Exhibit No.:	
Issue(s):	Revenue Requirement
Witness:	Mitchell Lansford
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Union Electric Company
File No.:	ER-2019-0335
Date Testimony Prepared:	January 21, 2020

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2019-0335

REBUTTAL TESTIMONY

OF

MITCHELL LANSFORD

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

St. Louis, Missouri
January 2020

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REBUTTAL TESTIMONY

OF

MITCHELL LANSFORD

FILE NO. ER-2019-0335

I. INTRODUCTION

Q. Please state your name and business address.

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

Q. By whom are you employed and what is your position?

A. I am employed by Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company") as Senior Manager, Regulatory Accounting.

Q. Please describe your educational background and employment experience.

A. I received Bachelor of Science and Master's degrees in Accountancy from the University of Missouri at Columbia in 2008. I am a licensed Certified Public Accountant in the State of Missouri and a member of the American Institute of Certified Public Accountants. From 2008 to 2017, I worked for PricewaterhouseCoopers LLP, most recently as a Senior Manager in its assurance practice. In that capacity, I provided auditing and accounting services to clients, primarily in the utility industry. From 2017 to 2019, I worked for Ameren Services Company as the Manager of Accounting Research and Policy. My primary duties and responsibilities included overseeing the implementation of new accounting guidance and accounting analysis for specified transactions. On April 1, 2019, I began working for Ameren Missouri as the Senior Manager, Regulatory Accounting.

Q. What are your responsibilities in your current position?

A. In my current position, my primary duties and responsibilities include preparation of the revenue requirement for Missouri rate filings, preparing written testimony for rate, regulatory, and audit proceedings, and testifying before the Missouri Public Service Commission.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address various revenue requirement issues contained in the Staff Revenue Requirement Cost of Service Report ("Staff Report"). Ameren Missouri witness Laura Moore addresses certain other issues in the Staff Report.

Q. On what specific issues are you providing rebuttal testimony?

A. Specifically, my rebuttal testimony addresses the following issues: (1) payroll and payroll taxes (Staff witness Paul K. Amenthor), (2) pension and other postemployment expenses ("OPEB") (Staff witness Antonija Nieto), (3), non-qualified pension expense (Staff witness Nieto), (4) board of directors expense (Staff witness Jason Kunst), (5) software maintenance agreements (Staff witness Kunst), (6) cybersecurity expense (Staff witness Kunst), and (7) electric vehicle employee incentive (Staff witness Karen Lyons).

II. PAYROLL AND PAYROLL TAXES

Q. Staff has proposed to disallow severance expenses.[1] Does the Company agree with this adjustment?

[1] Staff Report (Confidential), pp. 78-79.

A. No. The severance costs incurred in the test year do not relate to an initiative to reduce the Company's workforce. In fact, payroll costs are increasing and have increased since the Company's last rate review. Staff asserted that the Company will have savings in the form of avoiding further compensation for severed employees and these savings will more than cancel out the severance costs incurred. No such savings exists when overall payroll costs are increasing, as is the case here. Some level of ongoing severance costs are necessary and a normal cost for the Company to incur. The Company incurred severance costs of $100,000 in each year from 2017 to 2019. Therefore, the amount of severance costs included in the test year is not abnormal. If Staff's proposed adjustment is accepted, the allowed level of expense would fail to reflect a normal, ongoing level of severance expense and would thus understate the Company's revenue requirement.

Q. Please explain Staff's adjustment related to lobbying activities. Does the Company agree with this adjustment?

A. Staff appears to have accepted the Company's adjustment related to lobbying activities, while also performing an analysis that substantiated a portion of the amount proposed in the Company's direct filing.[2] Yes, the Company agrees.

Q. Please describe any other adjustments Staff has made to payroll expenses.

A. Staff adjusted for known and measurable wage increases and changes in headcount occurring subsequent to the test year.[3]

Q. Does the Company agree with these adjustments?

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[2] Staff Report (Confidential), p. 78.
[3] *Id.*

A. Yes, as long as these adjustments are updated through the true-up date and include wage increases effective January 1, 2020, consistent with the parties' agreement in this case on items to be trued up. Effective January 1, 2020, contract labor wage increases will occur on the first day of each year, consistent with those of management employees.

III. PENSION AND OPEB EXPENSES

Q. Please describe Staff's adjustments related to pension and OPEB expenses.

A. Similar to the Company's proposal, Staff proposed to re-base pension and OPEB expense levels to reflect annualized calendar year 2019 expenses.[4]

Q. Does the Company agree with these adjustments?

A. The Company is in agreement with the concept, but not Staff's execution. Staff's work paper reflected capitalization of non-service costs, did not consider the deferral of costs in the test year in order to track costs to the amount allowed in rates, did not agree to service and non-service costs provided by Willis Towers Watson (the Company's actuarial services firm), and utilized an unsupported or incorrect allocation percentage for costs to be allocated to electric service. The Company has discussed these matters with Staff and believes that Staff is in agreement with correcting these items at true-up.

Q. Are there any other matters that the Company disagrees with Staff's direct testimony on related to the Company's pension and OPEB tracking mechanisms?

A. Yes. The errors in Staff's work papers for pension and OPEB expense influence the pension and OPEB regulatory asset and liability balances included in rate

[4] Staff Report (Confidential), pp. 80-84.

base, the amortization of such regulatory asset and liability balances, and pension and OPEB-related cash-working-capital requirements. The Company has discussed these matters with Staff and believes that Staff is in agreement with correcting these items at true-up.

IV. NON-QUALIFIED PENSION EXPENSE

Q. Has Staff proposed an adjustment for non-qualified pension costs?

A. Yes. Staff has proposed to normalize non-qualified pension costs.[5]

Q. Does the Company agree with the proposed adjustment?

A. No. The *qualified* pension costs are accounted for and included in the revenue requirement using an accrual basis and there is no reason that the *non*-qualified pension costs be treated differently. The Company uses Willis Towers Watson to value the net benefits and determine the amount to accrue monthly in order to meet the obligations of the plan. Willis Towers Watson are actuaries that review the plan experience to determine the appropriate level of expense. There are annuity and lump-sum payment options in the plan which cause the monthly payments to fluctuate. Because of this fluctuation in the payments, it makes sense to use the accrual amounts as determined by the actuaries.

Staff has proposed a normalization of the payments in order to try to smooth this expense. However, due to Willis Towers Watson's experience with reviewing the plans and determining the expense, the accrual method is a better way to smooth the expense.

Q. What is the appropriate period to normalize the payments if the accrual method is not accepted?

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[5] Staff Report (Confidential), p. 84.

A. As I said above, these payments can fluctuate due to the timing of when lump sum payments are made, so if the Commission concludes a normalization adjustment is necessary, a longer normalization period would be more appropriate. When expenses fluctuate significantly, a longer normalization period will provide the most appropriate level of expenses. If a normalization period is too short, then it may miss significant trends in the payments. Longer normalization periods would not be appropriate for increasing or decreasing expense items, but for pension payments which fluctuate up and down they are appropriate. In the Staff Report, Ms. Nieto mentions that she is normalizing using 2- and 3-year averages.[6] There is no explanation for the periods chosen and why there are two periods being used. A 5-year average should be used to better smooth the expense and better capture trends if the accrual method is not accepted.

V. BOARD OF DIRECTORS EXPENSE

Q. Staff has proposed to disallow hotel expenses in Chicago and Peoria, Illinois and certain stock awards for the Ameren Corporation Board of Directors that were allocated to Ameren Missouri's electric operations.[7] Does the Company agree with these adjustments?

A. No, these costs are neither excessive nor appropriate to normalize. It is generally appropriate to pay for hotel rooms for board members that live out of town when they have to attend multiple day meetings and to allow some level of such expenses for ratemaking purposes. The hotels selected in Chicago and Peoria are neither excessive nor lavish. In fact, both hotels are approved by the federal government for use by federal

[6] Staff Report (Confidential), p. 84.
[7] Staff Report (Confidential), p. 101.

employees. The federal government does not allow excessive or lavish expenses. Staff further proposed to normalize stock awards paid to board members by removing the costs related to two new board members. During 2018, there were 13 members of the Board of Directors and 13 members remained on the Board of Directors during 2019. Ameren Corporation has no plans to reduce the number of board members in the future. Thirteen members reflects the normal, ongoing roster and therefore the normal level of related costs for the members of the Board of Directors. Staff has not supported its position that these costs should be normalized or that they are excessive, and therefore the proposed disallowance should be rejected.

VI. SOFTWARE MAINTENANCE AGREEMENTS

Q. Please explain Staff's adjustment related to software maintenance expense.

A. Staff identified a portion of software maintenance costs from the test year and determined the annualized cost available at the time of its direct testimony for each arrangement.[8]

Q. Does the Company agree with this adjustment?

A. No. Staff noted in its direct testimony that Staff had not received copies of all requested arrangements and therefore excluded the related costs in its adjustment. The Company has since supplemented its response to Data Request No. 433. This additional information should be included in Staff's adjustment. Further, the Company must review any updated analysis Staff may perform with this additional information to determine whether any annualization adjustment to software maintenance is appropriate. The test year

[8] Staff Report (Confidential), p. 102.

software maintenance expense level remains appropriate for inclusion in the revenue requirement.

VII. CYBERSECURITY EXPENSE

Q. Please explain Staff's adjustment related to cybersecurity expenses.

A. Staff has proposed to use a three-year average for non-labor cybersecurity expense.[9]

Q. Does the Company agree with this adjustment?

A. No. While it is appropriate to normalize expenses at times, this is not one of them. Non-labor cybersecurity costs were $3.7 million, $4.2 million, and $3.6 million in 2017, 2018, and 2019, respectively. The increase from 2017 reflects the growing volume of cybersecurity threats targeting the power and utilities industry. As news reports in the wake of the recent tensions with Iran indicate, those threats are expected to continue to increase. If Staff's proposed adjustment is accepted, the allowed level of expense would not be sufficient to cover needed future cybersecurity costs which are critical to protect the security of our systems.

VIII. ELECTRIC VEHICLE EMPLOYEE INCENTIVE

Q. Staff has proposed to disallow electric vehicle incentives paid to Company employees.[10] Does the Company agree with this adjustment?

A. No. The payment of a small ($1,500 to $2,500) incentive to Company employees to early-adopt electric vehicle technology is beneficial to customers. Adoption of electric vehicle technology increases electric revenue volumes, allowing customer rates

[9] Staff Report (Confidential), p. 129.
[10] Staff Report (Confidential), p. 132.

to decline (holding all other factors constant). Additionally, this incentive improves employee engagement, attraction, and retention and helps employees set a good example for Company customers. Staff's proposed disallowance has not been supported and fails to consider the above factors. Therefore, Staff's disallowance should be rejected.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Decrease Its Revenues for Electric Service.	)))	File No. ER-2019-0335

AFFIDAVIT OF MITCHELL LANSFORD

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

COMES NOW Mitchell Lansford, and on his oath declares that he is of sound mind and lawful age; that he has prepared the foregoing *Rebuttal Testimony*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Mitch Lansford
Mitchell Lansford

Subscribed and sworn to before me this 21ST day of January, 2020.

Geri A. Best
Notary Public

My commission expires:

GERI A. BEST
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: February 15, 2022
Commission Number: 14839811