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Witness: *John P. Cassidy*
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

JOHN P. CASSIDY

UNION ELECTRIC COMPANY,

d/b/a Ameren Missouri

CASE NO. ER-2012-0166

Jefferson City, Missouri
August 2012

Staff Exhibit No. 208
Date 9-27-12 Reporter KF
File No. ER-2012-0166

EXHIBIT 208

REBUTTAL TESTIMONY

OF

JOHN P. CASSIDY

UNION ELECTRIC COMPANY,
d/b/a AMEREN MISSOURI

CASE NO. ER-2012-0166

Q. Please state your name and business address.

A. John P. Cassidy, 111 North 7th Street, Suite 105, St. Louis, MO 63101.

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

A. I am employed by the Missouri Public Service Commission (Commission) as a Utility Regulatory Auditor V.

Q. Are you the same John P. Cassidy who filed direct testimony and also sponsored the Staff's Revenue Requirement Cost of Service Report that was filed on July 6, 2012 as part of this rate proceeding?

A. Yes.

EXECUTIVE SUMMARY

Q. Please provide a brief summary of your rebuttal testimony in this proceeding.

A. My rebuttal testimony will address the plant-in-service accounting proposal described by Ameren Missouri (Company) witnesses Warner L. Baxter, Lynn M. Barnes and John J. Reed in their respective direct testimony filings. I will also explain why the Commission should reject the Company's proposed single-issue ratemaking mechanism.

PLANT-IN-SERVICE ACCOUNTING PROPOSAL

Q. Please explain the Company's proposed plant-in-service accounting regulatory mechanism.

A. Company Witness Barnes states on page 16, lines 14 through 19 of direct testimony, that:

> …the term Plant-In-Service Accounting refers to regulatory treatment which would allow for the accrual of return and the deferral of depreciation expense during the period between when nonrevenue-producing assets are place in service and the point when they become part of rate base following a rate case, offset by retirements and changes to the accumulated depreciation reserve. This practice is similar to what has sometimes been referred to as construction accounting.

Q. Why does the Company contend that plant-in-service accounting is now warranted?

A. Company witness Barnes indicates on pages 16 through 17 of her direct testimony that Company forgoes return and depreciation on assets for the period of time from when they are placed in service until they are reflected in rates in their next rate case. Company witness Reed echoes Ms. Barnes' comments on page 26 of his direct testimony.

Q. What is the Staff's position with regard to the Company's proposed plant-in-service mechanism?

A. The Staff has five primary concerns with the Company's proposal. First, this proposed regulatory mechanism represents unjustifiable single-issue ratemaking. Second, it fails to accurately measure the change in Ameren Missouri's costs between rate cases. Third, it weakens management's incentive to efficiently control costs. Fourth, the Company's proposal fails to take into consideration reduced maintenance costs that may result from having replaced older and less reliable investment, in addition to other cost savings that may occur related to new plant additions. Failure to recognize such changes would create an overstatement of revenue requirement in the context of future rate cases. Finally, the proposal is not consistent in its treatment of non-revenue producing investment placed in service between rate cases because it fails to address the associated accumulated deferred incomes taxes ("ADIT") that are related that investment. This failure to address ADIT would also result in a significant overstatement of future revenue requirement determinations.

Q. Please explain the Staff's concerns that Ameren Missouri's proposed plant-in-service accounting represents unjustifiable single-issue ratemaking.

A. Ameren Missouri's proposal represents an unjustified attempt to receive single-issue ratemaking treatment with regard to one aspect of costs while ignoring all of the other relevant factors. Only in extraordinary circumstances, such as the recent addition of the Sioux scrubbers, which if not addressed would have significantly harmed the Company's financial performance, could allowing "construction accounting" treatment of the depreciation and return associated with a new plant addition be considered justifiable. However, the Company's proposal in this case is not related in any way to any extraordinary capital project that in and of itself would necessitate the filing of a rate case, nor is it limited to extraordinary capital projects. Rather, the Company is attempting defer and receive future recovery for all non-revenue producing investment, regardless of whether or not it is extraordinary. Furthermore, in recent investor meetings that occurred during June 2012, Ameren Corporation, the parent of Ameren Missouri, indicated that Ameren Missouri would experience only a modest level of growth in rate base. Therefore, no extraordinary circumstances in the near term future warrant such a drastic change to regulatory practice as is proposed by Ameren Missouri witnesses, Mr. Baxter, Ms. Barnes and Mr. Reed.

Q. Is Mr. Baxter's argument found at page 19, on lines 12 through 15 of his direct testimony that under the current regulatory framework, failure of the Company to recover increases in revenue requirement associated with new plant additions in between rate cases results in a "permanent loss" to Ameren Missouri persuasive?

A. No. By Mr. Baxter's logic, any increase in revenues associated with changes in customer usage or in customer numbers in between rate cases results in a "permanent gain" to Ameren Missouri that should be returned to customers in the next rate case. Obviously, in this and past rate proceedings, Ameren Missouri is not advocating this treatment for revenue growth.

Q. How does the Company's plant-in-service accounting proposal fail to accurately measure the change in Ameren Missouri's costs that occur between rate cases?

A. The main problem associated with Ameren Missouri's proposal is that it will result in a serious distortion of the "matching" that is required in the context of a rate case test year. This is what is referred to as the "matching principle" in ratemaking. It recognizes the importance of maintaining the relationship between all relevant factors, which includes changes in revenues, expense and investment during a consistent period of time. Ameren Missouri's proposal does not reflect an accurate measurement of the change in the Company's costs between rate cases because it ignores the changes that will have occurred with all of the other relevant factors that are required to be considered as part of the test year matching concept. A utility's revenues, expenses and investments are constantly changing, with some of these variables going up at the same time that other variables are going down. Instead, Ameren Missouri through its proposal is attempting to selectively address only one factor, depreciation and return associated with non-revenue producing investment placed into service between rate cases, in the ratemaking equation without giving any consideration for the changes in all other costs and revenues that also occur between rate cases. The Company's proposal would unfairly result in an inclusion of deferred amounts in revenue requirement to be amortized in rates set in future rate cases thereby creating larger rate increases in the future compared to the likely increase under traditional ratemaking.

Q. Please explain the Staff's concern that the Company's proposal would harm the current incentive that the Company's management has to efficiently manage their costs.

A. Traditional ratemaking practice requires that rates be set based upon a historical test year that uniformly captures all of the changes in a utility's revenues, expenses and investment levels and also maintains this proper relationship through a matching all these variables. In almost all instances, traditional test year regulation is preferable to use of single-issue ratemaking that is based upon changes in only a selective set of cost elements, because of the need for a matched and consistent measurement of all changes in all of the relevant factors when resetting utility rates in order to avoid a bias in setting those rates. Furthermore, traditional historical test year regulation creates a necessary and beneficial regulatory lag incentive to management that encourages efficient controls over capital budgeting as well as actual capital expenditures. Ameren Missouri's plant-in-service proposal defeats these built-in incentives to efficiently manage costs that arise from regulatory lag because it would result in an almost automatic future recovery of whatever amounts Ameren Missouri chose to spend on non-revenue producing capital improvements. Furthermore, the Company's proposal shifts the cost responsibility and risk to its customers who are least able to influence cost levels associated with much of the Company's non-revenue producing investment decisions.

Q. How does the Company's proposal fail to take into consideration potential reduced maintenance costs or any other potential offsetting cost savings?

A. Much of Company's proposed non-revenue producing investment would be related to the replacement of much older and therefore less reliable investment and facilities. As such, with the replacement of unreliable investment, a corresponding reduction in maintenance and outage response costs would also be expected. In addition, the Company's proposed plant-in-service accounting mechanism fails to address any operational cost savings that could also result from investments in other new technologies. However, Ameren Missouri's proposal does not take into account any of these potential cost savings. Failure to address these cost savings would result in an overstatement of revenue requirement in future rate cases.

Q. Please explain the Staff's concerns with the Company's failure to include the offsetting impact of ADIT in the context of its plant-in-service accounting proposal.

A. Ameren Missouri's failure to include the offsetting impact of ADIT as part of its proposal represents a significant omission that would serve to substantially overstate future revenue requirement. Plant-in-service, depreciation reserve, and the ADIT reserve are all elements of a utility's rate base, in which they are allowed the opportunity to earn a return. Plant-in-service is an addition to rate base, while both the depreciation reserve and ADIT reserve are subtractions from rate base. By incorporating only changes to its plant-in-service and depreciation reserve balances in its plant-in-service accounting proposal, while ignoring changes to its ADIT reserve balances, Ameren Missouri will necessarily overstate the amount of the change in its rate base upon which rates are set. The result will be a flawed and biased result for ratemaking purposes that will not accurately reflect Ameren's true rate base value or true cost of service at any point in time.

Ameren Missouri's ADIT balances have been growing rapidly over the last few years due to federal approval of bonus tax depreciation and because of tax accounting method changes that allow for more rapid deductions for repair costs that were previously capitalized for tax accounting purposes. Excluding the impact of these ADIT changes as an offset within the context of the Company's plant-in-service accounting proposal would result in a significant and unfair overstatement of future revenue requirement. However, Staff is not recommending that the Company's plant-in-service accounting proposal be modified to incorporate ADIT reserve balances. Rather, Staff believes continued use of a traditional "matched" approach to measurements of rate base, revenues, expenses and rate of return is mostly likely to produce an accurate measurement of a utility's cost of service.

Q. What is Staff's recommendation with regard to Ameren Missouri's proposed plant-in-service accounting regulatory mechanism?

A. The Commission should reject the Company's proposed single-issue plant-in-service regulatory mechanism for all of the reasons stated within this rebuttal testimony.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase Its Revenues for Electric Service	))))	Case No. ER-2012-0166

AFFIDAVIT OF JOHN P. CASSIDY

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

John P. Cassidy, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

John P. Cassidy
JOHN P. CASSIDY

Subscribed and sworn to before me this 10TH day of August, 2012.

LISA K. HANNEKEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Franklin County
My Commission Expires: April 27, 2014
Commission Number: 10967138

Lisa K Hanneken
Notary Public