

Exhibit No.:

*Issue: Allocated Ameren Corporate
Board of Directors Fees and
all Related Expenses*

Witness: Jason Kunst

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: ER-2014-0258

Date Testimony Prepared: January 16, 2015

MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

REBUTTAL TESTIMONY

OF

JASON KUNST

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

CASE NO. ER-2014-0258

Jefferson City, Missouri
January 2015

**** Denotes Highly Confidential Information ****

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **JASON KUNST**

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

6 **CASE NO. ER-2014-0258**

7 Q. Please state your name and business address.

8 A. Jason Kunst, 111 N. 7th St, 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”)
11 as a Utility Regulatory Auditor I.

12 Q. Are you the same Jason Kunst who filed direct testimony in this case, as part
13 of the Staff’s Revenue Requirement Cost of Service Report, on December 5, 2014?

14 A. Yes.

15 Q. Please give a brief summary of your rebuttal testimony.

16 A. My rebuttal testimony will address the appropriate ratemaking treatment for
17 Ameren Corporation board of director fees and all related expenses that were embedded in
18 Union Electric Company, d/b/a Ameren Missouri’s (“Ameren Missouri”) cost of service
19 calculation that was filed on July 3, 2014. It should be noted that Ameren Missouri’s
20 proposed inclusion of corporate board of director costs in its case represents new ratemaking
21 treatment that was not discussed or justified by any Ameren Missouri witness in the July 3,
22 2014, direct testimony filing. Staff considers these costs to be parent company ownership
23 costs that should be excluded from the cost-of-service calculation for ratemaking purposes.

1 Additionally, many of these costs are excessive and duplicative, and should therefore be
2 excluded for ratemaking purposes.

3 Q. What is the current structure of Ameren Corporation (“Ameren”)?

4 A. Ameren is the parent/holding company of Ameren Missouri, Ameren Illinois,
5 Ameren Transmission Company, and Ameren Services Company (AMS). Ameren Missouri
6 provides electric service to approximately 1.2 million electric customers and 126,000 natural
7 gas customers located in Missouri. Ameren Illinois provides electricity service to
8 approximately 1.2 million electric customers and over 800,000 natural gas customers located
9 in Illinois. Ameren Transmission Company was formed in July 2010 and is dedicated to
10 electric infrastructure investment. AMS was formed to provide administrative and technical
11 support services to Ameren and all its operating entities, subsidiaries and affiliates.

12 Q. Who are the current members of the Ameren board of directors?

13 A. The Ameren Corporation board of directors consists of Chairman, President
14 and Chief Executive Officer of Ameren, Warner L. Baxter, and the following directors:
15 Catherine S. Brune, Ellen M. Fitzsimmons, Walter J. Gavlin, Richard J. Harshman, Dr. Gayle
16 P. W. Jackson, James C. Johnson, Steven H. Lipstein, Patrick C. Stokes, Stephen R. Wilson,
17 and Jack D. Woodard.

18 Q. Who are the members of the Ameren Missouri board of directors?

19 A. The Ameren Missouri board of directors consists of Michael L. Moehn,
20 Chairman and President of Ameren Missouri, Marty J. Lyons, Executive Vice President and
21 Chief Financial Officer of Ameren, Charles D. Naslund, Executive Vice President, Corporate
22 Oversight for AMS and Executive Vice President, Generation and Environmental Projects for

1 Ameren Missouri, Gregory L. Nelson Senior Vice President, General Counsel and Secretary
2 for Ameren, and Daniel F. Cole, Chairman and President for AMS.

3 Q. Why is there both an Ameren board and an Ameren Missouri board?

4 A. Prior to 1997, Ameren Missouri operated as Union Electric Company (UEC)
5 and was traded as an independent company on the New York Stock Exchange (NYSE) as
6 UEP. Ameren Corporation was incorporated in Missouri on August 7, 1995, and was created
7 in order to facilitate the acquisition of Central Illinois Public Service Company Inc.
8 (“CIPSCO”). On December 31, 1997, the CIPSCO and UEC merger was completed and as a
9 result of this transaction, Ameren stock began trading publicly on the NYSE as AEE. In
10 2003, Ameren grew in size with the acquisition of Central Illinois Light Corporation
11 (“CILCORP”), the parent of Central Illinois Light Company (“CILCO”), and during 2004,
12 Ameren acquired Illinois Power Company from Dynegy, Inc. Also, as a result of the UEC
13 and CIPSCO merger transaction, an Ameren board of directors was created in addition to an
14 Ameren Missouri board of directors (previously known as AmerenUE), as well separate
15 boards of directors for the Illinois entities, which later reorganized into one Illinois public
16 utility. The decision to create a separate board for Ameren and Ameren Missouri was a direct
17 result of the UEC and CIPSCO merger which was based upon a management decision to
18 restructure during the mid-1990s.

19 Q. What amount of parent-company-related costs has Ameren allocated to
20 Ameren Missouri through AMS during the test year ending March 31, 2014?

21 A. During the test year, AMS allocated approximately \$1.6 million dollars to
22 Ameren Missouri for the following items:

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<u>AMEREN BOARD OF DIRECTOR</u>		
<u>COSTS ALLOCATED TO AMEREN MO</u>		<u>AMOUNT</u>
3	Fees & Retainers	\$ 534,230
4	Stock Awards	\$ 526,985
5	Travel via Private Chartered Jet	\$ 192,902
6	Rental of Board Room Meeting Facilities & Hotel Rooms	\$ 79,205
7	Miscellaneous Fees	\$ 1,319
8	Correct allocation of Ameren Board of Directors Expense	<u>\$ 266,538</u>
9	Total	\$ 1,601,069

10 During the test year, each board member that is not an employee of Ameren was paid a
 11 \$55,000 annual retainer fee, \$2,000 for attending each general board meeting and each board
 12 committee meeting, and additional cash retainers for committee memberships and
 13 chairmanships of committees, and \$100,000 in immediately-vested common stock shares on
 14 or about January 1 of each year. The following chart summarizes all the fees, retainers and
 15 stocks that Ameren board members currently receive:

<u>Board of Directors Compensation (as of August 2013)</u>	
Annual Retainer	\$ 55,000
Annual Stock Award	\$ 100,000
Board/Committee Meeting Fees	\$ 2,000
Lead Director	\$ 20,000
Chairs of Audit & Risk, Nuclear Oversight & Environmental	\$ 15,000
Chairs of Human Resources, Nominating and Corporate Governance, Finance	\$ 10,000
Members of Audit Risk, Nuclear Oversight and Environmental	\$ 10,000
Members of Human Resources, Nominating and Corporate Governance, Finance	\$ 5,000

16
 17 Also, during the test year ending March 31, 2014, ** ____ ** members of the board
 18 of directors opted to travel via a private chartered jet to St. Louis to attend one or board
 19 meeting at an allocated cost of \$192,902 to Ameren Missouri. Staff finds these costs to be

1 unreasonable and excessive. Staff has issued a data request to determine if any additional
2 travels costs are embedded in the test year that might also need to be eliminated.

3 Additionally, Ameren Missouri seeks recovery for approximately \$79,205 of expenses
4 relating to the rental of boardrooms at the Ritz-Carlton Hotel in Clayton and the Four Seasons
5 Hotel in downtown St. Louis. This \$79,205 amount also includes the cost of rooms and meals
6 for the Ameren board members staying at these luxury hotels. The miscellaneous fees were
7 for items such as making copies and other incidentals incurred while holding meetings at the
8 Ritz-Carlton and Four Seasons Hotels. Finally, an additional \$266,538 was assigned to
9 Ameren Missouri through an adjustment to correct the allocation of Ameren board of director
10 costs to Ameren Missouri during the test year. Staff is currently waiting for a response to a
11 data request that seeks a better explanation for the \$266,538 of unexplained costs assigned to
12 Ameren Missouri.

13 Q. How were board of directors' fees historically treated before the merger with
14 CIPSCO in 1997?

15 A. Prior to the CIPSCO merger, UEC's board-of-directors' retainers and fees
16 were included in the determination of rates. However, during this time there was only one
17 level of board cost included in rates.

18 Q. How have the Ameren board-of-directors' fees and all related expenses
19 historically been treated by Ameren Missouri since the CIPSCO merger?

20 A. Prior to September 2011, all of the Ameren board-of-directors fees, retainers
21 and all related expenses were retained at the Ameren parent and/or service company level and
22 none these costs were allocated directly or indirectly to Ameren Missouri. Within the
23 Commission established test year in Ameren Missouri Case No. ER-2012-0166, the twelve

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1 months ending September 30, 2011, a small portion of these costs that were recorded in
2 September 2011 were included rates. However, as part of the last rate case, Staff was
3 unaware that any portion of the costs related to Ameren board expenses had been allocated
4 to Ameren Missouri. In addition, as part of the last rate case, Ameren Missouri made
5 no mention in testimony of the fact that it was now receiving an allocation of Ameren
6 board costs.

7 Q. Why should these costs continue to be retained at the Ameren level as an
8 ownership cost?

9 A. The Ameren board-of-director's fees and all related expenses represent an
10 Ameren ownership cost that resulted from the management decision to form the parent
11 company Ameren in order to allow Ameren to acquire other companies and restructure the
12 overall organization. All of the Ameren board-of-director-related expenses should continue to
13 be retained at the parent company level. Ameren Missouri has its own separate and distinct
14 board of directors, whose costs have been included in the determination of rates in every rate
15 and complaint case dating back to Case No. EC-2002-1.

16 Allocating Ameren board-related expenses to Ameren Missouri ratepayers represents
17 an unnecessary duplication of expense for Ameren Missouri ratepayers. Ameren Missouri
18 ratepayers are currently paying for the Ameren Missouri board in rates and Staff has included
19 all Ameren Missouri-related board expenses in the cost of service calculation as part of this
20 rate case. It is Staff's position that Ameren Missouri ratepayers should not be negatively
21 impacted by paying a second layer of board-of-director costs that resulted from a much earlier
22 management decision to restructure. The cost responsibility for the Ameren board rests with
23 Ameren and should be retained by Ameren. Ameren Missouri currently has its own board of

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1 directors as well as a board meeting room that existed with UEC prior to the merger with
2 CIPSCO and formation of Ameren. Furthermore, as explained below, some of the expenses
3 are duplicative and excessive and unreasonable.

4 Q. What Ameren board expenses does the Staff consider to be excessive and
5 unreasonable?

6 A. The Staff believes that costs related to flying Ameren board members to
7 St. Louis via a private chartered jet are both unreasonable and excessive. The hourly rate for
8 the chartered jet was ** _____
9 _____ **. The chartered jet service was used ** __ ** days in
10 the test year for ** __ ** flights, the Ameren Missouri allocated portion of these costs was
11 \$192,902 during the test year. The Staff has discovered that this practice of using private
12 chartered jets to fly board members to St. Louis has continued throughout 2014.

13 Q. What issues does Staff have with the Ameren board using the Ritz Carlton and
14 the Four Seasons hotels to host the board meetings offsite from the boardroom located in
15 Ameren's corporate headquarters located in downtown St. Louis and then attempting to
16 allocate these costs to Ameren Missouri?

17 A. Staff believes these costs are duplicative, excessive and unreasonable.
18 Ameren and Ameren Missouri have a boardroom at its corporate headquarters in St. Louis,
19 which is already included in customer rates, ** _____
20 _____ **. Additionally, the Four Seasons and Ritz Carlton are
21 generally considered to be luxury hotels, and if Ameren wishes to treat its directors lavishly
22 then the shareholders should bear the cost.

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1 Q. Are there any other reasons for why the Ameren board costs should not be
2 allocated to Ameren Missouri ratepayers?

3 A. Yes. In the last rate case, Case No. ER-2012-0166, Company witness James I.
4 Warren argued that Ameren should be allowed to retain the benefit of tax deductions related
5 to dividends paid with respect to the Employee Stock Ownership Plan (ESOP). This issue
6 was litigated and the Commission ruled in favor of Ameren Missouri as reflected in the
7 Report and Order.

8 In that case, on page 3, lines 19-23, of his direct testimony, Ameren Missouri witness
9 Warren stated that:

10 ...the tax benefit attributable to Ameren's dividends paid with
11 respect to ESOP stock relates to the disposition not of customer
12 resources and not even of UE shareholder resources but of
13 Ameren shareholder resources. It is, therefore, completely
14 unrelated to the provision of UE's regulated service and is
15 properly ignored in its cost of service.

16 It should be noted that Company witness Warren used the acronym UE to mean Ameren
17 Missouri.

18 On page 11, lines 4-7 of his rebuttal testimony, Company witness Warren concluded,

19 In my opinion, the Company's exclusion of the tax benefit from
20 its tax expense calculation was entirely appropriate. Otherwise,
21 UE's ratepayers would receive the benefit from the
22 discretionary disposition by Ameren of Ameren shareholder
23 property, which would be inappropriate.

24 The position on this issue sponsored by Ameren Missouri in its last rate case, and adopted by
25 the Commission, suggests that certain financial costs and benefits should be treated as
26 belonging to the Company and its shareholders, and not Ameren Missouri's customers.
27 Likewise, the Staff contends that if it is appropriate for Ameren to keep the benefits of the
28 ESOP tax deduction, Ameren should also retain the costs of their board of directors.

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1 Furthermore, attempting to allocate this layer of board costs to Ameren Missouri is
2 inappropriate and unreasonable.

3 Q. Does Staff believe Ameren Missouri should have sponsored direct testimony in
4 this case in order to support inclusion of the Ameren board costs in Ameren Missouri rates?

5 A. Yes. The Staff has serious concerns with the fact that Ameren Missouri did
6 not address this new proposed ratemaking treatment for recovering an allocation of Ameren
7 board costs from Ameren Missouri ratepayers. No Ameren Missouri witness offered any
8 direct testimony to support the inclusion of the allocated Ameren board costs in Ameren
9 Missouri's rates. Therefore, there is currently no justification offered to the Commission in
10 this case by Ameren Missouri for why these costs should now be included in Ameren
11 Missouri's rates.

12 Q. Does this conclude your rebuttal testimony?

13 A. Yes.

