

Exhibit No.:

*Issues: Payroll; Payroll Taxes; Employee
Benefits; Injuries and Damages;
Incentive Compensation; VRP Plan*

Witness: Leslie L. Loneragan

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: GR-2003-0517

Date Testimony Prepared: October 24, 2003

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

LESLIE L. LONERGAN

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. GR-2003-0517

*Jefferson City, Missouri
October 2003*

**** Denotes Proprietary Information ****

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BEFORE THE PUBLIC SERVICE COMMISSION

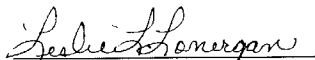
OF THE STATE OF MISSOURI

In The Matter Of Union Electric Company d/b/a)
AmerenUE, For Authority To File Tariffs Increasing)
Rates For Gas Service Provided To Customers In The) Case No. GR-2003-0517
Company's Missouri Service Area)
)

AFFIDAVIT OF LESLIE L. LONGERGAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Leslie L. Lonergan, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 15 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Leslie L. Lonergan

Subscribed and sworn to before me this 23RD day of October 2003.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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LESLIE L. LONERGAN
UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. GR-2003-0517

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DIRECT TESTIMONY
OF
LESLIE L. LONERGAN
UNION ELECTRIC COMPANY
d/b/a AMERENUE
CASE NO. GR-2003-0517

Q. Please state your name and business address.

A. Leslie L. Lonergan, Missouri Public Service Commission, Governor Office Building, 200 Madison Street, Jefferson City Missouri 65102.

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your educational and employment background.

A. I graduated from Lincoln University in May 1995 with a Bachelors degree in Accounting. In September 1997, I was employed by the Missouri Department of Social Services as an Auditor for the state Medicaid Agency's Institutional Reimbursement Unit. In July 1999, I became an associate member of The Association of Certified Fraud Examiners. I commenced employment with the Commission Staff (Staff) in August 2000.

Q. What has been the nature of your duties while employed by the Commission?

A. I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

1 A. Yes, I have. Please see Schedule 1 attached to this testimony for a list of the
2 major audits and issues on which I have assisted and filed testimony.

3 Q. With reference to Case No. GR-2003-0517, have you examined the books and
4 records of AmerenUE (AmerenUE, UEC or Company)?

5 A. Yes, in conjunction with other Commission Staff (Staff) witnesses.

6 Q. What is the purpose of your direct testimony?

7 A. The purpose of my direct testimony is to address payroll expense and related
8 overtime, payroll-related taxes, incentive compensation and other employee benefits.

9 Q. What knowledge, skills, experience, training or education do you have in these
10 areas of which you are testifying as an expert witness?

11 A. I have been assigned to and filed testimony in two other cases related to
12 payroll, employee and executive incentive compensation and payroll related benefits. Please
13 see Schedule 1 attached to this testimony for case references. I have also extensively
14 reviewed several other AmerenUE cases related to the issues I am sponsoring to ensure the
15 consistency of the Staff's methods and procedures. My prior academic education has also
16 prepared me to successfully sponsor the ratemaking areas I've been assigned in this case. I
17 have received certificates of training from the National Association of Regulatory Utility
18 Commissioners in seminars it has sponsored concerning water, gas and electric utility cost of
19 service and regulation. Further, I have attended numerous in-house training seminars at the
20 Commission specifically designed for continuing education and training in the areas of
21 regulatory issues.

22 Q. What adjustments are you sponsoring?

23 A. I am sponsoring the following Income Statement adjustments:

1	Payroll	S-6.2, S-7.1, S-8.1, S-9.1, S-10.1, S-11.1,
2		and S-12.1
3	Injuries and Damages	S-12.17, S-12.18
4	Payroll Related Taxes	S-15.4, S-15.5, S-15.6
5	Incentive Compensation	S-6.3, S-7.2, S-8.2, S-9.3, S-10.2, S-11.2
6		and S-12.19
7	Payroll Related Benefits	S-12.20

8 These adjustments represent the annualizations of these items to the various expense
9 categories (i.e., transmission, distribution, customer accounts, customer services, sales, and
10 administrative and general expense).

11 **PAYROLL ANNUALIZATION**

12 Q. Generally, how is payroll expense charged to AmerenUE's gas operations?

13 A. AmerenUE gas payroll is derived from a combination of direct charges for
14 payroll associated with AmerenUE gas employees, with payroll charges allocated to
15 AmerenUE from Ameren Services Company (AMS). Under the umbrella of Ameren
16 Corporation, AMS provides shared support services to all Ameren affiliates, including
17 AmerenUE, and allocates the costs of these support services to all of the affiliates. Please
18 refer to the direct testimony of Staff Auditing witness Paul R. Harrison for more information
19 concerning the AMS cost allocation process.

20 Q. What categories of payroll exist at AmerenUE?

21 A. AmerenUE has Contract employees, who belong to a union, and Management
22 employees, who are AmerenUE employees, who do not belong to a union.

23 Q. Please explain the different components of the Staff's annualized payroll.

24 A. The Staff multiplied the portion of June 2003 UEC direct payroll and AMS
25 allocated payroll assigned to UEC Missouri gas and charged to Operations and Maintenance

1 (O&M) expense for full-time, part-time and temporary Contract and Management employees
2 by 12 to reflect the Staff's annualized payroll amount.

3 Q. How did the Staff determine total annualized payroll?

4 A. The Staff utilized the Company's employee levels at June 30, 2003, for both
5 UEC and AMS Management and Contract employee counts. The Company's Response to
6 Staff Data Request No. 46 listed payroll expense and employee levels actually experienced by
7 UEC and AMS at December 31, 2001, and December 31, 2002. The Staff then used the test
8 year 2002 and month-end June 30, 2003, labor expense totals from the Company's Report
9 19607 to annualize payroll O&M costs.

10 Q. Why were the June 30, 2003, labor expense and employee levels used to
11 calculate the payroll annualization?

12 A. June 30, 2003, represents the end of the update period ordered by the
13 Commission in this case and also represents the most current indicators of ongoing payroll
14 expense. June 2003 labor expense also reflects wage and salary increases for UEC and AMS
15 employees that occurred after the test year and the most current employee levels.

16 Q. Was there an adjustment to labor dollars as stated in the June 30, 2003,
17 Company Report 19607?

18 A. Yes. Staff's June 30, 2003, annualization removed payroll expense for five
19 employees who intend to retire under the Company's recent Voluntary Retirement
20 Plan (VRP) but have, to date, not exercised their option to retire. These five employees will
21 not be part of Ameren's workforce on an ongoing basis and, therefore, should not be included
22 in cost of service in this case.

1 Q. How did the Staff determine the allocation to UEC Missouri gas operations
2 associated with these five AMS employees?

3 A. The Staff applied the June 30, 2003, allocation factor used by AMS to charge
4 its costs to UEC, and then used the applicable factor to derive the Missouri gas percentage of
5 total UEC.

6 Q. Did the Staff review Company overtime as part of its analysis of payroll
7 expenses?

8 A. Yes. The Staff analyzed the overtime dollars and hours for calendar
9 years 2000, 2001 and 2002. The Staff removed overtime hours estimated for the refueling of
10 Callaway Nuclear Plant (Callaway) that were included in the total UEC overtime in the years
11 2001 and 2002. (The Callaway unit undergoes refueling procedures every 18 months, and the
12 overtime hours associated with these procedures are applicable to AmerenUE's electric
13 operations only.) By removing the estimated Callaway refueling overtime hours and dollars,
14 the Staff found that the overtime hours and dollars for those three years were fairly consistent.
15 The Staff believes that test year overtime hours reduced by the estimated overtime hours
16 associated with the Callaway refueling is an appropriate level to include in cost of service.
17 The Staff's annualization of payroll at June 30, 2003, produced a level of overtime dollars that
18 is consistent with the last three years analyzed by the Staff.

19 **PAYROLL TAXES**

20 Q. Please explain adjustment S-15.5.

21 A. Adjustment S-15.5 adjusts Federal Unemployment Tax (FUTA) to a level
22 consistent with the Staff's annualized payroll. The Staff utilized employee counts of UEC
23 and AMS at June 30, 2003, and multiplied the sum of those employees by the tax base of

1 \$7,000. The tax base dollars were then multiplied by the FUTA rate of .8% to derive the total
2 FUTA tax. The total FUTA tax was then allocated to UEC Missouri gas operations based on
3 the AMS and UEC June 30, 2003, factors. the result of this calculation was multiplied by the
4 O&M percentage as of the end of the test year to derive the Staff's annualized FUTA expense.
5 The Staff-annualized FUTA expense was subtracted from the test year amount to derive the
6 Staff's adjustment.

7 Q. Is the Staff proposing an adjustment related to the State Unemployment Tax
8 (SUTA)?

9 A. No. The Company did not incur a SUTA-related tax liability for the test year.
10 AmerenUE has not been required to pay SUTA taxes for several years.

11 Q. Please explain adjustment S-15.4 and S-15.6.

12 A. Adjustment S-15.4 and S-15.6 represents the annualization of the Federal
13 Insurance Contributions Act (FICA) tax.

14 Q. Please explain how the Staff annualized the FICA tax.

15 A. FICA (Social Security) taxes are comprised of Old-Age, Survivors and
16 Disability Insurance (OASDI) taxes and Medicare taxes. The OASDI tax of 6.2% is limited
17 in calendar year 2003 to the first \$87,000 of gross wages per employee. The OASDI tax may
18 also be reduced by the employee's election to set aside a portion of his/her gross salary/wages
19 for healthcare, life insurance and/or dependent care through AmerenUE's Employee Flexible
20 Benefit Plan. AmerenUE provided the Employee Flex Benefit Plan elections for 2002,
21 updated through June 30, 2003, in response to Staff Data Request No. 98. The Medicare tax
22 of 1.45% applies to the total gross income with no exclusions. The employer matches the

1 OASDI and Medicare tax. The Staff applied the appropriate OASDI and Medicare tax to the
2 Staff's adjustment for annualized payroll.

3 The total AmerenUE FICA tax total Company expense adjustment was derived by
4 applying the total Company expense factor of 60.69% to the total AmerenUE FICA tax
5 adjustment. To reflect the employees earning above the OASDI limit of \$87,000 as a result of
6 the loss of employees related to the Company VRP, the Staff multiplied 90% of the payroll
7 adjustment by 6.2% for FICA and the full payroll adjustment by 1.45% for the Medicare
8 portion.

9 The Staff also included an adjustment for FICA tax to be consistent with its
10 adjustments related to incentive compensation.

11 **PAYROLL-RELATED BENEFITS**

12 Q. Please explain adjustment S-12.20.

13 A. Adjustment S-12.20 adjusts the test year amount of employee benefits to
14 reflect the decrease in employee levels through June 30, 2003. The Staff determined the
15 average employee levels of AMS and UEC employees during the Staff's test year [(December
16 31, 2001, employee levels and December 31, 2002, employee levels) divided by two]. The
17 average level of employees were then allocated to the UEC Missouri gas operations to derive
18 the test year average full time equivalent (FTE) gas employees, and then divided by the UEC
19 Missouri gas test year dollars associated with employee benefits to produce an average level
20 of employee benefits per employee for the test year. The gas employee FTE level at June 30,
21 2003, was then multiplied by the average employee benefit amount per employee during 2000
22 to produce the Staff's annualized level of employee benefits. The annualized level of
23 employee benefits was subtracted from the test year amount to derive adjustment S-21.20.

EMPLOYEE INCENTIVE COMPENSATION

Q. Please describe the current incentive compensation plans of AmerenUE.

A. The following is a description of the incentive plans for 2002, which governed incentive payments made in 2003 that occurred during the update period for this case:

1) **Ameren Incentive Plan (AIP)** - All regular full-time or regular part-time bargaining employees at AmerenUE, AMS and AmerenCIPS were eligible to receive awards under the AIP. The available payout was calculated based upon a percentage of each employee's year-end 2002 straight-time earnings. Ameren Corporation earnings per share (EPS) ranges for threshold, target and maximum payouts were set at the beginning of the year. A funding pool of potential dollars based upon the EPS payout level was split into two pools 25%; based on EPS and 75% based on Business Line key performance indicators (KPIs). The available payout detail is as follows:

**

**

2) **Ameren Management Incentive Plan (AMIP)** - All regular full-time or regular part-time non-executive management employees of AmerenUE, AMS and AmerenCIPS were eligible to receive awards under the AMIP. The available payout was calculated based upon a percentage of each employee's year-end 2002 straight-time earnings. Ameren Corporation EPS ranges for the threshold, target and maximum payouts were set at the beginning of the year. Employees participating in the AMIP are segregated into three career bands: People Leadership, Project Leadership and Support. A funding pool of potential dollars based upon the EPS payout level was split into three pools: 25% based on

1 EPS, 25% based on Business Line KPIs and 50% based on Individual Performance (IP). The
2 available payout detail is as follows:

3 **

7 **

8 3) **Executive Incentive Plan (EIP)** - Employees who were numbers of the
9 Ameren Leadership Team (ALT) were eligible to receive awards under the EIP. The
10 available payout was calculated based upon a percentage of each employee's year-end 2002
11 straight-time earnings. EPS ranges for the threshold, target and maximum payouts were set at
12 the beginning of the year. Employees participating in the EIP are segregated into two levels:
13 Officer level and Manager level. A funding pool of potential dollars based upon the EPS
14 payout level was split into two pools: 50% based on EPS and 25% each, based on Business
15 Line KPIs and IPS. The available payout detail is as follows:

16 **

20 **

21 Q. How does Ameren determine potential incentive award payouts under the
22 incentive compensation plans if the year-end EPS falls between \$3.10 and \$3.30 and \$3.50?

23 A. When the achievement of EPS falls between the established levels it is
24 interpolated (or averaged).

25 Q. Please describe Ameren's terms "Business Line" and "Individual
26 Performance" contained in the description of the AMIP for 2002 above.

1 A. The term “Business Line” refers to the various operating functions such as
2 production, distribution, etc., and functionally related areas such as human resources, etc.
3 “Individual Performance” relates to the job performance of each individual employee and is
4 evaluated by the manager of the function to which each individual employee is assigned.

5 Q. What has been the Commission’s traditional standard for allowing incentive
6 compensation costs in rates?

7 A. In the Report And Order in Case No. EC-87-114, Union Electric Company, the
8 Commission set forth this standard for allowing incentive compensation costs in rates:

9 At a minimum, an acceptable management performance plan should
10 contain goals that improve existing performance, and the benefits of the
11 plan should be ascertainable and reasonably related to the incentive
12 plan.

13 Q. In general terms, do the Company’s current incentive compensation plans meet
14 the Commission’s tradition standard set forth above?

15 A. To the extent UE’s current incentive plans are based on individual employee
16 goals, the payouts associated with such goals are acceptable for rate purposes when such
17 goals, if achieved, would result in direct benefits to customers (i.e., lowered expense levels),
18 and are in the nature of “stretch” goals that call for performance beyond that reflected in each
19 employee’s basic job expectations. Business KPI goals would be acceptable if such goals, if
20 achieved, would result in direct customer benefit.

21 To the extent UE’s current incentive compensation plans provide for payouts premised
22 upon improved shareholder financial measures, such as EPS, the Staff has consistently
23 opposed rate recovery of such incentive compensation payouts on the basis that attainment of
24 such measures do not necessarily result in improved Company performance in areas that are
25 of direct benefit to customers.

1 Q. Did the Staff perform an analysis of AmerenUE's incentive compensation plan
2 to support its adjustments?

3 A. Yes. The Staff asked to have copies of performance appraisals for a sample of
4 employees included in each of the incentive plans, AIP, AMIP and EIP. The Company's
5 response to Staff Data Request No. 239 stated that performance appraisals for employees
6 eligible for AIP and EIP awards were not required for payment of the incentive awards. The
7 Staff did complete an analysis of the AMIP employee performance appraisals. The Staff
8 applied the Commission's traditional criteria to EPS, KPI and IP payouts for each of the
9 incentive plans for the four years (1999 through 2002) for which it had data. The allowable
10 incentive awards for the four years were averaged. The difference between this normalized
11 amount of incentive awards and the test year amount is the adjustment. The total allowable
12 incentive awards for UEC and AMS employees were allocated to UEC Missouri gas based
13 upon June 30, 2003, allocation factors.

14 Q. Is the Staff proposing an adjustment to the AIP portion of the incentive
15 compensation plan?

16 A. Yes. Staff is eliminating all of the test year expense related to the AIP
17 incentive awards. Ameren, in response to Staff Data Request No. 180, informed the Staff it
18 did not offer this plan in the year 2003. Ameren did not indicate or commit to when the AIP
19 might resume.

20 Q. Is the AIP included as an employee benefit in Ameren's contracts with its
21 union employees?

22 A. No. The AIP is not included as an employee benefit in any current union
23 contracts.

1 Q. Is Staff making an adjustment to the AMIP portion of the Incentive
2 Compensation plan?

3 A. Yes. A review of Business Line KPI scorecards for the years 2001 and 2002
4 was completed by the Staff. These scorecards are used to keep track of Business Line
5 performance throughout the year. The performance scorecards are separated into four
6 quadrants: financial, employee, process efficiency/innovation and customer. The Staff's
7 analysis found that, in its opinion, some KPIs were too easily attainable. Other KPIs should
8 be considered basic job requirements of employees. Still other KPIs benefit shareholders
9 rather than customers. For these reasons, the Staff is proposing a conservative 25%
10 elimination of incentive compensation payouts related to the Business Line KPIs. In addition,
11 the Staff is disallowing all incentive awards based upon EPS measurements. The Staff
12 adjustment to disallow all of the IP portion of the incentive plan stems from the fact the Staff
13 believes the Company merely treats this portion of the incentive award as a pool of money to
14 be distributed to employees within a functional group. All incentive money is generally
15 distributed. There is no guideline that if one employee does not meet the individual goals, the
16 money is returned to the Company. Instead, the money is given to another employee.

17 In summary, in this case, the Staff is proposing to disallow 100% of AMIP payouts in
18 the update period associated with EPS and IP goals, and 25% of the payouts associated with
19 Business Line KPIs.

20 Q. Is the Staff proposing any adjustment to the EIP portion of Ameren's Incentive
21 Compensation?

22 A. Yes. The Staff requested documentation to support EIP incentive awards. As
23 previously indicated, the Company, in response to Staff Data Request No. 239, did not

1 provide the performance appraisal support requested for these payouts. Therefore, the Staff is
2 proposing to disallow 100% of the EIP update period payouts associated with IP goals, as
3 well as proposing a total elimination of payouts associated with EPS goals. Again, consistent
4 with its position on AMIP payouts, the Staff will allow 75% of the EIP incentive awards
5 resulting from Business Line goals.

6 Q. Please describe how the levels of incentive compensation allowed by the Staff
7 were determined.

8 A. The Staff took a four-year average of the payout for each part of the incentive
9 plans that were allowed by the Staff. The four-year average was then subtracted from the
10 2003 payouts. The Staff used a four-year average in this area due to the fact that five years of
11 data relating to incentive plan payouts was not available.

12 **INJURIES AND DAMAGES**

13 Q. Please explain injuries and damages expense.

14 A. The Company accrues for injuries and damages expense based on an estimate
15 of claims that the Company anticipates will be incurred, rather than amounts that are actually
16 paid out. The accrual is accumulated in a reserve account against, which is then credited
17 when actual claims are paid. The reserve represents funds estimated to be paid in the future
18 for claims related to medical costs, workmen's compensation costs and lawsuits relating to
19 injuries and damages.

20 Q. What is the Staff's position regarding rate treatment of injuries and damages
21 expense?

22 A. The Staff disagrees with use of estimated future claims payouts to set rates for
23 injuries and damages expense. Estimates of the impact of future events, which may or may

1 not occur, do not meet the Commission's traditional "known and measurable" standard for
2 inclusion of costs in rates.

3 The Staff has consistently taken the position that injuries and damages expense should
4 be reflected in rates based on actual claims payments, either from the test year or a multi-year
5 average of such payouts.

6 Q. What types of injuries and damages costs are accrued by AmerenUE relating to
7 its gas operations?

8 A. For its gas operations, the Company accrues on its books anticipated expense
9 for environmental clean-up costs.

10 Q. Did the Company account for these costs correctly on its books during the test
11 year?

12 A. No. The Staff learned during its audit that expenses related to environmental
13 clean-up were being directly charged to expense, and were not being deducted from the
14 Injuries and Damages Reserve Account as appropriate.

15 Q. How did the Staff determine its adjustment for injuries and damages in this
16 case?

17 A. The Staff eliminated from expense the amount accrued in the test year for
18 environmental clean-up through adjustment S-12.17. The Staff also adjusted the test year
19 actual expense of environmental clean-up to reflect a two-year average of actual payments
20 through adjustment S-12.18. A two-year average was used because that was the amount of
21 annual information available concerning actual gas injuries and damages payouts. The Staff's
22 adjustments in this area appropriately reflect injuries and damages expense on an "actual
23 payments" basis for rate purposes.

1 Q. Does this conclude your direct testimony?

2 A. Yes, it does.

RATE CASE PROCEEDINGS PARTICIPATION

LESLIE L. LONERGAN

St. Louis County Water

Case # WR-2001-844

Filed Testimony on the following issues:

Dues and Donations

Advertising

Property Taxes

Rate Case Expense

Missouri Gas Energy

Case # WR-2001-269

Filed Testimony on the following issues:

Plant

Materials and Supplies

Advertising

Laclede Gas Company

Case # GR-2001-217

Filed Testimony on the following issues:

CWC

Facility Locates

Injuries and Damages

Citizens Electric Company

Case # ER-2002-629

Filed Testimony on the following issues:

Payroll

Payroll Related Benefits

Pensions and OPEBS

Empire District Electric Company

Case # ER-2002-424

Filed Testimony on the following issues:

Payroll

Payroll related Benefits

Meals Expense

Aqua Source Water Company

Case # WR-110002

Revenues

Rate Case Expense

Loma Linda Water

Small Water Rate Case

Issued Memorandum:

Payroll

Materials and Supplies

Insurance Expense

Property Taxes

Rate Case Expense

Valley Woods Water

Small Water Rate Case

Issued Memorandum:

Revenue

Payroll

Rate Case Expense

Property Taxes

Materials and Supplies

Miscellaneous Expenses

Taxes