*Exhibit No.:*
*Issue(s): Exceptional Performance Bonus, Short and Long-term Incentive Compensation*
*Witness: Matthew R. Young*
*Sponsoring Party: MoPSC Staff*
*Type of Exhibit: Surrebuttal and True-up Testimony*
*Case No.: ER-2021-0240*
*Date Testimony Prepared: November 5, 2021*

# MISSOURI PUBLIC SERVICE COMMISSION

## FINANCIAL AND BUSINESS ANALYSIS DIVISION

## AUDITING DEPARTMENT

# SURREBUTTAL / TRUE-UP DIRECT TESTIMONY

# OF

# MATTHEW R. YOUNG

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

## CASE NO. ER-2021-0240

*Jefferson City, Missouri*
*November 2021*

** Denotes Confidential Information **

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**SURREBUTTAL / TRUE-UP DIRECT TESTIMONY**

**OF**

**MATTHEW R. YOUNG**

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**CASE NO. ER-2021-0240**

**SURREBUTTAL / TRUE-UP DIRECT TESTIMONY**

**OF**

**MATTHEW R. YOUNG**

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

**CASE NO. ER-2021-0240**

Q. Please state your name and business address.

A. Matthew R. Young, 615 E 13th Street, Room 201, Kansas City, MO 64106.

Q. By whom are you employed?

A. I am employed by the Missouri Public Service Commission ("Commission") as a member of the Auditing Staff ("Staff").

Q. Please describe your educational background and work experience.

A. I earned a Bachelor of Liberal Arts from The University of Missouri – Kansas City in May 2009 and a Master of Science in Accounting, also from The University of Missouri – Kansas City, in December 2011. I have been employed by the Commission since July 2013.

Q. What are your job duties with the Commission?

A. As a Senior Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. In addition, I review exhibits and testimony on assigned issues, develop accounting adjustments, and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Q. Have you previously filed testimony before this Commission?

A. Yes. I have filed testimony in a variety of cases processed by the Commission. Attached to this testimony is Schedule MRY-s1, which details the major audits and other case work in which I participated, as well as the scope of the audits I have performed.

Q Did you contribute to Staff's *Revenue Requirement Cost of Service Report* filed September 3, 2021 in this case?

A. No I did not. However, I am adopting Staff's testimony related to incentive compensation that was sponsored by Jason Kunst.

Q. What is the purpose of your surrebuttal / true-up direct testimony in this proceeding?

A. My surrebuttal testimony will identify the differences between Staff and Union Electric Company, d/b/a Ameren Missouri ("Ameren Missouri") regarding the proper ratemaking methodology for Ameren Corporation's ("Ameren") Exceptional Performance Bonus program, short term incentive compensation, and long term incentive compensation. My true-up testimony will also address the true-up of short-term incentive compensation.

## EXCEPTIONAL PERFORMANCE BONUS PROGRAM

Q. Please summarize the issue with Ameren's Exceptional Performance Bonus Program ("EPB" or "Program").

A. In its direct case, Staff included a three-year average cost of Ameren Missouri's EPB. As described by witness Mitchell Lansford, Ameren Missouri believes that normalizing historical cost doesn't appropriately reflect the ongoing expenses because historical costs have been trending upward.

Q. What is a normalization?

A. A normalization often uses averages to find an amount that is "normal", as opposed to amounts that are higher or lower than normal for various reasons. Normalizations are typically used during ratemaking for costs that are fluctuating and do not show a clear trend. When a cost is trending upward or downward, the last-known annual amount is often used to "annualize" the cost.

Q. Does Staff agree with Ameren Missouri that the historical cost of the EPB is trending upward?

A. Yes. The historical cost of the EPB has sharply increased in the three most recent years. Mr. Lansford's testimony shows that the cost of the Program has increased by 59% from 2018 to 2020.

Q. Is it required to annualize a cost that shows an increasing trend?

A. No. The cost can be normalized if the circumstances make it appropriate.

Q. Why is a normalization appropriate in this instance?

A. The sharp increase in EPB costs since 2018, coupled with the EPB awards being 100% under the discretion of Ameren's management, makes a normalization appropriate. If all expenses recorded by Ameren Missouri showed the similar increase as the EPB has, Ameren Missouri's cost of service would quickly become unaffordable. Additionally, the EPB differs from the majority of Ameren Missouri's expenses as most costs are out of management's direct control to some degree. However, Ameren is completely in control of the size and quantity of awards approved under its EPB program. Staff's normalization includes the cost of the EPB in rates while somewhat insulating ratepayers from the ballooning costs of awards given by management.

Q. Did Ameren Missouri address the increasing costs in its rebuttal testimony?

A. No. Mr. Lansford's rebuttal testimony merely classifies the EPB as a "legitimate expense" that is a "result of increased employment levels and inflation."[1]

Q. Does Staff agree that a 59% increase in Ameren Missouri's EPB is explained by increased headcount and inflation?

A. No. While Ameren Missouri's response to Staff Data Request No. 0875 shows increases in employee headcount and total salaries, EPB is also driven by the number of awards management is approving. The data supplied in response to this data request shows that the number of eligible employees receiving an EPB was 25% in 2016 but has increased to 41% in 2020 test year. It is more accurate to assert that the cost of Ameren's EPB is increasing due to the discretion exercised by management.

Q. What is Ameren Missouri's policy or standard for awarding an employee with an Exceptional Performance Bonus, or EPB?

A. Ameren Missouri designed its EPB to be awarded as-needed. The policy's stated purpose is, ** [redacted][2] **

Q. If 41% of eligible employees receive an EPB, in your opinion is the EPB still rewarding performance that is "exceptional" or "truly outstanding?"

A. It is less likely that the EPB awards are for truly outstanding performance. As Samuel Johnson observed, "Praise, like gold and diamonds, owes its value only to its

[1] Lansford Rebuttal, page 25.
[2] Staff Data Request No. 0874.

scarcity." As Ameren Missouri becomes more liberal in awarding EPBs, the value of the EPB decreases and the incentive for exceptional or truly outstanding performance is eroded.

Q. Has the Commission had an opportunity to provide guidance on including the EPB in rates during prior proceedings?

A. Yes. In Case No. ER-2008-0318, pages 91 and 92 of the Commission's Report and Order described the merits and dangers of the EPB as:

> The program could certainly encourage outstanding customer service and exceptional performance that would benefit ratepayers and the company as a whole. However, if not run properly, the program could degenerate into a means by which extra money is funneled to management favorites, without any benefit to the company or to ratepayers. The Commission will allow the program to be included in rates, but will direct AmerenUE to maintain proper records of payments made under the program so that Staff can review it in AmerenUE's next rate case.

Q. What was the cost of the EPB in Case No. ER-2008-0318?

A. While records are not clear, Ameren Missouri's witness Krista G. Bauer explained in her ER-2008-0318 rebuttal testimony that 60 employees had received awards during the first three quarters of that year with payments ranging from $500 to $3,000. Assuming each employee only received one award over the nine months, this represents an annual cost range of $40,000 to $240,000. Given that the cost of the EPB has moved from approximately $240,000 in 2008 to just short of $2,000,000 in 2020, Staff believes that a normalization is a fair balance of competing information for ratemaking purposes.

**SHORT TERM INCENTIVE COMPENSATION**

Q. Please summarize the issue with Ameren's Short Term Incentive Compensation Plan ("STIP").

A. In its direct case, Staff included the cost of STIP based on the 2019 plan year (paid in the first quarter of 2020) with adjustments to remove earnings-based compensation. Ameren Missouri witness Lansford's rebuttal testimony states that Staff should have trued-up STIP payments made subsequent to the test year but prior to the true-up date. As such, Staff should have included STIP based on the payout for Ameren Missouri's 2020 STIP that was paid in the first quarter of 2021. Ameren Missouri's witness Hasenfratz's rebuttal goes further and recommends that rates be set on the 2021 STIP, which is to be paid in the first quarter of 2022. Witness Hasenfratz's testimony states that using the 2021 plan is appropriate since it is the plan that will be effective at the operation of law date in the current case.

Q. Does Staff agree with Ameren Missouri?

A. Staff is not opposed to the true-up of STIP that is based on the 2020 plan year and the payout that occurred in the first quarter of 2021. Staff intends to reflect the revised STIP adjustment in its true-up revenue requirement. However, Staff cannot agree to use the 2021 STIP to set rates in this case.

Q. Will Staff still exclude costs associated with earnings-based compensation in its true-up recommendation?

A. Yes. Staff will evaluate the 2020 plan metrics with the same criteria it used on the 2019 plan.

Q. Why is Staff opposed to including the cost of the 2021 STIP?

A. The actual cost of the 2021 plan is not known and measurable and also violates the matching principle. Not only does the expected payout date of the 2021 STIP fall beyond the September 30, 2021 true-up date, the cash payout is dependent on variables such as headcount, employee turnover, and the level of achievement of dozens of metrics. Recognizing such a speculative cost for ratemaking purposes would be inappropriate.

**LONG TERM INCENTIVE COMPENSATION**

Q. Please summarize the issue of Ameren's Long Term Incentive Compensation Plan ("LTIP").

A. In its direct case, Staff excluded the cost of both components of Ameren's LTIP; Performance Stock Units ("PSUs") and Restricted Stock Units ("RSUs"). While Ameren Missouri is not seeking recovery of PSUs that are tied to shareholder return, the rebuttal testimony of Ameren witness Kelly S. Hasenfratz argues that the cost of RSUs should be included in the revenue requirement because RSUs encourage employment longevity and workforce stability. Ameren Missouri argues that employment longevity and workforce stability create value for ratepayers thereby creating a ratepayer benefit.

Q. What makes the RSUs different from the PSUs?

A. An employee's grant of Ameren stock through PSUs vest if the goals for actual shareholder returns are met at the end of the vesting period. On the other hand, the only condition for vesting an employee's RSUs is active employment at the vesting date.

Q. Does the continuity of employment create value for ratepayers?

A. Under the assumption that the continuity of employment avoids the cost of recruitment and training replacements, the avoided costs can be flowed to ratepayers in a rate case.

Q. Did Ameren quantify the avoided cost of employee turnover?

A. In response to Staff Data Request No. 0882, Ameren Missouri states ** [redacted] ** However, the estimated avoided costs are not based on an analysis of Ameren Missouri's actual employee turnover and recruitment, and training costs for ALT employees in the test year have not been quantified.

Q. Is it Staff's opinion that passing the avoided employee turnover costs to ratepayers is the intended consequence of Ameren's RSU's?

A. No. Any benefit to ratepayers from Ameren's RSUs are incidental at most. The direct results intended by Ameren Missouri's RSU awards are achieved by aligning the interests of employees with the interests of shareholders.

Q. How do RSU awards align the interest of employees with the interests of Ameren's shareholders?

A. Generally, a company's value is reflected in the price of its publically traded stock. Shareholders desire an increase of the company's value because that leads to an increase in stock price, thereby increasing the value of the shareholder's investment in the Company. Stock awards incent employees to increase their own compensation by maximizing the value of the Company stock. Since both shareholders and employees are interested in maximized stock price, awarding stock compensation aligns the interests of the employee with the shareholders.

Q. Do employees have the ability to maximize their compensation by increasing the value of the RSUs during the vesting period?

A. Yes. The following excerpt of Ameren's LTIP shows that ** [redacted] [3] **

Q. Has the Commission had the opportunity to provide guidance on equity-based incentive compensation?

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

[3] 2021 Ameren Long-Term Incentive Program, Staff Data Request No. 0022.

> KCPL has the right to tie compensation to [earnings per share]. However, because maximizing [earnings per share] could compromise service to ratepayers, such as by reducing maintenance, the ratepayers should not have to bear that expense. What is more, because KCPL is owned by Great Plains Energy, Inc., and because GPE has an unregulated asset, Strategic Energy L.L.C., KCPL could achieve a high [earnings per share] by ignoring its Missouri ratepayers in favor of devoting its resources to Strategic Energy. Even KCPL admits it is hard to prove a relationship between earnings per share and customer benefits. Nevertheless, if the method KCPL chooses to compensate employees shows no tangible benefit to ratepayers, then those costs should be borne by shareholders, and not included in the cost of service.[4]

Similarly, by compensating employees with company stock, Ameren is incenting employees to increase the price of stock, which indirectly creates an environment where service to ratepayers could be compromised.

Q. Has the Commission issued a decision regarding stock compensation more recently than the KCPL decision above?

A. Yes. In Case Nos. GR-2017-0215 and GR-2017-0216, the Commission explained:

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

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

Q. Does the rebuttal testimony of Ameren Missouri state why RSUs were incorporated into the LTIP?

A. Yes. ** [redacted] **

Q. Does this explanation create a foundation for rate recovery?

A. No. This explanation attempts to justify the existence of RSUs but does not explain why the cost of RSUs should be charged to ratepayers. As the Commission has explained in its decisions to exclude stock compensation, the Commission does not attempt to design incentive compensation programs for utilities. Rather, the Commission assigns the cost of such compensation to the appropriate beneficiaries of the incentive plans. In this instance, RSUs are designed to establish a direct incentive for employees to create value for themselves and for shareholders. As such, it is appropriate for shareholders to carry the cost burden.

Q. If the ratepayers are charged for RSUs, are there further revenue requirement impacts the Commission should consider?

A. Yes. Awarding RSUs generates a tax timing difference on Ameren's tax returns. If the Commission includes RSUs in the cost of service, the Commission should also reduce income tax expense by flowing through RSU-related income tax benefits.

Q. By what amount should income tax expense be reduced to account for the RSU-related income tax benefits?

A. In response to Data Request No. 0881, Ameren Missouri quantified the reduction to income tax expense as $214,341.

## TRUE-UP TESTIMONY

**TRUE-UP OF INCENTIVE COMPENSATION**

Q. Please describe Staff's adjustment for short-term incentive compensation in its Direct revenue requirement.

A. In its Direct case, Staff included the cost of Ameren's 2019 STIP after making adjustments to remove earnings-based compensation from the annualized amount. To remove earnings-based compensation, Staff adjusted Ameren Missouri's test year expense and rate base to the adjusted cash payout made in the first quarter of 2020.

Q. How did Staff true-up short-term incentive compensation?

A. Using the same methodology as utilized in its direct case, Staff revised its annualized incentive compensation so it is based on Ameren's 2020 STIP. Staff's adjustment for earnings-based incentive compensation included removing 75% of the cost of Ameren's 2020 plans that included an earnings metric.

Q. Did basing Staff's recommended revenue requirement on the 2020 plan year instead of the 2019 plan year create or eliminate accounting adjustments?

A. Yes, Staff has one additional adjustment due to different payouts of the 2019 and 2020 plan years.

Q. Please describe the additional adjustment.

A. In its Direct case, Staff did not make an adjustment for ** [redacted] ** As such, Staff removed the related costs from its recommendation.

Q. Does this conclude your surrebuttal / true-up direct testimony?

A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

| | | |
|---|---|---|
| In the Matter of Union Electric Company<br>d/b/a Ameren Missouri's Tariffs to Adjust Its<br>Revenues for Electric Service | )<br>)<br>) | Case No. ER-2021-0240 |

**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 *Surrebuttal True-Up Direct 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.

Matt Young

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 4th day of November, 2021.

M. Ridenhour

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

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

# Matthew R. Young

## Educational and Employment Background and Credentials

I am employed as a Senior Utility Regulatory Auditor for the Missouri Public Service Commission ("Commission"). I earned a Bachelor of Liberal Arts Degree from The University of Missouri – Kansas City in May 2009 and a Master of Science in Accounting, also from The University of Missouri – Kansas City, in December 2011. I have been employed by the Commission as a Regulatory Auditor since July 2013.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. In addition, I review exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases in which I have participated and the scope of my contributions are listed below:

| Case/Tracking Number | Company Name | Scope of Issues | Testified at Hearing |
|---|---|---|---|
| EO-2022-0105 | Evergy Metro | Revenue Requirement Issues | |
| ER-2021-0240<br>GR-2021-0241 | Ameren Missouri | Incentive Compensation | |
| GR-2021-0108 | Spire Missouri | Capitalized Overheads, Income Taxes, Rate Base Amortizations | Yes |
| SA-2021-0017 | Missouri American Water Company | Feasibility Studies, Construction Cost Estimates | Yes |
| GO-2021-0030<br>GO-2021-0031 | Spire – East and Spire – West | ISRS Rate Base | |
| SA-2021-0017 | Missouri American Water Company | Sale of Assets | |
| GA-2021-0010 | Spire – West | Costs to Expand Distribution System | |
| WR-2020-0264 | Raytown Water Company | Tank Painting and Tower Maintenance, Taxes, Leases, Capitalized Depreciation | |

| Case/Tracking Number | Company Name | Scope of Issues | Testified at Hearing |
|---|---|---|---|
| GO-2020-0229<br>GO-2020-0230 | Spire – East and Spire – West | ISRS Rate Base | |
| GA-2020-0105 | Spire – West | Costs to Expand Distribution System | |
| WA-2019-0366<br>SA-2019-0367 | Missouri American Water Company | Sale of Assets, Rate Base | |
| WA-2019-0364<br>SA-2019-0365 | Missouri American Water Company | Sale of Assets, Rate Base | |
| GO-2019-0356<br>GO-2019-0357 | Spire – East and Spire – West | Overhead Costs in Rate Base, Reconciliation | Yes |
| ER-2019-0335 | Ameren Missouri | Incentive Compensation, Fuel Inventory | |
| WO-2019-0184 | Missouri American Water Company | ISRS Rate Base | |
| SA-2019-0161 | United Services Inc. | Application for Certificate, Rate Base | |
| ER-2018-0145<br>ER-2018-0146 | Kansas City Power & Light & KCP&L Greater Missouri Operations | Fuel Prices & Inventories, Purchased Power Expense, Pensions, OPEBs, SERP, Outside Services | |
| WM-2018-0104 | Missouri American Water Company | Rate Base | |
| WM-2018-0023 | Liberty Utilities | Sale of Assets, Rate Base | |
| WR-2017-0343 | Gascony Water Company | Rate Base | Yes |
| GR-2017-0215<br>GR-2017-0216 | Laclede Gas Company & Missouri Gas Energy | Pensions, OPEBs, SERP, Incentive Compensation, Equity Compensation, Severance Costs | Yes |

# Matthew R. Young

| Case/Tracking Number | Company Name | Scope of Issues | Testified at Hearing |
|---|---|---|---|
| WR-2017-0139 | Stockton Hills Water Company | Revenue, Expenses, Rate Base | |
| ER-2016-0285 | Kansas City Power & Light | Forfeited Discounts, Bad Debt Expense, Customer Growth, Cash Working Capital, Payroll and Payroll Related Costs, Incentive Compensation, Rate Case Expense, Renewable Energy Standards Cost Recovery, Property Taxes | Yes |
| SR-2016-0202 | Raccoon Creek Utility Operating Company | Rate Base | |
| ER-2016-0156 | KCP&L Greater Missouri Operations | Payroll, Payroll Benefits, Payroll Taxes, Incentive Compensation, Injuries and Damages, Insurance Expense, Property Tax Expense, Rate Case Expense | |
| SR-2016-0112 | Cannon Home Association | Revenues and Expenses, Rate Base | |
| WR-2016-0109<br>SR-2016-0110 | Roy-L Utilities | Revenues and Expenses, Rate Base | |
| WO-2016-0098 | Missouri American Water Company | ISRS Revenues | |
| WR-2015-0246 | Raytown Water Company | Revenues and Expenses, Rate Base | |
| SC-2015-0152 | Central Rivers Wastewater Utility | Verification of amounts identified in Complaint | |
| WR-2015-0104 | Spokane Highlands Water Company | Revenues and Expenses, Rate Base | |
| GR-2015-0026 | Laclede Gas Company | Plant Additions and Retirements, Contributions in Aid of Construction | |

# Matthew R. Young

| Case/Tracking Number | Company Name | Scope of Issues | Testified at Hearing |
|---|---|---|---|
| GR-2015-0025 | Missouri Gas Energy | Plant Additions and Retirements, Contributions in Aid of Construction | |
| WR-2015-0020 | Gascony Water Company | Revenues and Expenses, Rate Base | |
| SM-2015-0014 | Raccoon Creek Utility Operating Company | Sale of Assets, Rate Base, Acquisition Premium | |
| ER-2014-0370 | Kansas City Power & Light | Injuries & Damages, Insurance, Payroll, Payroll Benefits, Payroll Taxes, Property Taxes, Rate Case Expense | Yes |
| SR-2014-0247 | Central Rivers Wastewater Utility | Revenues and Expenses, Rate Base, Affiliated Transactions | |
| HR-2014-0066 | Veolia Energy Kansas City | Payroll, Payroll Benefits, Payroll Taxes, Bonus Compensation, Property Taxes, Insurance Expense, Injuries & Damages Expense, Outside Services, Rate Case Expense | |
| GO-2014-0179 | Missouri Gas Energy | Plant Additions, Contributions in Aid of Construction | |
| GR-2014-0007 | Missouri Gas Energy | Advertising & Promotional Items, Dues and Donations, Lobbying Expense, Miscellaneous Expenses, PSC Assessment, Plant in Service, Depreciation Expense, Depreciation Reserve, Prepayments, Materials & Supplies, Customer Advances, Customer Deposits, Interest on Customer Deposits | |
| SA-2014-0005 | Central Rivers Wastewater Utility | Application for Certificate, Revenue and Expenses, Plant in Service, Depreciation Reserve. Other Rate Base Items | |