

Exhibit No.:
Issue: Plant-in-Service Accounting
Witness: John P. Cassidy
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2012-0166
Date Testimony Prepared: August 14, 2012 Filed
October 02, 2012
Data Center
Missouri Public
Service Commission

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

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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 placed 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

1 occur related to new plant additions. Failure to recognize such changes would create an
2 overstatement of revenue requirement in the context of future rate cases. Finally, the
3 proposal is not consistent in its treatment of non-revenue producing investment placed in
4 service between rate cases because it fails to address the associated accumulated deferred
5 incomes taxes ("ADIT") that are related that investment. This failure to address ADIT would
6 also result in a significant overstatement of future revenue requirement determinations.

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

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

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

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

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

12 A. The main problem associated with Ameren Missouri's proposal is that it will
13 result in a serious distortion of the "matching" that is required in the context of a rate case
14 test year. This is what is referred to as the "matching principle" in ratemaking. It recognizes
15 the importance of maintaining the relationship between all relevant factors, which includes
16 changes in revenues, expense and investment during a consistent period of time. Ameren
17 Missouri's proposal does not reflect an accurate measurement of the change in the
18 Company's costs between rate cases because it ignores the changes that will have occurred
19 with all of the other relevant factors that are required to be considered as part of the test year
20 matching concept. A utility's revenues, expenses and investments are constantly changing,
21 with some of these variables going up at the same time that other variables are going down.
22 Instead, Ameren Missouri through its proposal is attempting to selectively address only one
23 factor, depreciation and return associated with non-revenue producing investment placed into

1 service between rate cases, in the ratemaking equation without giving any consideration for
2 the changes in all other costs and revenues that also occur between rate cases. The
3 Company's proposal would unfairly result in an inclusion of deferred amounts in revenue
4 requirement to be amortized in rates set in future rate cases thereby creating larger rate
5 increases in the future compared to the likely increase under traditional ratemaking.

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

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

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

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

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

14 A. Ameren Missouri's failure to include the offsetting impact of ADIT as part of
15 its proposal represents a significant omission that would serve to substantially overstate
16 future revenue requirement. Plant-in-service, depreciation reserve, and the ADIT reserve are
17 all elements of a utility's rate base, in which they are allowed the opportunity to earn a
18 return. Plant-in-service is an addition to rate base, while both the depreciation reserve and
19 ADIT reserve are subtractions from rate base. By incorporating only changes to its plant-in-
20 service and depreciation reserve balances in its plant-in-service accounting proposal, while
21 ignoring changes to its ADIT reserve balances, Ameren Missouri will necessarily overstate
22 the amount of the change in its rate base upon which rates are set. The result will be a flawed

1 and biased result for ratemaking purposes that will not accurately reflect Ameren's true rate
2 base value or true cost of service at any point in time.

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

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

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

17 Q. Does this conclude your rebuttal testimony?

18 A. Yes, it does.

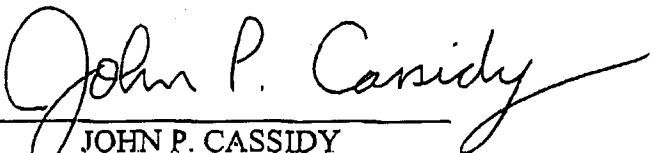
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

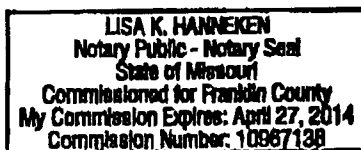
AFFIDAVIT OF JOHN P. CASSIDY

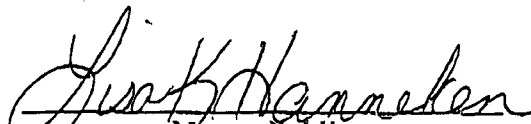
STATE OF MISSOURI)
) ss.
COUNTY OF ST. LOUIS)

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

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




Notary Public