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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. GR-2024-0369

SURREBUTTAL TESTIMONY

OF

STEPHEN J. HIPKISS

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

**St. Louis, Missouri
May 2025**

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SURREBUTTAL TESTIMONY

OF

STEPHEN J. HIPKISS

FILE NO. GR-2024-0369

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Stephen J. Hipkiss. My business address is One Ameren Plaza,
1901 Chouteau Ave., St. Louis, Missouri.

**Q. Are you the same Stephen J. Hipkiss that submitted rebuttal testimony
in this case?**

A. Yes, I am.

II. PURPOSE OF TESTIMONY

Q. To what testimony or issues are you responding?

A. My surrebuttal testimony responds to the rebuttal testimony of Staff
witnesses Keith Majors and Matthew Young and Office of Public Counsel ("OPC") witness
John Robinett on discrete adjustments.

III. DISCRETE ADJUSTMENTS

Q. What is Staff's position on discrete adjustments?

A. In its January 15, 2025, Order Regarding Motion for Reconsideration the
Commission found, "...that all parties are permitted to present discrete adjustments beyond
the true-up period to propose a more complete picture of Ameren Missouri's operations at

1 the operation of law date."¹ Staff, however, has not proposed a discrete adjustment in this
2 case and has recommended that the Commission reject the Company's proposed discrete
3 adjustment to the rate base in this case to reflect its investment in the second phase ("Phase
4 2") of a major upgrade to the capacity that serves its Northeast Gas System in and around
5 Wentzville, Missouri.²

6 **Q. Has Staff provided an alternative solution to address the regulatory lag**
7 **associated with the Phase 2 investment?**

8 A. Yes, in his rebuttal testimony Staff witness Keith Majors states the
9 following:

10 **Q. You mentioned that Staff is opposed to Ameren Missouri's**
11 **discrete adjustments in this rate case. Is there an alternative**
12 **mechanism to address the regulatory lag associated with the major**
13 **plant additions identified by Ameren Missouri?**

14 A. Yes. As described by Ameren Missouri witnesses Wills and
15 Harrison, Phase 1 and Phase 2 of the reliability projects are major plant
16 additions that are not eligible for the ISRS. Phase 3 of the project is expected
17 to be completed after rates are in effect and is not contemplated for rate base
18 treatment in this case. **One alternative solution would be the use of**
19 **construction accounting, or more accurately, continuation of**
20 **construction accounting for these specific projects.**

21 Staff and the Commission have generally been supportive of reducing
22 regulatory lag inherent in construction of large generating assets or large
23 construction projects. The obvious example is the accounting treatment
24 afforded to Ameren Missouri electric's forthcoming Castle Bluff Facility.
25 This \$900 million simple cycle combustion turbine generator facility will
26 receive a version of construction accounting pursuant to the Unanimous
27 Stipulation and Agreement filed in File No. EA-2024-0237 and approved
28 by the Commission.³ [emphasis added]

¹ File No. GR-2024-0369, *Order Regarding Motion for Reconsideration*, p 1, issued January 15, 2025.

² Staff witness Matt Young has provided an alternative should the Commission approve the Company's discrete adjustment that would more than cancel out the effects of said discrete adjustment. The Company's rebuttal testimony addresses Mr. Young's alternative.

³ File No. GR-2024-0369, Keith Majors Rebuttal Testimony, p. 16, ll. 10 – 22, p. 17, ll. 1-2.

1 **Q. Can you further describe the continuation of construction accounting**
2 **approach proposed by Staff witness Majors?**

3 A. The continuation of construction accounting approach proposed by Mr.
4 Majors would allow the Company to accrue and defer a return on the net book value of its
5 Phase 2 investment as a regulatory asset and to defer the Phase 2 depreciation expense as
6 a regulatory asset between the time the Phase 2 investment is placed in service on the
7 Company's books and the effective date of new rates that include this investment in the
8 related revenue requirement (the "Regulatory Loss Period").

9 **Q. Is the alternative mechanism proposed by Staff to address the**
10 **regulatory lag associated with the Phase 2 investment acceptable to the Company?**

11 A. The Company does not object to Staff's proposed alternative mechanism to
12 reflect the continuation of construction accounting for the Phase 2 investment. Both Staff's
13 proposed alternative mechanism and the Company's proposal to treat the Phase 2
14 investment as a discrete adjustment to the rate base in this case could equally serve to
15 address the Company's concerns as to the inordinate regulatory lag that would otherwise
16 exist in relation to the Phase 2 investment. One potential benefit associated with Staff's
17 proposal to utilize construction accounting is that it would reduce the Company's annual
18 revenue increase request by approximately \$5 million. While concerns over
19 intergenerational equity would be one reason to favor the Company's proposed discrete
20 adjustment over the continuation of construction accounting given that the investment will
21 be in service in July 2025 and the Company's gas rate review history suggests a
22 construction accounting deferral may not be included in the revenue requirement used to

1 set rates for several years, the magnitude of the recommended increase in this case may be
2 a reason to favor the construction accounting alternative.

3 **Q. If the Commission were to authorize continuation of construction**
4 **accounting for the Phase 2 investment as proposed by Staff witness Majors, what**
5 **accrual rate should be applied to the Phase 2 net book value of plant in order to**
6 **determine the regulatory asset deferral over the Regulatory Loss Period?**

7 A. If the Commission were to authorize continuation of construction
8 accounting for the Phase 2 investment as proposed by Mr. Majors, the Commission should
9 order the Company to utilize the weighted average cost of capital ("W.A.C.C.") approved
10 in this case, plus applicable state and federal income taxes, as the accrual rate in order to
11 determine the regulatory asset deferral over the Regulatory Loss Period.

12 **Q. Over what period would the Company propose to recover the continuation**
13 **of construction accounting regulatory asset?**

14 A. The Company would propose to recover the continuation of construction
15 accounting regulatory asset over the remaining life of the assets in question. This approach
16 would be consistent with prior Commission precedent, as noted in the following excerpt
17 from Mr. Majors' rebuttal testimony:

18 **Q. How does construction accounting for Castle Bluff compare**
19 **with prior examples of the utilization of construction accounting?**⁴

20 A. ...The deferrals have generally received rate base treatment over the
21 remaining life of the assets in question.⁵

⁴ File No. GR-2024-0369, Keith Majors Rebuttal Testimony, p. 17, ll. 7 – 8.

⁵ File No. GR-2024-0369, Keith Majors Rebuttal Testimony, p. 17, ll. 13 – 14.

1 The Company would request that the continuation of construction accounting
2 regulatory deferral receive rate base treatment, also consistent with historical precedent as
3 noted above by Mr. Majors.

4 **Q. In his rebuttal testimony, Staff witness Matthew Young suggests the**
5 **Company has experienced sufficient positive regulatory lag since rates were last set to**
6 **offset the negative regulatory lag incurred on the Phase 1 investment and thus could have**
7 **delayed this case in order to include the Phase 2 investment in rate base without the need**
8 **for a discrete adjustment. Is Mr. Young's suggestion reasonable?**

9 A. Not at all. Staff is recommending a revenue requirement increase of
10 approximately \$30 million,⁶ which represents a 38 percent increase to Staff's calculated
11 annualized retail revenues of approximately \$81 million.⁷ It's simply not credible for Mr. Young
12 to suggest that "Ameren Missouri's rates are likely sufficient even with the increase in
13 depreciation expense due to offsetting positive regulatory lag,"⁸ when Staff is simultaneously
14 acknowledging that the Company's current rates are not at all sufficient by recommending such
15 a large rate increase.

16 **Q. What is OPC's position on discrete adjustments?**

17 A. OPC has not proposed a discrete adjustment in this case and has
18 recommended that the Commission reject⁹ the Company's proposed discrete adjustment¹⁰

⁶ File No. GR-2024-0369, Staff's Rebuttal Accounting Schedules, Accounting Schedule: 01, Line 13, Column C.

⁷ File No. GR-2024-0369, Staff's Rebuttal Accounting Schedules, Accounting Schedule: 09, Line 1, Column H.

⁸ File No. GR-2024-0369, Matthew Young Rebuttal Testimony, p. 10, ll. 12-14.

⁹ File No. GR-2024-0369, John Riley Rebuttal Testimony, p. 5-8.

¹⁰ This proposed discrete adjustment is discussed in greater detail in Company witness Steven Wills' direct and rebuttal testimony.

1 to the rate base in this case to reflect its Phase 2 investment.¹¹ However, if the Commission
2 were to allow the inclusion of Ameren Missouri's requested discrete adjustment in rates,
3 Mr. Robinett is recommending an alternative position in that the Commission also approve
4 adjustments beyond the true-up period for plant-in-service and accumulated depreciation
5 reserves through the effective date of new rates in this case.¹²

6 **Q. Can you further describe the alternative position proposed by OPC witness**
7 **Robinett?**

8 A. The alternative position proposed by Mr. Robinett would be for the cost of
9 service to reflect the net book value of all utility plant as of the operation-of-law date. This
10 is in contrast to the Company's proposal, which is for the cost of service to reflect the net
11 book value of plant measured at the December 31, 2024, true-up date, but with a discrete
12 adjustment for the Phase 2 investment that will occur after the true-up date but prior to the
13 effective date of new rates in this case.

14 **Q. How does the alternative position advanced by OPC compare to the**
15 **alternative position regarding the net book value of plant advanced by Staff witness**
16 **Matthew Young?**

17 A. Similar to OPC, Staff has not proposed a discrete adjustment in this case.
18 However, in the event the Commission approves the Company's Phase 2 discrete
19 adjustment, Staff is similarly recommending an alternative position that the Commission
20 also approve adjustments beyond the true-up period for plant-in-service and accumulated
21 depreciation reserves through the effective date of new rates in this case.¹³ While there are

¹¹ The Company's response to Mr. Riley's recommendation to reject the Company's proposed discrete adjustment for Phase 2 is provided in the surrebuttal testimony of Company witness Pamela Harrison.

¹² File No. GR-2024-0369, John Robinett Rebuttal Testimony, p. 6, ll. 20 - 23.

¹³ File No. GR-2024-0369, Matthew Young Direct Testimony, p. 8, ll. 12-19.

1 similarities between the adjustments proposed by Staff and OPC, there is also one key
2 difference.¹⁴

3 Staff's proposed adjustment to the net book value of plant reflected only an increase
4 to the accumulated depreciation reserve reflected in the cost of service for the continued
5 depreciation of the December 31, 2024, plant account balances. As noted in my rebuttal
6 testimony,¹⁵ Staff's proposed adjustment is inappropriate as it accounts for only one side
7 of future changes in rate base – future decreases to rate base that will occur naturally over
8 time as plant in service depreciates – while ignoring the ongoing investments in
9 infrastructure that will increase rate base contemporaneously with those depreciation-
10 related decreases to rate base. In contrast, OPC's proposed adjustment appears to
11 appropriately acknowledge the need to incorporate the ongoing investments in
12 infrastructure that will increase rate base contemporaneously with those depreciation-
13 related decreases to rate base. In his rebuttal testimony, Mr. Robinett states the following:

14 I am simply providing a recommended adjustment for **plant-in-service and**
15 **accumulated depreciation reserves** through the effective date of new rates
16 if the Commission were to allow the inclusion of Ameren Missouri's
17 requested discrete adjustment in rates.¹⁶ [emphasis added]

18 **Q. Have you calculated any discrete adjustments related to Ameren**
19 **Missouri's proposed discrete adjustments?**

20 A. I have calculated a plant-in-service amount of ** _____ ** as of
21 August 31, 2025. Further, I have calculated accumulated depreciation
22 reserve of ** _____ ** **I have included additional plant-in-service**
23 **of ** _____ ** that Ameren Missouri projected to place in service**
24 **by August 31, 2025.** Therefore, I calculated an additional ** _____ **

¹⁴ While in my surrebuttal testimony I am only addressing the primary difference between the net book value of plant adjustments proposed by Staff and OPC, there are also other differences in how the parties calculated the Company's accumulated depreciation reserves as of the operation-of-law date.

¹⁵ File No. GR-2024-0369, Stephen Hipkiss Rebuttal Testimony, p. 19, ll. 3-22, p. 20, ll. 1-2.

¹⁶ File No. GR-2024-0369, John Robinett Rebuttal Testimony, p. 6, ll. 20 - 23.

1 in depreciation reserves to extend to September 30, 2025. My calculations
2 of these values are attached as Schedule JAR-R-1C.¹⁷ [emphasis added]

3 Mr. Robinett's calculation of an additional ** _____ ** in depreciation
4 reserves in his Schedule JAR-R-1C includes his forecasted depreciation through the
5 operation-of-law date on the ** _____ ** of plant that Ameren Missouri projects to
6 place in service by August 31, 2025.

7 **Q. What would be the impact to the revenue requirement from the alternative**
8 **position proposed by OPC witness Robinett?**

9 A. As noted in my rebuttal testimony, the Company's infrastructure
10 investments generally outpace depreciation on existing plant, resulting in increasing rate
11 base over time. Mr. Robinett's alternative position to include in rate base both additional
12 depreciation reserves to reflect expected depreciation through the operation-of-law date
13 and the additional plant-in-service that Ameren Missouri projects to place in service by the
14 operation-of-law date would result in an overall increase to the Company's revenue
15 requirement compared to the Company's proposed Phase 2 discrete adjustment. The
16 Company does not object to Mr. Robinett's alternative position to reflect the net book value
17 of all utility plant as of the operation-of-law date and believes that such an approach would
18 reduce the regulatory lag that the Company would otherwise face on its plant investments.

19 **Q. Does this conclude your surrebuttal testimony?**

20 A. Yes, it does.

¹⁷ File No. GR-2024-0369, John Robinett Rebuttal Testimony, p. 5, ll. 17 – 22, p. 6, ll. 1-2.

In the Matter of Union Electric Company d/b/a)
Ameren Missouri's Tariffs to Adjust Its) File No.: GR-2024-0369
Revenues for Natural Gas Service.)

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

My name is Stephen J. Hipkiss, and hereby declare on oath that I am of sound mind and lawful age; that I have prepared the foregoing *Surrebuttal Testimony*; and further, under the penalty of perjury, that the same is true and correct to the best of my knowledge and belief.

Sworn to me this 1st day of May, 2025.