

Exhibit No.:
Issues: *Report on Revenue
Requirement Cost of Service,
Overview of the Staff's Filing*
Witness: *Lisa M. Ferguson*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *ER-2021-0240*
Date Testimony Prepared: *September 3, 2021*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

LISA M. FERGUSON

UNION ELECTRIC COMPANY

d/b/a Ameren Missouri

CASE NO. ER-2021-0240

*Jefferson City, Missouri
September 3, 2021*

1
2
3
4
5
6
7
8
9
10
11

TABLE OF CONTENTS OF

DIRECT TESTIMONY

OF

LISA M. FERGUSON

**UNION ELECTRIC COMPANY
d/b/a AMEREN MISSOURI**

CASE NO. ER-2021-0240

EXECUTIVE SUMMARY2
REVENUE REQUIREMENT COST OF SERVICE REPORT3
OVERVIEW OF STAFF’S RECOMMENDED REVENUE REQUIREMENT4

1 **DIRECT TESTIMONY**

2 **OF**

3 **LISA M. FERGUSON**

4 **UNION ELECTRIC COMPANY,**
5 **d/b/a AMEREN MISSOURI**

6 **CASE NO. ER-2021-0240**

7 Q. Please state your name and business address.

8 A. Lisa M. Ferguson, 111 North 7th Street, Suite 105, St. Louis, MO 63101.

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

10 A. I am employed by the Missouri Public Service Commission (“Commission” or
11 “PSC”) as a Utility Regulatory Supervisor.

12 Q. Please describe your educational background and work experience.

13 A. I attended Truman State University, receiving a Bachelor of Science degree and
14 a Master’s degree in Accounting in 2006 and 2008, respectively. Since joining the
15 Commission’s Staff in 2008, I have assisted with and directed audits and examinations of the
16 books and records of utility companies operating within the state of Missouri.

17 Q. Have you previously filed testimony before this Commission?

18 A. Yes, I have. Please refer to Schedule 1, which is included in Staff’s
19 Appendix 1, for a list of cases in which I have previously filed testimony as well as the issues
20 that I have addressed in testimony.

21 Q. What knowledge, skills, experience, training and education do you have in the
22 areas of which you are testifying as an expert witness?

23 A. I have been employed by this Commission as a Utility Regulatory Auditor for
24 over thirteen years and have submitted testimony on ratemaking issues numerous times before

Direct Testimony of
Lisa M. Ferguson

1 the Commission. I have also been responsible for the work product of other Commission
2 employees in rate cases and other regulatory proceedings. Since the time I began my
3 employment with the Commission, I have received training with regard to technical ratemaking
4 matters both in-house and through attending National Association of Regulatory Utility
5 Commissioners ("NARUC") sponsored regulatory seminars as well as other regulatory
6 symposiums and conferences.

7 Q. Have you participated in the Commission Staff's audit of Union Electric
8 Company, d/b/a Ameren Missouri ("Ameren Missouri" or "Company"), concerning its request
9 for a rate decrease in this proceeding?

10 A. Yes, I have, with the assistance of other members of the Staff. I am the Financial
11 and Business Analysis Division case coordinator facilitating the work of Staff members within
12 that Division, and I interface and work with the Staff members from other Commission
13 Divisions and Departments that are involved in the Staff's direct case.

14 **EXECUTIVE SUMMARY**

15 Q. Please summarize your direct testimony in this proceeding.

16 A. I am sponsoring the Staff's Revenue Requirement Cost of Service
17 Report ("Report") and Staff's Direct Accounting Schedules in this proceeding that are being
18 filed concurrently with this direct testimony. I also provide in this direct testimony an overview
19 of the Staff's revenue requirement determination. Staff has conducted a review of all the
20 components (capital structure, return on rate base, rate base, operating revenues and operating
21 expenses) that determine Ameren Missouri's revenue requirement. My testimony provides an
22 overview of Staff's work in each area.

1 **REVENUE REQUIREMENT COST OF SERVICE REPORT**

2 Q. Please explain the organizational format of the Staff's Revenue Requirement
3 Cost of Service Report.

4 A. The Staff's Report has been organized by topic as follows:

5 I. Executive Summary

6 II. Background

7 III. Test Year/True-Up Period

8 IV. Ameren Board of Directors and Board Committee Meeting

9 Documentation

10 VI. Rate of Return (Capital Structure, Cost of Debt, Cost of Equity)

11 VII. Rate Base

12 VIII. Solar Programs

13 IX. In-Service Criteria Overview

14 X. Facilities and Donations

15 XI. Allocations

16 XII. Income Statement

17 XIII. Depreciation

18 XIV. Income Tax

19 XV. Fuel Adjustment Clause (FAC)

20 XVI. Other Issues

21 The Rate Base and Income Statement sections have numerous subsections which
22 explain each specific area and/or adjustments made by the Staff to the test year ending
23 December 31, 2020. The individual Staff member responsible for each area of Staff's

Direct Testimony of
Lisa M. Ferguson

1 direct case and/or adjustment is identified in the Report following the written discussion he or
2 she authored, and is the expert/witness with respect to that section of the Staff's Report. The
3 Staff may have a different or additional expert/witness for rebuttal or surrebuttal testimony in
4 a given area if this case proceeds to evidentiary hearings.

5 **OVERVIEW OF STAFF'S RECOMMENDED REVENUE REQUIREMENT**

6 Q. How does one determine the revenue requirement for a regulated utility?

7 A. The first step is to calculate the utility's cost of service.

8 Q. In its audit of Ameren Missouri for Case No. ER-2021-0240, has Staff examined
9 all of the components comprising the cost of service for Ameren Missouri's electric operations
10 in Missouri?

11 A. Yes.

12 Q. What are the cost-of-service components that comprise the cost of service for a
13 regulated, investor-owned public utility?

14 A. The cost of service for a regulated, investor-owned public utility can be defined
15 by the following formula:

$$16 \text{ Cost of Service} = \text{Cost of Providing Utility Service}$$

17 or

$$18 \text{ COS} = \text{O} + (\text{V} - \text{D})\text{R} \quad \text{where,}$$

$$19 \text{ COS} = \text{Cost of Service}$$

20 O = Operating Costs (Fuel, Payroll, Maintenance, etc.),
21 Depreciation and Taxes

22 V = Gross Valuation of Property Required for Providing Service
23 (including plant and additions or subtractions of other rate base
24 items)

1 D = Accumulated Depreciation Representing Recovery of
2 Gross Depreciable Plant Investment

3 V – D = Rate Base (Gross Property Investment less Accumulated
4 Depreciation = Net Property Investment)

5 (V – D)R = Return Allowed on Rate Base

6 In the past, the terms “cost of service” and “revenue requirement” have sometimes been
7 used interchangeably. However, in this rate case, Staff will use the term “revenue requirement”
8 to only refer to the utility’s necessary incremental change in revenues based on measurement
9 of the utility’s current total cost of service compared to its current revenue levels under
10 existing rates.

11 Q. What is the objective of an audit of a regulated, investor-owned public utility for
12 ratemaking purposes?

13 A. The objective of an audit is to determine the appropriate level of the components
14 identified in my previous answer in order to calculate the revenue requirement for such a
15 regulated utility. All relevant factors are examined and a proper relationship of revenues,
16 expenses, and rate base is maintained. The process for making that revenue requirement
17 determination can be summarized as follows:

18 (1) Selection of a test year. The test year income statement represents the
19 starting point for determining a utility’s existing annual revenues, operating costs and
20 net operating income. Net operating income represents the return on investment based upon
21 existing rates. The test year approved by this Commission for Case No. ER-2020-0240, is
22 the twelve months ending December 31, 2020. “Annualization,” “normalization” and
23 “disallowance” adjustments are made to the test year results when the unadjusted amounts
24 do not fairly represent the utility’s most current, ongoing and appropriate annual level of

1 revenues and operating costs. Annualization, normalization and disallowance adjustments are
2 explained in more detail later in this direct testimony.

3 (2) Selection of a “test year update period.” A proper determination of
4 revenue requirement is dependent upon matching the rate base, return on investment, revenues,
5 and operating costs components at the same point in time. This ratemaking principle is
6 commonly referred to as the “matching” principle. It is a standard practice in ratemaking in
7 Missouri to utilize a period beyond the established test year in which to match the major
8 components of a utility’s revenue requirement. By updating test year financial results to reflect
9 information beyond the established test year, rates can be set based upon more current
10 information. Due to the length of time between the end of the test year, December 31, 2020,
11 and the true-up cutoff, September 30, 2021, there is not an update period established in this case.

12 (3) Selection of a “true-up date” or “true-up period.” A true-up date generally is
13 established when a significant change in a utility’s cost of service occurs after the end of the
14 test year (or, if applicable, the end of the update period), but prior to the operation-of-law date,
15 and the significant change in cost of service is one the parties and/or Commission has decided
16 should be considered for cost-of-service recognition in the current case. The parties have
17 agreed with a true-up cut-off date of September 30, 2021. Ameren Missouri plans to complete
18 a significant amount of capital investment subsequent to the end of the test year, through
19 September 30, 2021. The actual cost of these and other changes will be considered for inclusion
20 in the cost of service during the true-up audit authorized by the Commission for this case.

21 (4) Determination of Rate of Return. A cost-of-capital analysis must be
22 performed to allow Ameren Missouri the opportunity to earn a fair rate of return on its net
23 investment (“rate base”) used in the provision of utility service. Staff witness Peter Chari, of

1 the Commission's Financial Analysis Department, has performed a cost-of-capital analysis and
2 is sponsoring a section of the Staff's Revenue Requirement Cost of Service Report to explain
3 and provide the results of his analysis.

4 (5) Determination of Rate Base. Rate base represents the utility's
5 net investment used in providing utility service, on which the utility is permitted the opportunity
6 to earn a return. For its direct filing, Staff has determined Ameren Missouri's rate base
7 consistent with the end of the test year established for this case, December 31, 2020, with use
8 of estimated amounts through the true-up cut-off date, September 30, 2021, for plant and
9 depreciation reserve. These estimates will be replaced with actual amounts following the true-
10 up as authorized by the Commission. Other rate base components reflect the last known balance
11 as of June 30, 2021, which will also be replaced with updated amounts following the true-up.
12 Rate base includes plant-in-service (plant fully operational and used for service), cash working
13 capital, materials and supplies, prepayments, fuel inventories, accumulated reserve for
14 depreciation, accumulated deferred income tax, etc.

15 (6) Net Operating Income from Existing Rates. The starting point
16 for determining net income from existing rates is the unadjusted operating revenues, expenses,
17 depreciation, and taxes for the test year which is the twelve-month period ending December
18 31, 2020, for this case. All of the utility's specific revenue and expense categories are examined
19 to determine whether the unadjusted test year results require adjustments in order to fairly
20 represent the utility's most current level of operating revenues and expenses.
21 Numerous changes occur during the course of any year that will impact a utility's annual level
22 of operating revenues and expenses. The December 31, 2020, test year has been adjusted to
23 reflect the Staff's determination of the appropriate ongoing levels of revenues and expenses.

1 These items will be re-examined based on actual data as part of the true-up process through
2 September 30, 2021.

3 (7) Determination of Net Operating Income Required. The net income
4 required for Ameren Missouri is calculated by multiplying the Staff's recommended rate of
5 return by the rate base. Net income required is then compared to net income available from
6 existing rates discussed in Item 6 above. The difference, when factored-up for income taxes,
7 represents the incremental change in the utility's rate revenues required to cover its operating
8 costs and to provide a fair return on investment used in providing electric service.

9 If a utility's current rates are insufficient to cover its operating costs and provide a fair
10 return on investment, the comparison of net operating income required (Rate Base x
11 Recommended Rate of Return) to net income available from existing rates (Operating Revenue
12 less Operating Costs, Depreciation and Income Taxes) will result in a positive amount which
13 would indicate that the utility requires a rate increase. If the comparison results in a negative
14 amount, this indicates that the utility's current rates may be excessive.

15 Q. Please identify the types of adjustments which are made to unadjusted test year
16 results in order to reflect a utility's current annual level of operating revenues and expenses.

17 A. The types of adjustments made to reflect a utility's current annual operating
18 revenues and expenses are:

19 (1) Normalization adjustments. Utility rates are intended to reflect normal
20 ongoing operations. A normalization adjustment is required when the test year reflects the
21 impact of an abnormal event. One example of this type of adjustment that is made in all electric
22 rate cases is the Staff's revenue adjustments to normalize weather. Actual weather conditions
23 during the test year are compared to 30-year "normal" values. The weather normalization

1 adjustment restates the test year sales volumes and revenue levels to reflect normal
2 weather conditions.

3 (2) Annualization adjustments. Annualization adjustments are required
4 when changes have occurred during the test year, update and/or true-up period, which are not
5 fully reflected in the unadjusted test year results. For example, a portion of Ameren Missouri's
6 employees received a wage increase on January 1, 2021. As a result, the test year does not
7 reflect the impact of this payroll increase. An adjustment was made to capture the financial
8 impact of the payroll increase for the portion of the test year prior to the wage increase.

9 (3) Disallowance adjustments. Disallowance adjustments are made to
10 eliminate costs in the test year results that are not considered prudent, reasonable, appropriate,
11 and/or not of benefit to Missouri ratepayers and thus not appropriate for recovery from
12 ratepayers. An example in this case is certain executive incentive compensation costs. In the
13 Staff's view, these costs are incurred to primarily benefit shareholder interests and it is not
14 appropriate policy to pass these costs on to customers in rates, since these costs do not benefit
15 ratepayers. Therefore, these costs should be eliminated from the cost of service borne by
16 ratepayers and the Staff has proposed to disallow these costs from recovery in rates.

17 (4) Pro forma adjustments. Pro forma adjustments reflect the impact of items
18 and events that occur subsequent to the test year. These items or events significantly impact the
19 revenue, expense and rate base relationship and should be recognized to address
20 the forward-looking objective of the test year. Caution must be exercised when including
21 pro forma adjustments in a recommended cost of service to ensure that all items and events
22 subsequent to the test year are also examined and any appropriate offsetting adjustments are
23 included as well. In addition, some post-test year items and events may not have occurred yet

Direct Testimony of
Lisa M. Ferguson

1 and/or may not be capable of adequate quantification at the time of the case filing. As a result,
2 quantification of pro forma adjustments may be more difficult than the quantification of other
3 adjustments. As a consequence, use of a true-up audit that considers a full range of auditable
4 items and events that occur subsequent to the test year, attempts to address the maintenance of
5 the proper relationship among revenues, expenses and investment at a consistent point in time
6 is generally a superior approach than considering stand-alone pro forma adjustments for
7 inclusion in cost of service.

8 Q. What rate increase amount, based on what return on equity (“ROE”) percentage,
9 did the Company request from the Commission in this case?

10 A. Ameren Missouri requested that its annual revenues be increased by
11 approximately \$299,468,000, based on an ROE of 9.90%.

12 Q. Please describe Staff’s direct case revenue requirement filing in this proceeding.

13 A. The results of Staff’s audit of Ameren Missouri’s rate case request can be found
14 in the Staff’s filed Accounting Schedules and is summarized on Accounting Schedule 1,
15 Revenue Requirement. This Accounting Schedule shows that the Staff’s recommended
16 revenue requirement for Ameren Missouri in this proceeding is \$221,386,208 based upon a
17 mid-point recommended rate of return (“ROR”) of 6.725%. Staff is recommending a mid-point
18 ROE of 9.50% with a range of 9.25% to 9.75% as calculated by Staff witness Peter Chari.
19 Staff’s revenue requirement at low and high is \$204,750,389 to \$238,022,029 based upon a
20 ROR range of 6.599% to 6.851%.

21 Q. What items are included in the Staff’s recommended rate base in this case?

22 A. The rate base items include: Plant-in-Service; Accumulated Depreciation
23 Reserve; Cash Working Capital; Materials and Supplies; Prepayments; Pay As You Save

Direct Testimony of
Lisa M. Ferguson

1 (PAYS) Regulatory Asset; the Plant in Service Accounting (“PISA”) Regulatory Asset;
2 Renewable Energy Credits and Emission Allowances; Removal of 4/5 of ADIT, materials and
3 supplies, and fuel inventory relating to the Meramec Generating Facility in order to move that
4 portion of rate base items into the tracking mechanism as proposed by Ameren Missouri in this
5 case; Over/Under-collected Amortizations; Customer Advances for Construction; Customer
6 Deposits; unamortized Pension and OPEBs Tracking Assets and Liabilities; and the
7 Accumulated Deferred Income Tax (“ADIT”) reserve. The Plant and Depreciation Reserve
8 balances reflect the Staff’s estimates through the September 30, 2021, true-up cut-off date.
9 Other rate base items reflect various levels at or beyond the end of the December 31, 2020,
10 test year. These rate base components will be trued-up through September 30, 2021, once the
11 true-up data becomes available.

12 Q. What are the significant income statement adjustments the Staff made in
13 determining Ameren Missouri’s revenue requirement for this case?

14 A. A summary of the Staff’s significant income statement adjustments follows:

15 **Operating Revenues**

16 Retail revenues were adjusted for the elimination of unbilled revenue, FAC revenue,
17 RESRAM revenue, gross receipts taxes, economic development (“EDI”) revenue, customer
18 growth, the update period, Community Solar revenue, rate switching, seasonal proration of
19 revenue, and weather/days normalization. Staff also imputed revenue associated with the
20 paperless bill credit for which the parties agreed as part of the Stipulation & Agreement in
21 Case No. ER-2019-0335 to hold ratepayers harmless for costs of this program. Other electric
22 revenues were adjusted for removal of coal refinement projects, energy sales, capacity
23 sales, bilateral sales and financial swaps, Midwest Independent System Transmission

Direct Testimony of
Lisa M. Ferguson

1 Operator (“MISO”) Day 2 revenues, transmission revenues, and SPP related revenues. Finally,
2 all Missouri Energy Efficiency Investment Act (“MEEIA”) related revenues and all Keeping
3 Current low-income program revenues that were recorded during the test year were removed
4 from the cost of service calculation.

5 Staff has also addressed a number of other issues in greater detail in the Staff’s Revenue
6 Requirement Cost of Service Report as shown in the partial listing below:

7 **Payroll, Payroll Taxes and Employee Benefit Costs**

- 8 • Payroll expense annualized for all known wage increases through
9 January 1, 2021, and changes in employee levels through June 30, 2021.
- 10 • Payroll taxes consistent with the payroll annualization and incentive
11 compensation.
- 12 • Incentive compensation and restricted stock awards disallowances.
- 13 • Employee benefits including pensions and OPEBs.

14 **Other Non-Labor Expenses**

- 15 • Fuel, purchased-power and energy sales annualizations to reflect
16 January 1, 2021, coal commodity and coal transportation prices, Staff’s
17 recommended market energy prices, and the dispatch of power sources
18 to meet the Staff’s determination of Ameren Missouri’s generation
19 requirements.
- 20 • Normalization of Rush Island Legal Fees
- 21 • Capacity Expense
- 22 • MISO Transmission and MISO Day 2 Expense
- 23 • Rents and Leases
- 24 • Vegetation Management
- 25 • Low Level Radioactive Waste Expense
- 26 • Callaway Refueling Expense
- 27 • Insurance Expense
- 28 • Property Tax Expense
- 29 • Uncollectible Expense

Direct Testimony of
Lisa M. Ferguson

- 1 • Corporate Allocations
- 2 • Rate case Expense
- 3 • Disallowance of all institutional advertising expense, certain dues and
- 4 donations and miscellaneous expenses and Ameren Corporation board
- 5 of directors related costs.
- 6 • Test year storm cost normalization
- 7 • Elimination of MEEIA expense
- 8 • Income Taxes
- 9 • Depreciation Expense

10 Q. What reliance did you place on the work or conclusions of other Staff members
11 working on Staff's behalf?

12 A. All of the Staff auditors, including myself, relied on the work from numerous
13 other Staff members in calculating a revenue requirement for Ameren Missouri in this case.
14 Weather-normalized sales, depreciation rates, and the recommended rate of return are some
15 examples of data and analysis supplied to the Auditing Unit as inputs into the Staff's revenue
16 requirement cost-of-service calculation. Signed affidavits and the qualifications for all Staff
17 members who are responsible for a section of the Staff's Revenue Requirement Cost-of-Service
18 Report and for whom that section constitutes direct testimony in this rate proceeding are
19 attached in an appendix to the Report. Each Staff member who is responsible for a section of
20 the Staff's Revenue Requirement Cost-of-Service Report is identified at the conclusion of the
21 section he or she authored as being the Staff expert/witness responsible for that section.

22 Q. What are the biggest differences between the rate increase request filed by the
23 Company and the Staff revenue requirement recommendations being filed in this proceeding?

1 A. From the Staff's perspective, there are six primary revenue requirement
2 differences.

- 3 • Return on Equity (ROE) and Capital Structure – Issue Value – (\$40.3 million).

4 As previously stated, Ameren Missouri's return on equity recommendation is
5 9.90%, while the Staff has developed a mid-point recommendation of 9.50%.

6 The dollar difference between Ameren Missouri's recommended ROE and
7 Staff's recommended mid-point for ROE, 9.90% compared to 9.50%, is
8 approximately \$40.3 million in revenue requirement.

- 9 • Payroll – Issue Value – (\$14.7 million). Staff has included Ameren Missouri's
10 employee headcount as of June 30, 2021. Ameren Missouri included temporary
11 employees in its headcount through September 30, 2021 in its direct filed
12 revenue requirement for which the actual headcount increase Staff has included
13 only permanent employees as of June 30, 2021.

- 14 • Incentive Compensation - Issue Value (\$5.1 million). Ameren Missouri has
15 included a level of earnings based incentive compensation in its direct case that
16 Staff has removed.

- 17 • Cost Savings due to Automatic Meter Reader ("AMR") Device Change
18 Initiative – Issue Value (\$4.5 million). As Ameren Missouri changes out its
19 AMR meters to AMI meters, the Company has reduced reading charges from
20 Landis + Gyr. Staff has included a level of this cost savings in its direct case
21 that the Company has not.

Direct Testimony of
Lisa M. Ferguson

- 1 • Cost Savings due to Vegetation Management Initiatives – Issue Value
2 (\$4.5 million). Ameren Missouri has included a three year average of this
3 expense in its direct case while Staff has included the twelve months ending
4 June 30, 2021. Costs have been declining due to initiatives taken in this area.
- 5 • Employee Benefits – Issue Value (\$4.1 million). Staff has included Ameren
6 Missouri’s actual employee headcount as of June 30, 2021. Ameren Missouri
7 included temporary employees in its headcount through September 30, 2021 in
8 its direct filed revenue requirement.

9 There are other differences between the Staff and the Company, based upon their respective
10 direct filings. However, these items are less significant than the differences discussed above.

11 Q. Is it possible that significant differences exist between the Staff’s revenue
12 requirement positions and those of other parties besides Ameren Missouri in this proceeding?

13 A. Yes. However, the other parties are filing their prepared direct testimony, if any,
14 concurrently with the Staff’s direct filing. Until Staff has a chance to examine the direct
15 testimony of the other parties, it is impossible for the Staff to determine what differences exist
16 and how material they may be.

17 Q. Please identify the Staff experts/witnesses responsible for addressing each area
18 where there is a known and significant difference between Staff and Ameren Missouri as
19 addressed above in this direct testimony.

20 A. The Staff experts/witnesses for each listed issue are as follows:

<u>Issue</u>	<u>Staff Witness</u>
Rate of Return	Peter Chari
Payroll	Paul K. Amenthor

Direct Testimony of
Lisa M. Ferguson

1 Incentive Compensation Jason Kunst, CPA

2 AMR Meter O&M Cost Savings Jason Kunst, CPA

3 Vegetation Management O&M Cost Savings Jason Kunst, CPA

4 Employee Benefits Paul K. Amenthor

5 Q. When will the Staff be filing its customer class cost of service and rate design
6 direct testimony and report in this proceeding?

7 A. Staff's customer class cost of service and rate design direct testimony and report
8 and schedules will be filed on September 17, 2021.

9 Q. Does this conclude your prepared direct testimony in this proceeding?

10 A. Yes, it does.