Exhibit No:	
Issue:	*Incentive Compensation, Vegetation Management, Infrastructure, Inspection Reliability Programs, RSG Expense, Corrections*
Witness:	*Jeremy K. Hagemeyer*
Type of Exhibit:	*Surrebuttal Testimony*
Case No:	*ER-2008-0318*
Date Testimony Prepared:	*November 5, 2008*

MISSOURI PUBLICE SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

JEREMY K. HAGEMEYER

UNION ELECTRIC COMPANY

dba AMERENUE

CASE NO. ER-2008-0318

Jefferson City, Missouri
November 5, 2008

TABLE OF CONTENTS

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UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. ER-2008-0318

Q. Please state your name and business address.

A. Jeremy K. Hagemeyer, 9900 Page Ave., Suite 103, Overland, MO 63132.

Are you the same Jeremy K. Hagemeyer employed by the Missouri Public Service Commission (Commission) that contributed to the Staff's August 28, 2008 Cost of Service Report in this case?

A. Yes.

Q. What is the purpose of this Surrebuttal Testimony?

A. I will address the rebuttal testimony of Krista G. Bauer regarding incentive compensation and Key Performance Indicators (KPIs). I will address the rebuttal testimony of Ronald C. Zdellar regarding the vegetation management, infrastructure inspection, and reliability/quality of service programs. I will also address the rebuttal testimony of Gary S. Weiss regarding MISO RSG Resettlement Expense and discuss the issues of Gross Receipts Tax, Allocation of Callaway Plant-In-Service and Depreciation Reserve. I will also discuss the rebuttal testimony of Shawn E. Schukar regarding Revenue Sufficiency Guarantee (RSG) payments made to Union Electric Company d/b/a AmerenUE (Company or AmerenUE) by the Midwest Independent Transmission System Operator (MISO).

INCENTIVE COMPENSATION

Q. On Page 3 of Krista G. Bauer's rebuttal testimony, lines 1 through 3, she states that you have proposed a disallowance for all incentive plans. Do you still maintain that a complete disallowance for incentive plans is appropriate?

A. No. The Staff, at the time of its August 28, 2008 Cost of Service Report filing, had not been provided with adequate information to evaluate the portion of incentive compensation related to KPIs and the Exceptional Performance Benefit Plan. Given this lack of information, the Staff proposed a disallowance for these incentive packages. Since that time, the Company has provided summaries of KPIs and made personnel available to explain the specific measurements and definitions utilized in determining that portion of the Company's incentive plans.

Q. Does the Staff now support the inclusion of all KPIs?

A. No. The Staff proposes a disallowance of financial KPIs and project-based KPIs. The financial KPIs relate to maintaining a proximity to the operations and maintenance budget or capital budgets or achievement of a certain Earnings Per Share (EPS) level. These measures do not allow the flexibility to address unanticipated operational issues. In addition, the Staff still maintains that EPS of the parent company is not an appropriate measurement to be utilized in incentive compensation plans of the utility. Staff opposes the project-based KPIs because they do not promote improvement or performance beyond what should be reasonably expected of an employee.

Q. Please provide an example of a project-based KPI.

A. In its supplement to the response to Staff Data Request No. 50, the Company provided the scorecard for the Business and Community Relations Department. One of the KPIs for the contract portion of this department is “Daily handling of the Community Relations email box and two telephone hot lines”. It is the view of the Staff that this type of KPI is insufficient to ensure improvement and does not ensure performance beyond what should be reasonably expected of the employees of this department.

Q. For the KPI’s supported by the Staff, should all the related incentive compensation cost be allowed?

A. No. The Staff reduced the amount of KPI-related incentive compensation allowed by the amount that the Company paid for performance that did not fully meet the targets. On page 10, line 13, of Ms. Bauer’s rebuttal testimony a target is defined as “a stretch goal”. However, employees can still receive 50% of their incentive compensation payment for achievement below target, in some cases performance only 50% of target. The incentive compensation plan refers to this sub-target performance as the “threshold level”. The Staff believes that performance that falls short of these “stretch goals” is already compensated at market rates through the employees’ base pay and represents performance that should currently be expected of the employees.

Q. Has the Staff changed it position on the Company’s Exceptional Performance Bonus Plan?

A. No. The Staff has not received specific criteria of this program and therefore remains opposed to including this incentive plan in customers’ rates. Given the lack of sufficient data, the Staff is not able to determine if this program meets the criteria set forth in Case No. EC-87-114:

> At a minimum, an acceptable management performance plan should contain goals that improve existing performance, and the benefits of the plan should be ascertainable and reasonably related to the plan. (29 Mo. P.S.C. (N.S.) 313, 325 (1987).)

Q. In her rebuttal testimony Ms. Bauer describes AmerenUE's Long-Term Incentive Plans. Has the Staff changed its position on the Company's Long-Term Incentive Programs?

A. No. The Staff remains steadfast in its opposition to allowing the Company's Long-Term Incentive Programs in customer rates. The description in Ms. Bauer's rebuttal testimony and that found in the response to the Staff's Data Request No. 215 is very similar to that found in the Report and Order for Case No. TC-93-224. Much like Southwestern Bell Corporation's (SBC) long-term incentives in the aforementioned case, AmerenUE's plans are based on financial performance measured over a multi-year period. Like AmerenUE's Performance Share Unit Plan, SBC awarded performance units based on financial performance of the parent company. The Commission determined that the costs of such a plan should not be borne by the Company's rate payers on the basis that "the plan does not focus on Missouri-specific results and does not include service-oriented goals" (2 Mo. P.S.C. (3d) 532 (1993)).

Q. On page 20, line 4, Ms. Bauer references "certain performance criteria" required to be achieved before participants in the long-term incentive plan may receive performance share units. What is the Staff's understanding of these performance criteria?

A. Through discussions with Company personnel, the Staff learned that these measures relate solely to financial performance, and are not related to “service-oriented goals”.

Q. In Ms. Bauer’s rebuttal testimony on page 20, lines 5 through 6, she states that “AmerenUE’s TSR [Total Shareholder Return] is evaluated on a relative basis” measured against “peer companies”. Does this mean that even in times of extended poor performance, operational or financial, AmerenUE’s management could still receive long-term incentive rewards?

A. Yes, so long as the performance of the peer companies was similarly poor or worse. Given that these plans do not ensure operational performance improvements, the lack of Missouri-centric goals, and the clear guidance provided by the Commission, the Staff maintains that its disallowance for long-term incentive plans is appropriate.

Q. On page 3, lines 10 through 14, and later on pages 6 through 8, Ms. Bauer details employment difficulties facing the utility industry, specifically mentioning potential worker shortages and challenges to “attract and retain employees”. Is AmerenUE currently having problems in maintaining its workforce?

A. No. Although Ms. Bauer believes that AmerenUE will face the same retirement scenarios as other utility companies, she states in her response to Staff Data Request No. 351, “AmerenUE is generally able to retain a relatively stable workforce”.

Q. On page 17, lines 7 to 9 of Krista Bauer’s rebuttal testimony, she states “We focus on aligning both base and incentive compensation at the median of the market – and define the market as similarly sized companies within our industry.” Does the Staff interpret this statement as an admission by AmerenUE that incentive compensation is not intended as a substitute for a reduced base level of compensation?

A. Yes. Staff has seen no evidence that AmerenUE's base level of compensation is artificially low in an effort to incent adequate performance.

VEGETATION MANAGEMENT, INFRASTRUCTURE INSPECTION AND RELIABILITY PROGRAMS

Q. In his rebuttal testimony on page 7, lines 9 through 10, Ronald C. Zdellar states that "the position taken by Staff in this case unfairly relies solely on use of a historic test year." Is the Staff actually relying solely on the test year level of spending for vegetation management, infrastructure inspection and reliability programs?

A. No. The Staff, on page 52 of its Cost of Service Report, stated "The Staff will examine these expenses as part of its true-up and determine if an adjustment is necessary and/or appropriate." To date, the Staff has not received an update of workpapers dealing with these initiatives. Once these updates are received, the Staff will determine the necessity and appropriateness of an adjustment from test year expense levels. Also, Staff witness Dan Beck is supporting the Staff's position on tracking mechanisms in his rebuttal and surrebuttal testimony for this case.

MISO RSG RESETTLEMENT EXPENSE

Q. In his rebuttal testimony, Gary S. Weiss testifies that the Staff position on MISO RSG Resettlement is that because "the charges applied to transactions which occurred in the years 2005 and 2006" that the Company should not be allowed recovery of the expense. Is this an accurate statement of the Staff's position?

A. No. The Staff is charged with recommending rates that reflect an on-going level of cost. Given that the resettlement of these expenses is complete and will no longer be in effect during the time rates from this case are in effect, the Staff cannot support inclusion of this expense level in its cost of service. As explained in the Staff's Cost of Service Report, these costs represent a resettlement of the MISO RSG charges resulting from MISO billings that were not in compliance with the tariff. This resettlement increased AmerenUE's RSG charges only through late 2007. Resettlement of RSG charges is no longer in effect. The fact that these costs relate to events that occurred two to three years ago, is merely further support for not recognizing any related effect in the rates from this case.

This treatment is consistent with the treatment of MISO billing and meter errors. When a different, one-time, MISO meter error decreased AmerenUE's expense levels, both the Staff and the Company felt it necessary to adjust expense levels upward to reflect that on-going expense levels would be higher than test year. Neither Staff nor the Company is suggesting the continued reflection of the meter error in ongoing rates.

GROSS RECEIPTS TAX AND CALLAWAY ALLOCATION FACTORS

Q. Mr. Weiss makes note of a Staff error related to Gross Receipts Tax in revenues, and allocation factors for Callaway plant and reserve. Does the Staff agree with these proposed corrections?

A. Yes. The Staff has corrected these items in its calculation of the cost of service.

REVENUE SUFFICIENCY GUARANTEE PAYMENTS

Q. In his rebuttal testimony, Shawn E. Schukar indicates that the Company has calculated the amount of RSG payments ($4.7 million) that should be included in revenues. Does Staff agree with this calculation?

A. Yes. The Company had previously taken the position that no portion of this payment should be reflected in rates. However, the Company has subsequently revised its position to recognize the profit included in the RSG payments as discussed in the testimony of Mr. Schukar. The Staff agrees with the Company's reevaluation of the RSG payments and has adjusted its calculation of the cost of service to reflect this change.

Q. Will there likely be future RSG payments?

A. Yes, the Staff expects AmerenUE to receive future RSG payments that may coincide with rate case test years. To facilitate the resolution of rate case issues regarding future RSG payments, the Staff recommends the Commission order the Company to establish an on-going process to track and/or determine the profit included in these payments.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area.	)))))	Case No. ER-2008-0318

AFFIDAVIT OF JEREMY K. HAGEMEYER

STATE OF Missouri)
) ss.
COUNTY OF Cole)

Jeremy K. Hagemeyer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Jeremy K. Hagemeyer

Subscribed and sworn to before me this 5th day of November, 2008.

Nikki Senn
Notary Public

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016