

Exhibit No.:
Issue(s): Coal Inventory,
Long-Term Incentive
Compensation
Witness: Matthew Young
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2019-0335
Date Testimony Prepared: January 21, 2020

MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRY ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

MATTHEW YOUNG

**UNION ELECTRIC COMPANY,
D/B/A AMEREN MISSOURI**

CASE NO. ER-2019-0335

*Jefferson City, Missouri
January, 2020*

REBUTTAL TESTIMONY

OF

MATTHEW R. YOUNG

UNION ELECTRIC COMPANY D/B/A AMEREN MISSOURI

CASE NO. ER-2019-0335

1
2
3
4
5
6
7 Q. Please state your name and business address.

8 A. Matthew R. Young, Fletcher Daniels Office Building, 615 East 13th Street, Room 201,
9 Kansas City, Missouri, 64106.

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

11 A. I am a Utility Regulatory Auditor employed by the Missouri Public Service Commission
12 (“Commission”).

13 Q. Are you the same Matthew R. Young that contributed to Staff’s Cost of Service Report
14 filed on December 4, 2019 in Case No. ER-2019-0335?

15 A. Yes.

16 Q. What is the purpose of your Rebuttal Testimony?

17 A. I will respond to Ameren Missouri’s direct testimony regarding coal inventory and
18 long-term incentive compensation.

19 **COAL INVENTORY**

20 Q. How did Ameren Missouri calculate a rate base value for coal inventory in its
21 direct case?

Rebuttal Testimony of
Matthew Young

1 A. Ameren Missouri valued its coal inventory by multiplying its proforma January 2020
2 coal price per ton by the inventory levels in its current coal inventory policy.¹ The Company
3 intends to true-up fuel inventories in this case by updating its January 2020 coal prices.

4 Q. Does Staff agree with Ameren Missouri's methodology?

5 A. No. Staff disagrees with using the coal quantity targeted in its inventory policy to value
6 coal inventory. Staff finds that in order to account for potential supply interruptions,
7 Ameren Missouri's inventory policy inflates the target level of coal inventory beyond the level
8 required for normal operations. As stated in its direct position,² Staff recommends that the
9 value for coal inventory should exclude the effects of abnormal circumstances in order to be
10 representative of Ameren Missouri's normal investment in coal inventory.

11 Q. Has Ameren Missouri's coal inventory "on the ground" been reflective of its coal
12 inventory policy?

13 A. No. Ameren Missouri's actual monthly coal inventory levels have not met the target
14 level identified in the inventory policy since the effective date of the current policy. For this
15 reason, Staff finds Ameren Missouri's inventory policy an unreliable guide for ratemaking
16 purposes.

17 Q. How did Staff include coal inventory in its recommended revenue requirement?

18 A. Staff included a 13-month average of actual coal inventory quantities during the test
19 year, valued at the current coal price. This methodology represents a coal inventory that is
20 reflective of actual results from normal operations. Staff will also revise its coal inventory in
21 its true-up revenue requirement.

¹ Moore Direct Testimony, Page 11, lines 19-23.

² Staff Cost of Service Report, Page 32, lines 16-20. Staff excluded 2019 from its average because of abnormal weather.

1 **LONG-TERM INCENTIVE COMPENSATION**

2 Q. In its direct testimony, what was Ameren Missouri's recommendation on long-term
3 incentive compensation?

4 A. Ameren Missouri recommends including 30% of its long-term incentive compensation
5 in rates. In its direct testimony, Ameren Missouri stated that its long-term incentive
6 compensation plan, as of 2018, is composed of Performance Share Units (70%) and Restricted
7 Share Units (30%). Ameren Missouri also stated that the Performance Share Units are related
8 to financial performance while, "Restricted Share Units represent the right to receive stock
9 depending solely on an employee's continued employment with Ameren through a defined
10 vesting period."³ In its direct case, Ameren Missouri removed the cost related to the
11 Performance Share Units tied to financial performance but included the cost of its Restricted
12 Share Units.

13 Q. Does Staff agree with removing the cost of Ameren Missouri's Performance Share Units
14 that are tied to earnings?

15 A. Yes. Removing the cost of Performance Share Units is consistent with Staff's position
16 and also consistent with guidance provided by the Commission. The Commission reaffirmed
17 its approach to compensation tied to financial performance in Spire Missouri's most recent rate
18 cases, Case Nos. GR-2017-0215 and GR-2017-0216. In its Report and Order addressing both
19 cases, the Commission noted that, "The Commission has previously determined that
20 compensation based on corporate earnings is focused on shareholder wealth maximization and
21 should be assigned to the shareholders."⁴

³ Moore Direct Testimony, Page 21, lines 13-21.

⁴ Case Nos. GR-2017-0215 & GR-2017-0216, Report and Order, page 116, Finding of Fact #5.

Rebuttal Testimony of
Matthew Young

1 Q. Does Staff believe that Ameren Missouri's adjustment to remove Performance Based
2 Units is calculated correctly?

3 A. No. Ameren Missouri's adjustment is incomplete. To remove Performance Based Units
4 from rates, Ameren Missouri's adjustment to the income statement accounts performs its
5 intended purpose but Ameren Missouri did not reduce rate base for long-term incentive
6 compensation awards. If Ameren Missouri's intent is to remove the cost of Performance Share
7 Units from the revenue requirement, adjustments to plant-in-service and accumulated
8 depreciation reserve are also necessary. Staff has adjusted rate base in its long-term incentive
9 compensation adjustment.

10 Q. Does Staff agree with Ameren Missouri's recommendation to include the cost of the
11 Restricted Share Units?

12 A. No. When Staff applied the Commission's guidance regarding incentive compensation
13 to Ameren Missouri's Restricted Share Units, Staff finds that compensation in the form of
14 shares of Ameren stock aligns the interests of the employee with the interest of shareholders.
15 Primarily for this reason, Staff excluded the cost of Restricted Share Units from the revenue
16 requirement.

17 Q. How does stock compensation align the interest of the employees to the interest of the
18 shareholders?

19 A. Generally, a company's value is reflected in the price of its publically traded stock.
20 Shareholders desire an increase of the company's value because that leads to an increase in
21 stock price, thereby increasing the value of the shareholder's investment in the Company. Stock
22 compensation incents employees to increase the value of the Company so that the price per

Rebuttal Testimony of
Matthew Young

1 share is maximized at the measurement date. Therefore, awarding stock compensation aligns
2 the interests of the employee with the shareholders.

3 Q. Even though Ameren Missouri's Restricted Share Units are not awarded based on
4 Ameren Missouri's earnings per share, does the Commission's perspective on earnings-based
5 compensation apply to the Restricted Share Units?

6 A. Yes. The Commission's *Report and Order* in Kansas City Power & Light's ("KCPL")
7 rate case in File No. ER-2007-0291 is consistent with the Commission's historic treatment of
8 equity based compensation. In it the Commission stated:

9 KCPL has the right to tie compensation to [earnings per share].
10 However, because maximizing [earnings per share] could compromise
11 service to ratepayers, such as by reducing maintenance, the ratepayers
12 should not have to bear that expense. What is more, because KCPL is
13 owned by Great Plains Energy, Inc., and because GPE has an
14 unregulated asset, Strategic Energy L.L.C., KCPL could achieve a high
15 [earnings per share] by ignoring its Missouri ratepayers in favor of
16 devoting its resources to Strategic Energy. Even KCPL admits it is hard
17 to prove a relationship between earnings per share and customer benefits.
18 Nevertheless, if the method KCPL chooses to compensate employees
19 shows no tangible benefit to ratepayers, then those costs should be borne
20 by shareholders, and not included in the cost of service.⁵

21 Similarly, by compensating employees with company stock Ameren Missouri is incenting
22 employees to increase the price of stock, which indirectly creates an environment where service
23 to ratepayers could be compromised. There is no evidence that ratepayers benefit from this
24 compensation based upon shareholder wealth maximization.

25 Q. Has the Commission recently issued a decision regarding stock compensation?

26 A. Yes. In the aforementioned Spire Missouri rate cases, the Commission explained:

⁵ Report and Order, Case No. ER-2007-0291, dated Dec. 6, 2007, pg. 49-50 (internal footnotes omitted). See also Report and Order, Case No. ER-2006-0314, dated Dec. 21, 2006, pg 58.

Rebuttal Testimony of
Matthew Young

1 The Commission has traditionally not allowed earnings based or equity
2 based compensation to be recovered in rates because such incentives
3 are primarily for the benefit of shareholders and not for the benefit of the
4 ratepayers. As the Commission has said in the past, incentivizing
5 employees to improve the company's bottom line aligns the interests
6 with the shareholders and not with the ratepayers. Aligning interest in
7 this way can negatively affect ratepayers."⁶ [emphasis added]

8 Q. Putting aside the matter of costs and benefits, is it equitable for Ameren Missouri to
9 collect cash from the ratepayers for the Restricted Share Unit expense?

10 A. No. Awarding shares to employees does not require a cash outlay for Ameren Missouri,
11 so requiring ratepayers to provide cash through rates for a non-cash expense is inappropriate
12 for ratemaking purposes.

13 Q. Did Staff exclude the cost of Restricted Share Units in its Direct revenue requirement?

14 A. Yes.

15 Q. Does this conclude your Rebuttal Testimony?

16 A. Yes.

⁶ Amended Report and Order, Case Nos. GR-2017-0215 & GR-2017-0216, dated Mar. 7, 2018, page 122 (emphasis added), aff'd on other grounds in *Spire Missouri, Inc. v. Public Service Com'n*, 2019 WL 1246323, Mar. 15, 2019.

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 Decrease)
Its Revenues for Electric Service) Case No. ER-2019-0335

AFFIDAVIT OF MATTHEW R. YOUNG

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW MATTHEW R. YOUNG and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Matthew R. Young*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.



MATTHEW R. YOUNG

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 16th day of January, 2020.



M. RIDENHOUR
My Commission Expires
July 22, 2023
Platte County
Commission #19603483



Notary Public