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Witness: Bruce A. Steinke
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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2016-0179

REBUTTAL TESTIMONY

OF

BRUCE A. STEINKE

ON

BEHALF OF

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

**St. Louis, Missouri
January 2017**

TABLE OF CONTENTS

I. INTRODUCTION.....	1
II. PROPOSED EXPENSE ADJUSTMENT.....	3
III. MANAGEMENT EXPENSE POLICY	5
A. Non-Travel Meals.....	6
B. Per Diem Meal Expense Policy.....	8
C. Prohibition of Alcoholic Beverages	12

REBUTTAL TESTIMONY

OF

BRUCE A. STEINKE

FILE NO. ER-2016-0179

I. INTRODUCTION

1

2 **Q. Please state your name and business address.**

3 A. My name is Bruce A. Steinke. My business address is One Ameren Plaza,
4 1901 Chouteau Avenue, St. Louis, Missouri 63103.

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

6 A. I am employed by Ameren Services Company (“Ameren Services” or
7 “Company”) as Senior Vice President, Finance & Chief Accounting Officer.

8 **Q. Please describe your educational background and employment**
9 **experience.**

10 A. My educational background consists of graduating with honors in 1983
11 with a Bachelor of Science degree in Accounting and a minor in German from the
12 University of Missouri - St. Louis. I have also passed the Certified Public Accountant exam
13 in the state of Missouri. I joined Ameren Services in 2002. In 2008, I was named Vice
14 President and Controller of Ameren Corporation, Ameren Illinois and Ameren Services.
15 In 2009, I relinquished my positions at Ameren Illinois. I was named Senior Vice
16 President, Finance and Chief Accounting Officer in 2013 for Union Electric Company
17 ("Ameren Missouri" or the "Company"), Ameren Illinois, Ameren Services and Ameren
18 Corporation. Before joining Ameren, from 2000 to 2001, I served as Vice President of
19 investor relations and reporting for the Minneapolis-based Bracknell Corporation, a

1 NASDAQ and Toronto Stock Exchange-listed electrical, mechanical and telecom
2 contractor. Prior to that, I served in various accounting, corporate development and
3 reporting functions for St. Louis-based Premcor (formerly Clark Refining & Marketing),
4 a Fortune 500 oil refining and marketing company.

5 **Q. Please describe your qualifications.**

6 A. I have worked in the accounting and finance functions for over 30 years
7 across multiple industries and had direct and indirect responsibility for management
8 expense reimbursement policies and processing at various times over my career,
9 including current responsibility for those functions at Ameren Corporation and its
10 subsidiary companies ("Ameren companies").

11 **Q. What are your responsibilities in your current position?**

12 A. My duties as Senior Vice President, Finance & Chief Accounting Officer
13 are to lead major finance-related functions of the Ameren companies. These include the
14 Corporate Controller, Tax, Ameren Services Center, Corporate Budgeting and Modeling,
15 Treasury and Investor Services, Ameren Missouri, Transmission and Corporate Financial
16 Services functions.

17 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

18 A. I am responding to the pre-filed direct testimony of the Office of the
19 Public Counsel's witness Charles R. Hyneman. Specifically, I am responding to his
20 recommended adjustment to Ameren Missouri's proposed management expense level, as
21 well as changes he proposes to expense policies applicable to Ameren companies'
22 employees.

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II. PROPOSED EXPENSE ADJUSTMENT

Q. What is the amount of the adjustment proposed by Mr. Hyneman?

A. Mr. Hyneman reviewed the expense reports of 16 executives. Somehow extrapolating from the results of that review, he proposes an adjustment to Account 921 (where these expenses are recorded) of almost \$1 million.¹ He also proposes an approximate \$500,000 adjustment to plant construction costs (expenses that had been capitalized as part of projects).

Q. Do you agree with Mr. Hyneman’s proposed adjustments?

A. I do not for several reasons. To begin with, he has made a basic assumption that the expenses are imprudent. Beyond that, Mr. Hyneman’s adjustment level is, at best, a guess. His number is not supported by fact; it is merely a projection that he made after reviewing a small number of expense reports, drawn from a non-representative sample of executive employees, and then arbitrarily applied to all management employees.

Q. Can you be more specific as to what part of his recommendation is not supported by fact?

A. Certainly. Mr. Hyneman recommends a \$50 disallowance per month for every Ameren Missouri management employee and a \$100 disallowance per month for every Ameren Services management employee. He made this recommendation without reviewing the vast majority of Ameren Missouri or Ameren Services employee expense reports. From what I can tell, the \$50 and \$100 recommended starting point for his projection is, at best, a very rough estimation (i.e., a guess). Mr. Hyneman certainly

¹ Mr. Hyneman’s testimony proposes an adjustment of just over \$1 million but his corrected workpaper shows an adjustment of \$950,000.

1 provided no calculation or even a rationale for the figures he chose, other than to state
2 that he "reviewed" expense reports of what he calls "senior Ameren executives." In
3 addition, he assumed that every employee submits an expense report every single month.
4 He also assumed that each expense report has \$50 or \$100 worth of expenses that he
5 would consider to be "disallowable." There is no evidence that any of these assumptions
6 have any basis in fact anywhere in Mr. Hyneman's testimony, or in his workpapers.
7 Consider the fact that Mr. Hyneman examined expenses for just 16 senior executives and,
8 according to his testimony, may have come up with his arbitrary \$50 and \$100 per
9 employee disallowance amounts based on eyeballing only three of the executive expense
10 reports. He then generalized his arbitrary numbers to 2,551 other, non-senior executive
11 management employees for Ameren Missouri and Ameren Services. There is no basis at
12 all to conclude that the frequency of incurring expenses, the nature of those expenses, or
13 the level of those expenses, for perhaps up to 16 senior executives,² indicates anything at
14 all about the frequency, nature and level of expenses incurred for 2,551 other employees.

15 The truth is that the types of expenses employees incur vary greatly depending on
16 the nature of their work. Many will include just regional mileage reimbursement, while
17 others may include much more extensive travel or business costs. Not every employee
18 submits an expense report in a given year, nor does every employee who submits an
19 expense report in a given year submit one every single month. There is no reason to
20 believe that this type of guesstimate has any validity and Mr. Hyneman's proposal should
21 be rejected.

² It is unclear whether Mr. Hyneman came up with his \$50 and \$100 figures based on the three samples included as schedules to his testimony, or from examining the expense reports of 16 senior executives provided to him in discovery.

1 **Q. Do you have additional evidence that demonstrates Mr. Hyneman's**
2 **proposal is arbitrary and unsupported?**

3 A. Yes. Taking the 15³ Ameren Missouri and Ameren Services senior
4 executives whose expense reports were examined by Mr. Hyneman, and applying his
5 \$50/\$100 figures, means that just \$8,222.00 of his almost \$1 million proposed
6 disallowance is attributable to those senior executives. As noted, it is unreasonable to
7 expect that more than 2,500 other management employees would have expense patterns,
8 levels and frequencies that mimic these 15 individuals. In addition, an examination of the
9 expense report submittals for these other 2,551 management employees shows that only
10 89% of them actually submitted *any* expense reports during the test year. For those
11 employees that did submit expense reports, the average number of reports submitted was
12 7 per year. Moreover, the average monthly expenses for these 15 executives were \$2,900;
13 for the other management employees that submitted expense reports, it was just \$700, or
14 24% of the executive average. In addition, approximately 23% of expense reports are less
15 than \$100. Finally, I would note that Mr. Hyneman's proposal rests on the assumption
16 that all of these employees and their supervisors are incurring/approving unreasonable
17 expenses. There is no proof whatsoever that such an assumption is valid. These facts all
18 show that Mr. Hyneman's proposal is arbitrary and unsupported and should be rejected.

19 **III. MANAGEMENT EXPENSE POLICY**

20 **Q. Mr. Hyneman made three recommendations regarding the**
21 **management expense policy, including the elimination of all non-travel meal costs,**

³ Mr. Hyneman also examined Ameren Illinois President Richard Mark's expense reports, but none of those expenses impact Ameren Missouri in any way.

1 **adoption of a per diem policy, and a prohibition on any alcoholic beverages. Please**
2 **explain Ameren Missouri's position on each.**

3 A. Ameren Missouri does not support any of Mr. Hyneman's
4 recommendations, for several reasons. I will address each recommendation in turn. First,
5 however, I think some background would be helpful. Ameren has long had corporate
6 employee expense reimbursement policies that over the years have been modified from
7 time to time. In 2014, Ameren issued a major revision to its Corporate Employee
8 Expense Policy ("Policy") to tighten controls and ensure the Policy reflected current
9 business and best practices based on recommendations from a cross-functional employee
10 team. The Policy is attached to my testimony as Schedule BAS-R1. Ameren reviews this
11 Policy annually to identify areas of risk and to ensure the language is clear, accurate and
12 meets current business needs. Beginning in 2015, Ameren required mandatory computer-
13 based training of the Policy by all employees, on an annual basis. This training is
14 modified, as necessary, each year to accommodate any policy revisions or new areas of
15 emphasis.

16 A. **NON-TRAVEL MEALS**

17 **Q. What was Mr. Hyneman's recommendation as it related to meals?**

18 A. Mr. Hyneman's position is that Ameren Missouri should cease
19 reimbursement for (or at least exclude from the Company's revenue requirement when
20 setting rates) non-travel meal costs. This recommendation is simply unnecessary, unduly
21 restrictive, inconsistent with normal business practices and detrimental to the efficient
22 operations of the Company. I will also note, the Policy conforms to Internal Revenue
23 Service ("IRS") Code and the regulations promulgated thereunder with respect to the

1 deductibility of non-travel meal costs. Our Policy, consistent with the tax rules, allows for
2 meals associated with business-related meetings and requires justification of the business
3 purpose.

4 **Q. The Policy is not as limiting as Mr. Hyneman's recommendation, is it?**

5 A. It is not, and for good reason. While some may find strict prohibition on
6 non-travel meals easier to audit, a strict prohibition is not the most appropriate policy for
7 operating a business. The Policy appropriately pays for in-town meals only when there is
8 a business reason for the meal. For example, when a business meeting requires
9 employees to work over the lunch hour, lunch may be brought in. If a business meeting is
10 held after hours with either employees, or a vendor or customer, a meal may be provided.
11 Business discussions may also be held over meals outside the office. In these
12 circumstances, the employee is being asked to conduct business at a time when that
13 employee would normally not be required to work. In addition, Ameren Missouri and
14 Ameren Services have already published, in January 2015, some supplemental guidelines
15 on non-travel meal costs associated with meetings, overtime, employee recognition and
16 special events. A copy of those guidelines are attached hereto as Schedule BAS-R2. The
17 guidelines, while not hard-and-fast limits, are intended to assist in cost control for in-
18 town meals associated with meetings, overtime and other events, with a suggested range
19 of \$10-\$15 per person per day. These business meals are the exception, not the rule, but
20 allowing these expenditures provides important flexibility for the efficient and effective
21 operation of the business, and does so in a manner consistent with IRS rules. To adopt a
22 hard-and-fast rule with no exceptions would either discourage employees from working
23 during lunch, or after hours, at times when that work is needed, or it would effectively

1 penalize those employees financially by requiring out-of-pocket expenses in order to
2 work during those periods.

3 Mr. Hyneman's recommendation is unnecessary, unduly restrictive, inconsistent
4 with normal business practices and detrimental to the efficient operation of the Company.
5 Allowing this additional efficiency in our operations benefits our customers.
6 Accordingly, Ameren Missouri opposes making this change to its Policy.

7 **B. PER DIEM MEAL EXPENSE POLICY**

8 **Q. Please address Mr. Hyneman's recommendation that Ameren**
9 **Missouri adopt a per diem meal policy.**

10 A. The Company does not support this recommendation. Again,
11 Mr. Hyneman is proposing a rule with no flexibility and inconsistent with industry
12 practice, based on my experience. Restricting the flexibility of a rule sounds simple in the
13 abstract, but in practice, it does not make sense. The reasonable cost of a meal can vary
14 substantially depending on the location, which meals are necessary (i.e., breakfast, lunch,
15 dinner) and the nature of the business interaction. The Company could create or purchase
16 a service to provide a matrix of potential different per diems for different locations, but
17 there is no guarantee it would be fair and realistic. Per diem rates would need to be
18 continually updated and this significant change in process would add additional
19 administration, perhaps require computer systems and add costs without any proven
20 payback or need. Another complexity in the administration is the determination of
21 whether a full day or individual meal per diem is appropriate when such costs may have
22 been paid by a business associate, included in a conference's fees, or otherwise not
23 required. Since per diem policies by definition are not based on actual costs, excess per

1 diem payments can just be pocketed by the employee or used for otherwise
2 unreimbursable costs, such as entertainment or excessive alcohol. There is no evidence
3 presented that per diem will result in a lower cost to the Company and customers in total.
4 The audit trail is also made more difficult due to the typically reduced documentation
5 requirements and lack of tracking and automated accounting through our corporate credit
6 card system. In addition, the Ameren companies earn a current 1.7% rebate on all dollars
7 paid on a corporate credit card, totaling over \$1 million, which would be lost on the per
8 diem portion of reimbursements. Addressing these issues is not necessary under the
9 Company's current, well-established processing and auditing approach.

10 **Q. In his testimony, Mr. Hyneman references a per diem policy for**
11 **Kansas City Power & Light ("KCPL") related to utility contracts with vendors that**
12 **allows no more than \$50 per day. Can you address this comment?**

13 A. Since I do not work for KCPL, I cannot address it specifically. But, I
14 would note that in the rebuttal testimony of KCPL employee, Steven P. Busser, in File
15 No. ER-2016-0285, he indicates "no daily limit is set or prescribed for contractor meal
16 expense at KCP&L."

17 **Q. Given that Ameren Missouri does not have a stated limitation on**
18 **travel-related meals or other reimbursable expenses, and only guidelines on**
19 **non-travel meals, how does the Company ensure expenditures are prudent?**

20 A. The Ameren companies have a well-established employee expense report
21 policy and process, including appropriate reviews. In the policy, the employee is
22 instructed to "be accountable and use good judgment when using a corporate credit card,
23 incurring expenses, and/or submitting an expense report" and that "the expenses

1 contained therein are in compliance with the Policy.” However, the approver of expense
2 report transactions also plays an important role. Each employee’s expense report is
3 reviewed and approved by that individual’s supervisor. The Policy states:

4 The Approver must review expense report transactions (includes out-of-
5 pocket and corporate credit card) for accuracy and appropriateness. By
6 approving the expense report, the Approver is acknowledging the
7 expenses contained therein are reasonable and necessary business
8 expenses and in compliance with the Policy. Those approving the expense
9 report must verify the appropriateness of the accounting prior to approval.
10 Expense report approval acknowledges that all necessary documentation
11 and business justification is included.

12 I believe the employee’s supervisor or designated approver is the best person to
13 determine the accuracy and appropriateness of the expenditures under the business
14 circumstances.

15 All employee reports are entered into a computer system along with supporting
16 documentation. Furthermore, most of these expenses are charged through Ameren’s
17 corporate credit card program which includes a host of controls and reviews throughout a
18 year, including blocks on certain merchant types, such as casinos and jewelry stores.
19 Each day, 10% of all approved expense reports (corporate-wide) are randomly selected
20 and reviewed for compliance with the Policy. This review is to ensure all transactions are
21 properly documented with a business justification and that all receipts are compliant and
22 provided.

23 On a weekly basis, a review is conducted on the age of credit card transactions to
24 make sure employee expenses are processed on a timely basis and for compliance with
25 the Policy. Accounts are suspended if they are found to be non-compliant. Monthly, a
26 review is performed on all expense transactions for corporate credit cards, mileage and
27 out-of-pocket expenses. This review uses data analytics with sophisticated algorithms to

1 target areas of risk, such as duplicate transactions or non-qualifying transactions.
2 Annually, Internal Audit conducts a corporate travel and entertainment audit to review
3 compliance with the controls and procedures around travel and business expenses.

4 Finally, employees undergo a required annual employee expense training to
5 emphasize the main controls of the process and to inform employees about best practices
6 on business-related expenditures. This training reinforces corporate compliance
7 requirements and sets expectations of accountability and stewardship. Individuals in
8 violation of this policy are subject to disciplinary action up to and including termination.
9 In my opinion, the Policy, supplemental guidelines and these reviews provide sufficient
10 protection to ensure that unreasonable and imprudent expenditures are not allowed.

11 **Q. What about the expense reports of the senior executives, are they**
12 **really subject to this process?**

13 A. Yes. All employees are subject to these approvals, reviews and audit. In
14 addition, the Policy states: “An approver cannot approve an expense report that includes
15 charges for himself, a peer, or higher level position with the exception of meals for
16 on-site group meetings attended by at least 10 individuals.” This includes Ameren’s
17 Chief Executive Officer (“CEO”), whose expense report must be initially approved for
18 operational convenience and payment by the Chief Financial Officer. Next, each of the
19 CEO’s expense reports is reviewed by Internal Audit and then ultimately approved by the
20 Chairman of the Audit Committee of Ameren’s Board of Directors.

1 **C. PROHIBITION OF ALCOHOLIC BEVERAGES**

2 **Q. Mr. Hyneman recommends a prohibition on alcoholic beverages being**
3 **included in the expense figures that are used in setting the revenue requirement on**
4 **which rates are based. Would such a prohibition be appropriate?**

5 A. No, it would not. The Company has considered implementing a policy that
6 prohibits alcoholic beverages, but ultimately determined it was unnecessary.

7 **Q. Please explain.**

8 A. Under the Policy, alcoholic beverage expenditures are reimbursable as part
9 of a normal business practice. That does not mean unlimited or excessive alcoholic
10 purchases are reimbursed, but if an employee normally might have beer or wine with
11 their dinner, or it is otherwise acceptable for the business conditions, that practice is
12 acceptable. This is normal business practice, in my experience. As the Policy states, "The
13 Company expects the Employee will act with good judgment and limit the purchases to
14 an amount that is reasonable and appropriate." The Ameren companies also have a
15 separate Alcohol and Illegal Drugs Policy that prohibits the use of alcohol while on
16 Company property, on the job, and off-the-job use that could affect job performance.
17 There is an exception for the use or possession of alcohol in connection with authorized
18 events, which may be approved in advance by Function heads or higher levels of
19 management. A copy of the Alcohol and Illegal Drugs Policy is attached hereto as
20 Schedule BAS-R3.

21 Mr. Hyneman's approach treats alcohol as inherently bad. In reviewing the Policy
22 in previous years, a complete ban was considered but was rejected as unnecessary. There
23 are adequate controls in place to prevent excess in this area. As I explained in response to

1 his other two recommendations, Mr. Hyneman's one-size-fits-all approach is an overly
2 simplistic and unnecessarily strict approach to this and other matters.

3 **Q. Does this conclude your rebuttal testimony?**

4 **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 Tariffs to Increase Its Revenues) **File No. ER-2016-0179**
for Electric Service.)

AFFIDAVIT OF BRUCE A. STEINKE

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

Bruce A. Steinke, being first duly sworn on his oath, states:

1. My name is Bruce A. Steinke. I work in the City of St. Louis, Missouri, and I am employed by Ameren Services Company as Senior Vice President, Finance and Chief Accounting Officer. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 13 pages and Schedule(s) BAS-R1, R2 & R3, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.



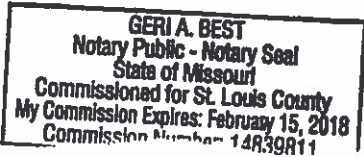
Bruce A. Steinke

Subscribed and sworn to before me this 20th day of January, 2017.



Notary Public

My commission expires:



Schedules BAS-R1

through BAS-R3

are

PROPRIETARY

in their entirety