Exhibit No.:	
Issue:	*Discretionary Bonuses, Lobbying Adjustment to Labor, Other Payroll Issues, PSC Assessment, Leases, Snow Removal, Lockbox Function, True-Up Items*
Witness:	*Brian Wells*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2014-0258*
Date Testimony Prepared:	*February 6, 2015*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

BRIAN WELLS

UNION ELECTRIC COMPANY, d/b/a Ameren Missouri

CASE NO. ER-2014-0258

Jefferson City, Missouri
February 2015

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

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OF

BRIAN WELLS

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

CASE NO. ER-2014-0258

Q. Please state your name and business address.

A. Brian Wells, 111 N 7th St., St. Louis, Missouri 63101.

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

A. I am employed by the Missouri Public Service Commission ("Commission") as a Utility Regulatory Auditor I.

Q. Are you the same Brian Wells who filed direct testimony in this case, as part of the Staff's Revenue Requirement Cost of Service Report, on December 5, 2014?

A. Yes.

Q. Please give a brief summary of your surrebuttal testimony.

A. The purpose of my surrebuttal testimony is to address the issues of discretionary bonuses, lobbying adjustments to labor, other payroll issues, PSC assessment, lease expense, snow removal expense, and various true-up items that were discussed by Union Electric Company, d/b/a Ameren Missouri ("Company" or "Ameren Missouri") witness Laura M. Moore in her rebuttal testimony. I will also address the rebuttal testimony of Ameren Missouri witness Krista G. Bauer with regard to discretionary bonuses.

DISCRETIONARY BONUSES

Q. Company witness Laura M. Moore stated on page 39, lines 6 through 17, of her rebuttal testimony filed January 16, 2015, that there were two disallowances made by Staff in the area of discretionary bonuses with which the Company disagreed. What were those two items which were disallowed?

A. The two items in question were labeled as Training—Fenton ("TF") and Light Work—Gas ("LWG") in the response to Staff Data Request No. 0061. No other explanation for these costs was provided in the response to the data request. Staff requested additional explanation from Ameren Missouri witness Laura M. Moore via email and the information provided by the Company suggested that the training that occurred in Fenton, Missouri pertained to Ameren Illinois employees. In addition, the information provided for the LWG code suggested that these payments made to Ameren Missouri gas employees were somehow charged to Ameren Missouri's electric operations.

Q. Has Staff subsequently changed its position regarding these disallowances?

A. Yes. The information that was provided by the Company in its supplemental response to Staff Data Request No. 0061, subsequent to Staff's direct testimony filing on December 5, 2014, is sufficient for Staff to concur with the Company that these items should not be removed from Staff's annualization of payroll. This supplemental response explained that the TF payments had an incorrect coding that referenced Illinois employees. It went on to explain that the training that occurred in Ameren Missouri's Fenton, Missouri technical training center was for Ameren Missouri electric employees, not Illinois employees. In addition, the supplemental response explained that the amounts pertaining to LWG were, in fact, related to gas operation. However the amounts identified were not recorded on Ameren Missouri's electric books and, therefore, did not need to be removed. With these adjustments, Company and Staff are in agreement with regard to the proper ratemaking treatment for these two items.

Q. Company witness Krista G. Bauer states on page 5, lines 4 through 23, page 6, lines 1 through 21, and page 7, lines 1 through 2, of her rebuttal testimony filed January 16, 2015, that there were three disallowances made by Staff concerning discretionary bonuses with which the Company disagreed. What were those three items which were disallowed by Staff in its direct filing?

A. The disallowed items were labeled as Performance Bonus Program ("PBP"), Bonus Payment—Non-Pension ("BNA"), and Bonus—Discretionary ("BBI").

Q. Why did Staff disallow these items in its direct testimony filing?

A. Staff disallowed these three items because it considered them to be discretionary in nature based on the information regarding these programs provided by the Company, meaning that these types of bonuses are did not appear to be based on measureable performance and are ultimately awarded at the discretion of the Company.

Q. Has Staff changed its position regarding any of these disallowances?

A. Yes, partially. Staff agrees with the Company for the reasons identified on page 5, lines 12 through 20, of Ms. Bauer's rebuttal testimony, that the PBP payments for union contract employees should be included in rates. Furthermore, Staff agrees with the Company for reasons identified below, that BBI payments to union contract employees should also be included in rates. However, Staff maintains its position in relation to the executive portions of the BBI and BNA payments.

Q. Is the Company obligated by a collective bargaining agreement or any other contract with an external entity, to make the payments which it classified under the pay code "BNA"?

A. No. The Company's response to Staff's supplemental Data Request No. 0061.1 provided no indication of such an obligation for the payment of bonuses which the Company classifies under BNA.

Q. To whom are BNA payments made?

A. BNA payments are made to executive employees, but not to contract employees.

Q. What must an executive employee do to earn a BNA payment?

A. The Company's supplemental response to Staff Data Request No. 0061 identifies payments made under this classification as being in the nature of "sign-on" or retention bonus payments. This means that the payments are not awarded on the basis of any performance metrics such as Key Performance Indicators ("KPI") or scorecards. These payments are purely discretionary and provide no benefit to the ratepayers.

Q. Is it Staff's opinion that the payments classified as BNA are necessary payments?

A. No. These sign-on and retention bonus payments are in addition to the employees' standard salary. Evidence provided in Staff Data Request No. 0157, along with evidence gathered in Staff's review of Ameren's board of directors meeting minutes and attachments, shows that compensation for Ameren Missouri's executives is comparable to that of other participants in the peer group (similar utilities in the industry), as shown by studies which were conducted by third party compensation consultants. Given that Ameren executive employees are already fairly compensated for their work, the payment of BNA bonuses are unnecessary as well as discretionary and should not be included in rates.

Q. Have payments classified as BBI to management employees been disallowed by Staff in previous cases?

A. Yes. In Ameren Missouri rate case ER-2012-0166, ** ____ ** was disallowed for management employees. Similarly in Ameren rate case ER-2011-0028, ** ____ ** was disallowed for management employees.

Q. Has the Company contested the disallowance of BBI payments in any of the aforementioned cases?

A. No, the Company has made no such contest.

Q. For what reasons are BBI bonuses paid to employees of the Company?

A. BBI payments are made to employees of the Company for one of three reasons: (1) the employee is employed at the Callaway Nuclear Power Plant ("Callaway") and maintains an Emergency Medical Transportation ("EMT") license, (2) the employee is employed at Callaway and serves as a part of the Adversary Team—a security team required by the Nuclear Regulatory Commission ("NRC"), or (3) ** ____ ________________________ **.

Q. Are any BBI payments required under collective bargaining agreement?

A. Yes, but this requirement only applies to contract employees. However, BBI payments were made to both contract and executive employees during the test year. Staff recommends inclusion of the BBI payments made to union contract employees since this is part of their collective bargaining agreement.

Q. Why would bonuses negotiated under a collective bargaining agreement be paid to employees to whom the collective bargaining agreement does not apply?

A. For the bonuses which pertained to Adversary Team and EMT activities, the payments are part of the Company's adherence to an internal "equity" policy which dictates that, since bonus payments are made to contract employees who participate in certain activities, the management employees who participate in the same activities should receive the same payments. ** ____ ____ _______________________ **

Q. Why does Staff object to Ameren Missouri's internal equity policy that requires that bonuses be awarded to Ameren Missouri's management employees simply because bonuses were awarded to contract employees as part of a collective bargaining agreement?

A. The Company has no basis to claim that it upholds compensation equality between management and contract employees. For Ameren Missouri employees, as of December 2014, the average salary for a contract employee was ** ____ ** while the average salary for a management employee was ** ____ **. Similarly, for Ameren Services employees, as of September 2014, the average salary for a contract employee was ** ____ ** while the average salary for a management employee was ** ____ **. For Ameren Missouri and Ameren Services employees, management employees' salaries were 35.3% and 39.3% higher, respectively, than those of contract employees, on average. (This information comes from the Company's response to Staff Data Request No. 0282.) The assertion that management employees must be given a bonus equal in amount to those given to contract employees, otherwise the management employees will be underpaid is not supported by the evidence. Furthermore, during the test year, bonuses classified as BBI were paid to contract employees in the amount of ** ____ **, while BBI payments paid to management employees totaled ** ____ **. Additionally, if the maintenance of EMT licenses and service on the Adversary Team are required of these Callaway executive employees, whether by NRC requirement or internal policy, then these tasks are parts of their normal job duties, meaning that the compensation for these tasks is part of base salary, which is included in rates.

Q. Are there any performance metrics such as KPIs or scorecards which provide a basis for awarding these bonuses for Callaway executive employees?

A. No. As previously stated, the only action executive employees must take to qualify for receipt of these payments is to be involved in certain activities which are part of the employees' job description and for which they are compensated with peer-competitive salaries.

Q. ** **

A. ** **

Q. ** **

A. ** **

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Q. Given this information, what do you conclude regarding the inclusion of BBI payments in rates?

A. Given the preceding information, Staff concludes that the collective bargaining agreement for contract employees should be included in rates. However, Staff recommends that BBI payments made to executive employees be disallowed because they are discretionary and unnecessary.

LOBBYING ADJUSTMENT TO LABOR

Q. Why did Staff make an adjustment to labor expense for lobbying activities?

A. During Staff's review of the Company's board of directors meetings' minutes, it came to Staff's attention that several Ameren executive employees spend material amounts of time on activities which are related to lobbying activities. Reviews of certain employees' appointment calendars corroborated this finding. An example of such lobbying activities is on March 4, 2014, when ** ____ ____ ________ **. Lobbying expenses are traditionally and consistently disallowed from rates since incurring the expense typically provides benefits to shareholders and not to ratepayers, and because utility customers should not be expected to subsidize a utility's political activities. Since certain Ameren Missouri employees are devoting material amounts of time to these activities, Staff disallowed a proportionate amount of these employees' salaries.

Q. How was the amount of the adjustment determined in Staff's direct filing?

A. In the Company's response to Staff Data Requests Nos. 0380 and 0381, the Company claimed that payroll records are not kept in a way conducive to determining how much of an employee's time was devoted to one specific activity or another. As a result, Staff made estimations of how much of each employee's time would likely have been devoted to lobbying activities. These estimations were as follows: 50% for Warren Wood and 10% each for Warner Baxter, Michael Moehn, Lynn Barnes, and Martin Lyons.

Q. Did the Company object to these percentages estimated by Staff?

A. Yes. The Company asserted that these percentages were too high and therefore inaccurate.

Q. Did the Company provide Staff with information as to what it considered to be appropriate allocations of employees' salaries to lobbying activities?

A. On December 16, 2014, subsequent to Staff's direct testimony filing, the Company responded to Staff Data Request No. 0488 providing percentages of each employee's time which was dedicated to lobbying activities on a general basis.

Q. The Company made the claim at the settlement conference on January 13-14, 2015, that a portion of certain employees' salaries are already allocated to lobbying activities and accounted for below the line. Is this assertion true?

A. Yes. In the Company's response to Staff's Supplemental Data Request No. 0488.1, provided on January 26, 2015, the Company provided that, for all employees, a material portion of whose salary may be allocated to lobbying activities, that material portion is accounted for in a below-the-line account.

Q. So has Staff changed its position on this issue?

A. Yes. Staff has eliminated this adjustment.

Q. Does this resolve the issue between the Company and Staff?

A. Yes, it does.

OTHER PAYROLL ISSUES

Q. Has Staff made any corrections to its payroll annualization?

A. Yes. When calculating ongoing payroll levels for management employees, Staff used a certain percentage wage increase found on the payroll lead sheet on page LMM-WP-332 of the Company's direct filing workpapers. Based upon how the workpaper was labeled, Staff made the assumption that this percentage increase took effect on January 1, 2014, and therefore took steps to annualize the increase by multiplying the percentage by nine months out of twelve. This assumption and subsequent calculation were errors on Staff's part. The percentage provided on the above-referenced page had been calculated by the Company on page LMM-WP-356 of the Company's direct filing workpapers, already factoring in the timing of the increase. The percentage should have been applied on a 100% basis. Staff has agreed to correct this error. This correction is in the amount of an ** ________ ** increase to payroll expense.

Q. Has Staff made any corrections to employee relocation expense based upon information that was provided to the Staff subsequent to its direct testimony filing?

A. Yes. Staff has updated its employee relocation expense adjustment. In Staff's review of Ameren Missouri and Ameren Services employee relocation costs at the time of direct testimony, Staff completed a "placeholder" adjustment to remove the test year level of relocation expenses associated with employees that were hired from an affiliate, Ameren Energy Resources, that was sold by Ameren Corporation to Dynegy during 2013 until it had access to a history of actual employee relocation costs over time. Since the time of the Staff's direct testimony filing in this case, Staff received a response to Data Request No. 0484, which provided a five-year history of employee relocation expense. Based upon Staff's review of that information, Staff has replaced that adjustment with a three-year normalization of employee relocation costs that occurred during the period covering April 1, 2011, through March 31, 2014, resulting in an adjustment to Ameren Missouri employee relocation costs of ** ________ ** and an adjustment to Ameren Services employee relocation costs of ** ____ **.

Q. Was this adjustment made in Staff's direct testimony filing on December 5, 2014?

A. An adjustment was made in Staff's direct testimony filing, but it was of a different nature than the normalization recommended here. At the time of the filing, Staff only had employee relocation expense information for the test year and an identification of employee relocation costs related to the divestiture of Ameren Energy Resources ("AER"). Since these costs would not likely be incurred again, Staff disallowed the costs as non-recurring.

Q. Why has Staff now changed its position on this issue, subsequent to the direct testimony filing?

A. On November 25, 2014, prior to its direct testimony filing, Staff issued Data Request No. 0484 which requested historical data regarding employee relocation costs, the information on which Staff relied to perform its current normalization. The Company responded to Staff Data Request No. 0484 on December 15, 2014—after Staff's direct testimony filing. The Company did not provide the requested information in time for Staff to make use of it in Staff's direct testimony filing.

Q. Should Staff take the information provided in Staff Data Request No. 0484 into account for its surrebuttal testimony filing?

A. Yes. It would be inappropriate for Staff to ignore information which is obviously pertinent to its audit for this rate case.

Q. Just to be clear, is the normalization which Staff is currently recommending in addition to the disallowance made in its direct testimony filing on December 5, 2014, or does the normalization replace the disallowance?

A. This normalization replaces the disallowed AER employee relocation costs. The AER costs are included in the total employee relocation costs that Staff now proposes to normalize using a three-year history of employee relocation expenses.

PSC ASSESSMENT

Q. Has the Company updated its position regarding the PSC assessment?

A. Yes. The Company has accepted Staff's level of PSC assessment. The Company's direct workpapers were generated before the assessment was established for fiscal year 2015; thus, its workpapers were based on estimations of the assessment. Staff used the actual, current assessment level in establishing the ongoing level of the assessment.

Q. Does this resolve this issue?

A. Yes, it does.

LEASE EXPENSE

Q. Company witness Laura M. Moore stated on page 39, lines 21 through 24, and page 40, lines 1 through 4, of her rebuttal testimony that the Company disagrees with Staff's disallowance of two leases which exist between the Company and World Wide Technology. Why did Staff make this disallowance?

A. Staff disallowed these contracts because the Company stated in its response to Staff Data Request No. 0320.1 that these contracts would be discontinued on December 31, 2014. Since it believed that the expense associated with these contracts would not be ongoing, Staff disallowed the expense.

Q. Has Staff changed its position regarding these disallowances?

A. Yes. Subsequent to Staff's direct testimony filing, the Company has provided information indicating that these contracts are not expiring and were instead extended until such time as the contract can be officially renewed and that, in the meantime, the expense level would remain constant. Staff requested confirmation of the contract's extension in Staff Data Request No. 0554 which was provided. Staff has recalculated the ongoing level of lease expense, incorporating this new evidence.

SNOW REMOVAL EXPENSE

Q. Has Staff changed its adjustment position regarding snow removal expense?

A. Yes. To perform its normalization of snow removal costs, Staff calculated a five-year average of snow removal costs. In calculating this average, Staff identified ** ____ ** of expense during the 2011/2012 winter. However, the Company identified ** ____ ** of expense for the same period. Based upon this updated information, Staff now agrees with Company's cost level for the 2011/2012 winter and has incorporated that amount into Staff's five-year normalization of these costs. This change reflects an additional ** ____ ** in the normalized ongoing snow removal expense level, resulting in a total ongoing expense level of ** ____ **. Staff's adjustment to normalize test year snow removal costs reduces the cost of service calculation by ** ________ **.

Q. Does this resolve this issue?

A. Yes, it does.

LOCKBOX FUNCTION

Q. ** ____
__________________________________ **

A. ** ____
____
____

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______________________________ ______________ **

Q. ** ____________________________________ **

A. ** ____ ________________ **

TRUE-UP ITEMS

Q. What issues or items are you addressing as part of Staff's true-up audit?

A. I am addressing several true-up items including the impact of new insurance policies, updated insurance information, updated information regarding payroll and benefits other than pensions and OPEBs, and the Company's provision of actual Callaway Refuel 20 payroll data on the Company's cost of service.

Q. Please explain these items.

A. The Company acquired two new insurance policies during the true-up period. One of these policies was for solar property insurance which provides coverage specific to the Company's new O'Fallon, Missouri solar generation facilities. The policy went into effect on December 1, 2014, and its annual premium is ** ____ **. The other new insurance policy provides coverage for pollution liability claims specifically related to ash ponds and landfills. This coverage was necessary as the Company's existing liability policies will no longer cover these potential claims due to events outside of the Company's control. However, such coverage is a necessary expense for the Company. The policy went into effect on December 4, 2014, and the portion of its annual premium that is allocated to Ameren Missouri is ** ________ **.

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Other than the two additional contracts identified above, the Company made numerous changes in its proposed ongoing insurance expense. Much of the information on which the Company relied for its direct workpapers was based on estimations due to the unavailability of actual information at that time. During the true-up period, the Company has acquired actual information for various policy premiums as well as updated factors for allocating various costs to Ameren Missouri. Staff has taken these updates into account for its true-up audit.

Much of the information which Staff relied upon in reaching an annualized level of payroll expense has also been updated since Staff's true-up filing on December 5, 2014. These updates have included updated employee counts for Ameren Missouri and Ameren Services, updated average salary data for contract and management employees of Ameren Missouri and Ameren Services, and updated benefit expense information for Ameren Missouri and Ameren Services employees. Staff has taken these updates into account for its true-up audit.

The information which Staff relied upon in reaching a normalized level of overtime payroll expense related to Callaway refueling events was based on estimations made by the Company, provided before the most recent refueling event, Refuel 20, had occurred. As part of its true-up update, the Company has provided actual data from Refuel 20 to serve as a basis for Staff's establishment of an ongoing overtime payroll expense level for Callaway refuelings.

Q. Does this conclude your surrebuttal testimony?

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 Revenues for Electric Service	)))	Case No. ER-2014-0258

AFFIDAVIT OF BRIAN WELLS

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Brian Wells, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 15 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

Brian Wells

Subscribed and sworn to before me this 5th 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

D Suzie Mankin
Notary Public