

Exhibit No.:  
Issues: Payroll, Payroll Taxes,  
Employee Medical Costs,  
Incentive Compensation,  
Injuries and Damages  
Witness: MARK D. GRIGGS  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Direct Testimony  
Case No.: EC-2002-1  
Date Testimony Prepared: July 2, 2001

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**FILED<sup>3</sup>**

JUL 02 2001

**DIRECT TESTIMONY**

Missouri Public  
Service Commission

**OF**

**MARK D. GRIGGS**

**UNION ELECTRIC COMPANY,  
d/b/a AMERENUE**

**CASE NO. EC-2002-1**

Jefferson City, Missouri  
July 2001

**\*\*Denotes Proprietary Information\*\***

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DIRECT TESTIMONY OF  
MARK D. GRIGGS  
UNION ELECTRIC COMPANY,  
d/b/a AMERENUE  
CASE NO. EC-2002-1**

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Direct Testimony of  
Mark D. Griggs

1 Q. What has been the nature of your duties while in the employ of this  
2 Commission?

3 A. I have assisted with audits and examinations of the books and records of  
4 public utility companies operating within the state of Missouri.

5 Q. Have you previously filed testimony before this Commission?

6 A. Yes, I have. Please refer to Schedule 1, which is attached to this direct  
7 testimony, for a list of cases in which I have filed testimony.

8 Q. With reference to Case No. EC-2002-1, have you made an investigation of  
9 the books and records of Union Electric Company, d/b/a AmerenUE (AmerenUE or  
10 Company)?

11 A. Yes, with the assistance of other members of the Commission Staff  
12 (Staff).

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

14 A. My direct testimony will address the following issues: payroll and related  
15 payroll taxes, employee benefits, incentive compensation, and injuries and damages.

16 Q. What adjustments are you sponsoring in this case?

17 A. I am sponsoring the following Income Statement adjustments contained in  
18 Accounting Schedule 10 (Adjustments to Income Statement):

19 Payroll S-10.4, S-13.2, S-14.5, S-15.3, S-16.4,  
20 S-17.1, and S-19.15

21 Employee Medical Costs S-19.16

22 Incentive Compensation S-19.14

23 Injuries and Damages S-19.13

24 Payroll Taxes S-24.3

1 **PAYROLL**

2 Q. Please explain adjustments S-10.4, S-13.2, S-14.5, S-15.3, S-16.4,  
3 S-17.1 and S-19.15.

4 A. These adjustments, in total, represent the payroll adjustment as allocated  
5 to the various operating functions of production (S-10.4), transmission (S-13.2),  
6 distribution (S-14.5), customer accounts (S-15.3), customer service and information  
7 (S-16.4), sales (S-17.1), and administrative and general (S-19.15).

8 Q. What are the components of the Staff's annualized level of payroll?

9 A. The Staff's annualized level of payroll includes direct payroll expense that  
10 is specifically identifiable to the Company's Missouri electric operations and an allocated  
11 portion of payroll expense from Ameren Services (AMS) to Missouri electric operations.

12 Q. Please explain the methodology the Staff used to annualize payroll.

13 A. The Staff's examination of payroll included an analysis of straight time  
14 and overtime payroll as well as employee levels throughout the test year ended June 30,  
15 2000 and the update period ended December 31, 2000. \*\*

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\*\* the Staff believes that actual payroll expense for the 12 months ended December 31, 2000 is an appropriate indicator of ongoing payroll expense.

Q. How did you determine the adjustments required for payroll?

A. The total payroll adjustment reflects the difference between the total level of operations & maintenance (O&M) payroll at December 31, 2000, related to Missouri electric operations, including AMS-allocated labor, and the level recorded during the test year ended June 30, 2000. The Staff's total payroll adjustment related to Missouri electric operations was then allocated on a pro rata basis to production, transmission, distribution, customer accounts, customer service and information, sales, and administrative and general functions based on the payroll expense charged to each function for the 12 months ended December 31, 2000.

**PAYROLL TAXES**

Q. Please describe adjustment S-24.3.

A. This adjustment reflects the annualization of FICA (social security) taxes. The Staff's annualized level of FICA taxes is the actual FICA taxes charged to O&M expense for the 12 months ended December 31, 2000. This treatment is consistent with the Staff's overall payroll adjustment.

**EMPLOYEE MEDICAL COSTS**

Q. Please describe adjustment S-19.16.



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Q. In past cases, has the Commission set minimum standards for the inclusion  
of incentive plan payments in a utility's cost of service?

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A. Yes. In its Report And Order in Case Nos. EC-87-114 and EC-87-115,  
Union Electric Company, the Commission stated:

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1                   At a minimum, an acceptable management performance  
2                   plan should contain goals that improve existing  
3                   performance, and the benefits of the plan should be  
4                   ascertainable and reasonably related to the plan.

5           Q.     Has the Commission upheld and expanded upon these standards in later  
6 cases?

7           A.     Yes. The Commission applied the standards in Case Nos. EC-87-114 and  
8 EC-87-115 to disallow incentive compensation payments in Case No. WR-88-5 involving  
9 St. Louis County Water Company. The Commission also applied these standards in its  
10 Report And Order for Case Nos. TC-89-14, TC-89-21, TO-89-29, TO-89-10, as well as  
11 in Case Nos. TC-93-224 and TO-93-192, involving Southwestern Bell Telephone  
12 Company (SWB). In its Report And Order for Case Nos. TC-93-224 and TO-93-192, the  
13 Commission stated the following regarding long-term incentive plans in that case, some  
14 of which applied to SWB's General Headquarters (GHQ):

15                   . . . provide, at best, benefits that are too remote to be  
16 included in the cost of service for Missouri ratepayers.  
17 Particularly in the case of SWB-MO and GHQ, the long  
18 term incentive may reward managers for results they did  
19 not achieve, based on results for which they are not directly  
20 responsible and over which they have limited control.  
21 Because the plan does not focus on Missouri-specific  
22 results and does not include service-oriented goals, the  
23 Commission concludes that it is not appropriate to include  
24 the cost of the plan in the cost of service.

25 In its Report And Order for Case Nos. TC-89-14, et al., the Commission stated:

26                   In the Commission's opinion, the results of the parent  
27 corporation, unregulated subsidiaries, and non-Missouri  
28 portions of SWB, are only remotely related to the quality of  
29 service or the performance of SWB in the state of Missouri.  
30 Achieving the goals of SBC and unregulated subsidiaries is  
31 too remote to be a justifiable cost of service for Missouri  
32 ratepayers. Accordingly, the Staff's proposed  
33 disallowances in the senior management's long term and  
34 short term incentive plans . . . should be adopted.

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1 Finally, in its Report And Order in Case No. GR-96-285, Missouri Gas Energy (MGE),  
2 the Commission stated:

3 . . . the costs of MGE's incentive compensation program  
4 should not be included in MGE's revenue requirement  
5 because the incentive compensation program is driven at  
6 least primarily, if not solely, by the goal of shareholder  
7 wealth maximization, and it is not significantly driven by  
8 the interests of ratepayers.

9 Q. \*\*

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12 A. \*\*

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23 Q. Do factors other than employee performance influence EPS?

24 A. Yes, \*\*

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Q. Does the Staff believe the Company's incentive plans for 1999 meet the Commission's criteria?

A. No. \*\*

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Q. Does the Staff have any other concerns regarding the Company's incentive plans?

A. Yes. \*\*

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Q. Has the Company made any changes in its incentive plans for 2000?

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A. Yes. \*\*

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Q. \*\*

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A. \*\*

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Q. Please describe the Company's incentive plans for 2001, which govern  
incentive payments to be made in 2002.

A. \*\*

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Q. Do the Company's 2000 and 2001 incentive compensation plans meet the Commission's criteria for inclusion in the cost of service as set forth in Case Nos. EC-87-114 and EC-87-115?

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A. No, they do not. \*\*



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**INJURIES AND DAMAGES**

Q. Please explain injuries and damages expense.

A. \*\*

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Q. Describe the activity with respect to injuries and damages during the test  
year.

A. \*\*

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Q. What activity occurred with respect to injuries and damages during the test year as updated, December 31, 2000, and the four preceding years?

A. The following table shows the activity related to injuries and damages from 1996-2000:

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Q. Please explain how you calculated adjustment S-19.13.

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A. Adjustment S-19.13 adjusts injuries and damages expense to a five-year average of actual charges for the 12 months ended December 31, 2000. This average was compared to the test year expense level. The resulting adjustment was allocated to total electric and Missouri electric operations. Using a five-year average mitigates the effects of unusually high and low months to achieve a level that is more representative of ongoing levels of expense.

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Q. Why does the Staff recommend a cash approach for the Company's injuries and damages expense?

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A. The Staff recommends a cash approach for the Company's injuries and damages expense \*\*

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The cash approach is based solely on actual cash payments made during the period \*\*

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Q. Are you aware of any regulated Missouri utility that currently uses a cash approach to account for its injuries and damages expense for regulatory purposes?

A. Yes. Laclede Gas Company and Missouri Gas Energy follow the Staff's cash approach of accounting for injuries and damages expense for regulatory purposes.

Q. Does this conclude your direct testimony?

A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

The Staff of the Missouri Public Service Commission, )  
 )  
 Complainant, )  
 vs. )  
 )  
 Union Electric Company, d/b/a AmerenUE, )  
 )  
 Respondent. )

Case No. EC-2002-1

**AFFIDAVIT OF MARK D. GRIGGS**

STATE OF MISSOURI )  
 ) ss.  
 COUNTY OF COLE )

Mark D. Griggs, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 18 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Mark D. Griggs  
Mark D. Griggs

Subscribed and sworn to before me this 29<sup>th</sup> day of June, 2001

D Suzie Mankin  
Notary Public



**D SUZIE MANKIN  
NOTARY PUBLIC STATE OF MISSOURI  
COLE COUNTY  
MY COMMISSION EXP. JUNE 21, 2004**

**Mark Griggs**

**Schedule of Testimony Filings**

<b>Case No.</b>	<b>Company</b>
GR-98-374	Laclede Gas Company
GR-99-315	Laclede Gas Company
WR-2000-281	Missouri American Water Company
SR-2000-282	Missouri American Water Company
WR-2000-844	St. Louis County Water