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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. EA-2018-0202

SURREBUTTAL TESTIMONY

OF

STEVEN M. WILLS

ON

BEHALF OF

UNION ELECTRIC COMPANY

d/b/a Ameren Missouri

St. Louis, Missouri
September, 2018

Ameren Exhibit No. 120
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STEVEN M. WILLS

FILE NO. EA-2018-0202

I. INTRODUCTION

Q. Please state your name and business address.

A. Steven M. Wills, Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company"), One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Are you the same Steven M. Wills that filed direct testimony in this proceeding?

A. Yes, I am.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. My surrebuttal testimony in this proceeding provides evidence relevant to Office of the Public Counsel ("OPC") witness Dr. Geoff Marke's proposal that the Renewable Energy Standard Rate Adjustment Mechanism ("RESRAM") cannot be used in conjunction with Plant in Service Accounting ("PISA") that was recently authorized by Senate Bill 564 ("SB 564"). Company witness Tom Byrne directly addresses the substance of the OPC's argument.

III. RESPONSE TO OPC

Q. What position has OPC taken with respect to the RESRAM in light of the passage of SB 564?

A. Dr. Marke states:

If Ameren Missouri intends to utilize the PISA provisions in the recently passed SB 564 then this application should be adjusted to

1 allow deferral of *only* 85% depreciation expense and return for costs
2 associated with its qualifying electric plant. If Ameren Missouri
3 does not intend to utilize the PISA provision in the recently passed
4 SB 564 then a RESRAM could be utilized for recovery. Ameren
5 Missouri should not be able to have it both ways as that would run
6 counter to the language of SB 564. (Marke Rebuttal, page 11, lines
7 10-15).

8 **Q. What is your response to Dr. Marke's recommendation?**

9 A. Mr. Byrne provides the Company's response to the legal and regulatory merits of
10 Dr. Marke's position. However, I would simply like to provide some context for the OPC's and
11 Commission's consideration of the issue.

12 **Q. What is that context?**

13 A. The RESRAM is designed to provide a means for the recovery of Renewable
14 Energy Standard ("RES") *costs from* customers, as well as a return of RES *benefits to* customers.
15 To be clear, at its inception, the RESRAM was intended by the Company to reduce the impacts of
16 regulatory lag it would experience in recovering the costs of its RES compliance investments.
17 However, the modifications that have already been filed for the proposed RESRAM tariff, as a
18 result of SB 564, actually result in the RESRAM being far more likely to, on balance, deliver RES
19 benefits to customers on a complete and timely basis. Because 85% of the return and the return of
20 capital for the wind investment will now be recovered pursuant to the Company's PISA election,
21 rather than through the RESRAM, and because of the significant benefits that are expected to be
22 generated by the project in the form of Production Tax Credits ("PTC's") and returned to customers
23 through the RESRAM, the net of the costs and benefits should very likely result in RESRAM rate
24 credits to customers. With no RESRAM (as OPC appears to prefer), net benefits created largely
25 by the magnitude of the PTC's would simply accrue to the Company until the first general rate
26 proceeding that accounted for the wind investment in its revenue requirement. OPC's insistence
27 on an either/or scenario could potentially deprive customers of the receipt of significant benefits

1 associated with the wind investment, especially since the Company has already declared its PISA
2 election to the Commission.

3 **Q. Do you have an example that shows the potential magnitude of the benefits**
4 **that could be returning to customers if the RESRAM is approved consistent with the non-**
5 **unanimous stipulation and agreement?**

6 A. Yes. In my direct testimony, I used some illustrative assumptions to demonstrate
7 the operation of the proposed RESRAM. Included in that example was a very high level estimation
8 of the revenue requirement of a 400 MW wind facility (like the proposed project in this docket).
9 The dollar figures and other relevant assumptions were not tied specifically to this proposal, but
10 were somewhat generically representative of the order of magnitude that could be expected for a
11 400 MW project. Simply updating that calculation to include PISA yields a reasonable expectation
12 of the order of magnitude of potential benefits customers might expect to receive through the
13 RESRAM. Table 1 below shows the illustrative assumptions that were included in my direct
14 testimony and the estimated annual revenue requirement I calculated at that time. Next, it shows
15 the same calculation, but assuming 85% of the return and depreciation are recovered elsewhere
16 (PISA), and the updated annual revenue requirement consistent with PISA treatment. I would also
17 note that the assumptions shown here, while generally representative of the appropriate order of
18 magnitude, err on the high side of the expected costs of the project, so actual costs may end up
19 producing even greater net benefits.

Table 1 – Illustrative High Level Wind Revenue Requirement with and without PISA

<i>(\$ in Millions)</i>	Direct Testimony Example	Including PISA
Installed Capacity (MW)	400	400
Investment Amount	\$700	\$700
Pre-tax ROR	8%	8%
Annual Depreciation Expense	\$35	\$35
Property Tax Factor (Annual Expense as a % of Gross Investment)	2%	2%
O&M Factor (Annual Expense as a % of Gross Investment)	2%	2%
Annual PTC Benefit	\$35	\$35
Annual Revenue Requirement	\$72	-\$5.35
Monthly Revenue Requirement	\$6	-\$0.45

1 **Q. Please summarize Table 1.**

2 A. Whereas the RESRAM originally was expected to be a charge to customers to
3 reflect the costs of the wind project until it was reflected in the revenue requirement of a general
4 rate proceeding, this circumstance has changed significantly. Now, I think it is reasonable to
5 assume that the RESRAM could be a credit returning millions of dollars of net benefits on an
6 annualized basis to customers until the project is included in a rate case.

7 **Q. Does the use of both RESRAM and PISA create the potential for double**
8 **recovery of RES compliance costs?**

9 A. No. The RESRAM tariff, both as filed initially (including the sheet substitution
10 made by the Company after the passage of SB 564) and as attached to the Stipulation, ensures that
11 the 85% of the return and depreciation expense that are subject to PISA would not be eligible for
12 inclusion in the RESRAM. Practically speaking, using PISA consistent with the requirements of
13 SB 564 is no more or less beneficial to the Company than using the RESRAM without PISA – it
14 just achieves the same results in a manner that complies with the new law.

1 **Q. Are there any costs that would be expected to pass through the RESRAM prior**
2 **to the wind investment being reflected in it?**

3 A. Yes. Consistent with the provisions of SB 564 and also the Stipulation, the cost of
4 newly authorized solar rebates paid to customers would be included in the RESRAM. So despite
5 the fact that, on balance, the RESRAM for the better part of the foreseeable future will likely be a
6 mechanism to provide net credits to customers, it is also probable that the first rate filing with a
7 non-zero RESRAM rate will reflect a charge to customers arising from the payment of solar rebates
8 prior to a wind project going into service.

9 **Q. Dr. Marke also states in his rebuttal testimony that "...spreading the costs of**
10 **this project through three separate regulatory mechanisms to reduce regulatory lag ... would**
11 **create inaccurate price signals relating to the true costs and benefits of complying with the**
12 **RES statute." (Marke Rebuttal, page 14, lines 6-9). Is this a legitimate reason to consider**
13 **OPC's proposal to allow the Company to only recover the costs of the wind investment**
14 **through PISA or the RESRAM, but not both?**

15 A. No, for a couple of reasons. First, OPC offers no solution to the recovery of these
16 costs that would in fact result in the presentation of an accurate price signal. Because ultimately
17 the costs associated with RES compliance investments will be included in the determination of
18 base rates, and their contribution to the revenue requirement used to establish those base rates will
19 not be transparent to customers, there is essentially no chance that any recovery mechanism that
20 is being used for interim recovery for a subset of these RES compliance costs will be able to convey
21 an accurate price signal that gives customers any insight into what they are paying for RES
22 compliance. Second, OPC's proposal in light of the Company's PISA election – to forego the use
23 of a RESRAM entirely and force the Company to absorb RES costs and benefits without passing

1 them through to customers at all – would result in an even more inaccurate price signal still. There
2 is no way that OPC can claim to improve customers' understanding of the costs and benefits of
3 RES compliance by never reflecting certain costs and benefits of RES compliance to those
4 customers.

5 **Q. What conclusions do you draw from this discussion?**

6 A. The OPC's proposal that only PISA or the RESRAM should be able to be used is
7 neither consistent with the law nor good regulatory policy, as discussed by Mr. Byrne. That
8 argument notwithstanding, it is also not good for customers. The RESRAM provides opportunities
9 to ensure that legally mandated RES compliance costs can be recovered by the utility – but it also
10 ensures that the full benefits of those compliance activities will be realized by customers. I
11 recommend that the Commission reject the OPC's argument and approve a RESRAM tariff
12 consistent with the version attached to the Stipulation filed in this case.

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

14 A. Yes, it does.

