bermuda. The Excise Tax is assessed on the insurance coverage on a quarterly basis.

Historically, NEIL has had distributions and credits, specifically a supplementary and secondary distribution, performance & participation credits (PPC) and renewal credits that it may issue to its members. The PPC is based on a member's claim history and whether that member is purchasing available coverage from NEIL. NEIL typically nets any PPC against the premium invoice and distributions are paid directly to Ameren Missouri. The PPC was replaced with a renewal credit in 2018, which is a credit given to members for continually purchasing coverage from NEIL. The renewal credits and supplementary distributions were eliminated in 2019 and replaced with primary and secondary distributions. Distributions are based on NEIL's overall

[117] A statement of values is a reference document included in certain insurance policy purchasing available information that supports the assessment of risk for insurance underwriters.

underwriting results and investments and credits are netted against the premium charged to Ameren Missouri. The credits are encompassed in Staff's annualization of insurance expense. Staff reviewed the primary and secondary distributions and determined that test year should be included in the cost of service at this time. Staff will continue to review these distributions through the true-up date of September 30, 2021.

Staff Expert/Witness: Christopher D. Caldwell

5. Interest on Customer Deposits

Generally, interest is calculated on customer deposits and paid to the customers for the use of their money. Customers earn an interest rate equal to the prime rate that was 3.25%, as published in the Wall Street Journal on the last day of the month of November 2020, plus an additional 1% on their deposits. Staff applied this interest rate to the 13-month average of customer deposits. Staff will re-examine the amount of interest expense related to customer deposits as part of its true-up audit.

Staff Expert/Witness: Christopher D. Caldwell

6. Paperless Bill Credit

In its most rate case No. ER-2019-0335, Ameren Missouri proposed a $0.50 "paperless bill credit" for a 12 month period for customers who signed up for paperless billing. As part of the Stipulation and Agreement filed in that case, the parties agreed that Ameren Missouri could offer the bill credit, however Ameren Missouri would not seek any recovery of the incentives or costs directly associated with paperless billing. Additionally, the credits were to be excluded from the revenues used to determine the revenue requirement in the next case. The language from the stipulation and agreement is cited below:

> Paperless Bill Credit: The signatories agree that Ameren Missouri may implement its paperless bill credit proposal as outlined in the Direct Testimony of Mark Birk. The Company shall exclude bill credits from revenues used to determine the revenue requirement in its next rate case. Ameren Missouri shall not seek recovery for any incentives or other costs directly associated with paperless billing.[118]

[118] Corrected Stipulation and Agreement, Case No. ER-2019-0335, page 47.

As part of its review, Staff reviewed the costs associated with the paperless bill credit, which included costs for advertising paperless billing and capital upgrades to the billing system to process the bill credit. Staff has made an adjustment to remove the advertising costs associated with the paperless billing as well as the capital costs and associated depreciation reserves for the software upgrades. Additionally Staff has imputed revenue to exclude the credits from the revenue requirement.

Staff Expert/Witness: Jason Kunst, CPA

7. <u>Property Tax Expense</u>

Ameren Missouri provides the taxing authorities a valuation of its property based upon January 1 of the current year. The taxing authority then provides Ameren Missouri with its assessed values and dues dates for the property taxes payments based upon the assessed value of the property and the current tax rate. These payments are typically due by December 31 of the tax year. Ameren Missouri records a monthly accrual to record property tax expenses throughout the year. In this case, Staff is proposing to use the most current property taxes, which were paid in December of 2020 as the annualized level of property tax expense.

Additionally, during the discovery process, Staff learned that Ameren Missouri inherited a tax abatement agreement with Atchison County as part of its purchase of the Atchison Renewable Energy Center. The agreement provides a ** [redacted] ** tax abatement for the period of October 1, 2020 through September 30, 2030.

8. <u>Meramec Property Taxes</u>

As discussed above by Staff witnesses Lisa M. Ferguson and Kimberly K. Bolin, Ameren Missouri has proposed a tracker mechanism for the costs associated with the Meramec Energy Center. Staff has proposed an adjustment to only include one fifth of the property taxes for the Meramec energy center in base rates.

Staff Expert/Witness: Jason Kunst, CPA

9. <u>Uncollectible Expense</u>

Uncollectable expense, or "bad debt expense," is the portion of retail revenues that Ameren Missouri is unable to collect from retail customers due to non-payment of bills. After a certain amount of time, these accounts are "written off" by Ameren Missouri and turned over to third party collection agencies for collection efforts. Ameren Missouri is sometimes successful in collecting on accounts that have been written off due to the efforts of the third party collection agencies. These collections are then netted with the write-offs to determine "net write-offs". The amount of bad debt expense recorded by Ameren Missouri during the test year reflects an accrual, or estimation by Ameren Missouri to provide a reserve for bad debt expense.

Ameren Missouri filed Case No. EU-2021-0027 seeking to recover expenses and revenues impacted by COVID-19, this included expenses for bad debts as Ameren Missouri voluntarily suspended disconnections during the pandemic. During the COVID-19 pandemic, Ameren Missouri incurred lower net write-offs than in prior periods partially due to Ameren Missouri offering extended deferred payment plans to customers. Additionally the amount of write-offs were impacted by the availability of assistance for customers having difficulties paying their bill, such as Ameren Missouri's COVID-19 Clean Slate program[119] as well as additional funding that as made available to the Low Income Home Energy Assistance Program ("LIHEAP"). For a complete discussion of the COVID-19 AAO please see the COVID AAO Recovery section by Staff witness Kimberly K. Bolin earlier in this report.

Staff traditionally determines the amount of uncollectable expense to include in rates by analyzing the actual historical net write-offs for a period of time. Staff proposes an adjustment to normalize the amount of uncollectible expense in rates by reflecting the actual net write-offs for calendar year 2019. Staff's proposed adjustment results in a decrease to the test year level of expense of $6,545,615. Staff will continue to review the actual net write-offs incurred by Ameren Missouri through the true-up date of September 30, 2021, and may make further adjustments as part of its true-up audit.

Staff Expert/Witness: Jason Kunst, CPA

10. <u>Advertising Expense</u>

In determining its recommended level of allowed advertising expense for Ameren Missouri, Staff applied the principles in the Commission's decision in Re: Kansas City Power

[119] Through the COVID-19 Clean Slate program Ameren Missouri provided an additional $3.5 million in energy assistance to customers.

and Light Company, Case Nos. EO-85-184 et al., 28 Mo.P.S.C. (N.S.) 338, 269-71 (1986). In that case, the Commission adopted an approach that classifies advertisements into five categories and provides rate treatment of recovery or disallowance based upon a specific rationale. The five categories of advertisements recognized by the Commission are as follows:

> **General:** informational advertising that is useful in the provision of adequate service;
>
> **Safety:** advertising which conveys the ways to safely use electricity and to avoid accidents;
>
> **Promotional**: advertising used to encourage or promote the use of electricity
>
> **Institutional:** advertising used to improve the company's public image;
>
> **Political**: advertising associated with political issues.

The Commission utilized these categories of advertisements to explain that a utility's revenue requirement should: (1) always include the reasonable and necessary cost of general and safety advertisements; (2) never include the cost of institutional or political advertisements; and (3) include the cost of promotional advertisements only to the extent the utility can provide cost-justification for the advertisements. (Report and Order in KCPL Case Nos. EO-85-185, et al., 28 Mo.P.S.C. (N.S.) 338, 269-271 (April 23, 1986)).

In a prior Ameren Missouri rate Case No. ER-2008-0318, the Commission issued a Report and Order that indicated that the KCPL standard for advertising continued to be useful but also introduced an additional test which essentially required that advertising costs should also be reviewed and analyzed on a campaign basis. Specifically, the Commission's Order in ER-2008-0318 indicated the following:

If on a balance a campaign is acceptable then the cost of individual advertisements within that campaign should be recoverable in rates. If the campaign as a whole is unacceptable under the Commission's standards, then the cost of all advertisements within that larger campaign should be disallowed.

In accordance with the standards set out in KCPL Case Nos. EO-85-185, et al., 28 Mo.P.S.C. (N.S.) 338, 269-271 (April 23, 1986), as well as the Report and Order issued in Case No. ER-2008-0318, Staff recommends adjustments to exclude the costs of institutional advertising and promotional items from recovery in rates in the current case. A quantification of

Staff's disallowed advertising adjustments as well as the advertisements themselves are included in Appendix 4. General and safety advertising costs that were directed towards benefiting customers were not adjusted by Staff. Additionally, Staff reviewed advertising related items that were allocated from the Ameren corporate level. Consistent with the categorization of Ameren Missouri direct advertising, Staff recommends adjustments to remove the allocated advertising costs associated with items found to be institutional in nature.

Staff recognizes the guidance established in Ameren Missouri case number ER-2008-0318; however, Staff's position is that reviewing advertising strictly on a "campaign" basis would not be appropriate in this particular circumstance given the very broad nature of Ameren Missouri's Energy at Work ("EAW") campaign. Staff performed an analysis of the EAW campaign in the previous electric rate case (ER-2019-0335) and found that over 50% of the advertisements were not recoverable under the KCP&L standard. To make adjustments on a campaign basis in that case meant that Ameren Missouri would not have been able to recover costs for advertisements that were considered general or safety related. Staff performed the same campaign-based analysis of Ameren Missouri's advertising in this case and found that less than 50% of the Energy at Work campaign was not recoverable. To allow the EAW campaign to be recovered as a whole means that ratepayers would bear the costs of institutional advertising such as the "Every Direction" commercial that is not deemed recoverable under the KCP&L standard. Therefore, it is Staff's position that adjustments should be made on an ad-by-ad basis as this allows Ameren Missouri to recover the full cost of advertising attributable to general or safety messages and ratepayers are not burdened with costs for advertising that is not allowed under the KCP&L standard. However, should the Commission choose to allow the entire amount of the campaign as structured by Ameren Missouri, Staff has also attached a workpaper reflecting costs on the campaign basis.

Staff has had chronic issues regarding Ameren Missouri's responses to advertising data requests. With every case, Staff submits a standard set of DRs that are consistent from case to case. Ameren Missouri is well aware of the information Staff is requesting as it has not changed in the past several rate cases. That being said, the Company has consistently failed to provide complete answers to Staff's advertising data requests in a timely manner. Staff has reviewed the

Company's responses to these data requests for the past 3 electric rate cases and found the following:

In case No. ER-2014-0258, only 1 of 7 data requests were answered on time. DR No. 0034 asked for copies of all advertising and associated costs. 135 days elapsed (including 4 supplemental responses) before the Company provided all the information Staff asked for. Ameren Missouri took 102 days and 5 supplemental responses to fully respond to Staff's request for advertising agency invoices.

In case No. ER-2016-0179, none of Staff's advertising data requests were answered on time. 238 days elapsed and 5 supplemental responses were given before Ameren Missouri provided all the advertisements and costs Staff asked for.

In case No. ER-2019-0335, 193 days elapsed before Company provided all of the advertisements and costs requested in DR No. 0003. None of the requests were answered on time.

In this case, 96 days elapsed before all of the advertisements and associated costs were provided and 76 days elapsed before Staff had all the relevant social media items requested. Staff recommends the Commission order Ameren Missouri to explore methods that can be utilized so Staff can receive the quickest and most efficient responses that are adequate at the outset. For example, Ameren Missouri can provide Staff actual shots to view of social media posts that company is seeking recovery for, rather than providing hyperlinks. Also, company can clearly lay out the spreadsheet of all costs and then ensure that all invoices, such as the HLK[120] invoices, are provided that make up the costs shown in the spreadsheet. This will hopefully prevent the multiple follow up DRs that have had to be asked in several of Ameren Missouri's past rate cases as well as allow for more productive meetings.

Staff Expert/Witness: Jane C. Dhority

11. Callaway Refueling Labor and Non-Labor Adjustment

Ameren Missouri's Callaway nuclear power plant undergoes routine refueling and maintenance outages every eighteen months. During these outages, in addition to the refueling process, Ameren Missouri typically performs maintenance tasks, inspections, and testing that can

[120] HughesLeahyKarlovic advertising and digital marketing agency.