

Exhibit No.:

Issues: Rate Case Expense,
Corporate Franchise
Tax, Incentive
Compensation

Witness: Sarah Sharpe

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

SARAH SHARPE

**UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri**

CASE NO. ER-2014-0258

Staff Exhibit No. 235
Date 2-23-15 Reporter KF
File No. ER-2014-0258

*Jefferson City, Missouri
February 2015*

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

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SURREBUTTAL TESTIMONY

OF

SARAH SHARPE

**UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri**

CASE NO. ER-2014-0258

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **SARAH SHARPE**

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. Sarah Sharpe, 111 N. 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”) as
11 a Utility Regulatory Auditor II in the Auditing Unit of the Utility Services Department,
12 Regulatory Review Division.

13 Q. What is the purpose of your surrebuttal testimony in this proceeding?

14 A. I will address Union Electric Company, d/b/a Ameren Missouri (“Company” or
15 “Ameren Missouri”) witness Laura M. Moore’s rebuttal testimony with regard to rate case
16 expense. With regard to corporate franchise taxes, I will address the change in the corporate
17 franchise tax rates effective on January 1, 2015, as discussed in the rebuttal testimony of
18 The Office of the Public Counsel (“OPC”) witness Ted Robertson. For the incentive
19 compensation issues, I will address Ameren Missouri witness Krista G. Bauer with regard to the
20 Executive Incentive Plan for Directors (“EIP-D”) incentive compensation plan. I will also
21 respond to the rebuttal testimonies of Ameren Missouri witnesses Lynn M. Barnes, Dennis W.
22 Weisenborn, Christopher Iselin, and David N. Wakeman with regard to Staff’s proposed
23 treatment of awards given as part of the Executive Incentive Plan for Officers (“EIP-O”)
24 incentive compensation plan. I will also discuss Staff’s true-up adjustments for rate case

1 expense, corporate franchise taxes and incentive compensation at the end of each respective
2 section addressing these issues in my surrebuttal testimony.

3 **RATE CASE EXPENSE**

4 Q. Please summarize and explain Staff's true-up adjustment for rate case expense.

5 A. Ameren Missouri has provided a workpaper summarizing incurred rate
6 case expense, but not the related invoices, through December 31, 2014, that has allowed Staff
7 to adjust rate case expense through the true-up cutoff. Staff has included in its true-up
8 cost of service calculation a level of rate expense to be normalized over 18 months, which takes
9 into account all incurred rate case expense for Ameren Missouri through December 31, 2014.
10 However, Staff will need to review the invoices related to the rate case expense reflected on the
11 true-up summary workpaper as they are provided by Ameren Missouri. Staff has excluded all
12 amounts that Ameren Missouri incurred in connection with its use of a consultant to perform a
13 cash working capital (CWC) analysis for this case. As stated in Staff's Cost of Service Report,
14 Ameren Missouri possesses the regulatory experience, knowledge and resources to address this
15 entry level accounting issue in-house without the assistance of an outside consultant. In addition,
16 Staff has normalized the costs associated with two studies used by Ameren Missouri in this rate
17 case proceeding over five years: (1) a depreciation study sponsored by Ameren Missouri witness
18 John J. Spanos, and (2) a Meramec coal plant life-span study that is sponsored by Ameren
19 Missouri witness Larry Loos. Both of these studies are infrequent in nature and Staff
20 recommends that the Commission normalize the cost of each of these studies over a five-year
21 period. Staff will continue to analyze Ameren Missouri's rate case expense until two weeks after
22 the filing of reply/true-up briefs for possible inclusion in normalized rate case expense. At that

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1 time, Staff will further update its rate case expense normalization recommendation for the
2 Commission's consideration.

3 Q. Does Ameren Missouri witness Laura M. Moore agree with Staff's proposed
4 18-month normalization of rate case expenses?

5 A. Yes, but with a caveat. On page 24, lines 14 through 18, Ms. Moore indicates
6 that, "the Company agrees with the normalization period of 18 months for rate case expenses,
7 provided it is noted that the Company may seek a different period in future cases as the
8 conditions affecting the interval of rate case filings change." Staff agrees with Ms. Moore's
9 proposed caveat in that each case's circumstances may dictate the use of differing normalization
10 periods for rate case expense in the future.

11 Q. Please respond to Ms. Moore's objection to normalizing the costs associated with
12 the AMS allocation study over five years as described on page 24, lines 19 through 22, and
13 continued on page 25, lines 1 through 15, of her rebuttal testimony.

14 A. Ms. Moore discusses the fact that the AMS allocation study that was conducted
15 during the test year was not included in rate case expense. After further discussions with
16 Ms. Moore, Staff has learned that there has been some confusion with regard to these costs.
17 Ms. Moore also explained that rate case expense invoices that were provided to Staff for review
18 as part of its response to Staff Data Request No. 0147 and that had listed costs associated with an
19 "AmerenMO AMS study" were mislabeled. As a result of that mislabeled information, Staff had
20 proposed that these costs be normalized over five years in the Cost of Service Report. However,
21 there was no Ameren Missouri AMS cost-allocation study conducted during the test year.
22 Rather, these were costs associated with filing Michael Adams' testimony and responding to

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1 discovery. Therefore, Staff now agrees with Company witness Moore that all of these specific
2 AMS allocation-related rate case costs items should be normalized over 18 months.

3 Q. During the test year, did AMS allocate any study costs associated with the impact
4 of the Ameren Energy Resources (AER) divestiture on AMS allocations to Ameren Missouri?

5 A. Yes. The Staff learned that there was a study performed at the AMS level
6 that pertained to the AER divestiture. During the test year, approximately \$89,000 of
7 costs associated with this study were allocated to Ameren Missouri. Please refer to Staff witness
8 Lisa K. Hanneken's rebuttal testimony, pages 9 and 10, for a discussion of Staff's adjustment to
9 remove the cost of this AER divestiture study that has been reflected as part of its true-up audit
10 cost of service calculation in this case.

11 Q. Please describe Staff's proposed treatment to normalize the cost of the
12 depreciation rates study and the Meramec life span study over five years.

13 A. Depreciation rates studies are required on approximate five-year intervals.¹
14 Similarly, conducting a life-span study for a coal plant is something that occurs infrequently.
15 Therefore, the Staff recommends that costs associated with conducting these studies be
16 normalized over a five-year interval. Staff would point out that all other rate case expenses
17 incurred, beyond the actual cost of each of these studies, such as costs incurred in
18 connection with responding to data requests, participating in depositions and sponsoring
19 testimony, should be normalized over 18 months, which is consistent with all other rate case
20 expenses in this proceeding.

21 Q. Has Staff proposed this type of five-year normalization for studies of this
22 nature previously?

¹ Based upon 4 CSR-240-3.160 1 (A) and 4 CSR 240-3.175.

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1 A. Yes. This treatment is consistent with Staff's treatment of the costs associated
2 with a depreciation study submitted as part of a Laclede Gas Company rate case, Case No.
3 GR-2010-0171, where Staff normalized the depreciation study costs over five years.

4 Q. Please respond to Ameren Missouri's concerns as expressed in the rebuttal
5 testimony of Ameren Missouri witness Moore on page 25, beginning on line 16, though page 29,
6 line 8, that indicate that Ameren Missouri is unable to perform the rate case CWC analysis
7 without the assistance of a consultant.

8 A. Staff believes that Ameren Missouri does possess the necessary regulatory
9 experience, knowledge and resources to address the CWC issue without the continuous
10 assistance of an outside consultant. In fact, a senior member of Ameren Missouri's regulatory
11 unit, Gary S. Weiss, sponsored CWC analysis and testimony in Ameren Missouri gas rate case
12 Nos. GR-97-393 and GR-2000-512. Staff believes that Mr. Weiss could train one of the
13 members of the Ameren Missouri regulatory unit to develop and sponsor a CWC analysis for
14 electric rate cases. Typically, a full cash working capital analysis is not performed or required
15 from one rate case to the next. Instead, Staff will only address known changes in revenue or
16 expense lags that have occurred since the time of a previous rate case without conducting a full
17 CWC study. This is something that is not as time consuming as Ms. Moore suggests, and can be
18 completed with relative ease. In addition, it is typical in most rate cases that the CWC analysis is
19 addressed by the newer auditors on Staff. Staff believes that only on rare occasions are there
20 times that assistance from an external consultant may be necessary. This type of assistance
21 should not become the default circumstance, as has been the case with Ameren Missouri.

22 Q. For what period of time has Ameren Missouri employed a consultant?

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1 A. Ameren Missouri has consistently employed Michael J. Adams, a consultant
2 first with the Navigant Consulting Firm and then later with Concentric Energy Advisors, Inc.
3 (“Concentric”), to prepare and sponsor cash working capital analysis in testimony in
4 every electric and gas rate case, beginning with the Ameren Missouri electric complaint case in
5 EC-2002-1 and continuing through ER-2012-0166. As part of this case, Ameren Missouri
6 witness Joseph Weiss was retained to analyze and sponsor CWC. Mr. Weiss is also employed
7 by Concentric.

8 Q. Has Staff researched the frequency that other utilities in Missouri have addressed
9 CWC in their respective rate cases?

10 A. Yes. Staff researched rate cases during the last ten years and could only find
11 two instances where a utility had retained a consultant to address CWC in a rate case. In a
12 Missouri Gas Energy (“MGE”) rate case, Case No. GR-2009-0355, MGE used a consultant to
13 address CWC issues but did not see the need to do so again in their following rate case, Case
14 No. GR-2014-0007. In Liberty Utilities’ first rate case before the Commission, Case No.
15 GR-2014-0152, it used a consultant, Jim Fallert, a former long-time Laclede Gas Company
16 employee, for assistance with the CWC issue. Staff found no other utility that consistently uses a
17 consultant to address cash working capital, case after case

18 Q. Did Ameren Missouri’s CWC analysis change significantly from last case to
19 this case?

20 A. No. Ameren Missouri witness Joseph Weiss’ direct testimony stated that the
21 expense lags are not materially different from those that were sponsored in the last Ameren
22 Missouri case. The only lag that changed was the revenue collection lag. Staff believes that this
23 change could easily been addressed by Ameren Missouri’s in-house regulatory team.

1 **CORPORATE FRANCHISE TAX**

2 Q. Has Staff adjusted corporate franchise tax to reflect all changes through true-up?

3 A. Yes. As OPC witness Ted Robertson explains in rebuttal testimony on page 13,
4 beginning on line 15 and continuing to page 17, line 12, as part of the passage of Missouri Senate
5 Bill 19 in 2011, the Missouri corporate franchise tax rate decreases annually on January 1 of
6 each year until it is completely eliminated on January 1, 2016. The following chart taken from
7 the Missouri Department of Revenue website summarizes the tax rates by tax year:

8

Tax Year Beginning on or After	Tax Rate
January 1, 2000 – December 31, 2011	1/30 of 1% (.000333)
January 1, 2012 – December 31, 2012	1/37 of 1% (.000270)
January 1, 2013 – December 31, 2013	1/50 of 1% (.000200)
January 1, 2014 – December 31, 2014	1/75 of 1% (.000133)
January 1, 2015 – December 31, 2015	1/150 of 1% (.000067)
January 1, 2016	0%

9
10 As part of its direct filed case, Staff reflected the Ameren Missouri's taxable assets, offset by
11 certain credits, at December 31, 2013, using the 1/75 of 1% as the tax rate. As part of the true-up
12 audit, Staff has received Ameren Missouri's taxable assets through December 31, 2014, offset by
13 certain credits, and has applied the 1/150 of 1% rate, effective on January 1, 2015, to that

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1 balance. Based on this true-up information, Ameren Missouri's Missouri corporate franchise tax
2 liability, after credits, for 2015 is \$351,305. This amount reflects the last payment that Ameren
3 Missouri will be required to pay to the Missouri Department of Revenue for corporate franchise
4 tax going forward due to the elimination of the tax effective January 1, 2016. Staff has
5 normalized the Missouri corporate franchise tax over 18 months, which is consistent with its rate
6 case expense normalization. Staff has included a \$284,002 normalized level of electric-only
7 Missouri corporate franchise tax as part of its true-up audit cost of service calculation. In
8 addition, Ameren Missouri is also required to pay corporate franchise taxes to Illinois because it
9 owns and operates generation facilities that are located in Illinois. Staff has not adjusted the
10 2015 Illinois tax liability as the Company will not know their payable Illinois franchise tax
11 liability until approximately May 2015.

12 **INCENTIVE COMPENSATION**

13 **Executive Incentive Plan for Directors (EIP-D)**

14 Q. How do you respond to Ameren Missouri witness Krista G. Bauer's rebuttal
15 testimony found on page 4, lines 10 through 22, where she indicates that the EIP-D award is no
16 longer tied to earnings per share, but rather to operations and maintenance expenditures and
17 capital budget management?

18 A. Contrary to that testimony, Ameren Missouri witness Laura M. Moore's
19 workpaper, LMM-WP-374, in this case indicated that the EIP-D payout was based on earnings
20 per share. After reviewing Ameren Missouri witness Bauer's rebuttal testimony, Staff issued
21 Data Request No. 0550 seeking documentation that explained how the EIP-D performance is
22 measured. Staff has reviewed the response to this data request, and has found sufficient evidence

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1 to agree with Ameren Missouri's inclusion of all EIP-D-related incentive compensation. Staff
2 believes this issue is now resolved.

3 **Executive Incentive Plan for Officers -- (EIP-O)**

4 Q. How was the EIP-O structured in Ameren Missouri's last rate case?

5 A. The entire EIP-O annual payout was tied to earning per share. With that in
6 mind, Ameren Corporation structured plan years to be consistent with their calendar-year-ending
7 fiscal year.

8 Q. Has the EIP-O payout been structured differently since the time of the last
9 rate case?

10 A. Yes. Based upon a review of the Executive Leadership Team meeting minutes
11 from November 29, 2012, ** _____
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22 _____ **

Surrebuttal Testimony of
Sarah Sharpe

1 Q. Please quantify the Staff disallowance with regard to this issue.

2 A. Staff excluded all of the payout that was tied to earnings per share during the test
3 year which totaled to ** _____. ** Staff also excluded ** ____ ** of awards paid
4 during the test year that were tied to the Ameren LWA safety measurement. In total, Staff has
5 removed ** _____ ** of EIP-O incentive compensation during the test year.

6 Q. Please explain why Staff excluded the EIP-O safety awards from its
7 cost of service calculation.

8 A. Staff believes that the EIP-O safety awards should not be included in the
9 cost of service calculation for three primary reasons:

10 (1) Utility executives should be promoting and fostering a workplace
11 environment and culture that emphasizes the need for safety for all their employees as a
12 normal course of their job duties; therefore, this duty is already covered in their base
13 compensation levels. This includes assessing any needs for change and enacting
14 measures that would rectify any safety concerns. A message of safety should be
15 something that is continuously assessed, improved upon, and championed by all utility
16 executives as a normal course of business. Staff is certainly not discouraging executives
17 from emphasizing a top-down message of safety to its employees. In fact, Staff
18 commends each of these executives for their actions. However, Staff does not believe
19 that a special reward above base compensation levels should be required to accomplish
20 this goal, especially given that those compensation levels have been deemed very much
21 in line with other utilities as part of market-based compensation studies. Looking at this
22 issue another way, would these executives have taken the safety measures that are
23 addressed in the rebuttal testimonies of Ameren Missouri witnesses Dennis W.

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Weisenborn, David N. Wakeman, Lynn M. Barnes and Christopher Iselin had they not
been provided this financial incentive to do so? Finally, ** _____

_____ **

(2) ** _____

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(3) ** _____

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Q. ** _____

_____ **

A. ** _____

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Sarah Sharpe

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12 Q. Has Staff reflected any true-up adjustments with regard to the incentive
13 compensation issue as part of its true-up cost of service calculation?

14 A. Yes. Staff has reflected true-up adjustments that remove the capitalized portion
15 of incentive compensation that is specifically tied to earnings per share and LWA event
16 performance through the true-up period ending December 31, 2014. Staff has made changes
17 to reflect information through December 31, 2014, and to correct previous Ameren Missouri
18 data errors.

19 Q. Does this conclude your surrebuttal testimony?

20 A. Yes, it does.



BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a)
Ameren Missouri's Tariff to Increase Its) Case No. ER-2014-0258
Revenues for Electric Service)

AFFIDAVIT OF SARAH SHARPE

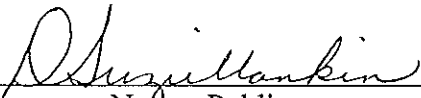
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Sarah Sharpe, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.


Sarah Sharpe

Subscribed and sworn to before me this 6th day of February, 2015.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070


Notary Public

SCHEDULE SS-1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

SCHEDULE SS-2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY