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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. EC-2014-0223

REBUTTAL TESTIMONY

OF

JOHN J. REED

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

Marlborough, Massachusetts
June 6, 2014

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REBUTTAL TESTIMONY OF JOHN J. REED
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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND EMPLOYMENT POSITION.

A. My name is John J. Reed, and I am Chairman and Chief Executive Officer of Concentric Energy Advisors, Inc. and CE Capital Advisors, Inc. (together "Concentric").

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am submitting this testimony on behalf of Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or the "Company") in this proceeding before the Missouri Public Service Commission ("MoPSC" or the "Commission").

Q. PLEASE DESCRIBE YOUR EXPERIENCE IN THE ENERGY AND UTILITY INDUSTRIES.

A. I have more than 37 years of experience in the energy industry, and have worked as an executive in, and consultant and economist to, the energy industry for the past 30 years. Over the past 26 years, I have directed the energy consulting services of Concentric, Navigant Consulting and Reed Consulting Group. I have served as Vice Chairman and Co-CEO of the nation's largest publicly-traded consulting firm and as Chief Economist for the nation's largest gas utility. I have provided regulatory policy and regulatory economics support to more than 100 energy and utility clients and have provided expert testimony on regulatory, economic and financial matters on more than 150 occasions before the FERC, Canadian regulatory agencies, state utility

regulatory agencies, various state and federal courts, and before arbitration panels in the United States and Canada. My background is presented in more detail in Schedules JJR-1 and JJR-2.

Q. PLEASE DESCRIBE CONCENTRIC'S ACTIVITIES IN ENERGY AND UTILITY ENGAGEMENTS.

A. Concentric provides regulatory, economic, market analysis, and financial advisory services to a large number of energy and utility clients across North America. Our regulatory and economic services include regulatory policy, utility ratemaking (*e.g.*, cost of service, cost of capital, rate design, alternative forms of ratemaking) and the implications of regulatory and ratemaking policies. Our market analysis services include energy market assessments, market entry and exit analyses, and energy contract negotiations. Our financial advisory activities include merger, acquisition and divestiture assignments, due diligence and valuation assignments, project and corporate finance services, and transaction support services.

Q. PLEASE DESCRIBE CE CAPITAL'S ACTIVITIES.

A. CE Capital, a wholly-owned subsidiary of Concentric, is a Financial Industry Regulatory Authority ("FINRA") and Securities Investor Protection Corporation ("SIPC") member securities firm that provides services relating to corporate mergers and acquisitions, the valuation of securities, and capital market advisory services.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Mr. Greg R. Meyer on behalf of Noranda Aluminum, Inc. ("Noranda") as it relates to an earnings complaint filed with the Missouri Public Service Commission ("MoPSC") by Noranda, Inc. and 37 residential customers. The complaint requests an expedited proceeding and immediate rate relief based on Ameren Missouri's recent earnings history.

The remainder of my testimony is organized as follows:

- In Section II, I summarize my key conclusions.
- In Section III, I summarize Noranda's claim as detailed in the testimony of Mr. Meyer.
- In Section IV, I provide an overview of utility ratemaking and describe the fundamental ratemaking principles and constructs that are relevant to the discussion of "over-earning."
- In Section V, I describe how cost of service ratemaking balances the interests of ratepayers and utility shareholders; and I discuss the cost of service framework for rate setting. I also discuss two failed regulatory constructs – retroactive ratemaking and single-issue ratemaking – that have emerged from the practical limitations of the cost of service model but have been rejected by courts and regulatory agencies as conflicting with fundamental ratemaking principles.

- In Section VI, I provide an assessment of Mr. Meyer's testimony and proposal. I consider his proposal in the context of Ameren Missouri's earnings history, and provide my assessment in regard to whether the traditional cost-of-service approach to rate setting is appropriate in periods of "over"- and "under-earning[1]." Lastly, I discuss the policy-related concerns that arise from Mr. Meyer's proposal and explain why such a proposal should be rejected on the basis of sound ratemaking principles.
- Finally, in Section VII, I provide my conclusions and recommendations.

II. SUMMARY OF KEY CONCLUSIONS

Q. WHAT ARE YOUR KEY CONCLUSIONS?

A. My key conclusions are:

- Utility regulation represents a series of tradeoffs between service providers and their regulators (and customers) to incent service providers to make risky investments and accept the obligation to serve in return for a reasonable opportunity to recover their costs, including their costs of the capital, over time. The regulatory process continues to rebalance itself and reallocate risk such that the initial balance of interests between the shareholder and the consumer are maintained and neither party's interests are subsidized;

[1] I put these terms in quotes because they suggest, incorrectly, that whenever a utility earns less than it's previously authorized return the utility is "under-earning" and that whenever a utility earns more than its previously authorized return it is "over-earning." In fact, an authorized return is neither a ceiling nor a floor on earnings, and it is expected that utilities will sometimes earn above or below the authorized return.

- Rates are exclusively set prospectively;
- The cost of service model cannot predict the "actual" cost of service with absolute precision and the lag between rate changes will inevitably result in over- or under-earnings for any given period;
- The cost of service model incents management to improve efficiency so that it can increase its earned return over that which would otherwise be achievable. If investors perceive that they can only earn below the authorized return but will not be allowed the opportunity to earn above the authorized return, they will correspondingly increase their required returns or they will reduce their investment in the utility (or both) to reduce the potential for earnings shortfalls caused by the regulatory lag associated with making investments in the utility's system;
- Mr. Meyer's proposal to reduce Ameren Missouri's rates by $67 million is not supported by consistent or reliable analyses; he has failed to offer a proper, comprehensive cost of service study, which is necessary to determine what rates should be, and has instead offered a flawed and incomplete analysis that provides no clear indication that the Company is going to over-earn or under-earn in the future; and
- The proposal put forth by the Complainants is the product of a review of historic financial information, in which Ameren Missouri earned above its Commission approved cost of equity; this does not suggest that rates in the past were not just and reasonable, nor that these same rates will be unjust or unreasonable in the future; that conclusion can only be reached after a full cost of service study,

reflecting traditional test year adjustments, has been developed and subjected to a full review in a process comparable to the process followed when a utility seeks a rate increase including, at a minimum, the performance of such studies by the Company, the MoPSC Staff and here, it would seem appropriate, by the Complainants.

III. NORANDA ALUMINUM'S CLAIM

Q. PLEASE SUMMARIZE THE TESTIMONY AND RECOMMENDATION PUT FORTH BY MR. MEYER.

A. Mr. Meyer, on behalf of Noranda, claims that Ameren Missouri's current rates produce earnings that are substantially in excess of what he alleges is a reasonable return for the twelve months ended September 30, 2013. His findings are based on his review of Ameren Missouri's Surveillance Reports for the same period with certain adjustments to reported results. Based upon his review of these reports and his proposed adjustments, he concludes that Ameren Missouri has been earning in excess of its previously allowed return on equity ("ROE") since September 2012 and will continue to do so[2]. Mr. Meyer's colleague, Mr. Michael Gorman, also recommends lowering Ameren Missouri's authorized ROE from 9.8 to 9.4 percent.

[2] Greg R. Meyer Direct, pp. 3 – 4.

Q. PLEASE DESCRIBE HOW MR. MEYER DETERMINED THAT THE COMPANY WAS ALLEGEDLY OVER-EARNING.

A. There are essentially three components that collectively led Mr. Meyer to his conclusion that Ameren Missouri was over-earning. The first, and most sizeable, component was the historic earnings above the Company's previously authorized 9.8% ROE. As was mentioned, Mr. Meyer reviewed the Company's reported earnings for the twelve months ended September 30, 2013, as reported in the Company's Surveillance Report. The "excess earnings" (as labeled by Mr. Meyer) that are reflected in the unadjusted Surveillance Report, represent 43 percent or $29.2 million of the Complainants' proposed rate reduction.

The second component of the Company's purported over-earnings results from the Complainant's proposed reduction of the Company's authorized ROE from the 9.8% approved by the Commission in the Company's last rate proceeding, to a proposed ROE of 9.4%. Reducing the authorized ROE by 40 basis points, accounts for another 34 percent or $22.5 million of the Complainants' proposed rate reduction.

The remaining 23 percent of the proposed rate reduction is the sum of 13 revenue and expense adjustments and annualizations, as thought to be appropriate by Mr. Meyer. Most of these adjustments rely on data that are years old, and as explained by Company witness Gary Weiss, several of the adjustments contain errors and, in general, the adjustments fail to consider factors which have a major effect on the Company's prospective and retrospective earnings, including weather, market changes, capital additions and depreciation changes. Mr. Meyer concluded that he

has "prepared a very thoughtful and conservative earnings review[3]." I must firmly disagree. His analysis attempts to use earnings, which are a result, as a surrogate for a full analysis of revenues, expenses and rate base. His approach is not an appropriate basis on which to set future rates.

Q. HOW DOES MR. MEYER PROPOSE THAT THE COMMISSION REMEDY THE "OVER-EARNING"?

A. Mr. Meyer states that a rate reduction is "necessary for Ameren Missouri's rates to be fair and reasonable." He calculates the reduction he believes is necessary in his testimony, which is $67 million The Complaint further asks the Commission "to set an expedited procedural schedule to conduct whatever investigation or hearings it deems appropriate and required by law, to revise Ameren Missouri's electric rates to just and reasonable electric rates consistent with its cost of service revenues[4]."

Q. DO MR. MEYER'S CALCULATIONS PROVIDE COMPELLING EVIDENCE THAT THE COMPANY'S RATES SHOULD BE REDUCED?

A. No they do not. As discussed in more detail later in my testimony, Mr. Meyer's calculations do not even begin to enable a regulator to conclude whether Ameren Missouri's rates should be increased, decreased or left alone. His analysis is an odd mixture of backward-looking and forward-looking cost estimates, and some adjustments reflect other people's analyses that were based on data that is now up to approximately three and a half years old. Mr. Meyer's complaint is easily

[3] Ibid, at p. 8.

[4] Noranda Aluminum, Inc., et al., Complainants, v. Union Electric Company d/b/a Ameren Missouri, Respondent, Case No. EC-2014-0223, Excess Earnings Complaint and Request for Expedited Review and Relief (February 12, 2014) at 7.

summarized as: "Ameren earned more than its cost of capital in a past period, and if matters are left as is, it may do so in the future as well." However, this tells us nothing about whether current rates should be continued into the future. As noted earlier, it is widely understood that there will be periods of under- and over-earning between rate cases under the cost of service rate model because no rate case can precisely predict how market forces will impact costs, the success management will have in improving efficiency, or consumers' demand for services. Nor can one perfectly predict how any of these factors will influence each other. The opportunity to respond to changing market conditions and preserve or enhance returns under the cost of service model is an important incentive for management to capture efficiencies, and management should be allowed to reap the rewards and bear the costs of these efforts. The fact that actual earnings came in either above or below projected levels in any particular period do not indicate that the underlying rates are unjust or unreasonable. To the contrary, before such a determination can be made comprehensive cost of service studies must be performed and properly vetted through Commission proceedings, conducted in a manner that is comparable to the manner in which rate increase requests are conducted.

IV. OVERVIEW OF UTILITY REGULATION

Q. WHAT IS UTILITY RATE REGULATION?

A. Utility rate regulation is essentially a proxy for competitive forces where regulation is judged to be more effective to carry out services that are required by the public

interest. According to the renowned regulatory economist and the author of The Economics of Regulation, Alfred Kahn, regulation is described as follows:

> The essence of regulation is the explicit replacement of competition with governmental orders as the principal institutional device for assuring good performance. The regulatory agency determines specifically who shall be permitted to serve; and when it licenses more than one supplier, it typically imposes rigid limitations on their freedom to compete. So the two prime requirements of competition as the governing market institution – freedom of entry and independence of action – are deliberately replaced. Instead the government determines price, quality and conditions of service, and imposes an obligation to serve[5].

Q. WHY DOES COMPETITION SERVE AS THE MODEL FOR UTILITY REGULATION?

A. In free-market economies, competition is typically considered the most efficient means of allocating resources, where individual buyers and sellers, each pursuing their individual interests, come together in an open market, and transact in an orderly manner to efficiently allocate resources for the good of society. The prices that emerge from competition are those that arise out of the bargains between freely contracting buyers and sellers[6]. Essentially, in this vein, utility regulation represents a series of tradeoffs between service providers and their regulators (and customers) to incent service providers to make risky investments, accept the obligation to serve the public and charge cost-based rates in return for a reasonable opportunity to recover their costs including the costs of the capital they employed to make the investments. And customers accept the lack of competition in return for protection from monopoly

[5] Alfred E. Kahn, The Economics of Regulation Principles and Institutions (1988) at 20.
[6] Ibid.

pricing and an assurance of sufficient availability of service. This series of tradeoffs is what is commonly referred to as the "regulatory compact."

Q. HOW HAS UTILITY RATEMAKING EVOLVED OVER THE YEARS AND WHAT GUIDING PRINCIPLES HAVE EMERGED?

A. Utility ratemaking has evolved very much through trial and error in a series of landmark U.S. Supreme Court decisions that spanned the late 19th century and the early 20th century. One of the most widely relied upon decisions addressing utility regulation is *Bluefield Water Works (1923),* where the Supreme Court articulated specific criteria for evaluating whether the standard of "just and reasonable" had been met. The Supreme Court handed down this guidance with respect to determining the fairness of utility rates:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties[7].

Since that time, our modern system of rate regulation has continued to evolve. In *Hope Gas (1944),* the Supreme Court reiterated the standard that rates must be "just and reasonable" and articulated that in order to achieve rates that are just and

[7] Bluefield Water Works (1923).

reasonable there must be a balancing of shareholder and consumer interests. The court further found that there is no prescription for the correct rate setting process, but rather, it is the end result that is determinative. This is now known as the "end results" doctrine.

While the regulatory system has continued to evolve, the regulatory framework and standards for fairness, established in *Hope* and *Bluefield*, have stood the test of time. The cost-based regulatory framework has shown its ability to adapt to changing economic and environmental conditions, such as declining growth, high inflation, increasing need for investment, etc. to minimize the risks imposed by the regulatory process and retain the fundamental risk sharing constructs that were part of the original regulatory compact. The regulatory process continues to rebalance itself, through the development of risk mitigating mechanisms (*e.g.* future test year, decoupling mechanisms, capital cost trackers, automatic adjustment mechanisms, etc.), but the end result is adherence to the regulatory doctrine of just and reasonable rates that appropriately balance the interests of the shareholder and the consumer, such as one would expect to find in a competitive market place.

V. COST OF SERVICE RATEMAKING

Q. WHAT IS THE PREDOMINANT RATEMAKING MODEL FOR SETTING RATES?

A. By far, the predominant ratemaking model in the modern regulatory system in the United States is the cost of service model, whereby prices are based on actual prudent costs (as the best estimate of the cost of effectively providing service), as well as the

cost of debt and equity financing on capital invested. Rates are established prospectively for the period they are to be in effect. Once rates are set, the company is subject to the market forces of supply and demand, which are revealed through costs and/or customer consumption, and are ultimately reflected in the company's actual cash flows and earnings. To the extent that actual costs and revenues differ from those anticipated when rates were set (as they always do), rates will yield returns that are either above or below the allowed cost of capital.

Q. IS THE REALITY THAT THE COST OF SERVICE MODEL PRODUCES RETURNS THAT DIFFER FROM THE ALLOWED COST OF CAPITAL A SHORTCOMING OF THE MODEL?

A. No, it is not. The model is intended to provide for periodic rate revisions by undergoing a new rate proceeding. The model essentially provides the utility management with a reasonable opportunity to achieve the allowed return. It is management's responsibility to operate its business effectively such that it can realize the return. If management were to find that market forces had shifted such that it no longer had a reasonable opportunity to earn its return, it would commence a new rate proceeding to rebalance the risks between the utility and its customers.

The allowed return is the threshold return that management strives to achieve and hopes to beat. The cost of service model incents management to improve efficiency so that it can improve the return that it earns, at least until the next rate case. As noted by Leonard Goodman in his text on ratemaking, citing a case in Indiana:

> The courts in Indiana rest the rule that excludes past profits and losses from current rate cases on classical economics. Once the rate is set,

> then the utility must be left to its own devices; the "invisible hand" of the free market system promotes the interests of society, according to the Indiana courts and Adam Smith, more effectually than when we even intend to do so[8].

So, although the cost of service model cannot predict the "actual" cost of service with absolute precision and the lag between rate changes will result in earnings over or under that which was allowed for any given period, this framework also provides important incentives to management to maximize efficiency. It is argued that any model that more exactly tracks actual costs and revenues in rates may result in unintended consequences by removing important incentives to improve efficiency. This point is made in the following quote by Bonbright, Danielsen and Kamerschen, in their highly-regarded regulatory treatise, Principles of Utility Rates:

> …[T]he basic standards of reasonable rates should be primarily standards of functional efficiency. But just as the acceptability of any medicine must be determined in part by reference to its undesirable side effects and not alone by reference to effectiveness as an anodyne, so also must the reasonableness of any given set of rates or rate policy be determined in part by reference to unintended consequences. The administration of any standard or system of ratemaking has consequences, some of which are costly or otherwise harmful, and these consequences may warrant the rejection of one system in favor of some other system admittedly less efficient in the performance of its recognized economic functions.

> Thus an elaborate structure of rates designed to make scientific allowance for the relative costs of different kinds of service may possibly be rejected in favor of a simpler structure more readily understood by ratepayers and less expensive to administer. And thus a system of rate regulation that would come closest to assuring a company of its continued ability to earn a capital-attracting rate of return may be rejected in favor of an alternative system that runs less

[8] Goodman, Leonard Saul, The Process of Ratemaking, Public Utilities Reports, Inc. (1998), at 292, citing Indiana Gas Co. v. Office of the Util. Consumer Counselor, 575 N.E.2d 1044, 1052 (Ind.App. 3 Dist. 1991).

> danger of removing incentives to managerial efficiency. The art of ratemaking is an art of wise compromise[9].

The cost of service model is generally regarded as a functionally efficient model that balances shareholder and ratepayer risk, provides the appropriate incentives to management to improve efficiency, and provides investors with a reasonable opportunity to recover their costs of providing utility service as well as a market-based return on their invested capital. This model has proven adaptable in a changing regulatory environment, but continues to retain its fundamental form and principles as the predominant regulatory model.

Q. HOW ARE THESE INCENTIVES AND PRINCIPLES APPLIED IN MODERN RATEMAKING?

A. Dr. Karl McDermott, in his paper, Cost of Service Regulation in the Investor-Owned Electric Utility Industry - A History of Adaptation, identified the following underlying regulatory concepts that have become part of the modern ratemaking process:

> 1. **Prohibition on single-issue ratemaking**: Regulation is designed to focus on total net cost of service to avoid piecemeal or single-issue ratemaking. That its regulators are generally required to review all costs included in the [total revenue requirement] TRR to assure that the net result includes all costs increases and decreases as well as productivity changes;
>
> 2. **Prohibition on retroactive ratemaking**: The revenue requirements and, in turn, rates are set prospectively in order to attempt to match the costs that are embedded in the rates

[9] Bonbright, Danielsen, Kamerschen, Principles of Utility Rates, Public Utilities Reports, Inc., Second Edition (1988), at 82.

with the time period in which the rates are in effect. There is no attempt to rectify past outcomes by making up for lost or excess profits. Conceptually, prices are intended to reflect the costs of the utility at the time service is provided;

3. **Prudent investment standard**: Prudence is generally defined in terms of the "reasonable manager" standard. The standard does not allow the regulator to substitute its judgment for management judgment; rather the regulator determines that, given the information known or that should have been known at the time a decision is made, the decision could have been made by a reasonable management team (i.e., prudence is not a 20/20 hindsight review). Costs that are not the result of prudent management are excluded from the TRR; and

4. **Used and useful standard**: Utility assets must be sized such that at any given time they are, or can be, used to provide service to customers[10].

I will return to these requirements later in my testimony.

Q. WITHIN THIS FRAMEWORK, WHAT IS THE PROCESS FOR SETTING RATES?

A. The rate setting process typically begins with a rate case, a formal administrative process, where the utility puts forth and supports its proposed cost of service, the Commission's Staff develops its own cost of service study, and both studies are vetted through the regulatory process under the scrutiny of the utility's customers and the regulatory commission itself. Rates can also be changed through a rate investigation initiated by an interested party or the regulator itself, in which the burden of proof shifts to the party challenging the existing rates. However, as I discuss further below that process also requires the full development of a proper cost

[10] Ibid. [Emphasis added].

of service study, to be scrutinized in a process akin to that followed in a rate increase proceeding. Rate proceedings are often litigious, where all stakeholders may weigh in and influence the outcome of the process. The result is the establishment of base rates, or rates that have been normalized such that they represent the expected normal cost of providing service designed to act as a reasonable proxy for conditions that will persist after new rates take effect and for a reasonable time thereafter. Pending the outcome of the hearings, some states allow utilities to implement the new rates subject to refund, and most states authorize their commissions to grant interim rate increases subject to refund[11].

Q. HOW ARE COST-BASED RATES DEVELOPED?

A. The rate calculation process begins with "base year" data, which are adjusted to establish a "test year" cost of service level. The concept of a "test year" was developed to test whether the proposed rates will be just and reasonable on a prospective basis after they are implemented and for a reasonable time thereafter. The test year cost of service is intended to produce a representative level of revenues, expenses, cost of capital, depreciation rates, and customer usage for the period of time during which the rates will be in effect. In addition, test year data are normalized to remove all extraordinary or non-recurring events from the revenue requirement and are adjusted for known and measurable changes to best predict the future cost of providing service. Without a fully synchronized and consistent set of test year data,

[11] Stefan H. Krieger, The Ghost of Regulation Past: Current Applications of the Rule Against Retroactive Ratemaking in Public Utility Proceedings (1991) at 994.

the rates that are derived may not be just and reasonable for the period of time in which they are to be in place.

Q. WHEN DO RATES BECOME FINAL?

A. Unless challenged on appeal, rates become final once the commission has reviewed and approved the revenue requirement and rate design in the final order and upon the company's issuance of revised rate schedules in accordance with the final order. These rates then remain in effect until changed in a subsequent rate proceeding[12].

Q. IS THE RATE SETTING PROCESS FORWARD-LOOKING?

A. Yes. A rate proceeding attempts to develop test year costs and revenues, based on recent historical experience, that reflect representative future values. As I indicated above, it is a well-understood principle of ratemaking that rates are set prospectively. There have been many cases that acknowledge this requirement, but it is clearly stated in a Louisiana Power and Light Co. appeal case, where the court stated: "Pervading the utility rate making process is the fundamental rule that rates are exclusively prospective in application and that future rates may not be designed to recoup past losses[13]." Future costs may be estimated based on recent historical test year data as the best predictor of future costs, but the focus of rate setting is on the period of time during which the rates will be in effect.

[12] Ibid.
[13] Louisiana Power & Light Co. v. Louisiana Pub. Serv. Comm'n et al. Hooker Chemical and Plastics Corporation v. Louisiana Public Service Commission et al. 377 So. 2d 1023, 1028 (1979).

Q. WHY IS THERE A PROHIBITION AGAINST RETROACTIVE RATEMAKING?

A. There are many practical justifications for this prohibition, but most often the rationale is as was articulated by the Alabama Supreme Court in *T.R. Miller Mill Co. v. Louisville & Nashville Railroad* (1921), where the court affirmed that rates approved are the lawful rates, and stated:

> Such schedules cannot be made unlawful for and during the period of their approved operation by any subsequent retroactive finding and order of the Commission. Such a practice would be odious to the generally established notions of justice, and would moreover be utterly subversive of the policy and utility of any system of rate regulation; for no rate could be relied upon as stable, and neither carrier nor shipper could ever be certain of the basis upon which business was being conducted[14].

I recognize that there are exceptions where rates can be adjusted for events which turn out differently than expected, and where the ratemaking framework can deviate from the traditional cost of service and provide for sharing of under-earnings and over-earnings. However, for the most part retroactive adjustments are strictly prohibited in rates in favor of reliability and predictability.

Q. HOW THEN SHOULD CUSTOMERS AND UTILITY SHAREHOLDERS SEEK TO REMEDY CHRONIC OVER- OR UNDER- EARNING?

A. The appropriate remedy for any substantive change in the cost/revenue relationship of the regulated utility is a full rate case. The due process requirements applicable to the rate setting process have been described as:

[14] T.R. Miller Mill Co. v. Louisville & N.R. CO. 92 So. 797 (Ala. 1921), reh'g denied (Mar. 3, 1922) at 802.

> The question of the reasonableness of a rate of charge for transportation by a railroad company, involving as it does the element of reasonableness both as regards the company and as regards the public, is eminently a question for judicial investigation, requiring due process for its determination. If the company is deprived of the power of charging reasonable rates for the use of its property, and such deprivation takes place in the absence of an investigation by judicial machinery, it is deprived of the lawful use of its property, and thus, in substance and effect, of the property itself, without due process of law and in violation of the Constitution of the United States; and insofar as it is thus deprived, while other persons are permitted to receive reasonable profits upon their invested capital, the company is deprived of the equal protection of the laws[15].

During a rate case all of the costs and revenues of the company are thoroughly examined, all stakeholders are provided an opportunity to be heard and conflicting opinions reconciled, and prospective rates that are just and reasonable are produced. The party which seeks to have the existing rates changed bears the burden of proving that its proposed rates better satisfy the just and reasonable standard, based on a consideration of all elements of the utility's cost of service.

Q. WHAT IS SINGLE-ISSUE RATEMAKING AND WHY IS IT TYPICALLY PROHIBITED?

A. Single-issue ratemaking occurs when a regulatory commission reviews and makes a rate determination with respect to a single component of the revenue requirement in isolation, without considering and reviewing all components of the revenue requirement in aggregate. The rationale behind the prohibition against single-issue ratemaking was cited in *Citizens Utilities Board v. Illinois Commerce Commission (1995)* as "consideration of any one item in the revenue formula in isolation risks

[15] Copeland Jr., B.L. and Walter W. Nixon III (1991). ―Procedural Versus Substantive Economic Due Process for Public Utilities, Energy Law Journal 12(81), 81–110.

understatement or overstatement of the revenue requirement[16].” The judge went on to elaborate that:

> When the Commission examines costs within the framework of a proposed change in base rates, the regulatory principle that prohibits single-issue ratemaking requires the Commission to examine the impact of the expense on the utility’s overall revenue requirement. One element of the revenue requirement is the utility’s rate of return, or allowed return on investment. Any adjustment to the total investment, or rate base, creates a proportional increase in the return on that investment[17].

Because of the interplay between revenue requirement components, a commission generally seeks to avoid changing rates based on changes in individual components of the revenue requirement without considering them in totality. In addition, it is important to understand that it is the overall rate that is just and reasonable, or not, and that the process by which the rates were developed, including the individual cost components, do not make a rate reasonable or unreasonable. A corollary of this is that changes in individual ratemaking elements do not necessarily make the rate unreasonable. As such, it is important that rates meet the standard of justness and reasonableness, the interests of ratepayers and shareholders are balanced, and management incentives are preserved.

VI. ASSESSMENT AND RESPONSE TO NORANDA’S PROPOSAL

Q. BASED UPON YOUR REVIEW, DOES MR. MEYER’S TESTIMONY PROVIDE THE LEVEL OF INFORMATION NEEDED TO EVALUATE THE

[16] Citizens Utility Bd. V. Ill. Commerce Com’n, 651 N.E.2d 1089 (Ill. 1995) at 1102.
[17] Copeland Jr., B.L. and Walter W. Nixon III (1991). ―Procedural Versus Substantive Economic Due Process for Public Utilities,‖ Energy Law Journal 12(81), 81–110.

REASONABLENESS OF AMEREN MISSOURI'S EXISTING RATES, OR TO SUPPORT HIS PROPOSED RATE REDUCTION?

A. No. Mr. Meyer presents a list of items in Table 1[18] of his testimony which factor into his calculation of the alleged excess earnings that he in turn claims justifies a decrease in Ameren Missouri's current rates. As discussed in more detail by Mr. Weiss in his rebuttal testimony, to support his assertion that the Company is over-earning and would be likely to do so prospectively, Mr. Meyer provides an inconsistent and incomplete set of backward-looking financial *results* (*i.e.*, the earned return for a past period), and individual adjustments to a few *cost* levels. Even these adjustments reflect analyses done by the Commission Staff in a past case, using data that in some cases is more than three years old, not by Mr. Meyer using current or projected costs that have been shown to reflect a reasonable proxy for the future. As Mr. Weiss also explains, some of the adjustments also reflect incorrect calculations. Notably, Mr. Meyer also offers no analyses of changes to billing determinant levels (energy, demand or customers), rate base, depreciation, taxes or many other major elements of the ratemaking process. Mr. Meyer's analysis is asynchronous (it uses adjustments from one period, applies them to costs in another period, and proposes to use these figures to set rates for a third period) and internally inconsistent (he proposes to annualize the effects of the Company's last rate increase, but not to annualize the costs which were used to establish those new rates). In short, his analysis is out of date, internally inconsistent, and does not even begin to meet established standards for conducting a rate investigation or for establishing new rates.

[18] Meyer Direct, p. 5.

Q. IF THE COMPANY WERE TO FILE FOR A RATE CHANGE SUPPORTED ONLY BY THE KIND OF EVIDENCE SET FORTH BY MR. MEYER, COULD THE COMMISSION APPROPRIATELY DISMISS THE RATE PROCEEDING?

A. Yes. If the Company made such an application, I would expect the Commission to summarily deny such an unsupported request without the need for discovery or a hearing.

Q. SHOULD ACCEPTED STANDARDS OF RATEMAKING BE APPLIED ANY DIFFERENTLY TO A RATE INVESTIGATION DESIGNED TO DETERMINE IF A UTILITY'S RATES SHOULD BE LOWERED PROSPECTIVELY THAN TO A UTILITY'S RATE INCREASE REQUEST?

A. No, in my opinion the standards and process should be the same, because the results would have the same impact. The same burden of proof requirement for reliable and verifiable data and standard of review should apply to whomever applies for the rate change, and the same level of proof, process and scrutiny should be applied.

Q. PLEASE EXPAND ON YOUR EXCEPTIONS TO MR. MEYER'S ALLEGED CALCULATION OF OVER-EARNINGS.

A. I take exception to Mr. Meyer's over-earnings calculations on several bases: 1) the Surveillance Report data do not reflect a normalized test year; 2) resetting the authorized ROE outside of a full rate case constitutes at least "tunnel vision" if not single issue ratemaking; 3) his adjustments are backward-looking and exclude numerous cost categories; 4) he has failed to offer any evidence regarding changes in

billing determinants; and 5) he has failed to present any evidence on changes to rate base or capital spending.

Q. PLEASE EXPLAIN WHY THE SURVEILLANCE REPORT DATA DO NOT REFLECT A NORMAL TEST YEAR.

A. Mr. Meyer calculates a level of alleged over-earnings by selectively adjusting Ameren Missouri's historical financial information in an attempt to provide a short-hand approach to establishing an appropriate test year upon which rates could be reset. Mr. Meyer's analysis, however, falls well short of producing a test year cost of service that is representative of a normal year. Mr. Meyer makes no attempt to either weather normalize revenues or to reflect the expected level of electric usage during the time period in which new rates from this proceeding would be in effect. Instead, he would apparently have the Commission believe that the weather experienced during the twelve months ended September 30, 2013 was normal, when indeed it was somewhat warmer than normal. Further, Mr. Meyer fails to reflect actual plant additions that the Company has placed in service since September 30, 2013 or those likely to be in service in the future when new rates would be in effect. Mr. Meyer's position denies the Company the right to earn a return on prudently incurred capital expenditures.

During a period of high investment and warmer than usual weather, setting rates cannot be done based solely on a utility's historical performance with limited pro forma adjustments. Without the *full* suite of normalization adjustments, such as weather normalization, adjustments for known and measureable changes, etc. it is impossible to know on a going-forward basis whether or not the Company's revenue

requirement has increased or decreased, and by extension, whether its rates are reasonable or unreasonable. As noted, Mr. Weiss discusses the myriad of adjustments that are necessary to develop a proper cost of service study, and the complexity involved in developing such a study.

Q. IN WHAT RESPECT DOES THE COMPLAINANTS' PROPOSAL CONSTITUTE SINGLE-ISSUE RATEMAKING?

A. As discussed previously in my testimony, it is typically inappropriate to rule on individual components of the revenue requirement without considering them in totality. As I have previously stated, Mr. Meyer's alleged calculation of over-earnings is heavily dependent upon two items: 1) the Company's reported historic earnings in excess of the Commission previously approved 9.8 percent ROE; and 2) the proposed lowering of the authorized ROE to 9.4 percent. These two items alone represent 77 percent of the alleged over-earnings calculation. Approximately one-third of the perceived over-earning position espoused by Mr. Meyer is the result of reducing the Commission-approved ROE from the last rate proceeding by 40 basis points. Resetting the authorized rate of return, as requested by the Complainant, constitutes, at a minimum, tunnel-vision ratemaking, which is one step short of single-issue ratemaking.

Q. PLEASE EXPLAIN WHY YOU BELIEVE MR. MEYER'S PROPOSAL IS BACKWARD LOOKING?

A. When resetting rates, the Commission should establish rates that will allow the Company an opportunity to earn a reasonable return of and on the cost structure and investments in place during the period that the rates will be in effect. As such, rates

must be set with an eye toward the future. In this case, however, a fair reading of Mr. Meyer's testimony demonstrates that what Noranda is really seeking is to reduce rates to reflect (recoup) past profits, i.e. the amount that Complainants allege Ameren Missouri has over-earned, by adjusting future rates downward. Quite simply, that is improper. If Mr. Meyer had shown that the Company was likely to earn at that level prospectively, rather than retrospectively, he would at least have established a foundation for setting new rates, although a comprehensive cost of service study would still have been required to determine what those new rates should be. However, Mr. Meyer's testimony neither asks, nor answers, this fundamental question.

Q. ARE THE COMPANY'S PAST EARNINGS, WHETHER ABOVE OR BELOW THE COST OF CAPITAL, NECESSARILY INDICATIVE OF FUTURE EARNINGS?

A. No, they are not. Over the past decade, Ameren Missouri has predominantly under-earned relative to its authorized rate of return. Indeed, my testimony before this Commission two years ago was to seek prospective rate relief to help prevent a repeat of the chronic under-earning that Ameren Missouri had experienced for the prior six years[19]. In my testimony in that proceeding, I pointed out that traditional ratemaking assumes that growth in plant investment would be offset by growth in revenue, allowing the utility a reasonable opportunity to earn its allowed return. However, in Ameren Missouri's case, plant investment has been on the rise and sales growth has been declining or essentially flat, resulting in reduced cash flows and frequent under-

[19] Direct Testimony of John J. Reed, Case No. ER-2012-0166 (February 2012) at 27.

earning[20]. This issue has been exacerbated by the historic test year and regulatory lag in Missouri's rate setting process. Historically, rates were often out of date by the time they went into effect[21].

Q. WHY HAS AMEREN MISSOURI'S CAPITAL INVESTMENT BEEN ON THE RISE AND WHAT CHALLENGES DOES THIS PRESENT?

A. As discussed extensively in the Company's last rate case, Ameren Missouri has either had to replace or upgrade much of its infrastructure that was installed in its boom years from the 1950s to early 1970s to continue providing safe and reliable service. Further, Ameren Missouri has had to make substantial investments to comply with legislative mandates (including environmental, renewable energy and energy efficiency laws). This consistent need to deploy non-revenue producing capital, coupled with sales volumes that are on average flat to declining, in conjunction with the regulatory lag prevalent in the Missouri regulatory system, has exposed Ameren Missouri to significant cost pressure in the past and has led to the need for frequent rate cases. Ameren Missouri witness Lynn Barnes' testimony in this case shows that significant investments are continuing, and are projected to total approximately $1.7 billion through the end of this year since the end of the Company's last rate case. Mr. Weiss discusses the significant impact of energy efficiency program expenditures and the costs of compliance with renewable energy standards, which Mr. Meyer has completely failed to address. These kinds of circumstances illustrate why the use of simple historic data to establish new rates, without the conduct of a comprehensive

[20] Ibid at 22.
[21] Ibid at 25 – 26.

cost of service study that is properly vetted through the regulatory process, would not produce just and reasonable results.

Q. HOW THEN IS IT POSSIBLE THAT AMEREN MISSOURI HAS EXPERIENCED "OVER-EARNING" IN RECENTLY FILED EARNINGS REPORTS IF IT IS GENERALLY EXPERIENCING EARNINGS ATTRITION?

A. Without a full study, it is impossible to know if indeed Ameren has over-earned on a normalized basis. Its over-earnings could be attributable to weather or other abnormal or non-recurring factors. While on the surface it may appear that the Company is in an over-earning position, once the appropriate adjustments are made to the data to reflect a "normal" test year, the result could very easily reflect under-earnings. But this debate about past "over- or under-earnings" is not really the question relevant to the determination of whether Ameren Missouri's rates are just and reasonable on a going forward basis. The relevant question is, what is the revenue requirement that will be needed (based on a proper cost of service study) in order to provide the Company with a reasonable opportunity to earn a fair return *in the future when new rates would be in effect*. The Complainants' approach to this case doesn't ask, let alone begin to answer, that question.

Q. DOES MR. MEYER'S REVENUE REQUIREMENT CALCULATION PROVE THAT AMEREN MISSOURI'S EXISTING RATES ARE NO LONGER JUST AND REASONABLE?

A. No. It is very difficult to determine merely by review of the Surveillance Reports that rates "are" or "are not" just and reasonable. Clearly the Commission would not

expect to reset Ameren Missouri's rates each time that a Surveillance Report indicated that earnings results were below what the Commission authorized in the Company's last rate proceeding. Why then should the Commission be expected to adjust rates when a Surveillance Report, or even a few of them, reflect earnings marginally above authorized levels? Taken to the extreme, if the Commission were to act on each Surveillance Report, it would likely result in four or five pancaked rate proceedings, seeking both the increase in and the reduction of rates, based upon each quarter's performance. Such an environment is clearly not reasonable for the Company, its investors, its customers and the Commission. Operating in such an environment would create entirely the wrong incentive for utilities, for they would fail to benefit (or lose a significant part of the benefit) from efficiencies they might be able to create between rate cases. While it is true that utilities do benefit from those efficiencies between rate cases (this is an instance when regulatory lag can help utilities) those efficiencies also ultimately benefit customers as they are factored into rates when new rate cases are filed, as the company plans to do next month. Further, the Surveillance Reports are simply not intended to be used to set rates. The reports provide little information on Ameren Missouri's cost of service or any of the other factors that are necessary to make a prospective rate determination. The reports provide an unadjusted snapshot of financial performance, and are at best a starting point for a discussion of the reasonableness of current rates. I would note that the Commission's Staff receives these same Surveillance Reports but has not suggested that a rate investigation is needed so that rates can be lowered and, as noted, has recognized that this stage of this case would not appropriately lead to a rate decrease

without significant, further investigation, including the conduct of a proper cost of service study. In my experience, those facts are strongly suggestive of a situation where the regulatory commission's Staff recognizes that a rate decrease is likely not warranted because, for example, any "over-earnings" are temporary because of changes in the utility's revenue requirement and/or billing determinants that are unlikely to persist in the future.

Q. HAS THERE BEEN A SIGNIFICANT SHIFT IN THE REVENUE/COST RELATIONSHIP UPON WHICH RATES WERE LAST SET TO WARRANT A FULL RATE REVIEW?

A. One cannot reach that conclusion at this time. The Company has stated its intention to file a full rate proceeding in July 2014. The revenue requirement set forth in that proceeding will reflect a proper matching of the revenues, costs and invested capital that will allow the Commission to establish a proper revenue requirement and rates for the future.

Q. DOES THE MISSOURI COMMISSION ADHERE TO THE GENERALLY-ACCEPTED PROHIBITIONS AGAINST SINGLE ISSUE RATEMAKING AND RETROACTIVE RATEMAKING?

A. Yes. Several cases have been brought before the Missouri Public Service Commission to test its adherence to these doctrines. The Commission invoked the prohibition against single-issue ratemaking in its decision to reject an abbreviated tariff filing by UtiliCorp:.

> The law is quite clear that when the Commission determines the appropriateness of a rate or charge that a utility seeks to impose on its

> customers, it is obligated to review and consider all relevant factors, rather than just a single factor. To consider some costs in isolation might cause the Commission to allow a company to raise rates to cover increased costs in one area without recognizing counterbalancing savings in another area. Such a practice is justly considered to be single-issue ratemaking[22].

The Commission also has similarly articulated its adherence to the prohibition against retroactive ratemaking. In 2007, the MoPSC found that to allow the amortization of tax refunds into rates would constitute retroactive ratemaking and should be rejected. The Commission stated:

> …In setting rates, there is always a risk that the expense for property taxes will be under or over estimated. The company therefore has the risk of not recovering its property taxes. In this case, the property tax expense was set too high, just as cost of service was set too low in the preceding issue.
>
> MGE argues that Staff's proposal constitutes retroactive ratemaking and that the Missouri Supreme Court has determined, in setting rates, that the Commission can consider past excess recovery by a utility only insofar as it is relevant to a determination of what rate is necessary to provide a just and reasonable return…
>
> …Based on its Conclusions of Law and the above findings, the Commission will deny Staff's request to amortize the property taxes refunded to MGE in 2005[23].

Further, in 2011, Noranda Aluminum, one of the Complainants in this proceeding, sought review of a Commission decision similarly arguing that Ameren Missouri was charging unjust and unreasonable rates, partly due to the allowance by the Commission of past vegetation management expenses to be amortized prospectively

[22] Order Rejecting Tariff, Re UtiliCorp United Inc., Case No. ET-2001-482 Tariff No. 200100849, MoPSC (April 13, 2001).

[23] Missouri Gas Energy, a Division of Southern Union Company, Case No. GR-2006-0422, Tariff File No. YG-2006-0845, Missouri Public Service Commission (March 22, 2007).

into rates. Ultimately, the Court of Appeals affirmed the Commission's Decision citing two Missouri cases, Utility Consumers Council, 585 S.W.2d at 41, and AG Processing, 311 S.W.3d at 361[24]. In Utility Consumers Council, the Court found that the Commission could consider past excess recovery so long as it provided a just and reasonable return in the future, but it could not re-determine rates already established without providing the utility due process of law:

> …to direct the commission to determine what a reasonable rate [w]ould have been and to require a credit or refund of any amount collected in excess of this amount would be retroactive ratemaking. The commission has the authority to determine the rate [t]o be charged, [section] 393.270. In so determining it may consider past excess recovery insofar as this is relevant to its determination of what rate is necessary to provide a just and reasonable return in the future, and so avoid further excess recovery, [s]ee State ex rel. General Telephone Co. of the Midwest v. Public *318 Service Comm'n, 537 S.W.2d 655 (Mo.App.1976). It may not, however, redetermine rates already established and paid without depriving the utility (or the consumer if the rates were originally too low) of his property without due process[25].

In *AG Processing*, the Court cited the "filed rate doctrine" which ensures predictability in utility rate regulation, and that the filed rates are the proper rates. The Court cited *State ex rel. Associated Natural Gas Co.*, 954 S.W.2d at 531 for that important precedent:

> The filed rate doctrine's rule against retroactive ratemaking has an "underlying policy of predictability, meaning that if a utility is bound by the rates which it properly filed with the appropriate regulatory agency, then its customers will know prior to purchase what rates are being charged, and can therefore make economic or business plans or adjustments in response." In other words, the approved tariffs are to

[24] State ex rel. Noranda Aluminum, Inc. v. Public Service..., 356 S.W.3d 293 (2011).
[25] Supreme Court of Missouri, En Banc., State ex rel. Utility Consumers Council Of Missouri v. MoPSC and Union Electric Company, et al., No. 60848. June 29, 1979. Rehearings Denied Sept. 11, 1979.

> "provide advance notice to customers of prospective charges, allowing the customers to plan accordingly[26]."

So, in sum, the Missouri Commission and the Missouri courts have adhered to the prohibitions against retroactive ratemaking and single issue ratemaking.

Q. HOW HAVE OTHER STATE REGULATORY JURISDICTIONS DEALT WITH THE ISSUE OF OVEREARNING?

A. State commission practices vary widely. A good portion of the state jurisdictions employ a forward test year, such that a better matching of revenues and costs is established, lessening the likelihood of significant over or under earning. Many states that have wrestled with the issue of significant earnings variances have instituted some sort of earnings sharing arrangement or "ROE collar" between the utility and the ratepayers. These are frequently included in multi-year rate plans for utilities, and reflect the regulator's desire, and the utility's acceptance that earned returns should remain within a prescribed range, or that a rate case should be initiated to correct earnings variances that are outside of these bounds. Other regulators use deferral accounting to capture the effects of significant cost differences, or sales differences, for future rate treatment, so as to keep actual earnings close to the approved cost of capital. All of these mechanisms have merit if the regulator is concerned that traditional ratemaking may produce earnings swings that are larger than what is reasonable. What distinguishes all of these mechanisms from traditional cost of service regulation is that the sharing of earnings shortfalls or surpluses is established in advance of those events occurring, and that the utility and customers understand

[26] State ex rel. AG Processing, 311 S.W.3d 361, No. WD 70799. March 23, 2010.

that these variances will be shared through prospective rate adjustments that reflect past performance.

Q. ARE THESE CIRCUMSTANCES APPLICABLE TO THE CURRENT CASE?

A. No. Ameren Missouri's last rate order did not include any form of earnings sharing. Such a mechanism, if it had been adopted, would provide notice and due process such that investors and consumers could rely on the rate order and reasonably expect the possibility of a refund or surcharge. However, in this case, there have been no negotiated arrangements to refund utility profits in excess of allowed returns to Ameren Missouri's ratepayers, or to surcharge ratepayers for any earnings shortfall. If the Commission would like to preserve the right to recoup utility profits, it must set a prospective rate mechanism to do so.

Q. YOU EARLIER NOTED THAT THE LEVEL OF PROOF REQUIRED, AND THE PROCESS, IN AN EARNINGS COMPLAINT SHOULD BE SIMILAR TO WHAT WE SEE WHEN A UTILITY SEEKS A RATE INCREASE. PLEASE DESCRIBE HOW THAT PROCESS UNFOLDS IN MISSOURI.

A. In Missouri, when a utility seeks a rate increase there are a number of minimum filing requirements, and direct testimony that underlies a comprehensive cost of service study. The Commission affords the other rate case parties several months to audit the Company's books and to present their own direct cases, including a comprehensive cost of service study prepared by the Staff. In addition, all parties are afforded further opportunity to file rebuttal testimony, surrebuttal and cross-surrebuttal testimony. Only then do evidentiary hearings occur. There is no reason why the same kind of process should not be followed when a complaint is filed seeking a rate decrease, yet

the Complainants clearly put forward a much more abbreviated and incomplete process when they filed the Complaint. As the Commission has recognized, short-cutting the process would be inappropriate.

Q. ON WHAT DO YOU BASE YOUR STATEMENT THAT THE COMMISSION HAS RECOGNIZED THAT SHORT-CUTTING THE PROCESS WOULD BE INAPPROPRIATE?

A. Complainants proposed a very short procedural schedule that called only for the filing of their direct testimony on February 12 – which as noted is not based on a proper, comprehensive cost of service study – followed by rebuttal testimony and then surrebuttal/cross-surrebuttal testimony, all on a timeline much shorter than typically seen in rate increase cases. Almost three months later, they then sought to establish a test year which would have had the effect of ignoring significant changes in the revenue requirement that would likely persist once any new rates were set. As noted earlier, Mr. Weiss and Ms. Barnes address some of those changes in their testimonies. The Commission's Staff recognized that the process being advocated by Complainants was insufficient to allow the Commission to change rates, but rather, was really more appropriately characterized as a limited investigation to first determine the threshold question of whether the current rates should be changed at all. In my opinion, the Staff is correct, for the reasons I discussed earlier. While I cannot speak for the Commission itself, I read the Commission's May 14, 2014 Order Regarding Request to Set Test Year and True-up as also recognizing that this stage of this case is really an investigation rather than a case that is designed to inevitably produce new rates. This makes sense because, as noted, new rates cannot and should

not be set without proper, comprehensive cost of service studies and without the kind of due process afforded to the utility that others are afforded when the utility seeks a rate increase.

Q. ARE YOU SUGGESTING THEN THAT THE 11-MONTH PROCESS USED FOR RATE INCREASE CASES BE ADOPTED?

A. I am suggesting that the process would logically have to take at least that long, and likely longer. The reason it would likely take longer is that when a utility files a rate increase case it must file a robust set of information and a comprehensive cost of service study. That was not done here. Moreover, I am told that under Missouri law rate increase cases are required to be given priority over all other Commission matters. That is not the case for an earnings investigation, which one can logically conclude reflected the legislature's recognition that earnings investigations may take longer.

Q. NORANDA HAS DEFENDED WHAT IT FILED AS BEING "AS MUCH OF AN 'ALL RELEVANT FACTORS ANALYSIS'" AS COULD BE PERFORMED GIVEN THAT MOST OF THE INFORMATION NEEDED TO PERFORM A COMPREHENSIVE COST OF SERVICE STUDY IS IN THE UTILITY'S HANDS. DOESN'T IT HAVE A POINT?

A. I agree that when a complainant files a complaint seeking an investigation into a utility's rates that could lead to a rate decrease the complainant faces practical difficulties in filing, at that time, a comprehensive cost of service study. But there is nothing stopping a complainant from (a) providing some evidence upon which the Commission could determine that it should order its Staff to perform an audit and

develop a proper cost of service study that can then be vetted through the testimony and hearing process utilized in rate increase cases, or (b) conducting discovery and itself developing a proper cost of service study that can be vetted in the same way. In either case, that study should in effect start the part of such a case that could lead to a decrease in rates, just as the filing of a cost of service study is required to start a rate increase case that could lead to an increase in rates. Complainants sought to skip important parts of that process. Here, Complainants apparently assumed none of this was necessary, even waiting until almost three months into the case to suggest that a test year ought to be established.

Q. DOESN'T A PROCESS SUCH AS YOU'VE DESCRIBED ABOVE INEVITABLY DELAY THE IMPLEMENTATION OF ANY RATE DECREASE?

A. It may, but utilities are not able to obtain quick rate relief either. The kind of comprehensive analyses of costs, revenues and rate base that could support a rate adjustment takes time to develop. Utilities spend several months before a rate case is filed preparing the kind of comprehensive cost of service studies and testimony needed to support a rate increase request, and then do not receive new rates for another 11 months on top of that preparation time, even with the statutory priority I mentioned earlier. Complainants could have taken a different path here that would have taken longer than they might have liked, but that's simply the way the system works, and was designed to work. Also, one cannot assume that the end result of such a case would be a rate decrease – it might or might not be.

VII. CONCLUSIONS AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A. My conclusions and recommendations are set forth below:

- Mr. Meyer's proposal to reduce Ameren Missouri's rates should be rejected for the following reasons: 1) the Surveillance Report data do not reflect normal test year cost or revenue levels; 2) resetting the authorized ROE outside of a full rate case borders on single issue ratemaking; 3) his adjustment proposal is backward-looking and narrowly focuses on a few cost of service elements, not the entire revenue requirement; 4) his cost of service adjustments are inconsistent with his historic cost data; and 5) he has failed to present any evidence on current levels of rate base, sales levels, customer counts, capital expenditures or depreciation rates, all of which should form the basis of any process which establishes new rates;
- The Complainants have clearly not met their burdens of proof that either the existing rates are unjust and unreasonable, or that their proposed rate reduction is just and reasonable. If the Company had proposed a rate change based on this caliber of evidence, I would similarly recommend that it be summarily dismissed as being without merit and that its recommendations be determined to be unsubstantiated. At a minimum, the Commission must first decide if there is sufficient reason to believe that rates may be unjust and unreasonable, and then it would be necessary for proper, comprehensive cost of service studies to be done

and to be vetted through the regulatory process in much the same way that rate increase cases are processed.

- The Company has previously committed to file a full rate proceeding in July 2014. The revenue requirement established in that proceeding will reflect a proper matching of the revenues, costs and invested capital that will allow the Commission to establish a proper revenue requirement and rates for the future. For all the reasons identified above, the Commission should reject this Complaint because it is inadequately supported, and because any issues identified in the Complaint will be addressed in the upcoming rate proceeding.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

John J. Reed
Chairman and Chief Executive Officer

John J. Reed is a financial and economic consultant with more than 30 years of experience in the energy industry. Mr. Reed has also been the CEO of an NASD member securities firm and Co-CEO of the nation's largest publicly traded management consulting firm (NYSE: NCI). He has provided advisory services in the areas of mergers and acquisitions, asset divestitures and purchases, strategic planning, project finance, corporate valuation, energy market analysis, rate and regulatory matters and energy contract negotiations to clients across North and Central America. Mr. Reed's comprehensive experience includes the development and implementation of nuclear, fossil, and hydroelectric generation divestiture programs with an aggregate valuation in excess of $20 billion. Mr. Reed has also provided expert testimony on financial and economic matters on more than 150 occasions before the FERC, Canadian regulatory agencies, state utility regulatory agencies, various state and federal courts, and before arbitration panels in the United States and Canada. After graduation from the Wharton School of the University of Pennsylvania, Mr. Reed joined Southern California Gas Company, where he worked in the regulatory and financial groups, leaving the firm as Chief Economist in 1981. He served as executive and consultant with Stone & Webster Management Consulting and R.J. Rudden Associates prior to forming REED Consulting Group (RCG) in 1988. RCG was acquired by Navigant Consulting in 1997, where Mr. Reed served as an executive until leaving Navigant to join Concentric as Chairman and Chief Executive Officer.

REPRESENTATIVE PROJECT EXPERIENCE

Executive Management

As an executive-level consultant, worked with CEOs, CFOs, other senior officers, and Boards of Directors of many of North America's top electric and gas utilities, as well as with senior political leaders of the U.S. and Canada on numerous engagements over the past 25 years. Directed merger, acquisition, divestiture, and project development engagements for utilities, pipelines and electric generation companies, repositioned several electric and gas utilities as pure distributors through a series of regulatory, financial, and legislative initiatives, and helped to develop and execute several "roll-up" or market aggregation strategies for companies seeking to achieve substantial scale in energy distribution, generation, transmission, and marketing.

Financial and Economic Advisory Services

Retained by many of the nation's leading energy companies and financial institutions for services relating to the purchase, sale or development of new enterprises. These projects included major new gas pipeline projects, gas storage projects, several non-utility generation projects, the purchase and sale of project development and gas marketing firms, and utility acquisitions. Specific services provided include the development of corporate expansion plans, review of acquisition candidates, establishment of divestiture standards, due diligence on acquisitions or financing, market entry or expansion studies, competitive assessments, project financing studies, and negotiations relating to these transactions.

Litigation Support and Expert Testimony

Provided expert testimony on more than 150 occasions in administrative and civil proceedings on a wide range of energy and economic issues. Clients in these matters have included gas distribution utilities, gas

pipelines, gas producers, oil producers, electric utilities, large energy consumers, governmental and regulatory agencies, trade associations, independent energy project developers, engineering firms, and gas and power marketers. Testimony has focused on issues ranging from broad regulatory and economic policy to virtually all elements of the utility ratemaking process. Also frequently testified regarding energy contract interpretation, accepted energy industry practices, horizontal and vertical market power, quantification of damages, and management prudence. Have been active in regulatory contract and litigation matters on virtually all interstate pipeline systems serving the U.S. Northeast, Mid-Atlantic, Midwest, and Pacific regions.

Also served on FERC Commissioner Terzic's Task Force on Competition, which conducted an industry-wide investigation into the levels of and means of encouraging competition in U.S. natural gas markets. Represented the interests of the gas distributors (the AGD and UDC) and participated actively in developing and presenting position papers on behalf of the LDC community.

Resource Procurement, Contracting and Analysis

On behalf of gas distributors, gas pipelines, gas producers, electric utilities, and independent energy project developers, personally managed or participated in the negotiation, drafting, and regulatory support of hundreds of energy contracts, including the largest gas contracts in North America, electric contracts representing billions of dollars, pipeline and storage contracts, and facility leases.

These efforts have resulted in bringing large new energy projects to market across North America, the creation of hundreds of millions of dollars in savings through contract renegotiation, and the regulatory approval of a number of highly contested energy contracts.

Strategic Planning and Utility Restructuring

Acted as a leading participant in the restructuring of the natural gas and electric utility industries over the past fifteen years, as an adviser to local distribution companies (LDCs), pipelines, electric utilities, and independent energy project developers. In the recent past, provided services to many of the top 50 utilities and energy marketers across North America. Managed projects that frequently included the redevelopment of strategic plans, corporate reorganizations, the development of multi-year regulatory and legislative agendas, merger, acquisition and divestiture strategies, and the development of market entry strategies. Developed and supported merchant function exit strategies, marketing affiliate strategies, and detailed plans for the functional business units of many of North America's leading utilities.

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2002 – Present)
Chairman and Chief Executive Officer

CE Capital Advisors (2004 – Present)
Chairman, President, and Chief Executive Officer

Navigant Consulting, Inc. (1997 – 2002)
President, Navigant Energy Capital (2000 – 2002)
Executive Director (2000 – 2002)
Co-Chief Executive Officer, Vice Chairman (1999 – 2000)
Executive Managing Director (1998 – 1999)
President, REED Consulting Group, Inc. (1997 – 1998)

REED Consulting Group (1988 – 1997)
Chairman, President and Chief Executive Officer

R.J. Rudden Associates, Inc. (1983 – 1988)
Vice President

Stone & Webster Management Consultants, Inc. (1981 – 1983)
Senior Consultant
Consultant

Southern California Gas Company (1976 – 1981)
Corporate Economist
Financial Analyst
Treasury Analyst

EDUCATION AND CERTIFICATION

B.S., Economics and Finance, Wharton School, University of Pennsylvania, 1976
Licensed Securities Professional: NASD Series 7, 63, and 24 Licenses

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BOARDS OF DIRECTORS (PAST AND PRESENT)

Concentric Energy Advisors, Inc.
Navigant Consulting, Inc.
Navigant Energy Capital
Nukem, Inc.
New England Gas Association
R. J. Rudden Associates
REED Consulting Group

AFFILIATIONS

National Association of Business Economists
International Association of Energy Economists
American Gas Association
New England Gas Association
Society of Gas Lighters
Guild of Gas Managers

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Alaska Public Utilities Commission				
Chugach Electric	12/86	Chugach Electric	Docket No. U-86-11	Cost Allocation
Chugach Electric	6/87	Enstar Natural Gas Company	Docket No. U-87-2	Tariff Design
Chugach Electric	12/87	Enstar Natural Gas Company	Docket No. U-87-42	Gas Transportation
Chugach Electric	11/87, 2/88	Chugach Electric	Docket No. U-87-35	Cost of Capital
California Energy Commission				
Southern California Gas Co.	8/80	Southern California Gas Co.	Docket No. 80-BR-3	Gas Price Forecasting
California Public Utility Commission				
Southern California Gas Co.	3/80	Southern California Gas Co.	TY 1981 G.R.C.	Cost of Service, Inflation
Pacific Gas Transmission Co.	10/91, 11/91	Pacific Gas & Electric Co.	App. 89-04-033	Rate Design
Pacific Gas Transmission Co.	7/92	Southern California Gas Co.	A. 92-04-031	Rate Design
Colorado Public Utilities Commission				
AMAX Molybdenum	2/90	Commission Rulemaking	Docket No. 89R-702G	Gas Transportation
AMAX Molybdenum	11/90	Commission Rulemaking	Docket No. 90R-508G	Gas Transportation
Xcel Energy	8/04	Xcel Energy	Docket No. 031-134E	Cost of Debt
CT Dept. of Public Utilities Control				
Connecticut Natural Gas	12/88	Connecticut Natural Gas	Docket No. 88-08-15	Gas Purchasing Practices
United Illuminating	3/99	United Illuminating	Docket No. 99-03-04	Nuclear Plant Valuation
Southern Connecticut Gas	2/04	Southern Connecticut Gas	Docket No. 00-12-08	Gas Purchasing Practices
Southern Connecticut Gas	4/05	Southern Connecticut Gas	Docket No. 05-03-17	LNG/Trunkline
Southern Connecticut Gas	5/06	Southern Connecticut Gas	Docket No. 05-03-17PH01	LNG/Trunkline
Southern Connecticut Gas	8/08	Southern Connecticut Gas	Docket No. 06-05-04	Peaking Service Agreement
District Of Columbia PSC				
Potomac Electric Power Company	3/99, 5/99, 7/99	Potomac Electric Power Company	Docket No. 945	Divestiture of Gen. Assets & Purchase Power Contracts

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Fed'l Energy Regulatory Commission				
Safe Harbor Water Power Corp.	8/82	Safe Harbor Water Power Corp.		Wholesale Electric Rate Increase
Western Gas Interstate Company	5/84	Western Gas Interstate Company	Docket No. RP84-77	Load Fcst. Working Capital
Southern Union Gas	4/87, 5/87	El Paso Natural Gas Company	Docket No. RP87-16-000	Take-or-Pay Costs
Connecticut Natural Gas	11/87	Penn-York Energy Corporation	Docket No. RP87-78-000	Cost Alloc./Rate Design
AMAX Magnesium	12/88	Questar Pipeline Company	Docket No. RP88-93-000	Cost Alloc./Rate Design
Western Gas Interstate Company	6/89	Western Gas Interstate Company	Docket No. RP89-179-000	Cost Alloc./Rate Design, Open-Access Transportation
Associated CD Customers	12/89	CNG Transmission	Docket No. RP88-211-000	Cost Alloc./Rate Design
Utah Industrial Group	9/90	Questar Pipeline Company	Docket No. RP88-93-000, Phase II	Cost Alloc./Rate Design
Iroquois Gas Trans. System	8/90	Iroquois Gas Transmission System	Docket No. CP89-634-000/001; CP89-815-000	Gas Markets, Rate Design, Cost of Capital, Capital Structure
Boston Edison Company	1/91	Boston Edison Company	Docket No. ER91-243-000	Electric Generation Markets
Cincinnati Gas and Electric Co., Union Light, Heat and Power Company, Lawrenceburg Gas Company	7/91	Texas Gas Transmission Corp.	Docket No. RP90-104-000, RP88-115-000, RP90-192-000	Cost Alloc./Rate Design Comparability of Svc.
Ocean State Power II	7/91	Ocean State Power II	ER89-563-000	Competitive Market Analysis, Self-dealing
Brooklyn Union/PSE&G	7/91	Texas Eastern	RP88-67, et al	Market Power, Comparability of Service
Northern Distributor Group	9/92	Northern Natural Gas Company	RP92-1-000, et al	Cost of Service
Canadian Association of Petroleum Producers and Alberta Pet. Marketing Comm.	10/92	Lakehead Pipe Line Co. L.P.	IS92-27-000	Cost Allocation, Rate Design
Colonial Gas, Providence Gas	7/93, 8/93	Algonquin Gas Transmission	RP93-14	Cost Allocation, Rate Design
Iroquois Gas Transmission	94	Iroquois Gas Transmission	RP94-72-000	Cost of Service and Rate Design
Transco Customer Group	1/94	Transcontinental Gas Pipeline Corporation	Docket No. RP92-137-000	Rate Design, Firm to Wellhead
Pacific Gas Transmission	2/94, 3/95	Pacific Gas Transmission	Docket No. RP94-149-000	Rolled-In vs. Incremental Rates; rate design

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Tennessee GSR Group	1/95, 3/95, 1/96	Tennessee Gas Pipeline Company	Docket Nos. RP93-151-000, RP94-39-000, RP94-197-000, RP94-309-000	GSR Costs
PG&E and SoCal Gas	8/96, 9/96	El Paso Natural Gas Company	RP92-18-000	Stranded Costs
Iroquois Gas Transmission System, L.P.	97	Iroquois Gas Transmission System, L.P.	RP97-126-000	Cost of Service, Rate Design
BEC Energy - Commonwealth Energy System	2/99	Boston Edison Company/ Commonwealth Energy System	EC99-___-000	Market Power Analysis – Merger
Central Hudson Gas & Electric, Consolidated Co. of New York, Niagara Mohawk Power Corporation, Dynegy Power Inc.	10/00	Central Hudson Gas & Electric, Consolidated Co. of New York, Niagara Mohawk Power Corporation, Dynegy Power Inc.	Docket No. EC00-___	Market Power 203/205 Filing
Wyckoff Gas Storage	12/02	Wyckoff Gas Storage	CP03-33-000	Need for Storage Project
Indicated Shippers/Producers	10/03	Northern Natural Gas	Docket No. RP98-39-029	Ad Valorem Tax Treatment
Maritimes & Northeast Pipeline	6/04	Maritimes & Northeast Pipeline	Docket No. RP04-360-000	Rolled-In Rates
ISO New England	8/04 2/05	ISO New England	Docket No. ER03-563-030	Cost of New Entry
Transwestern Pipeline Company, LLC	9/06	Transwestern Pipeline Company, LLC	Docket No. RP06-614-000	
Portland Natural Gas Transmission System	6/08	Portland Natural Gas Transmission System	Docket No. RP08-306-000	Market Assessment, natural gas transportation; rate setting
Portland Natural Gas Transmission System	5/10, 3/11, 4/11	Portland Natural Gas Transmission System	Docket No. RP10-729-000	Business risks; extraordinary and non-recurring events pertaining to discretionary revenues
Morris Energy	7/10	Morris Energy	Docket No. RP10-	Affidavit re: Impact of Preferential Rate
Florida Public Service Commission				
Florida Power and Light Co.	10/07	Florida Power & Light Co.	Docket No. 070650-EI	Need for new nuclear plant
Florida Power and Light Co.	5/08	Florida Power & Light Co.	Docket No. 080009-EI	New Nuclear cost recovery, prudence

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Florida Power and Light Co.	3/09	Florida Power & Light Co.	Docket No. 080677-EI	Benchmarking in support of ROE
Florida Power and Light Co.	3/09, 5/09, 8/09	Florida Power & Light Co.	Docket No. 090009-EI	New Nuclear cost recovery, prudence
Florida Power and Light Co.	3/10; 5/10, 8/10	Florida Power & Light Co.	Docket No. 100009-EI	New Nuclear cost recovery, prudence
Florida Power and Light Co.	3/11, 7/11	Florida Power & Light Co.	Docket No. 110009-EI	New Nuclear cost recovery, prudence
Florida Senate Committee on Communication, Energy and Utilities				
Florida Power and Light Co.	2/09	Florida Power & Light Co.		Securitization
Hawaii Public Utility Commission				
Hawaiian Electric Light Company, Inc. (HELCO)	6/00	Hawaiian Electric Light Company, Inc.	Cause No. 41746	Standby Charge
Indiana Utility Regulatory Commission				
Northern Indiana Public Service Company	10/01	Northern Indiana Public Service Company	Docket No. 99-0207	Valuation of Electric Generating Facilities
Northern Indiana Public Service Company	01/08, 03/08	Northern Indiana Public Service Company	Cause No. 43396	Asset Valuation
Northern Indiana Public Service Company	08/08	Northern Indiana Public Service Company	Cause No. 43526	Fair Market Value Assessment
Iowa Utilities Board				
Interstate Power and Light	7/05	Interstate Power and Light and FPL Energy Duane Arnold, LLC	Docket No. SPU-05-15	Sale of Nuclear Plant
Interstate Power and Light	5/07	City of Everly, Iowa	Docket No. SPU-06-5	Municipalization
Interstate Power and Light	5/07	City of Kalona, Iowa	Docket No. SPU-06-6	Municipalization
Interstate Power and Light	5/07	City of Wellman, Iowa	Docket No. SPU-06-10	Municipalization
Interstate Power and Light	5/07	City of Terril, Iowa	Docket No. SPU-06-8	Municipalization
Interstate Power and Light	5/07	City of Rolfe, Iowa	Docket No. SPU-06-7	Municipalization
Maine Public Utility Commission				
Northern Utilities	5/96	Granite State and PNGTS	Docket No. 95-480, 95-481	Transportation Service and PBR

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Maryland Public Service Commission				
Eastalco Aluminum	3/82	Potomac Edison	Docket No. 7604	Cost Allocation
Potomac Electric Power Company	8/99	Potomac Electric Power Company	Docket No. 8796	Stranded Cost & Price Protection
Mass. Department of Public Utilities				
Haverhill Gas	5/82	Haverhill Gas	Docket No. DPU #1115	Cost of Capital
New England Energy Group	1/87	Commission Investigation		Gas Transportation Rates
Energy Consortium of Mass.	9/87	Commonwealth Gas Company	Docket No. DPU-87-122	Cost Alloc./Rate Design
Mass. Institute of Technology	12/88	Middleton Municipal Light	DPU #88-91	Cost Alloc./Rate Design
Energy Consortium of Mass.	3/89	Boston Gas	DPU #88-67	Rate Design
PG&E Bechtel Generating Co./ Constellation Holdings	10/91	Commission Investigation	DPU #91-131	Valuation of Environmental Externalities
Coalition of Non-Utility Generators		Cambridge Electric Light Co. & Commonwealth Electric Co.	DPU 91-234 EFSC 91-4	Integrated Resource Management
The Berkshire Gas Company Essex County Gas Company Fitchburg Gas and Elec. Light Co.	5/92	The Berkshire Gas Company Essex County Gas Company Fitchburg Gas & Elec. Light Co.	DPU #92-154	Gas Purchase Contract Approval
Boston Edison Company	7/92	Boston Edison	DPU #92-130	Least Cost Planning
Boston Edison Company	7/92	The Williams/Newcorp Generating Co.	DPU #92-146	RFP Evaluation
Boston Edison Company	7/92	West Lynn Cogeneration	DPU #92-142	RFP Evaluation
Boston Edison Company	7/92	L'Energia Corp.	DPU #92-167	RFP Evaluation
Boston Edison Company	7/92	DLS Energy, Inc.	DPU #92-153	RFP Evaluation
Boston Edison Company	7/92	CMS Generation Co.	DPU #92-166	RFP Evaluation
Boston Edison Company	7/92	Concord Energy	DPU #92-144	RFP Evaluation
The Berkshire Gas Company Colonial Gas Company Essex County Gas Company Fitchburg Gas and Electric Company	11/93	The Berkshire Gas Company Colonial Gas Company Essex County Gas Company Fitchburg Gas and Electric Co.	DPU #93-187	Gas Purchase Contract Approval
Bay State Gas Company	10/93	Bay State Gas Company	Docket No. 93-129	Integrated Resource Planning
Boston Edison Company	94	Boston Edison	DPU #94-49	Surplus Capacity
Hudson Light & Power Department	4/95	Hudson Light & Power Dept.	DPU #94-176	Stranded Costs
Essex County Gas Company	5/96	Essex County Gas Company	Docket No. 96-70	Unbundled Rates

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Boston Edison Company	8/97	Boston Edison Company	D.P.U. No. 97-63	Holding Company Corporate Structure
Berkshire Gas Company	6/98	Berkshire Gas Mergeco Gas Co.	D.T.E. 98-87	Merge approval
Eastern Edison Company	8/98	Montaup Electric Company	D.T.E. 98-83	Marketing for divestiture of its generation business.
Boston Edison Company	98	Boston Edison Company	D.T.E. 97-113	Fossil Generation Divestiture
Boston Edison Company	98	Boston Edison Company	D.T.E. 98-119	Nuclear Generation Divestiture
Eastern Edison Company	12/98	Montaup Electric Company	D.T.E. 99-9	Sale of Nuclear Plant
NStar	9/07, 12/07	NStar, Bay State Gas, Fitchburg G&E, NE Gas, W. MA Electric	DPU 07-50	Decoupling, risk
NStar	6/11	NStar, Northeast Utilities	DPU 10-170	Merger approval
Mass. Energy Facilities Siting Council				
Mass. Institute of Technology	1/89	M.M.W.E.C.	EFSC-88-1	Least-Cost Planning
Boston Edison Company	9/90	Boston Edison	EFSC-90-12	Electric Generation Mkts
Silver City Energy Ltd. Partnership	11/91	Silver City Energy	D.P.U. 91-100	State Policies; Need for Facility
Michigan Public Service Commission				
Detroit Edison Company	9/98	Detroit Edison Company	Case No. U-11726	Market Value of Generation Assets
Consumers Energy Company	8/06, 1/07	Consumers Energy Company	Case No. U-14992	Sale of Nuclear Plant
WE Energies	12/11	Wisconsin Electric Power Co.	Case No. U-16830	Economic Benefits/Prudence
Minnesota Public Utilities Commission				
Xcel Energy/No. States Power	9/04	Xcel Energy/No. States Power	Docket No. G002/GR-04-1511	NRG Impacts
Interstate Power and Light	8/05	Interstate Power and Light and FPL Energy Duane Arnold, LLC	Docket No. E001/PA-05-1272	Sale of Nuclear Plant
Northern States Power Company d/b/a Xcel Energy	11/05	Northern States Power Company	Docket No. E002/GR-05-1428	NRG Impacts on Debt Costs
Northern States Power Company d/b/a Xcel Energy	09/06	NSP v. Excelsior	Docket No. E6472/M-05-1993	PPA, Financial Impacts
Northern States Power Company d/b/a Xcel Energy	11/06	Northern States Power Company	Docket No. G002/GR-06-1429	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Northern States Power	11/08, 05/09	Northern States Power Company	Docket No. E002/GR-08-1065	Return on Equity
Northern States Power	11/09 6/10	Northern States Power Company	Docket No. G002/GR-09-1153	Return on Equity
Northern States Power	11/10, 5/11	Northern States Power Company	Docket No. E002/GR-10-971	Return on Equity
Missouri Public Service Commission				
Missouri Gas Energy	1/03	Missouri Gas Energy	Case No. GR-2001-382	Gas Purchasing Practices; Prudence
Aquila Networks	2/04	Aquila-MPS, Aquila_L&P	Case Nos. ER-2004-0034 HR-2004-0024	Cost of Capital, Capital Structure
Aquila Networks	2/04	Aquila-MPS, Aquila_L&P	Case No. GR-2004-0072	Cost of Capital, Capital Structure
Missouri Gas Energy	11/05	Missouri Gas Energy	Case Nos. GR-2002-348 GR-2003-0330	Capacity Planning
Missouri Gas Energy	11/10, 1/11	KCP&L	Case No. ER-2010-0355	Natural Gas DSM
Missouri Gas Energy	11/10, 1/11	KCP&L GMO	Case No. ER-2010-0356	Natural Gas DSM
Laclede Gas Company	5/11	Laclede Gas Company	Case No. CG-2011-0098	Affiliate Pricing Standards
Montana Public Service Commission				
Great Falls Gas Company	10/82	Great Falls Gas Company	Docket No. 82-4-25	Gas Rate Adjust. Clause
Nat. Energy Board of Canada				
Alberta-Northeast	2/87	Alberta Northeast Gas Export Project	Docket No. GH-1-87	Gas Export Markets
Alberta-Northeast	11/87	TransCanada Pipeline	Docket No. GH-2-87	Gas Export Markets
Alberta-Northeast	1/90	TransCanada Pipeline	Docket No. GH-5-89	Gas Export Markets
Indep. Petroleum Association of Canada	1/92	Interprovincial Pipe Line, Inc.	RH-2-91	Pipeline Valuation, Toll
The Canadian Association of Petroleum Producers	11/93	Transmountain Pipe Line	RH-1-93	Cost of Capital
Alliance Pipeline L.P.	6/97	Alliance Pipeline L.P.	GH-3-97	Market Study
Maritimes & Northeast Pipeline	97	Sable Offshore Energy Project	GH-6-96	Market Study
Maritimes & Northeast Pipeline	2/02	Maritimes & Northeast Pipeline	GH-3-2002	Natural Gas Demand Analysis
TransCanada Pipelines	8/04	TransCanada Pipelines	RH-3-2004	Toll Design

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Brunswick Pipeline	5/06	Brunswick Pipeline	GH-1-2006	Market Study
TransCanada Pipelines Ltd.	3/07, 04/07	TransCanada Pipelines Ltd.: Gros Cacouna Receipt Point Application	RH-1-2007	Toll Design
Repsol Energy Canada Ltd	3/08	Repsol Energy Canada Ltd	GH-1-2008	Market Study
Maritimes & Northeast Pipeline	7/10	Maritimes & Northeast Pipeline	RH-4-2010	Regulatory policy, toll development
New Brunswick Energy and Utilities Board				
Atlantic Wallboard/JD Irving Co	1/08	Enbridge Gas New Brunswick	MCTN #298600	Rate Setting for EGNB
Atlantic Wallboard/Flakeboard	09/09, 6/10, 7/10	Enbridge Gas New Brunswick	NBEUB 2009-017	Rate Setting for EGNB
NH Public Utilities Commission				
Bus & Industry Association	6/89	P.S. Co. of New Hampshire	Docket No. DR89-091	Fuel Costs
Bus & Industry Association	5/90	Northeast Utilities	Docket No. DR89-244	Merger & Acq. Issues
Eastern Utilities Associates	6/90	Eastern Utilities Associates	Docket No. DF89-085	Merger & Acq. Issues
EnergyNorth Natural Gas	12/90	EnergyNorth Natural Gas	Docket No. DE90-166	Gas Purchasing Practices
EnergyNorth Natural Gas	7/90	EnergyNorth Natural Gas	Docket No. DR90-187	Special Contracts, Discounted Rates
Northern Utilities, Inc.	12/91	Commission Investigation	Docket No. DR91-172	Generic Discounted Rates
New Jersey Board of Public Utilities				
Hilton/Golden Nugget	12/83	Atlantic Electric	B.P.U. 832-154	Line Extension Policies
Golden Nugget	3/87	Atlantic Electric	B.P.U. No. 837-658	Line Extension Policies
New Jersey Natural Gas	2/89	New Jersey Natural Gas	B.P.U. GR89030335J	Cost Alloc./Rate Design
New Jersey Natural Gas	1/91	New Jersey Natural Gas	B.P.U. GR90080786J	Cost Alloc./Rate Design
New Jersey Natural Gas	8/91	New Jersey Natural Gas	B.P.U. GR91081393J	Rate Design; Weather Norm. Clause
New Jersey Natural Gas	4/93	New Jersey Natural Gas	B.P.U. GR93040114J	Cost Alloc./Rate Design
South Jersey Gas	4/94	South Jersey Gas	BRC Dock No. GR080334	Revised levelized gas adjustment
New Jersey Utilities Association	9/96	Commission Investigation	BPU AX96070530	PBOP Cost Recovery
Morris Energy Group	11/09	Public Service Electric & Gas	BPU GR 09050422	Discriminatory Rates
New Jersey American Water Co.	4/10	New Jersey American Water Co.	BPU WR 1040260	Tariff Rates and Revisions

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Electric Customer Group	01/11	Generic Stakeholder Proceeding	BPU GR10100761 and ER10100762	Natural gas ratemaking standards and pricing
New Mexico Public Service Commission				
Gas Company of New Mexico	11/83	Public Service Co. of New Mexico	Docket No. 1835	Cost Alloc./Rate Design
New York Public Service Commission				
Iroquois Gas. Transmission	12/86	Iroquois Gas Transmission System	Case No. 70363	Gas Markets
Brooklyn Union Gas Company	8/95	Brooklyn Union Gas Company	Case No. 95-6-0761	Panel on Industry Directions
Central Hudson, ConEdison and Niagara Mohawk	9/00	Central Hudson, ConEdison and Niagara Mohawk	Case No. 96-E-0909 Case No. 96-E-0897 Case No. 94-E-0098 Case No. 94-E-0099	Section 70, Approval of New Facilities
Central Hudson, New York State Electric & Gas, Rochester Gas & Electric	5/01	Joint Petition of NiMo, NYSEG, RG&E, Central Hudson, Constellation and Nine Mile Point	Case No. 01-E-0011	Section 70, Rebuttal Testimony
Rochester Gas & Electric	12/03	Rochester Gas & Electric	Case No. 03-E-1231	Sale of Nuclear Plant
Rochester Gas & Electric	01/04	Rochester Gas & Electric	Case No. 03-E-0765 Case No. 02-E-0198 Case No. 03-E-0766	Sale of Nuclear Plant; Ratemaking Treatment of Sale
Rochester Gas and Electric and NY State Electric & Gas Corp	2/10	Rochester Gas & Electric NY State Electric & Gas Corp	Case No. 09-E-0715 Case No. 09-E-0716 Case No. 09-E-0717 Case No. 09-E-0718	Depreciation policy
Oklahoma Corporation Commission				
Oklahoma Natural Gas Company	6/98	Oklahoma Natural Gas Company	Case PUD No. 980000177	Storage issues
Oklahoma Gas & Electric Company	9/05	Oklahoma Gas & Electric Company	Cause No. PUD 200500151	Prudence of McLain Acquisition
Oklahoma Gas & Electric Company	03/08	Oklahoma Gas & Electric Company	Cause No. PUD 200800086	Acquisition of Redbud generating facility

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Ontario Energy Board				
Market Hub Partners Canada, L.P.	5/06	Natural Gas Electric Interface Roundtable	File No. EB-2005-0551	Market-based Rates For Storage
Pennsylvania Public Utility Commission				
ATOC	4/95	Equitrans	Docket No. R-00943272	Rate Design, unbundling
ATOC	3/96	Equitrans	Docket No. P-00940886	Rate Design, unbundling
Rhode Island Public Utilities Commission				
Newport Electric	7/81	Newport Electric	Docket No. 1599	Rate Attrition
South County Gas	9/82	South County Gas	Docket No. 1671	Cost of Capital
New England Energy Group	7/86	Providence Gas Company	Docket No. 1844	Cost Alloc./Rate Design
Providence Gas	8/88	Providence Gas Company	Docket No. 1914	Load Forecast., Least-Cost Planning
Providence Gas Company and The Valley Gas Company	1/01	Providence Gas Company and The Valley Gas Company	Docket No. 1673 and 1736	Gas Cost Mitigation Strategy
The New England Gas Company	3/03	New England Gas Company	Docket No. 3459	Cost of Capital
Texas Public Utility Commission				
Southwestern Electric	5/83	Southwestern Electric		Cost of Capital, CWIP
P.U.C. General Counsel	11/90	Texas Utilities Electric Company	Docket No. 9300	Gas Purchasing Practices, Prudence
Oncor Electric Delivery Company	8/07	Oncor Electric Delivery Company	Docket No. 34040	Regulatory Policy, Rate of Return, Return of Capital and Consolidated Tax Adjustment
Oncor Electric Delivery Company	6/08	Oncor Electric Delivery Company	Docket No.35717	Regulatory policy
Oncor Electric Delivery Company	10/08, 11/08	Oncor, TCC, TNC, ETT, LCRA TSC, Sharyland, STEC, TNMP	Docket No. 35665	Competitive Renewable Energy Zone
CenterPoint Energy	6/10 10/10	CenterPoint Energy/Houston Electric	Docket No. 38339	Regulatory policy, risk, consolidated taxes
Oncor Electric Delivery Company	1/11	Oncor Electric Delivery Company	Docket No. 38929	Regulatory policy, risk
Texas Railroad Commission				
Western Gas Interstate Company	1/85	Southern Union Gas Company	Docket 5238	Cost of Service
Atmos Pipeline Texas	9/10; 1/11	Atmos Pipeline Texas	GUD 10000	Ratemaking Policy, risk

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Utah Public Service Commission				
AMAX Magnesium	1/88	Mountain Fuel Supply Company	Case No. 86-057-07	Cost Alloc./Rate Design
AMAX Magnesium	4/88	Utah P&L/Pacific P&L	Case No. 87-035-27	Merger & Acquisition
Utah Industrial Group	7/90	Mountain Fuel Supply	Case No. 89-057-15	Gas Transportation Rates
AMAX Magnesium	9/90	Utah Power & Light	Case No. 89-035-06	Energy Balancing Account
AMAX Magnesium	8/90	Utah Power & Light	Case No. 90-035-06	Electric Service Priorities
Questar Gas Company	12/07	Questar Gas Company	Docket No. 07-057-13	Benchmarking in support of ROE
Vermont Public Service Board				
Green Mountain Power	8/82	Green Mountain Power	Docket No. 4570	Rate Attrition
Green Mountain Power	12/97	Green Mountain Power	Docket No. 5983	Cost of Service
Green Mountain Power	7/98, 9/00	Green Mountain Power	Docket No. 6107	Rate development
Wisconsin Public Service Commission				
WEC & WICOR	11/99	WEC	Docket No. 9401-YO-100 Docket No. 9402-YO-101	Approval to Acquire the Stock of WICOR
Wisconsin Electric Power Company	1/07	Wisconsin Electric Power Co.	Docket No. 6630-EI-113	Sale of Nuclear Plant
Wisconsin Electric Power Company	10/09	Wisconsin Electric Power Co.	Docket No. 6630-CE-302	CPCN Application for wind project

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
American Arbitration Association				
Michael Polsky	3/91	M. Polsky vs. Indeck Energy		Corporate Valuation, Damages
ProGas Limited	7/92	ProGas Limited v. Texas Eastern		Gas Contract Arbitration
Attala Generating Company	12/03	Attala Generating Co v. Attala Energy Co.	Case No. 16-Y-198-00228-03	Power Project Valuation; Breach of Contract; Damages
Nevada Power Company	4/08	Nevada Power v. Nevada Cogeneration Assoc. #2		Power Purchase Agreement
Sensata Technologies, Inc./EMS Engineered Materials Solutions, LLC	1/11	Sensata Technologies, Inc./EMS Engineered Materials Solutions, LLC v. Pepco Energy Services	Case No. 11-198-Y-00848-10	Change in usage dispute/damages
Commonwealth of Massachusetts, Suffolk Superior Court				
John Hancock	1/84	Trinity Church v. John Hancock	C.A. No. 4452	Damages Quantification
State of Colorado District Court, County of Garfield				
Questar Corporation, et al	11/00	Questar Corporation, et al.	Case No. 00CV129-A	Partnership Fiduciary Duties
State of Delaware, Court of Chancery, New Castle County				
Wilmington Trust Company	11/05	Calpine Corporation vs. Bank Of New York and Wilmington Trust Company	C.A. No. 1669-N	Bond Indenture Covenants
Illinois Appellate Court, Fifth Division				
Norweb, plc	8/02	Indeck No. America v. Norweb	Docket No. 97 CH 07291	Breach of Contract; Power Plant Valuation
Independent Arbitration Panel				
Alberta Northeast Gas Limited	2/98	ProGas Ltd., Canadian Forest Oil Ltd., AEC Oil & Gas		
Ocean State Power	9/02	Ocean State Power vs. ProGas Ltd.	2001/2002 Arbitration	Gas Price Arbitration
Ocean State Power	2/03	Ocean State Power vs. ProGas Ltd.	2002/2003 Arbitration	Gas Price Arbitration

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Ocean State Power	6/04	Ocean State Power vs. ProGas Ltd.	2003/2004 Arbitration	Gas Price Arbitration
Shell Canada Limited	7/05	Shell Canada Limited and Nova Scotia Power Inc.		Gas Contract Price Arbitration
International Court of Arbitration				
Wisconsin Gas Company, Inc.	2/97	Wisconsin Gas Co. vs. Pan-Alberta	Case No. 9322/CK	Contract Arbitration
Minnegasco, A Division of NorAm Energy Corp.	3/97	Minnegasco vs. Pan-Alberta	Case No. 9357/CK	Contract Arbitration
Utilicorp United Inc.	4/97	Utilicorp vs. Pan-Alberta	Case No. 9373/CK	Contract Arbitration
IES Utilities	97	IES vs. Pan-Alberta	Case No. 9374/CK	Contract Arbitration
State of New Jersey, Mercer County Superior Court				
Transamerica Corp., et. al.	7/07, 10/07	IMO Industries Inc. vs. Transamerica Corp., et. al.	Docket No. L-2140-03	Breach-Related Damages, Enterprise Value
State of New York, Nassau County Supreme Court				
Steel Los III, LP	6/08	Steel Los II, LP & Associated Brook, Corp v. Power Authority of State of NY	Index No. 5662/05	Property seizure
Province of Alberta, Court of Queen's Bench				
Alberta Northeast Gas Limited	5/07	Cargill Gas Marketing Ltd. vs. Alberta Northeast Gas Limited	Action No. 0501-03291	Gas Contracting Practices
State of Rhode Island, Providence City Court				
Aquidneck Energy	5/87	Laroche vs. Newport		Least-Cost Planning
State of Texas Hutchinson County Court				
Western Gas Interstate	5/85	State of Texas vs. Western Gas Interstate Co.	Case No. 14,843	Cost of Service
State of Texas District Court of Nueces County				
Northwestern National Insurance Company	11/11	ASARCO LLC	No. 01-2680-D	Damages

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
State of Utah Third District Court				
PacifiCorp & Holme, Roberts & Owen, LLP	1/07	USA Power & Spring Canyon Energy vs. PacifiCorp. et. al.	Civil No. 050903412	Breach-Related Damages
U.S. Bankruptcy Court, District of New Hampshire				
EUA Power Corporation	7/92	EUA Power Corporation	Case No. BK-91-10525-JEY	Pre-Petition Solvency
U.S. Bankruptcy Court, District Of New Jersey				
Ponderosa Pine Energy Partners, Ltd.	7/05	Ponderosa Pine Energy Partners, Ltd.	Case No. 05-21444	Forward Contract Bankruptcy Treatment
U.S. Bankruptcy Court, No. District of New York				
Cayuga Energy, NYSEG Solutions, The Energy Network	09/09	Cayuga Energy, NYSEG Solutions, The Energy Network	Case No. 06-60073-6-sdg	Going concern
U.S. Bankruptcy Court, So. District Of New York				
Johns Manville	5/04	Enron Energy Mktg. v. Johns Manville; Enron No. America v. Johns Manville	Case No. 01-16034 (AJG)	Breach of Contract; Damages
U.S. Bankruptcy Court, Northern District Of Texas				
Southern Maryland Electric Cooperative, Inc. and Potomac Electric Power Company	11/04	Mirant Corporation, et al. v. SMECO	Case No. 03-4659; Adversary No. 04-4073	PPA Interpretation; Leasing
U. S. Court of Federal Claims				
Boston Edison Company	7/06, 11/06	Boston Edison v. Department of Energy	No. 99-447C No. 03-2626C	Spent Nuclear Fuel Litigation
Consolidated Edison of New York	08/07	Consolidated Edison of New York, Inc. and subsidiaries v. United States	No. 06-305T	Leasing, tax dispute

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Consolidated Edison Company	2/08, 6/08	Consolidated Edison Company v. United States	No. 04-0033C	SNF Expert Report
Vermont Yankee Nuclear Power Corporation	6/08	Vermont Yankee Nuclear Power Corporation	No. 03-2663C	SNF Expert Report
U. S. District Court, Boulder County, Colorado				
KN Energy, Inc.	3/93	KN Energy vs. Colorado GasMark, Inc.	Case No. 92 CV 1474	Gas Contract Interpretation
U. S. District Court, Northern California				
Pacific Gas & Electric Co./PGT PG&E/PGT Pipeline Exp. Project	4/97	Norcen Energy Resources Limited	Case No. C94-0911 VRW	Fraud Claim
U. S. District Court, District of Connecticut				
Constellation Power Source, Inc.	12/04	Constellation Power Source, Inc. v. Select Energy, Inc.	Civil Action 304 CV 983 (RNC)	ISO Structure, Breach of Contract
U. S. District Court, Massachusetts				
Eastern Utilities Associates & Donald F. Pardus	3/94	NECO Enterprises Inc. vs. Eastern Utilities Associates	Civil Action No. 92-10355-RCL	Seabrook Power Sales
U. S. District Court, Montana				
KN Energy, Inc.	9/92	KN Energy v. Freeport MacMoRan	Docket No. CV 91-40-BLG-RWA	Gas Contract Settlement
U.S. District Court, New Hampshire				
Portland Natural Gas Transmission and Maritimes & Northeast Pipeline	9/03	Public Service Company of New Hampshire vs. PNGTS and M&NE Pipeline	Docket No. C-02-105-B	Impairment of Electric Transmission Right-of-Way

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
U. S. District Court, Southern District of New York				
Central Hudson Gas & Electric	11/99, 8/00	Central Hudson v. Riverkeeper, Inc., Robert H. Boyle, John J. Cronin	Civil Action 99 Civ 2536 (BDP)	Electric restructuring, environmental impacts
Consolidated Edison	3/02	Consolidated Edison v. Northeast Utilities	Case No. 01 Civ. 1893 (JGK) (HP)	Industry Standards for Due Diligence
Merrill Lynch & Company	1/05	Merrill Lynch v. Allegheny Energy, Inc.	Civil Action 02 CV 7689 (HB)	Due Diligence, Breach of Contract, Damages
U. S. District Court, Eastern District of Virginia				
Aquila, Inc.	1/05, 2/05	VPEM v. Aquila, Inc.	Civil Action 304 CV 411	Breach of Contract, Damages
U. S. District Court, Portland Maine				
ACEC Maine, Inc. et al.	10/91	CIT Financial vs. ACEC Maine	Docket No. 90-0304-B	Project Valuation
Combustion Engineering	1/92	Combustion Eng. vs. Miller Hydro	Docket No. 89-0168P	Output Modeling; Project Valuation
U.S. Securities and Exchange Commission				
Eastern Utilities Association	10/92	EUA Power Corporation	File No. 70-8034	Value of EUA Power
Council of the District of Columbia Committee on Consumer and Regulatory Affairs				
Potomac Electric Power Co.	7/99	Potomac Electric Power Co.	Bill 13-284	Utility restructuring

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

COMMONWEALTH OF MASSACHUSETTS)
)
COUNTY OF MIDDLESEX)

AFFIDAVIT OF JOHN J. REED

BEFORE ME, the undersigned authority, on this day personally appeared John J. Reed, who having been placed under oath by me did depose as follows:

1. My name is John J. Reed. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.

2. I have prepared the foregoing Rebuttal Testimony and the information contained in this document is true and correct to the best of my knowledge.

Further affiant sayeth not.

John J. Reed

SUBSCRIBED AND SWORN TO BEFORE ME on this 4th day of June, 2014.

Notary Public in and for the Commonwealth of Massachusetts

My commission expires: 10/15/15

JOANNE P. BICKFORD
NOTARY PUBLIC
COMMONWEALTH OF MASSACHUSETTS
MY COMMISSION EXPIRES
OCTOBER 15, 2015