Regulatory Mechanisms—Impact on Property Accounting

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Regulatory Mechanism Agenda

- Overview of Ameren Corporation
- Impact of Regulatory Mechanisms on Property Accounting
- Governance of Regulatory Mechanisms
  - Purpose
  - Organization Structure
  - Scope and Schedule
- Property Accounting Regulatory Mechanisms
  - Plant in Service Accounting – Ameren Missouri Electric
  - Qualified Infrastructure Program – Ameren Illinois Gas
Company Description

Fully rate-regulated electric and natural gas utility

- Corporate Headquarters
- Electric Service Territory
- Electric & Natural Gas Territory

Ameren Businesses

Ameren Missouri
- Electric transmission, distribution, and a natural gas distribution business regulated by MoPSC
- Serves 1.2 million electric and 0.9 million gas customers
- 10,300 MW of total generation capability

Ameren Illinois Electric Distribution
- Electric distribution business in Illinois
- Serves 1.2 million electric customers

Ameren Illinois Natural Gas
- Natural gas distribution business in Illinois
- Serves 0.8 million gas customers

Ameren Transmission
- Electric transmission businesses regulated by FERC
- Ameren Illinois invests in local renewable resources
- ATXI invests in regional multi-variety transmission systems
Solid Operating Performance

Electric rates are low

Average Residential Electricity Prices\(^1\)

Strong safety performance

Safety Performance

Delivery system reliability has improved

Outage Frequency (per customer per year)

Distribution System Reliability\(^2\)


\(^2\) As measured by System Average Interruption Frequency Index (SAIFI), which measures total number of interruptions per customer served, and System Average Interruption Duration Index (SAIDI), which measures the average outage duration for each customer served.
Four Constructive Regulatory Frameworks

**FERC-regulated: Formula ratemaking**
- Allowed ROE is 10.82%\(^1\), which includes the MISO participation adder of 1.25%.
- Rates reset each Jan. 1 based on forward-looking calculation with annual updates.
- Constructive rate treatment for ATXI’s two remaining MISO-approved multi-year construction work in progress in rate base and 56% hypothetical equity ratio.

**ICC-regulated: Future test year ratemaking**
- Allowed ROE is 9.87%.
- **Infrastructure regulatory mechanism for qualifying capital investment.**
- Volume balancing adjustment (revenue decoupling) for residential and small commercial.

**ICC-regulated: Formula ratemaking extends through 2022**
- Legislation proposed in Illinois General Assembly to remove 2022 sunset.
- Allowed ROE is 580 basis points above annual average yield of 30-year U.S. Treasury.
- Provides recovery of prudently incurred actual costs; based on year-end capital structure.
- Revenue decoupling; constructive energy efficiency framework.

**MoPSC-regulated: Historical test year ratemaking with constructive energy efficiency framework**
- Settled 2017 rate review; allowed ROE not specified, using 9.53% for AFUDC.
- **Infrastructure tracker for qualifying plant placed in-service between rat. in.**
- Fuel adjustment clause regulatory mechanism; pension/OPEB cost tracking.
- Constructive energy efficiency framework under MEEIA.

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\(^1\) FERC approved 50 bps ROE incentive adder for Mark Twain project in Nov. 2018 effective as of Feb. 2018.
Impacts of Regulatory Mechanisms on Property Accounts

• New Processes Introduced on the Back End of the Closing Cycle
• More Eyes on What We Do
  – More SOX Process Controls
  – Regulatory requirements cause numerous small dollar, highly scrutinized
  – More Questions from Different Groups within Company
    • External Reporting
    • Corporate Modeling
    • Budgeting and Forecasting, with deferred depreciation but also under-
      cap considerations
• Morale Building Experience – Not just the Obstacle to Capitalization
• “Our” Regulatory Mechanisms are Front and Center in Communication to
  Investors
• More exposure for some dedicated people in my group
Regulatory Mechanism Review is Essential

- Regulatory Framework is resulting in both an increased number of regulatory mechanisms and complexity
- Regulatory Mechanisms allow Ameren to achieve needed earnings growth for shareholders and future investment in the Utility
- It is Imperative to Track Regulatory Mechanisms Accurately
  - Stewardship
  - Credibility
  - Sustainability
Regulatory Mechanism Review Governance Participants Need All Stakeholders Engaged

- Executive Committee
  - Chief Accounting Officer
  - Controller
  - Business Line Leadership

- Regulatory Mechanism Review Team
  - Regulatory Accounting
  - General Accounting
  - Power and Fuel Accounting
  - Accounting Research
  - Tax
  - Property Accounting
  - Business Line
Regulatory Mechanism Review Team Responsibilities

- Determine Key Stakeholders for Each Regulatory Mechanism and Engage
- Reviews and Surveys need to be Signed off by Representative from each
- At least every three years a full review is completed
- Annual Survey Update of all Gold Regulatory Mechanisms
- Completion of Timely Survey and Regulatory Mechanism Review is a High Control
- Present Findings to Executive Team - Meetings twice a year
  - Results of Surveys
  - Presentation of Regulatory Mechanism Reviews
  - Review of Upcoming Regulatory Mechanism Review Schedule and future
## Scope & Schedule of “Gold” Regulatory Mechanism Reviews

### Gold and Silver Rider Reviews

<table>
<thead>
<tr>
<th>Corp</th>
<th>Mechanism</th>
<th>Review Level</th>
<th>Initial/Last Review</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIC</td>
<td>PER/HSS Purchased Electricity</td>
<td>Gold</td>
<td>Q1 2015/Pending</td>
<td>Q2 2017</td>
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<tr>
<td>AIC</td>
<td>QIP Gas Infrastructure</td>
<td>Gold</td>
<td>Q2 2015</td>
<td></td>
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<tr>
<td>AIC</td>
<td>EDR/GER Energy Efficiency</td>
<td>Gold</td>
<td>Q3 2015/Q1 2018</td>
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<td>VBA Gas Vol Balancing</td>
<td>Gold</td>
<td>Q4 2015</td>
<td></td>
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<tr>
<td>UEC</td>
<td>MEEIA 2 Energy Efficiency</td>
<td>Gold</td>
<td>Q2 2016</td>
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<tr>
<td>UEC</td>
<td>MEEIA 3 Energy Efficiency</td>
<td>Gold</td>
<td>Pending</td>
<td>Q1 2019</td>
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<tr>
<td>AIC</td>
<td>TS Transmission Service</td>
<td>Gold</td>
<td>Q1 2017</td>
<td></td>
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<tr>
<td>AIC</td>
<td>CEAC Zero Emission Credits</td>
<td>Gold</td>
<td>Q3 2017</td>
<td></td>
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<tr>
<td>AIC</td>
<td>REA Renewable Energy Credits</td>
<td>Gold</td>
<td>Q3 2017</td>
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<tr>
<td>AIC</td>
<td>EE/APM Energy Efficiency Formula Rates</td>
<td>Gold</td>
<td>Q1 2018</td>
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<tr>
<td>AIC/ITC/UEC</td>
<td>O, GG, MM Transmission Formula Rates</td>
<td>Gold</td>
<td>Q2 2018</td>
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<tr>
<td>UEC</td>
<td>PISA Plant In Service Accounting</td>
<td>Gold</td>
<td>Q1 2019</td>
<td>Q3 2018</td>
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<tr>
<td>UEC</td>
<td>FAC Fuel Adjustment Clause</td>
<td>Gold</td>
<td>Pending</td>
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<td>AIC</td>
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<td>Pending</td>
<td>Q1 2017</td>
</tr>
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<td>AIC</td>
<td>CGC Customer Generation Charge</td>
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<td>Pending</td>
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<tr>
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<td>CGR Customer Generation Rebate</td>
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<td>Q1 2019</td>
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<tr>
<td>UEC</td>
<td>RESRAM RESRAM</td>
<td>Gold</td>
<td>TBD</td>
<td>Q1 2019</td>
</tr>
<tr>
<td>AIC</td>
<td>UCB/POR Uncollectibles - RES</td>
<td>Gold*</td>
<td>Q3 2016</td>
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<tr>
<td>AIC</td>
<td>EUA/GUA Uncollectibles - DS and NS</td>
<td>Gold*</td>
<td>Q4 2016</td>
<td></td>
</tr>
</tbody>
</table>

- **Initial Gold Review**
- **Initial Silver Review**
- **New (or Proposed) Mechanisms not yet reviewed**
- **Annual Update Survey**
- **Re-review**
- **Amended (or Proposed) Mechanisms not reviewed yet**

*Initial reviews were completed at the Gold Level, but determined to be at the Silver Level going forward.
Regulatory Mechanism Review Team Process

- Initial Meeting sets Team Members and Expectations
- Small Groups set up to tackle individual tasks, but all members sign off entire review
- Key Documents
  - SIPOC – Supplier, Input, Process, Output, Customer
  - Process Flows
  - Key Considerations
    - Accurate Accounting and Forecasting
    - Agreement on all elements included in Regulatory Mechanism
    - Billing changes tested and verified
    - Analysis of Actual Results
    - Proper Internal Controls
    - Specific Considerations to a Regulatory Mechanism
Question?

Does your company have a Regulatory Mechanism review committee and protocol?
Plant In Service Accounting – Regulatory Mechanism:

• Allows Missouri to Defer 85% of Depreciation Expense on New Plant In Service Rate Reviews
  – Reviews one to four years apart; before legislation significant Regulatory Lags
• Also allows Ameren to earn Interest and Rate of Return on:
  – New Plant in Service less
  – Change in Accumulated Depreciation and
  – Change in Accumulated Deferred Income Taxes
• Applies to All New Plant in Service except
  – New Business
  – New Coal, Gas, or Nuclear Generation Plants
• Rate Cap of 2.85% CAGR agreed to when PISA was adopted 9/1/2018
• PISA in effect for Five Years
• Ameren can file for Additional Five Years in Future Rate Case
Plant In Service Accounting – Regulatory Mechanism

- PISA Applies to All New Plant in Service except
  - New Business
  - New Coal, Gas, or Nuclear Generation Plants
  - Assets that charge depreciation to clearing (Fleet Vehicles) are Fuel (Rail
- Rate Cap of 2.85% CAGR agreed to when PISA was adopted 9/1/2018
- Deferred Costs are placed in Revenues after next Rate Review
  - Costs placed in Regulatory asset
  - Equity component is shown as a "contra" regulatory asset
- PISA in effect for Five Years
- Ameren can file for Additional Five Years in Future Rate Case
Monthly Accounting Process Flow for PISA

- Challenges
  - Process Begins at End of Closing Cycle
  - Ameren Missouri will spend $1 to $2 Billion Annually
  - Regulatory Requirements dictate multiple exception processing
Key Considerations Checklist

- Checklist contains 75 Standard Items to Review across all Regulatory Topics include:
  - Accounting
  - Billing
  - Analytical Review
  - Reporting
  - Internal Audit
  - Considerations Specific to PISA

- Document lines out process to record entry, as well as items that are included or excluded from the PISA Calculation.
- Source documentation is also included in Key Considerations Write-Up.
- Three new SOX Controls are put in as a result
- All Key Stakeholder Groups Signed off on Findings of Regulatory Review
Question?

Does your company have a Regulatory Mechanism that calculates recovery of depreciation expense in between rate cases?

If yes, is that process automated within your fixed asset system?
Qualified Infrastructure Plan (QIP) Regulatory Mechanism

- Ameren Illinois’ Qualified Infrastructure Plant Regulatory Mechanism ("Regulatory QIP") requires costs for customer power to be compared to revenues from customers, and then provides for any difference to be billed to, or collected from, customers. Regulatory QIP allows the utility to recover a return of and on qualified investments in generation, transmission, and modernization between rate cases.
- Illinois Commerce Commission (ICC) passed the Natural Gas Consumer, Service, and Energy Efficiency Act (SB2266) in July 2013
- Amended the Illinois Public Utilities Act by adding –
  - Natural Gas Reporting Requirements (section 5-111)
    - Not applicable to gas utilities with service to less than 100,000 customers
  - Natural Gas Surcharge (section 9-220.3)
    - Available to gas utilities with service to more than 700,000 customers
      - Ameren Illinois, Peoples Gas, Nicor Gas
QIP SIPOC – Much more complex than PISA because Revenues are collected immediately from Customers.
QIP Timing of Recovery and Margin Impact

- Timing of recovery
  - QIP Regulatory Mechanism rate base is updated monthly based on QIP placed in service in the applicable month.
  - Begin recovering new investments in the 2nd month following the month QIP placed in service.
    - For example, recoverable costs of QIP placed in-service in January would be in-coupled in March.
  - An annual reconciliation is required.
    - Reconcile amounts billed under each surcharge with recoverable costs incurred.
    - Customer rates are adjusted to account for any over/under recovery by the end of the reconciliation year.
    - Filing must include testimony and schedules that support prudence of QIP investment.
  - Regulatory Mechanism resets to zero after the next general rate case when investment is added to base rates.

- Margin Impact
  - QIP increases margins for the return of non-margin costs and the earned return.
Summary Findings – Regulatory Mechanism QIP

• Risks
  – QIP-eligible investments are not identified correctly
  – Annual reconciliation cycle has not been completed yet
  – QIP investments will be double-counted in QIP and Rate Base in a new rate case
  – Large investments could impact the AIC rate cap
  – Accounting and customer mapping tables are incorrect or changed

• Review Output and Risk Mitigation
  – QIP process was mapped with cross-functional groups
  – Detailed process map and checklist were created
  – Ownership was assigned for each step
  – Communication protocol identified

• Remaining Gaps – none identified
Questions???