

Exhibit No. 5

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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2021-0240

REBUTTAL TESTIMONY

OF

MITCHELL LANSFORD

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

**St. Louis, Missouri
October, 2021**

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REBUTTAL TESTIMONY

OF

MITCHELL LANSFORD

FILE NO. ER-2021-0240

I. INTRODUCTION

1

Q. Please state your name and business address.

2

3 A. My name is Mitchell Lansford. My business address is One Ameren Plaza,
4 1901 Chouteau Ave., St. Louis, Missouri, 63104.

3

4

**Q. Are you the same Mitchell Lansford that submitted direct testimony in
6 this case?**

5

6

7 A. Yes, I am.

7

Q. To what testimony or issues are you responding?

8

9 A. I am responding to the following issues: (1) Meramec Energy Center
10 Retirement Tracker (Staff witness Lisa Ferguson and Missouri Industrial Energy Consumers
11 (“MIEC”) witness Greg Meyer); (2) Renewable Energy Standard Rate Adjustment Mechanism
12 (Staff witness Ferguson); (3) non-labor power plant maintenance (MIEC witness Meyer); (4)
13 COVID 19 pandemic costs (Staff witness Kimberly K. Bolin); (5) cybersecurity costs (Staff
14 witness Paul Amenthor); (6) automated meter reading cost savings (Staff witness Jason Kunst);
15 (7), software maintenance (Staff witness Amenthor); (8) short-term incentive compensation
16 (Staff witness Kunst); (9) Plant In Service Accounting (Staff witness Kunst); (10) sales and use
17 tax audit (Staff witness Kunst); (11) fuel additives and Midcontinent Independent System
18 Operator, Inc. (“MISO”) Day 2 revenues and expenses (Staff witness Ferguson); (12) non-
19 qualified pension expense (Staff witness Amenthor); (13) Pay As You Save (“PAYS[®]”) (Staff

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1 witness Kunst); (14) vegetation management and infrastructure inspection costs (Staff witness
2 Kunst); (15) storm costs (MIEC witness Meyer); (16) lobbying-related payroll expense (Staff
3 witness Jane Dhority); (17) exceptional performance bonuses (Staff witness Kunst); (18)
4 insurance expense (Staff witness Christopher Caldwell); (19) board of directors expense (Staff
5 witness Dhority); (20) legal expense (Staff witness Caldwell); (21) electric vehicle employee
6 incentive (Staff witness Kunst); (22) allocation factors (Staff witness Bolin); (23) coal
7 refinement (Staff witness Ferguson); (24) Bank of America Lease (Staff witness Kunst); (25)
8 Bank of America O&M¹ expense (Staff witness Kunst); (28) Bank of America Lease (27)
9 membership dues (Staff witness Dhority); (28) miscellaneous expenses (Staff witness
10 Dhority),(29) Company-owned life insurance (Staff witness Bolin); (30) depreciation charged
11 to O&M expense (Staff witness Dhority); (31) paperless billing (Staff witness Kunst); (32)
12 convenience charges (Staff witness Dhority); (33) pension and OPEB tracker (Staff witness
13 Amenthor); (34) Renewable Energy Standard tracker (Staff witness Ferguson); (35) Lambert
14 Energy Center (Staff witness Ferguson); (36) disconnect/reconnect revenue (Staff witness
15 Kunst); (37) late fee revenue (Staff witness Kunst); (38) equity issuance costs (Staff witness
16 Bolin); and (39) cash working capital (Staff witness Dhority).

¹ Operations and Maintenance.

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II. MERAMEC ENERGY CENTER RETIREMENT TRACKER

Q. Staff supported the tracker proposed in your direct testimony, but proposed that an allocation of property taxes associated with the Meramec Energy Center be included in the tracker. Is it appropriate to include such an allocation in the tracker?

A. Not unless the Staff is willing to accept a definition of known and measurable property tax expense for Ameren Missouri that is different than the one Staff has long advocated for, and one that is different than the Commission has historically ordered for Ameren Missouri.

Q. Please explain.

A. In order to allocate some portion of Ameren Missouri’s total property tax expense to the operations of the Meramec Energy Center, certain assumptions have to be made and then an *estimate* of property taxes arising from Meramec must be developed. But using such assumptions is completely at odds with Staff’s consistent opposition to our use of anything other than a known, documented (the actual tax bills from all taxing authorities) amount of property tax expense on the grounds that at least some of the underlying components of property tax expense are not known and measurable. Specifically, Staff argued in File No. ER-2012-0166 against the use of the last known tax rate from 2011 multiplied by the last known assessed value from 2012 to determine total property tax expense, indicating that one could not calculate the actual property taxes that would be incurred because the tax rates various jurisdictions would set (one of those underlying components) were not known. The Commission agreed with Staff, finding this approach did not produce known and measurable property tax expense. This position clearly indicates that unless each and every underlying component of property tax is

1 known and measurable, the property tax expense, according to Staff, is not known and
2 measurable.

3 **Q. Given Staff's consistently applied position on Ameren Missouri property**
4 **taxes, at what point will an estimate of Meramec-related property taxes become known**
5 **and measurable?**

6 A. This estimate will never become known and measurable under the standard for
7 determining known and measurable property tax expense applied in File No. ER-2012-0166.
8 This is because at no point will the Company be able to determine the exact amount of property
9 taxes associated with Meramec without making assumptions and estimates of the underlying
10 components of property tax expense.

11 **Q. Is the Staff (or Commission orders) consistent on what is considered to be**
12 **known and measurable with respect to property taxes?**

13 A. No. In File Nos. ER-2019-0374 and GR-2021-0108, Staff proposed to set the
14 property tax expense in Empire's and Spire's² revenue requirements using the following
15 methodology:

16 Staff calculated the property rate by dividing the 2019 property taxes paid
17 by the December 31, 2018 total property. This property tax rate was then
18 applied to the total property as of December 31, 2019 to determine
19 annualized property tax.

² As is also clear from Staff witness Juliette's testimony in the pending Spire case, the Staff and the Commission also have applied the same known and measurable standard with respect to property tax expense dating as far back as 1996. EFIS Item No. 142, File No. GR-2021-0108, Surrebuttal Testimony of Jeremy Juliette, p. 4, ll. 17-19. Staff also uses the Empire/Spire approach for Kansas City Power & Light Company and KPCL Greater Missouri Operations Company. *See* File Nos. ER-2018-0145 and ER-2018-0146, Staff Cost of Service Report, at p. 116, ll. 17-20 ("Staff's recommended treatment of property tax expense is to annualize property taxes based upon KCPL's and GMO's property that is in-service on January 1, 2018, by multiplying the value of the in-service property by Staff's property tax ratio derived from KCPL's and GMO's historical tax payments.").

1 Staff updated property tax expense to reflect plant-in-service as of
2 December 31, 2019. The ratio of property taxes paid at year-end 2019 to
3 the balance of plant-in service as of January 1, 2019 was applied by Staff to
4 the December 31, 2019 plant-in-service balance.³

5 The methodology proposed by Staff and adopted by the Commission in the Empire case
6 is the exact methodology Staff argued against Ameren Missouri in File No. ER-2012-0166, and
7 it is inconsistent with Staff's previous advocacy for including an allocated (estimated) sum of
8 property taxes in the Meramec tracker in this case since clearly such an allocation does not meet
9 the known and measurable criteria for property taxes that Staff itself advocated for in File
10 No. ER-2012-0166.

11 **Q. Is there anything about how Ameren Missouri's property taxes are**
12 **assessed and determined that would suggest a different known and measurable standard**
13 **for Ameren Missouri than these other Missouri utilities when it comes to property taxes?**

14 A. No. All three companies pay property taxes to the same taxing authority under
15 the same laws. All relevant facts cited by the Staff and Commission in File Nos. ER-2019-0374
16 and GR-2021-0108 apply equally to Ameren Missouri. *See* Schedule MJL-R1 (The property
17 tax issue section from the Commission's Report and Order in File No. ER-2019-0374 – the facts
18 recited for Empire in that schedule are the same in all material respects as the facts applicable
19 to Ameren Missouri)

20 **Q. How should these inconsistencies be resolved in this proceeding?**

21 A. In this case, the Commission should reject Staff's proposal of including an
22 estimate of property taxes relating to the Meramec Energy Center in the related tracker, because

³ File No. ER-2019-0374, Staff's Report and Order, p. 169, ¶¶ 498 & 499, issued July 1, 2020.

1 doing so would be applying a definition of known and measurable that is at odds with Staff's
2 consistent position in Ameren Missouri cases on property tax expense. However, if the
3 Commission were to agree with Staff's position as it relates to Meramec, it should also order
4 that property taxes in this case should be calculated by multiplying the 2020 tax rate by the 2021
5 assessed value, the exact methodology used for Empire and Spire. Doing so would result in an
6 increase to the revenue requirement of \$13,958,724.⁴

7 **Q. Isn't it true the deferrals ordered by the Commission related to Kansas**
8 **City Power and Light's Sibley plant and Empire's Asbury plant include the effect of**
9 **reduced property taxes resulting from the respective plant's retirements?**

10 A. Yes.

11 **Q. Why should Ameren Missouri and its Meramec Energy Center be treated**
12 **differently in this regard?**

13 A. As I explained above, the known and measurable standard for determining
14 property taxes including in Ameren Missouri's revenue requirement is fundamentally different
15 from the methods Staff has used for Kansas City Power and Light and Empire.

16 **Q. Staff proposed an allocation of insurance expense associated with the**
17 **Meramec Energy Center for inclusion in the tracker. Does the Company agree with this?**

18 A. No. For reasons that are arguably similar to those relating to property taxes, an
19 estimate of insurance expense should not be included in the tracker because according to the
20 Staff's approach to property taxes, such an estimate would not be known and measurable.

⁴ Irrespective of the issue of property taxes as it relates to the Meramec Energy Center Retirement Tracker, the Company and Staff have conferred and Staff agrees that it made an error in its calculation of total property taxes. Staff will correct this error in subsequent testimony.

1 **Q. MIEC witness Greg Meyer argues that only ten months of expected annual**
2 **costs should be included in the base amount of the tracker. Does the Company agree with**
3 **this position?**

4 A. Yes. Assuming rates are reset on the operation of law date, base rates from this
5 case will only be in effect for approximately ten months before the Meramec Energy Center
6 will be retired. Making this change to the base amount of the tracker has little to no impact on
7 the total remaining amount recovered from customers, as any amount less than or in excess of
8 what is necessary would be collected from or refunded to customers in a timely manner via the
9 proposed tracker.

10 **Q. MIEC also argued it is appropriate to consider the asset value of the**
11 **Meramec Energy Center after the true-up date in this case. Does the Company agree with**
12 **this position?**

13 A. No. The value of the Meramec Energy Center at any date after the true-up date
14 is not known and measurable at the true-up date. For example, some level of capital additions
15 may be required between the true-up date and retirement of the energy center. By design, the
16 tracker will pick up asset additions or retirements, etc. after the true-up date in this case but
17 consistent with matching revenues, expenses, and rate base at the true-up, it is inappropriate to
18 reach beyond the true-up to set the base.

19 **Q. Aside from those two modifications to components of the tracker the**
20 **Company proposed, did MIEC take any other positions on the proposed Meramec**
21 **Energy Center Retirement Tracker?**

22 A. Yes. MIEC proposed an alternative tracker mechanism.

1 **Q. Before addressing MIEC’s alternative proposal, please further explain the**
2 **fundamental elements of the Company’s proposal.**

3 A. Had the Company made no tracker proposal and included Meramec in its
4 revenue requirement in the same manner that every other investment and cost is included, the
5 Company’s filed revenue requirement would have increased by \$55,456,000 (to reflect, among
6 other items, depreciation expense on the plant, return, and O&M costs). The Company
7 including the full revenue requirement for Meramec in its revenue requirement in this case
8 would have been consistent with how the Empire District Electric Company's ("EDE") Asbury
9 plant was handled in EDE's last rate case⁵, considering that as of the true-up date in that case,
10 Asbury remained in service (though it had last produced power a few weeks before the true-up
11 cutoff date). Indeed, the Commission agreed that Asbury’s revenue requirement effect was
12 appropriately included in EDE’s revenue requirement in that case.⁶ However, the Company
13 believed that its tracker proposal presented a better solution for customers because it spread out
14 recovery of the remaining investment in Meramec over five years (instead of fully recovering
15 the remaining investment by the time the plant retired in late 2022) and otherwise tracked
16 changes in non-labor O&M (since rates set in this case are very unlikely to be reset again by the
17 time Meramec retires) for the benefit of customers.

⁵ File No. ER-2019-0374, Report and Order, Issued July 1, 2020 (The Commission’s discussion of Asbury).

⁶ *Id.*

1 **Q. Given this background, how do you respond to MIEC’s alternative**
2 **proposal?**

3 A. MIEC’s complex proposal is fundamentally inappropriate for two reasons.
4 First, it relies on an investment balance from after the true-up date that is not known and
5 measurable, violating a fundamental ratemaking principle (under the historical test period
6 approach consistently used by the Commission) by reaching forward using a forecast that is not
7 known and measurable. Second, while Mr. Meyer does not come out and say this, it appears
8 calculated to give MIEC an opportunity at a later time to deprive the Company of receiving the
9 return it is due on Meramec’s undepreciated balance, which, as noted, would have been
10 eliminated by the time Meramec retired had the Company simply taken the approach approved
11 by the Commission for EDE and its Asbury plant. It is inappropriate to modify the Company’s
12 proposal, made to mitigate the impact of Meramec on the revenue requirement in this case, in a
13 way that opens the door for MIEC to later attempt to deprive the Company of return on the
14 investment it has made in Meramec so that the plant can serve customers. The Company’s
15 proposal is fair and protects both the Company’s ability to recover a fair return on its investment,
16 and mitigates the impact of the Meramec retirement on rates to be set in this case by spreading
17 out recovery over five years. The Commission should reject MIEC’s alternative proposal for
18 the retirement of the Meramec Energy Center in its entirety.

1 **III. RENEWABLE ENERGY STANDARD RATE ADJUSTMENT MECHANISM**

2 **Q. Staff included an annualization of certain Renewable Energy Standard**
3 **Rate Adjustment Mechanism (“RESRAM”) eligible costs associated with the Company’s**
4 **High Prairie and Atchison Wind Energy Centers in its revenue requirement. Does the**
5 **Company agree with Staff’s adjustments?**

6 A. No, the Company and Staff have conferred and Staff agrees that it made an error
7 that resulted in the exclusion of \$11,736,127 of related costs from its revenue requirement. Staff
8 indicated that it will correct this error in subsequent testimony.

9 **Q. After consideration of this correction, does the Company agree with the**
10 **amount of Staff’s proposed adjustment?**

11 A. No, for three reasons. First, Staff’s revised adjustment reflects its understanding
12 that the property lease payments made related to the wind energy centers occur on an annual
13 basis. Staff was mistaken, as these payments are instead contractually required to be made
14 quarterly. The most recent quarterly lease payments made at the true-up date should be
15 annualized (multiplied by four) to determine the appropriate amount of lease expense to include
16 in the revenue requirement.

17 Additionally, the Company noted a minor misunderstanding on Staff’s part of the
18 Company’s O&M agreements with the turbine manufacturer in Staff’s revised adjustment.
19 Staff and the Company have discussed this point and it’s the Company’s understanding Staff
20 intends to correct this minor item as well.

21 Lastly, the annualization of wind energy center costs should be trued-up for all
22 information known and measurable at the true-up date.

1

V. COVID 19 PANDEMIC COSTS

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Q. Staff made an adjustment to normalize costs impacted by the COVID

3

19 Pandemic. Does the Company agree with these adjustments?

4

A. No. Staff's normalization adjustments reflect a return to pre-pandemic cost

5

levels for exposure risk mitigation, personal protective equipment, and other costs, while

6

inconsistently also assuming that we will not return to normal, pre-pandemic conditions

7

with respect to pandemic-related cost savings experienced due to reduced travel and

8

training as recurring.

9

Q. The Company made an adjustment in its direct case to remove the

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impact of all costs and cost savings directly related to the pandemic, and identified in

11

File No. EU-2021-0027, from the test year. Does such an adjustment remain

12

appropriate?

13

A. No. At the time of the Company's direct testimony, COVID 19 vaccines

14

were beginning to be administered and a return to "normal" business practices seemed

15

possible and, in fact, likely. Since then, the COVID 19 Delta variant has caused

16

significantly more infections than expected while vaccination adoption rates have been

17

lower than targeted by the federal government, and those factors have resulted in the

18

Company pausing its return to facilities plan, a continuation of exposure risk mitigation

19

practices, and a continuation of limiting business travel.

1 **Q. Given present information, what adjustment should be made related to**
2 **costs impacted by the pandemic?**

3 A. Significant uncertainty remains in terms of when a return to normal
4 conditions will occur. Given this uncertainty, a parsing of the data to determine exactly
5 what will occur or is likely to occur in the future is impossible. Given this uncertainty, the
6 most accurate approach is to use the most recent data we have, meaning the Commission
7 should require that the significant cost categories giving rise to the deferral ordered in File
8 No. EU-2021-0027 be trued-up to reflect the cost levels from the 12-months ended
9 September 30, 2021. This period does not include the initial reaction to the pandemic in
10 the second quarter of 2020, where cost levels were at their highest, but does capture the
11 ongoing effects of the pandemic. As a result, test year expenses should be reduced by
12 \$6,591,224 based on information through the 12-months ended August 31, 2021. Finally,
13 this amount should be trued-up through September 30, 2021 once the information becomes
14 available.

15 **Q. Does the Company agree with Staff’s quantification of the deferral**
16 **required in File No. EU-2021-0027?**

17 A. Substantially, yes. Staff has indicated a minor difference between its
18 workpaper and the adjustment proposed in its direct filing will be corrected. Pending this
19 minor correction, the Company agrees with Staff’s amount.

1 **Q. Does the actual history support normalization?**

2 A. No, it clearly does not. Non-labor cybersecurity O&M costs were
3 \$3,557,628 and \$6,294,035 in 2019 and 2020, respectively. Further, non-labor
4 cybersecurity O&M costs during the twelve months ended September 30, 2021 were
5 \$6,836,387. The data therefore suggests that these costs are increasing, making them
6 totally inappropriate for normalization.

7 **Q. Is there any reason to expect these costs will return to the lower levels**
8 **used in Staff's normalization?**

9 A. No, as explained to Staff in the Company's response to Staff data request
10 MPSC 0210.1, through which Staff asked whether Ameren Missouri anticipates
11 cybersecurity spending will continue at these levels, the Company responded as follows:

12 The integration of OT and IT [operational technology and information technology]
13 along with the exponential growth of connected devices on the smart grid, as well
14 as an increased remote workforce have all significantly increased the attack surface
15 for threat actors to disrupt utility services. Therefore, cybersecurity costs in general
16 are expected to increase to address the constantly evolving cyber threats Ameren
17 faces each day.

18 In addition to the data and the Company's direct response to the referenced data
19 request, consider the substantial disruption experienced in the case of the Colonial Pipeline
20 cyberattack, which should serve as a reminder that cybersecurity threats pose an ever-
21 increasing threat to the utilities industry, also strongly supporting the conclusion that cyber-
22 security costs will continue to increase over time.

23 In summary, these factors indicate a clear trend in which costs are increasing in
24 order to protect the electric, gas, and digital infrastructure to maintain the integrity and
25 reliability of Ameren Missouri's services. While it is appropriate to normalize expenses at

1 times, this is not one of them. If Staff’s proposed adjustment to reduce costs below levels
2 experienced in the test year is accepted, the allowed level of expense would not be
3 sufficient to cover necessary future cybersecurity costs, which are critical to protect our
4 assets, customers, and community.

5 **Q. Should non-labor cybersecurity costs be trued-up in this case?**

6 A. Yes. For all the reasons mentioned above, including the clear evidence of
7 rising costs in this area over time and the expectation that costs will continue to rise, non-
8 labor cybersecurity costs should be trued-up. The result of trueing these costs up is to
9 increase the revenue requirement by \$542,352.

10 **VII. AUTOMATED METER READING (“AMR”) COST SAVINGS**

11 **Q. Staff proposed that Automated Meter Reading (“AMR”) expenses be**
12 **annualized based on expenses incurred in the most recent month, since AMR expenses**
13 **are eliminated as new smart meters are installed. Does the Company agree with this**
14 **adjustment?**

15 A. Yes.

16 **VIII. SOFTWARE MAINTENANCE**

17 **Q. Staff adjusted software maintenance expense for new and expiring**
18 **agreements subsequent to the end of the test year. Does the Company agree with this**
19 **adjustment?**

20 A. No. Although Staff describes its adjustment in a way that suggests it
21 considered new agreements executed during the true-up period, there is no evidence that
22 Staff actually did so, as evidenced by the fact that Staff made no adjustments to increase

1 the revenue requirement for renewed or new agreements. Had Staff actually and properly
2 considered the renewal of existing contracts or execution of new contracts, Staff would
3 have found that non-labor software maintenance O&M has *increased* since the test year.
4 Test year levels were \$17,985,322, as compared to \$18,065,092 through the twelve months
5 ended September 30, 2021. Staff's adjustment should be rejected, as test year cost levels
6 have increased on an overall basis.

7 **Q. Should non-labor software maintenance costs be trued up in this case?**

8 A. Yes. The increase mentioned above is consistent with the increased
9 software investment the Company has made, which is also trued up. Software investment
10 levels and related maintenance costs should be measured from the same period. The result
11 of trueing these costs up is to increase the revenue requirement by \$79,770.

12 **IX. SHORT-TERM INCENTIVE COMPENSATION**

13 **Q. Staff reduced short-term incentive compensation expense by an**
14 **amount tied to Ameren's earnings per share objectives. Does the Company agree**
15 **with this adjustment?**

16 A. No. First, Staff did not reflect the incentive compensation payout occurring
17 after the test year but before the true-up date in its adjustment. Consistent with past Ameren
18 Missouri rate review cases and as indicated in the procedural schedule, short-term incentive
19 compensation should be trued-up when payments are made subsequent to the end of the
20 test year but prior to the true-up date. Short-term incentive compensation payments were
21 made in March 2021 in the amounts of \$34,493,606 at Ameren Missouri and \$31,172,922
22 at Ameren Services. Further, Staff failed to consider the current short-term incentive

1 compensation arrangement in calculating the portion of the payout that relates to Ameren's
2 earnings per share objectives. The Company has been reducing this impact over time to
3 increase employee incentives in other areas, including customer satisfaction and diversity.
4 While payments made in 2021 reflected that 75% of the short-term incentive for officers
5 was tied to Ameren's earnings per share, the plan that will be in effect once rates are reset
6 in this case only ties 70% of the payout to earnings per share. Consequently, the percentage
7 that reflects the plan that will be in effect should be used. Using the 70% earnings per
8 share based percentage and applying it to the March payouts results in a reduction to test
9 year O&M of \$1,486,757. Related reductions, after consideration of the appropriate
10 percentage of incentives tied to earnings per share by year (75% in 2020 and 70% in 2021),
11 should be made to plant in service and the PISA regulatory asset based on capitalization
12 and deferrals made through the true-up date.

13 **X. PLANT IN SERVICE ACCOUNTING ("PISA")**

14 **Q. Staff proposed amounts to be excluded from the PISA deferrals**
15 **relating to the Lambert Energy Center, short-term incentive compensation, and long-**
16 **term incentive compensation. Does the Company agree with Staff's adjustments?**

17 A. The Company accepts Staff's adjustment for the Lambert Energy Center.
18 With respect to short-term incentive compensation, conceptually the Company accepts this
19 adjustment as well, but the amount of the adjustment should reflect my above discussion
20 of the lower percentages tied to earnings in the short-term incentive compensation plan in
21 2020 and 2021. For the reasons outlined in Ameren Missouri witness Kelly Hasenfratz's

1 rebuttal testimony, the Company disagrees with Staff's adjustment relating to long-term
2 incentive compensation.

3 **XI. SALES AND USE TAX AUDIT**

4 **Q. Staff removed sales and use tax expenses identified by Department of**
5 **Revenue ("DOR") audit from its revenue requirement. Does the Company agree with**
6 **this adjustment?**

7 A. No. Staff's basis for removing these costs from the revenue requirement is
8 that they are non-recurring. That is not true. Ameren Missouri's sales and use tax expense
9 is regularly audited by the DOR. In addition to the sales and use tax audit affecting the test
10 year, the DOR concluded their most recent prior sales and use tax audit in 2017, covering
11 a period from 2012 to 2014. Whether and to what extent audit findings will result in
12 incremental sales and use tax expense cannot be determined in advance of audit
13 assessments. It is in the best interest of Ameren Missouri and its customers to only pay the
14 minimum required tax owed. In instances where judgment or interpretation must be
15 applied in calculating this amount, clarity is often provided via audit results or further via
16 appeal of audit results. There is no reason to believe the DOR will stop auditing a large
17 sales and use taxpayer like Ameren Missouri or that no further assessments will result from
18 future audits. Further, accepting Staff's position would provide a disincentive for the
19 Company to continue to seek to pay only the minimum amount owed.

1 **XII. FUEL ADDITIVES AND MISO DAY 2 REVENUES AND EXPENSES**

2 **Q. What has Staff proposed for fuel additives and MISO Day 2 revenues**
3 **and expenses?**

4 A. Depending on the item, Staff has proposed to make adjustments for these
5 costs using test year costs, a three-year average of historical costs, or data provided for the
6 12-months ended June 2021, which annualizes the costs.

7 **Q. Historically, how have these costs been treated?**

8 A. In prior cases, nearly all of these amounts have been updated with the true-
9 up information; i.e., using the actual values for the 12-months ending with the true-up
10 cutoff date.

11 **Q. Are these amounts contemplated in the procedural schedule in this**
12 **case?**

13 A. Yes. The parties agreed (and the Commission adopted that agreement) that
14 these revenues and expenses would be trued up as part of the true-up in this case.
15 Specifically, the procedural schedule order lists “net base energy costs (per FAC tariff).”
16 Fuel additives and MISO Day 2 revenues and expenses are components of net base energy
17 costs.

18 **Q. Is it appropriate to use normalizations or other periods for these costs**
19 **instead of using the actual true-up values?**

20 A. No. These costs are included in the Fuel Adjustment Clause (“FAC”) in
21 part because they are volatile and uncertain. Consistent with the basic principle of
22 normalization I noted earlier, either the test year level or the 12 month actuals as of the end

1 of the true-up (and the procedural schedule calls for the true-up period values to be used)
2 should be used to set the revenue requirement absent compelling justification that those
3 levels are inappropriate. The Staff has presented no compelling justification – nor much if
4 any justification at all – for changing prior practice and normalizing these amounts.
5 Moreover, the review of annual amounts by line item over time is highly unlikely to be
6 sufficient to conclude a deviation from past practice is necessary for these volatile and
7 uncertain revenues and costs.

8 **Q. Please provide an example of an item that Staff proposes to normalize**
9 **for which normalization is demonstrably inappropriate.**

10 A. Staff proposed a normalization of financial transmission rights (“FTR”)
11 expense using a three-year average. FTR’s provide a financial hedging mechanism against
12 congestion charges in MISO’s Day-Ahead Market. However, Staff proposed an un-
13 normalized level of congestion expense using the 12 months ended June 30, 2021.⁸ Given
14 that the debit or credit for an FTR in a given hour is established by the level of congestion
15 in that hour, it is not rational to normalize FTRs on a different basis than the underlying
16 congestion. FTRs and congestion are inexorably tied together, and should share the same
17 methodology for inclusion in the revenue requirement.

⁸ It is the Company’s understanding that Staff will use the 12-months ending with the true-up cutoff date in its final true-up run and recommendation in this case.

1 **Q. Should the Commission reject Staff's normalization adjustments**
2 **relating to fuel additives and MISO Day 2 revenues and expenses?**

3 A. Yes. As noted, Staff has presented no compelling reason to reject the true-
4 up period amounts and the practice of using such amounts to set the base in the FAC.

5 **XIII. NON-QUALIFIED PENSION EXPENSE**

6 **Q. Please describe Staff's adjustment to non-qualified pension costs.**

7 A. Staff has proposed to normalize non-qualified pension costs by including a five-
8 year average of lump sum payments and annuity payments made during the test year.

9 **Q. Does the Company agree with the proposed adjustment?**

10 A. No. The *qualified* pension costs are accounted for and included in the
11 revenue requirement based on an actuarial analysis that determines the normal level of
12 annual costs under the plan and there is no reason that *non*-qualified pension costs be
13 treated differently. The Company uses Willis Towers Watson to value the net benefits and
14 determine the amount to record monthly in order to meet the obligations of both plans.
15 Willis Towers Watson is an actuarial firm that reviews the historical plan experience to
16 determine the appropriate level of expense. There are annuity and lump sum payment
17 options in the non-qualified plan that cause monthly and annual payments to fluctuate over
18 time. Simple averages or payments made during a single year are less accurate and much
19 less indicative of normal, ongoing levels of expense than the expert analysis performed by
20 an actuarial firm. This is true for the qualified plan and is equally true for the non-qualified
21 plan.

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XIV. PAY AS YOU SAVE (“PAYS”)

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Q. Staff proposed that the PAYS® deferral be amortized over a ten-year period. Does the Company agree with this amortization period?

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A. No. It is the Company’s position that the remaining weighted average useful life of the measures installed at the true-up date should be the period used for amortization in base rates. This method aligns the recovery of costs with the period in which customers are receiving benefit.

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**XV. VEGETATION MANAGEMENT AND INFRASTRUCTURE
INSPECTION COSTS**

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Q. Staff proposes to true-up these costs to the levels present in the 12-month period ended September 30, 2021. Does the Company agree with this adjustment?

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A. Yes. Through continued efforts to find ways to save expenses in this area, we have been able to avoid cost increases for these activities and agree that the expenses in the true-up period are appropriate for use in setting the revenue requirement in this case.

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XVI. STORM COSTS

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Q. MIEC has proposed normalization of storm costs using a three-year average. Does the Company agree with MIEC’s normalization?

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A. No. MIEC attempts to link storm costs with the cost of vegetation management and, therefore, align the two costs by normalizing both using a three-year average. As my testimony above indicates, normalization of vegetation management costs is no longer appropriate, yet all parties agree normalization over some period is appropriate for storm costs. The fundamental difference between storm costs and vegetation management costs is the degree of influence the Company has over the outcome. The Company has little to no influence over

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1 acts of God like tornados, high winds, freezing rain, and other storms. Arguably, it is for this
2 reason the Commission has repeatedly asserted that in normalizing storm costs a longer period
3 of normalization was likely to be more reliable than a shorter period of normalization. Further,
4 when the issue has been litigated the Commission has repeatedly ordered that a five-year
5 normalization of storm costs is appropriate for Ameren Missouri. The five-year normalization
6 period proposed by both Staff and the Company remains appropriate.

7 **XVII. LOBBYING RELATED PAYROLL EXPENSE**

8 **Q. Staff has proposed a disallowance of payroll expense related to**
9 **lobbying performed by Ameren Missouri employees. Does the Company agree with**
10 **this adjustment?**

11 A. No. In conferring with Staff, the Company understands that Staff agrees an
12 error exists in its calculation that, when corrected, reduces its adjustment to \$13,761.
13 However, the Company continues to disagree with Staff's corrected adjustment. Staff's
14 own procedures identified that for three employees' time on which the Staff bases its
15 adjustment, the Company recorded as much as \$114,822 below the line that did *not* relate
16 to lobbying. Consequently, payroll expense in the Company's revenue requirement should
17 be increased by that amount. If Staff is going to use information that lowers revenue
18 requirement to propose reductions it should be required to use information that raises the
19 revenue requirement to acknowledge revenue requirement increases. Further, Staff
20 identifies meetings relating to the Missouri Energy Efficiency Investment Act ("MEEIA"),
21 Plant In Service Accounting, the Smart Meter Plan, and Smart Energy Plan as lobbying.
22 These activities related to existing laws (MEEIA programs, the deferrals the legislature

1 authorized in S.B. 564), and key initiatives of the Company (replacing outdated AMR
2 meters; investing in our utility systems). Such meetings in the test year have nothing to do
3 with lobbying legislators, rendering an adjustment to test year expense levels for such
4 meetings inappropriate.

5 **XVIII. EXCEPTIONAL PERFORMANCE BONUS**

6 **Q. Staff proposed a normalization of Exceptional Performance Bonus**
7 **(“EPB”) costs using a three-year average. Does the Company agree with this**
8 **adjustment?**

9 A. No. EPB payments were \$1,250,750, \$1,500,596, and \$1,993,269 in 2018,
10 2019, and 2020, respectively. This is another case of Staff proposing a normalization that
11 lowers the revenue requirement without any justification for discarding the test year level
12 of a legitimate expense. Indeed, the above-cited figures show that normalization is
13 completely inappropriate given the clear trend of increasing costs as a result of increased
14 employment levels and inflation. If Staff’s proposed adjustment is accepted, the allowed
15 level of expense in the revenue requirement used to set rates would fail to reflect a normal
16 level of expense and would fail to be reflective of the level of these costs in the future.

17 **XIX. INSURANCE EXPENSE**

18 **Q. Please describe Staff’s adjustment to insurance expense, other than as**
19 **it relates to the Meramec Energy Center.**

20 A. Similar to the Company’s approach, Staff proposed an annualization of
21 insurance expense using current insurance premiums. Additionally, Staff disallowed a
22 portion of insurance premiums related to non-utility property. Staff did not include

1 insurance expense related to contracts in place after June 30, 2021. These additional
2 contracts have been provided and this adjustment should be updated through the true-up
3 date.

4 **Q. Does the Company agree with Staff's quantification of disallowance**
5 **related to non-utility insurance costs?**

6 A. Yes.

7 **XX. BOARD OF DIRECTORS EXPENSE**

8 **Q. Please describe Staff's proposed disallowances relating to Board of**
9 **Directors expense.**

10 A. Staff included an adjustment to remove additional board related expenses,
11 beyond those already removed by the Company in its direct filing. These costs included
12 charges for the Ritz Carlton Hotel, chartered flights, and an initial stock award.

13 **Q. Does the Company agree with these adjustments?**

14 A. In part. The Company accepts the adjustment for additional charges for
15 chartered flights and the initial stock award (totaling \$12,092). However, the Company
16 disagrees with Staff's incremental \$11,917 adjustment relating to the Ritz Carlton Hotel.
17 The expense in question was recorded prior to the test year, in 2019, via an accrual. During
18 the test year, the Company received the invoice, reversed the accrual made in the prior
19 year, and paid the invoice. This accounting activity during the test year therefore had no
20 net impact on 2020 expenses. Accordingly, the Staff adjustment reduces the revenue
21 requirement for an expense that was not in the revenue requirement in the first place.

1 justification given at all for discarding the test year level of legal expense, no adjustment
2 should be made at all.

3 **Q. Staff has also proposed to disallow legal expense related to the Federal**
4 **Energy Regulatory Commission (“FERC”) Return on Equity (“ROE”) complaint**
5 **case. Does the Company agree with this adjustment?**

6 A. No. Staff’s only argument for disallowance was that the level of ROE
7 associated with Ameren Missouri’s FERC jurisdictional transmission assets only benefits
8 shareholders. This is not true. The difference between Ameren Missouri’s retail ROE and
9 ROEs used to set FERC-regulated transmission rates is reflected in retail revenue
10 requirements as a reduction or increase in revenue requirement. Over the last several years,
11 retail customers have benefited from the higher ROE paid by transmission customers
12 because revenues associated with these higher ROEs have resulted in a direct offset to the
13 retail revenue requirement. Since transmission ROE directly impacts retail customer rates
14 and indeed has provided offsets that lower what the revenue requirement would otherwise
15 have been, the cost to litigate the FERC ROE complaint cases should be included in the
16 Company’s revenue requirement.

17 **Q. Finally, Staff has proposed to normalize legal expense associated with**
18 **the Rush Island New Source Review litigation. Does the Company agree with this**
19 **adjustment?**

20 A. Yes. Staff has proposed to true-up the related expense levels, which the
21 Company accepts, but this amount should be trued-up through the true-up date once that
22 information is known.

1 **XXII. ELECTRIC VEHICLE EMPLOYEE INCENTIVE**

2 **Q. Staff has proposed to disallow electric vehicle incentives paid to**
3 **Company employees. Does the Company agree with this adjustment?**

4 A. No. The payment of a small (\$1,500 to \$2,500) incentive to Company
5 employees to early-adopt electric vehicle technology is beneficial to customers. Adoption
6 of electric vehicle technology increases electric revenue volumes, allowing customer rates
7 to decline (holding all other factors constant). Additionally, this incentive improves
8 employee engagement, attraction, and retention and helps employees set a good example
9 for Company customers. Staff’s proposed disallowance has not been supported and fails
10 to consider the above factors. Therefore, Staff’s disallowance should be rejected.

11 **XXIII. ALLOCATION FACTORS**

12 **Q. Staff proposed an adjustment for Ameren Services Company allocation**
13 **factors applicable to 2021. Does the Company agree with this adjustment?**

14 A. No. Although the Company included an adjustment in its direct case to
15 achieve the same objective, Staff incorporated an incremental allocation of the adjustment
16 to gas operations. Staff is correct in making this incremental allocation to gas operations,
17 but the mechanics of Staff’s adjustment are incorrect. Staff applied this incremental
18 allocation to all administrative and general accounts, when such an allocation is only
19 appropriate and only occurs for accounts 921, 923, 926, 930, 931, and 935. After
20 consideration of the proper accounts to apply an incremental allocation to gas operations
21 for, the appropriate adjustment is to increase test year expenses by \$122,816.

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XXIV. COAL REFINEMENT

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Q. Staff proposed adjustments to remove revenues and costs relating coal refinement. Does the Company agree with these adjustments?

3

A. No. Refined coal transactions provided a benefit to customers by reducing or offsetting other expenses incurred during the test year. Removing these transactions should remove the benefit and result in an increase to test expenses on an overall basis. Staff reduced test year expenses by \$6,270 in account 512 rather than increasing expenses. The appropriate adjustment to account 512 is to increase test year expenses by \$6,270. The Company agrees with all other elements of Staff's adjustments to remove transactions related to coal refinement.

4

XXV. BANK OF AMERICA LEASE

5

Q. Staff removed Bank of America lease expense from its revenue requirement twice. Does the Company agree with these adjustments?

6

A. No. Staff has indicated to the Company that incorporating this adjustment in its revenue requirement was an error. The Company expects Staff will correct this error going forward.

7

XXVI. BANK OF AMERICA O&M EXPENSES

8

Q. Staff proposed an adjustment to remove O&M expenses associated with the expired Bank of America lease. Does the Company agree with this adjustment?

9

A. Yes.

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XXVII. MEMBERSHIP DUES

2

Q. Company witness Tom Byrne has provided rebuttal testimony on Staff's proposed adjustment to membership dues. What aspect of the membership dues issue does your testimony address?

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A. While Mr. Byrne provides evidence supporting the inclusion of most of those dues in the revenue requirement, there are some dues that the Company agrees should be excluded and I identify the total of such charges. In addition, I will address the benefits customers receive related to groupings of organizations that were otherwise not addressed by Mr. Byrne. Finally, I will report on the results of the Company's review of each and every invoice in question to determine the lobbying portion identified by the organization in accordance with applicable state and federal law.

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Q. Are there memberships where the Company agrees the related cost should be excluded from the revenue requirement?

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A. Yes. The Company reviewed all vendors identified by Staff in its adjustment and agrees that it is appropriate to remove \$18,434 from the Company's revenue requirement. This amount includes reductions to the revenue requirement for certain organizations mentioned by Mr. Byrne. Beyond these charges, however, the remaining memberships and fees for professional organizations, industry resources, economic development, and diversity equity & inclusion all provide benefits to customers and should be included in the revenue requirement.

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1 **Q. How do Ameren Missouri customers benefit from Ameren Missouri's**
2 **membership in these types of organizations?**

3 A. In any company, employees often belong to professional organizations for
4 professional development (including training materials and continuing education
5 opportunities), professional guidance, news and publications, and expansion of an
6 employee's professional network. Having access to resources that keep our employees
7 current in their respective fields and connected to their colleagues is a direct benefit to
8 customers.

9 The Company also holds several industry group memberships including relating to
10 utilities, energy, and environmental. These memberships provide access to industry trends,
11 market research, educational resources, and a general sharing of knowledge to ensure that
12 educated business decisions are made. An example of a membership of this type that
13 customers benefit from is the Midwest Ozone Group ("MOG"). MOG is an affiliation of
14 companies, trade organizations, and associations in the electric utility industry that work
15 collectively to advance their common objective of developing a legally and technically
16 sound national ambient air quality program. MOG membership provides the Company
17 access to legal and technical resources with expertise in air quality, that function as an
18 extension of the Company's staff, but at much less expense than if the Company acquired
19 the resources independently. This benefits customers by allowing the Company to more
20 effectively and more cost-effectively comply with the pollution control laws and
21 regulations.

1 Staff also proposed removal of certain memberships to organizations that support
2 economic development within the communities Ameren Missouri operates. However,
3 customers benefit from economic development. For example, when incremental load is
4 realized through both the direct and indirect efforts of the Company's economic
5 development function, additional sales are made over which to spread the Company's fixed
6 costs, thus lowering rates for all customers.

7 Finally, Staff proposed removal of charges for services related to the Company's
8 diversity, equity, and inclusion initiatives. These initiatives help the Company to create a
9 better, more inclusive work environment, which is critical in today's competitive labor
10 market to our efforts to recruit and retain a strong, competent workforce that can better
11 serve customers.

12 **Q. Please explain the Company's review of invoices for determination of**
13 **the lobbying portion of membership dues.**

14 A. The Internal Revenue Service's Internal Revenue Code ("IRC") under
15 section 162E, requires trade organizations to account for "lobbying and political activities"
16 at both the federal and state levels. Additionally, the Lobbying Disclosure Act ("LDA")
17 governs federal lobbying activity. Specifically, the LDA requires the reporting of contracts
18 at the federal level.⁹ Revised Statute of Missouri Section 105.470 requires lobbyists to
19 report lobbying activities. Based on these statutes and regulations, trade organizations are
20 obligated to account for dues received and must segregate their lobbying costs from other
21 organizational costs according to the law. Trade organization costs are audited, and

⁹ 2 U.S.C. §1601 *et seq.*

1 misstatements are punishable as crimes. See the False Statements Accountability Act of
2 1996 amending 18 U.S.C §1001. As such, there is a strong expectation that amounts
3 disclosed as lobbying on membership invoices are correct.

4 The Company reviewed each respective invoice to identify the appropriate
5 lobbying percentages as disclosed by the organization, and then verified the appropriate
6 amount from each invoice was booked correctly below the line. In completing this
7 analysis, the Company identified many instances where lobbying costs were appropriately
8 recorded below the line. However, the Company also identified \$18,462¹⁰ (representing
9 twelve invoices associated with seven vendors) of lobbying expenses that were not
10 recorded below the line. The Company agrees this amount should be disallowed.
11 However, no additional dues for such organizations should be disallowed as lobbying
12 expenses, given the requirements imposed on these organizations and the fact that they
13 have already identified that part of their invoices that relate to lobbying, which we have
14 already properly recorded below-the-line.

15 **Q. Does this testimony address the entirety of Staff's membership dues**
16 **disallowance?**

17 A. No. As noted, Mr. Byrne's rebuttal testimony addresses a number of
18 organizations, as follows: Edison Electric Institute ("EEI"), Electric Power Research
19 Institute ("EPRI"), North American Electric Reliability Commission ("NERC"), Nuclear
20 Energy Institute ("NEI"), and Utility Solid Waste Activities Group ("USWAG"). In

¹⁰ As a result of this adjustment, the Company's adjustment for electric costs allocated to gas operations in the test year should be reduced by \$29.

1 addition, Ameren Missouri witness Jason Wibbenmeyer addresses, in detail, Staff's
2 recommendation as it applies to EPRI.

3 **XXVIII. MISCELLANEOUS EXPENSES**

4 **Q. Staff identified certain miscellaneous expense transactions from the test**
5 **year and proposed that each of them should be excluded from the revenue**
6 **requirement. Does the Company agree with these adjustments?**

7 A. Yes.

8 **XXIX. COMPANY OWNED LIFE INSURANCE ("COLI")**

9 **Q. Staff proposed an adjustment to reflect COLI gains, losses, and**
10 **premiums below the line and, therefore, excluded from the revenue requirement.**
11 **Does the Company agree with this adjustment?**

12 A. Yes.

13 **XXX. DEPRECIATION CHARGED TO O&M**

14 **Q. Staff adjusted depreciation to exclude amounts ultimately charged to**
15 **O&M. Does the Company agree with Staff's adjustment?**

16 A. No, the Company and Staff have conferred and Staff agrees that it made an error
17 in calculating its adjustment. Staff indicated that it will correct this error in subsequent
18 testimony. After correction of this error, the Company expects Staff's methodology to be
19 consistent with the Company's.

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XXXI. PAPERLESS BILLING

2

Q. Staff proposed adjustments to remove investments and costs relating to the paperless bill credit afforded to certain customers. Does the Company agree with these adjustments?

5

A. Yes.

6

Q. Staff imputed revenues related to the paperless bill credit into its revenue requirement. Does the Company agree with this adjustment?

8

A. No. Staff has acknowledged this adjustment was made in error. The Company expects Staff will correct this error in subsequent testimony.

10

XXXII. CONVENIENCE CHARGES

11

Q. Staff proposed an average of payment levels from the 13-months ended June 30, 2021 are used to quantify this cost. Does the Company agree with Staff's proposal?

14

A. Substantially, yes. However, Staff failed to include customer-facing charges related to Automated Clearinghouse ("ACH") payments in its adjustment. As long as Staff includes all customer-facing charges in its adjustment and payment levels are updated through the true-up date, the Company accepts Staff's methodology for its adjustment.

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XXXIII. PENSION AND OPEB TRACKER

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Q. Staff proposed only deferrals of service costs are included in rate base prospectively. Why is Staff proposing a change to this existing tracker?

4

A. Staff argues that only service cost is eligible to be capitalized under existing Generally Accepted Accounting Principles (“GAAP”) guidance and, therefore, only deferrals of service cost made under the trackers should be included in rate base.

7

Q. Does the Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts require that only service cost may be capitalized?

9

A. No. FERC specifically allowed a one-time election for utilities to either align with GAAP guidance on capitalization of these costs or continue past practice of capitalizing both the service and non-service cost components.

12

Q. What election did Ameren Missouri make?

13

A. The Company chose to align its capitalization policy with the new GAAP guidance on this point. Several factors influenced this decision. This approach removed the need for on-going tracking of FERC to GAAP differences, which could result in significant incremental cost, both upfront and on an ongoing basis, that would ultimately be passed on to customers. These costs would include the cost of a potential system implementation for tracking FERC to GAAP capitalization differences as well as the potential need for staffing changes to accommodate the additional workload created by maintaining separate retained earnings balances for FERC and GAAP purposes.

1 **Q. Did Staff support the inclusion of non-service-related deferrals made**
2 **under this tracker in Ameren Missouri’s last rate case?**

3 A. Yes. Staff supported the continuation of this tracker in the same form, as it
4 had existed previously even though the Company had made the previously mentioned
5 policy election in 2018 and provided responses to numerous data requests on this topic.

6 **Q. Why should the Commission reject Staff’s proposal?**

7 A. The policy election made by the Company has no substance from a
8 ratemaking perspective, because Ameren Missouri, at its sole discretion, could have elected
9 to continue capitalizing non-service costs. Further, the reason for electing this change in
10 2018 was to keep costs low for customers. Lastly, just as Staff supports the continued
11 inclusion of service-cost-related deferrals in rate base, carrying costs related deferrals made
12 under the tracker exist and should be recovered or refunded. The Company should be
13 compensated for these carrying costs or compensate customers in instances where future
14 refunds are owed by including any amount deferred under this tracker in rate base.

15 **XXXIV. RENEWABLE ENERGY STANDARD (“RES”) TRACKER BASE**

16 **Q. Please explain Staff’s calculations comprising the RES tracker base**
17 **amount.**

18 A. Staff relied on test year cost levels for all elements of the tracker base
19 amount except for fuel costs associated with the Maryland Heights Energy Center. In
20 determining the base level of fuel costs for the Maryland Heights Energy Center, Staff
21 multiplied historical volumes from the 12-months ending June 30, 2021 by the current
22 contractual unit price.

1 **Q. Does the Company agree with Staff’s methodology for determining the**
2 **tracker base amount?**

3 A. Yes. The Company is in agreement with Staff’s methodology so long as
4 each element is trued-up through September 30, 2021.

5 **XXXV. LAMBERT ENERGY CENTER**

6 **Q. Staff recommends that the Commission retroactively require reporting**
7 **requirements related to the Lambert Energy Center. Are the recommended**
8 **reporting requirements necessary?**

9 A. No. There is simply no need to specify each component of the revenue
10 requirement in the Company’s general ledger via separate managerial accounting, just as
11 there is no need to do so for all of the Company’s other costs of providing services to its
12 customers. Further, the information Staff seeks can be reasonably determined by Staff or
13 other interveners through the discovery process and after applying its allocation methods
14 in each rate proceeding. In fact, Staff was able to determine in this case that sufficient
15 evidence had been provided to conclude no adjustment to the revenue requirement was
16 necessary. Finally, if this type of reporting were to be agreed to or required, the time to
17 determine this is when the facility and pilot program was considered for approval, not years
18 after the fact.

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XXXVI. DISCONNECT/RECONNECT REVENUE

2

Q. Staff proposed to true-up disconnect, reconnect, and customer installation fees. Does the Company agree with Staff's proposal?

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4

A. Conceptually, yes. The Company agrees that disconnect and reconnect revenues were impacted by the pandemic during the test year when Ameren Missouri temporarily suspended service disconnects and late fees. As such, the Company will adopt Staff's position to true-up these revenues to levels from the 12-months ended September 30, 2021.

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Q. Is there an aspect of Staff's adjustment with which the Company does not agree?

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11

A. Yes. Staff included the impacts of Gross Receipts Tax in the balances used for their adjustment. The Company has removed the impacts of gross receipts tax from both revenues and expenses in the revenue requirement, as these are simply pass through taxes. Because of this, it would be inappropriate to incorporate them back into Staff's calculation for this adjustment. After considering the exclusion of Gross Receipts Tax, the adjustment to increase test year revenues is \$352,090 based on relevant revenue recorded through June 30, 2021.

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XXXVII. LATE FEE REVENUE

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Q. Staff proposed an adjustment to normalize late fee revenue. Does the Company agree with Staff's proposal?

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A. Conceptually, yes. The Company agrees that late fee revenues were impacted by the pandemic during the test year. The Company will adopt Staff's position

22

1 to normalize these revenues using 2019 levels, as this is the most recent data not impacted
2 by the pandemic.

3 **Q. Is there an aspect of Staff’s adjustment with which the Company does**
4 **not agree?**

5 A. Similar to my prior discussion of disconnect and reconnect fee revenues,
6 Staff included the impact of Gross Receipts Tax in the amount used for its normalization.
7 The Company has removed the impacts of gross receipts tax from both revenues and
8 expenses in the revenue requirement, as these are simply pass through taxes. Because of
9 this, it would be inappropriate to incorporate gross receipts tax back into Staff’s calculation
10 for this adjustment. After considering the exclusion of Gross Receipts Tax, the adjustment
11 to increase test year late fee revenues to 2019 levels is \$3,290,698.

12 **XXXVIII. EQUITY ISSUANCE COSTS**

13 **Q. Has the Commission ruled on how equity issuance costs should be**
14 **included in a utility’s revenue requirement in the past?**

15 A. Yes. Since as far back as Kansas City Power and Light Co.’s 1981 rate case
16 (File Nos. ER-81-42 and ER-80-48), the Commission has allowed the recovery of equity
17 issuance costs. In that case, and many subsequent cases, Staff proposed and the
18 Commission found it appropriate to include an incremental percentage or adder on top of
19 a utility’s return on equity (“ROE”) in order to account for equity issuance costs in the
20 revenue requirement.

1 **Q. Do you agree with this change?**

2 A. No. Staff is grouping sales tax with other pass-through taxes, like the gross
3 receipts tax, by excluding the service lag from the revenue lag component. However, these
4 two types of taxes have different statutory requirements and thus must be treated differently
5 in calculating the cash working capital factors.

6 The gross receipts tax is a tax on Ameren Missouri *itself* that is passed-through to
7 customers. Accordingly, the service lag component is removed from the revenue lag.
8 There is direct offsetting revenue for the gross receipts tax, and it is therefore properly
9 recorded differently.

10 On the other hand, sales tax is a tax on Ameren Missouri's *customers* based on the
11 sale of electricity to the customer, which is recorded as a liability. There is no direct
12 offsetting revenue for the sales tax. Sales taxes are calculated on the customer's electric
13 usage and the service lag should therefore be included in the revenue lag component.

14 The sales tax process the Company uses has remained the same for the past several
15 rate cases. Historically, the Company has calculated the cash working capital requirements
16 for sales taxes with the service lag component included in the revenue lag. Nothing has
17 materially changed in the sales tax process that supports a change in the calculation of the
18 cash working capital requirements for sales taxes. Sales taxes are not a pass-through tax
19 and should not be treated as one in determining the cash working capital requirement.

20 **Q. Please describe Staff's position payroll and payroll tax leads.**

21 A. Staff adjusted the payroll and payroll tax payment lead times for the
22 management employees to zero. Staff's rationale for the change is that "the negative lead time

1 associated with the pay date change reduces the expense lead for payroll and payroll taxes, and
2 increases the positive net leg associated with these expenses which results in an increase to
3 CWC and its associated rate base value.”¹¹

4 **Q. Do you agree with Staff’s proposed changes?**

5 A. No. I do not agree with Staff’s rationale and it is at odds with longstanding
6 practice. Historically, the Company has calculated the payment lead-time based on the
7 period from the end of the service period date to the payment date. If a payment is made
8 prior to when services are fully rendered, then the payment lead-time is calculated as a
9 negative payment lead-time. In the past, this methodology has been accepted in calculating
10 the payment lead-time because it reflects accurately the cash needs as compared to expense
11 recognition.

12 **Q. You say that the Commission has accepted a negative payment lead-time**
13 **in the past for the calculation of the payroll and payroll taxes. Please explain.**

14 A. From time to time, the Company has used negative payment lead-time for
15 management employees in rate cases that have been approved by the Commission. For
16 example, when a management payroll period fell on a weekend or holiday, the payment
17 date was the preceding business day, which resulted in the calculation of a negative payroll
18 lead-time. This methodology has not changed with the adjustment in management pay
19 dates; it is simply being used on a larger scale. Furthermore, a negative payment lead-time
20 can occur in other categories of payments to meet contractual obligations, such as pre-
21 payment of services. Negative lead times are typically accepted in these other

¹¹ File No. ER-2021-0240, Staff’s Cost of Service Report, p. 54, ll. 17-19.

1 circumstances. Therefore, they should be accepted in addressing the payroll and payroll
2 tax payment lead-time.

3 **Q. Did Staff propose any other changes to the Company's revenue lags or**
4 **expense leads?**

5 A. Yes.¹² Staff proposed changes to expense lag calculations for total payroll
6 and withholdings, incentive compensation, pension, OPEBs and other employee benefits
7 in order to align the results of the Company's gas and electric studies.

8 **Q. Do you agree with the changes Staff proposed to align the expense lags**
9 **between the electric and gas businesses?**

10 A. Yes.

11 **Q. Does this conclude your rebuttal testimony?**

12 A. Yes.

¹² The Company and Staff have conferred and Staff agrees certain errors were made in its calculation of cash working capital. Staff will correct its errors in subsequent testimony.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**



In the Matter of The Empire District)
Electric Company's Request for Authority)
to File Tariffs Increasing Rates for Electric)
Service Provided to Customers in its)
Missouri Service Area)

File No. ER-2019-0374
Tariff No. YE-2020-0029

REPORT AND ORDER

Issue Date: July 1, 2020

Effective Date: July 11, 2020

39) Property Taxes

Findings of Fact

493. Utility companies are required to file a valuation of their utility property with their respective taxing authorities at the beginning of each assessment year, which is January 1st. Based on the information provided by the utility, the taxing authority will in turn send the company its “assessed values” for every category of the company’s property.⁶⁷¹

494. The taxing authority issues a property tax bill to the utility late in the year which is due no later than December 31st.⁶⁷²

495. Staff’s calculation is based upon the last known actual amount of property taxes paid by Empire and the plant-in-service associated with the property tax payment.⁶⁷³

496. To appropriately calculate the overall property tax amount for Empire, the amount of Empire’s share of the Plum Point plant was subtracted from total plant in service. The owners of Plum Point have agreed to make an annual Payment In Lieu of Taxes (PILOT) instead of paying property taxes. The set amount of PILOT taxes that Empire has agreed to pay for Plum Point was then added to the annualized property tax calculation to determine the total property tax adjustment.⁶⁷⁴

497. The appropriate amount of property tax expense is \$25,138,294. Staff determined this annualized level by applying Empire’s tax rate to plant in service balances

⁶⁷¹ Ex. 101, Staff’s Cost of Service Report, pages 78-79.

⁶⁷² Ex. 127, Surrebuttal/True-Up Testimony of Courtney Barron, page 2.

⁶⁷³ Ex. 127, Surrebuttal/True-Up Testimony of Courtney Barron, page 2.

⁶⁷⁴ Ex. 101, Staff’s Cost of Service Report, pages 78-79.

as of December 31, 2019, which are the most current known and measurable balances used in the property tax assessment process.⁶⁷⁵

498. The proper method to calculate the property tax to be included in cost of service is Staff's method. Staff calculated the property rate by dividing the 2019 property taxes paid by the December 31, 2018 total property. This property tax rate was then applied to the total property as of December 31, 2019 to determine annualized property tax. Not included in the property tax calculation is the 2019 Plum Point PILOT paid, Staff added this to the annualized property tax to determine the total annualized property tax.⁶⁷⁶

499. Staff updated property tax expense to reflect plant-in-service as of December 31, 2019. The ratio of property taxes paid at year-end 2019 to the balance of plant-in service as of January 1, 2019 was applied by Staff to the December 31, 2019 plant-in-service balance.⁶⁷⁷

Conclusions of Law

No additional Conclusions of Law are required for this issue.

Decision

The Commission finds that \$25,138,294 (after the jurisdictional allocation factor is applied) is the appropriate amount of property tax to include in the cost of service. The Commission additionally finds that Staff's method of calculating property tax is reasonable.

⁶⁷⁵Ex. 101, Staff's Cost of Service Report, pages 78-79; Ex. 127, Barron Surrebuttal/True-up , pages. 1-3; and Ex. 124, Staff True-up Accounting Schedules.

⁶⁷⁶ Ex. 101, Staff's Direct Report, pages 78-79; Ex. 127, Barron Surrebuttal/True-up T, pages 1-3.

⁶⁷⁷ Ex. 127, Barron Surrebuttal/True-up, page 3.

