

Exhibit No.:
Issue: Revenue Requirement
Witness: Greg R. Meyer
Type of Exhibit: Direct Testimony
Sponsoring Party: Noranda Aluminum, Inc.
Case No.: EC-2014-_____
Date Testimony Prepared: February 7, 2014

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

Noranda Aluminum, Inc.
(Complainant)

v.

Union Electric Company, d/b/a
Ameren Missouri (Respondent)

)
)
)
) **Case No. EC-2014-_____**
)
)
)

Direct Testimony of

Greg R. Meyer

On behalf of

Noranda Aluminum, Inc.

HIGHLY CONFIDENTIAL VERSION
****Denotes Highly Confidential Information****

February 7, 2014



Project 9852

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

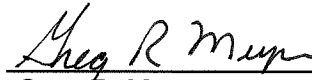
Noranda Aluminum, Inc. (Complainant))	
v.)	Case No. EC-2014-_____
Union Electric Company, d/b/a Ameren Missouri (Respondent))	

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of Greg R. Meyer

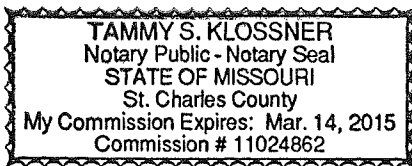
Greg R. Meyer, being first duly sworn, on his oath states:

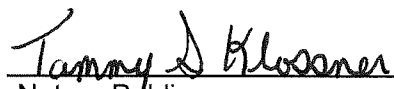
1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Noranda Aluminum, Inc. in this proceeding on its behalf.
2. Attached hereto and made a part hereof for all purposes is my direct testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. EC-2014-_____.
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.



Greg R. Meyer

Subscribed and sworn to before me this 7th day of February, 2014.





Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

<p>Noranda Aluminum, Inc. (Complainant)</p> <p style="text-align: center;">v.</p> <p>Union Electric Company, d/b/a Ameren Missouri (Respondent)</p>	<p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p>	<p>Case No. EC-2014-_____</p>
---	---	--------------------------------------

**Table of Contents to the
Direct Testimony of Greg R. Meyer**

I. INTRODUCTION.....	1
II. OVERVIEW.....	2
III. ADJUSTMENT DETAIL.....	8
Return On Equity.....	8
Rate Case Revenue Annualization	9
Elimination of Rate Refunds.....	11
Callaway Refueling Normalization	11
Long-Term Incentive and Stock Compensation Disallowance.....	13
Disallowance of Certain Miscellaneous & Advertising Expenses.....	14
Advertising Expense	14
Miscellaneous Expense.....	16
Steam Production Maintenance Expenses Normalization	19
Distribution Maintenance Expenses Normalization.....	20
Pensions and OPEB Expense	21
Annualization of Depreciation Expense	23
Annualization of Labor Expense	24
Healthcare Expense Annualization	26
Annualization of Amortization Expense.....	27
Interest on Customer Deposits Annualization	28

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

Noranda Aluminum, Inc. (Complainant))	
v.)	Case No. EC-2014-_____
Union Electric Company, d/b/a Ameren Missouri (Respondent))	

Direct Testimony of Greg R. Meyer

I. INTRODUCTION

1
2
3
4
5
6
7
8
9
10
11
12

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and an Associate of Brubaker
& Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to this testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of Noranda Aluminum, Inc. ("Noranda").
Noranda is Ameren Missouri's single largest customer.

1 Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A The purpose of my testimony is to discuss the current over-earnings of Union Electric
3 Company d/b/a Ameren Missouri (“Ameren Missouri” or “Company”). I will also
4 discuss the amount of revenue reduction, which will address the over-earnings while
5 continuing to allow Ameren Missouri the opportunity to earn a reasonable rate of
6 return.

7 Q **PLEASE DESCRIBE THE WITNESSES AND THE AREAS WHICH THEY WILL**
8 **DISCUSS.**

9 A Michael P. Gorman will provide testimony on the appropriate rate of return. I will
10 discuss the adjustments that I am proposing to Ameren Missouri’s surveillance data
11 for the 12 months ended September 30, 2013, and the development of the rate
12 reduction necessary for Ameren Missouri’s rates to be fair and reasonable.

13 **II. OVERVIEW**

14 Q **WHAT ARE THE RESULTS OF YOUR EARNINGS REVIEW?**

15 A I have determined that Ameren Missouri is earning above a reasonable rate of return,
16 as calculated by Mr. Gorman, by approximately **\$67 million.**

17 Q **WHAT INFORMATION DID YOU RELY ON TO PERFORM YOUR**
18 **CALCULATIONS?**

19 A I have relied on Ameren Missouri’s surveillance report provided to the parties in
20 conjunction with Ameren Missouri’s Fuel Adjustment Clause (“FAC”), Ameren
21 Missouri’s Federal Energy Regulatory Commission (“FERC”) Form 1 and Ameren’s
22 Investor Relations Earnings Report information. I also relied on the Missouri Public

1 Service Commission ("Commission") Staff's ("Staff") Accounting Schedules and
2 workpapers from Case No. ER-2012-0166.

3 The surveillance data I relied on is filed quarterly with the Commission Staff
4 and other parties to Ameren Missouri's FAC filings. The surveillance data is filed
5 approximately two months beyond the end of the quarter. The September 30, 2013
6 surveillance data that was used as the test year for this complaint was submitted in
7 November 2013. The surveillance data is classified as Highly Confidential, thus this
8 complaint filing has been prepared according to the Commission's confidential
9 procedure.

10 **Q WHAT TEST YEAR DID YOU UTILIZE TO DETERMINE THE OVER-EARNINGS OF**
11 **AMEREN MISSOURI?**

12 A The test year is the 12 months ended September 30, 2013. This is the most current
13 surveillance data available. I have made certain adjustments to this data to reflect
14 normalization, annualization and specific disallowances in determining Ameren
15 Missouri's earnings.

16 **Q WHAT IS THE CURRENT COMMISSION AUTHORIZED RETURN ON EQUITY**
17 **("ROE") FOR AMEREN MISSOURI?**

18 A The Commission determined in Ameren Missouri's last rate case (Case No.
19 ER-2012-0166) that a reasonable ROE was 9.8%.

1 Q WHAT ROE WAS REPORTED BY AMEREN MISSOURI IN THE SURVEILLANCE
2 REPORT BASED ON THE 12 MONTHS ENDED SEPTEMBER 30, 2013?

3 A Ameren Missouri reported a **10.32%** ROE for the 12 months ended
4 September 30, 2013. A **10.32%** ROE represents an approximate over-earnings
5 level of **\$29.2 million** above the Commission authorized ROE of 9.8%.

6 Q HOW LONG HAS AMEREN MISSOURI BEEN OVER-EARNING?

7 A Ameren Missouri's quarterly surveillance reports reflect earnings for the previous 12
8 months. Ameren Missouri's earnings have been above the Commission's authorized
9 level in each of these reports since **September 2012.**

10 Q DO YOU BELIEVE THAT THE RESULTS OF THE THIRD QUARTER
11 (SEPTEMBER 30, 2013) SURVEILLANCE REPORT SHOULD BE THE SOLE
12 BASIS FOR ALLEGING OVER-EARNINGS?

13 A No. I believe a further review of Ameren Missouri's operations must be conducted to
14 determine if the third quarter annual results are reflective of ongoing operations.
15 Based on that review, I have proposed several adjustments, which need to be made
16 to the September 30, 2013 test year surveillance data.

17 Q YOU TESTIFIED EARLIER THAT YOUR REVIEW OF AMEREN MISSOURI'S
18 OPERATIONS CONCLUDED THAT THE COMPANY WAS OVER-EARNING BY
19 APPROXIMATELY **\$67 MILLION.** CAN YOU PLEASE PROVIDE A BRIEF
20 DESCRIPTION ON HOW YOU DETERMINED THE **\$67 MILLION?***

21 A Yes. The **\$67 million** is developed in Table 1. Following Table 1, I will provide a
22 brief description of each adjustment.

TABLE 1

**Ameren Missouri's Over-Earnings
and Justified Rate Increase or Decrease**

Description	Amount of Rate Increase or Decrease (\$000)
Ameren Missouri's Earnings in Excess of 9.8% ROE as Reported in the September 30, 2013 Surveillance Report	** <u>(\$29,191)</u> **
<u>Adjustments to Reported Results</u>	
1. Rate of Return at 9.40%	** <u>(\$22,491)</u> **
2. Rate Case Revenue Annualization	(\$28,208)
3. Elimination of Rate Refunds	** <u>(\$25,548)</u> **
4. Callaway Refueling Normalization	(\$12,700)
5. Long-Term Incentive and Stock Compensation Disallowance	(\$13,927)
6. Disallowance of Certain Miscellaneous & Advertising Expenses	(\$ 2,009)
7. Steam Production Maintenance Expenses Normalization	\$ 28,161
8. Distribution Maintenance Expenses Normalization	\$ 18,189
9. Pensions and OPEB Expense	\$ 5,722
10. Annualization of Depreciation Expense	** <u>\$ 5,353</u> **
11. Annualization of Labor Expense	\$ 7,010
12. Healthcare Expense Annualization	\$ 656
13. Annualization of Amortization Expense	\$ 1,126
14. Interest on Customer Deposits Annualization	** <u>\$ 727</u> **
Adjusted September 30, 2013 Surveillance Earnings	** <u>(\$67,130)</u> **

- 1 ➤ **Rate of Return:** Mr. Michael P. Gorman proposes that Ameren Missouri's
- 2 ROE should be 9.40%.
- 3 ➤ **Rate Case Revenue Annualization:** I am proposing to decrease revenue
- 4 requirement for the three months of 2013 which do not reflect the increase
- 5 in base rates as a result of the Commission's decision in Case No.
- 6 ER-2012-0166.

- 1 ➤ **Elimination of Rate Refunds:** I am proposing to decrease revenue
2 requirement for the elimination of the rate refunds Ameren Missouri
3 recorded during the 12 months ended September 30, 2013.
- 4 ➤ **Callaway Refueling Normalization:** I am proposing to decrease
5 expenses associated with the Callaway refueling, which occurred in
6 April-May 2013. This adjustment normalizes the refueling expense to
7 reflect an annual level.
- 8 ➤ **Long-Term Incentive and Stock Compensation Disallowance:**
9 Consistent with the adjustments proposed in Case No. ER-2012-0166, I
10 am proposing to disallow the expenses associated with Ameren Missouri's
11 long-term incentive and stock compensation payments. This adjustment
12 decreases Ameren Missouri's revenue requirement.
- 13 ➤ **Disallowance of Certain Miscellaneous & Advertising Expenses:** I am
14 proposing to disallow certain miscellaneous and advertising expenses
15 consistent with the results of Ameren Missouri's last rate case. This
16 adjustment decreases Ameren Missouri's revenue requirement.
- 17 ➤ **Steam Production Maintenance Expenses Normalization:** I am
18 proposing to normalize the level of steam production maintenance
19 expenses. This adjustment increases Ameren Missouri's revenue
20 requirement.
- 21 ➤ **Distribution Maintenance Expenses Normalization:** I am proposing to
22 normalize the level of distribution maintenance expenses. This adjustment
23 increases Ameren Missouri's revenue requirement.
- 24 ➤ **Pensions and OPEB Expense:** I am proposing to increase Ameren
25 Missouri's pension expense above the level contained in the 12 months

1 ended September 30, 2013. This adjustment increases Ameren
2 Missouri's revenue requirement.

3 ➤ **Annualization of Depreciation Expense:** I am proposing to annualize
4 depreciation expense for the estimated plant additions through
5 December 31, 2013. This adjustment increases Ameren Missouri's
6 revenue requirement.

7 ➤ **Annualization of Labor Expense:** I am proposing to increase labor
8 expense, including payroll tax for wage increases for management and
9 contract employees, which took effect in 2013. This adjustment increases
10 Ameren Missouri's revenue requirement.

11 ➤ **Healthcare Expense Annualization:** I am proposing to increase Ameren
12 Missouri's healthcare expenses above the level contained in the 12
13 months ended September 30, 2013. This adjustment increases Ameren
14 Missouri's revenue requirement.

15 ➤ **Annualization of Amortization Expense:** I am proposing to annualize
16 the level of amortization expense which was included in Ameren
17 Missouri's last rate case. This adjustment increases Ameren Missouri's
18 revenue requirement.

19 ➤ **Interest on Customer Deposits Annualization:** I am proposing to
20 include in cost of service the interest on customer deposits. Since I have
21 included customer deposits as a reduction to rate base, I am including the
22 interest on that balance, which Ameren Missouri is required to pay to
23 customers for the time value of their money.

1 Q DO YOU HAVE ANY COMMENTS REGARDING YOUR EARNINGS REVIEW?

2 A Yes. I believe we have prepared a very thoughtful and conservative earnings review.
3 As Table 1 on page 5 shows, I am proposing approximately \$67 million of
4 adjustments, which raise Ameren Missouri's revenue requirement and lower its
5 overearnings. The adjustments I am proposing represent a fair assessment of
6 Ameren Missouri's on-going operations given the information I have available.

7 In particular, I would note that I have made significant upward adjustments to
8 expense categories where the recorded amount appeared unrepresentatively low
9 (e.g., steam production maintenance expense and distribution maintenance
10 expense). These adjustments have the effect of reducing the over-earnings by \$46
11 million. If the level of these expenses is the result of improved efficiencies rather than
12 any abnormalities, smaller adjustments may be appropriate.

13 **III. ADJUSTMENT DETAIL**

14 **Return On Equity**

15 Q HOW WAS THE RETURN ON EQUITY DETERMINED?

16 A The return on equity was determined by Mr. Michael P. Gorman. As discussed in his
17 testimony, he performed three versions of the Discounted Cash Flow ("DCF") model,
18 Risk Premium study, and Capital Asset Pricing Model ("CAPM") on a proxy group of
19 publicly traded companies that have investment risk similar to Ameren Missouri.
20 Based on these assessments, he estimates that Ameren Missouri's current market
21 cost of equity is 9.40%. A complete discussion of his analyses and conclusions is
22 contained in the testimony he filed in this complaint.

1 **Rate Case Revenue Annualization**

2 **Q PLEASE DESCRIBE THE ADJUSTMENT YOU HAVE PROPOSED FOR RATE**
3 **CASE REVENUES.**

4 A I am proposing to increase Ameren Missouri's revenues to recognize a full year of the
5 increase in Ameren Missouri's rates as a result of its last rate case (Case
6 No. ER-2012-0166). Therefore, I am proposing to increase Ameren Missouri's
7 revenues by approximately \$28 million, which results in an equal reduction to revenue
8 requirement. This adjustment increases Ameren Missouri's over-earnings.

9 **Q WHEN WAS THE EFFECTIVE DATE FOR NEW RATES IN CASE**
10 **NO. ER-2012-0166, AND HOW DOES THAT AFFECT THE ADJUSTMENT?**

11 A The effective date for new rates in Case No. ER-2012-0166 was January 2, 2013.
12 Since the new rates were only in effect during nine months of the September 30,
13 2013 year-ended surveillance data, there needs to be an adjustment to fully
14 recognize the annual rate increase as a result of Ameren Missouri's last rate case.
15 This adjustment captures the three months of increased revenues resulting from the
16 last rate case that the surveillance data does not reflect.

17 **Q HOW DID YOU CALCULATE THE \$28 MILLION ADJUSTMENT?**

18 A I started with the total rate increase granted by the Commission (\$259.6 million).
19 From that total, I subtracted the increase in net base fuel costs from the previous
20 Ameren Missouri rate case (\$93.6 million). I also subtracted the amount of Missouri's
21 Energy Efficiency Investment Act ("MEEIA") program costs included in rates (\$49.1
22 million). This left a total adjusted revenue requirement of \$117 million, which I spread
23 to the calendar months based on a normal distribution of revenues. Based on the

1 results of that distribution, I determined that \$28 million of the rate case revenues had
2 yet to be reflected in the 12 months ended September 30, 2013. Therefore, I am
3 proposing that Ameren Missouri's revenue requirement needs to be decreased to
4 reflect \$28 million of increased revenues to annualize the rate increase granted in
5 Ameren Missouri's last rate case.

6 **Q HOW DID YOU DETERMINE THE INCREASE IN NET BASE FUEL COSTS?**

7 A I calculated the change in net base fuel costs from Ameren Missouri's two most
8 recent rate cases – Case Nos. ER-2011-0028 and ER-2012-0166. In Case No.
9 ER-2011-0028, the parties stipulated that net base fuel costs were \$457.9 million. In
10 Case No. ER-2012-0166, the parties stipulated that net base fuel costs were \$551.5
11 million. The difference between these two figures is the \$93.6 million.

12 **Q HOW DID YOU DETERMINE THE AMOUNT FOR THE MEEIA COSTS?**

13 A I obtained that total from the Staff's revenue requirement calculation, which supported
14 the Commission's Final Order. Specifically, I found the total in the Staff's Detailed
15 Schedule of Adjustments - Adjustment E-166.8.

16 **Q WHY IS IT APPROPRIATE TO ELIMINATE NET BASE FUEL AND MEEIA**
17 **COSTS?**

18 A The revenues and costs associated with these items should be offsetting. The
19 amount of net base fuel cost included in the rates billed to customers is offset by an
20 equal charge to expense. Through the operation of the FAC, any actual fuel cost,
21 above or below the net base fuel cost billed to customers, is deferred for future
22 collection or refund. The estimated cost of MEEIA projects is included in customer

1 rates. The cost billed to customers is equal to the amount charged to expense.
2 There will be a true-up to actual MEEIA costs, including lost revenue, in a future
3 proceeding. Therefore, an annualization of the revenues for net base fuel and MEEIA
4 cost is unnecessary.

5 **Elimination of Rate Refunds**

6 **Q WHAT ARE RATE REFUNDS?**

7 A Rate refunds are recorded by the Company to reflect amounts owed to ratepayers
8 due to revenues collected through Ameren Missouri's FAC.

9 **Q WHY IS IT APPROPRIATE TO ELIMINATE RATE REFUNDS?**

10 A These refunds are due to an over-collection of fuel expense from a prior period.
11 Therefore, the refunds should be removed from the current period to accurately
12 reflect ongoing annual revenues.

13 **Q HOW DID YOU QUANTIFY THE AMOUNT OF THIS ADJUSTMENT?**

14 A Rate refunds are identified in a separate line item in Ameren Missouri's surveillance
15 reporting. The amount of rate refunds identified in the September 30, 2013
16 surveillance report was simply eliminated from the test year revenues.

17 **Callaway Refueling Normalization**

18 **Q PLEASE DESCRIBE THE CALLAWAY REFUELING ADJUSTMENT.**

19 A Callaway is taken out of service every 18 months to replace approximately one-third
20 of the fuel rods in the nuclear reactor. During the period April through May 2013,

1 Callaway was out of service for its 19th refueling since the beginning of commercial
2 operation.

3 In order to normalize the expenses associated with an 18-month refueling
4 cycle, approximately two-thirds of the incremental operating expenses incurred for a
5 refueling are included in Ameren Missouri's annual retail rates. This equates to an
6 annual ongoing level of expense to refuel the Callaway plant.

7 **Q HOW DID YOU QUANTIFY THE \$12.7 MILLION ADJUSTMENT YOU ARE**
8 **PROPOSING?**

9 A For purposes of Ameren Missouri's last rate case, Callaway was not out of service for
10 refueling during the test year. Therefore, the Staff proposed adjustments to reflect an
11 annual level of refueling expense in the cost of service. I summed the adjustments
12 that the Staff proposed in Ameren Missouri's last rate case. These adjustments
13 reflect including two-thirds of a Callaway plant refueling.

14 Since the 12 months ended September 30, 2013 include the cost of an
15 18-month refueling, one-third of the cost must be removed to reflect an annual level.
16 Therefore, I divided the amount of Staff's adjustment in the last case in half to
17 determine the one-third adjustment that needs to be made to the surveillance data as
18 of September 30, 2013. This adjustment normalizes the refueling cost incurred by
19 Ameren Missouri during the 19th refueling in the April-May 2013 timeframe. The
20 proposed \$12.7 million adjustment reduces expenses and decreases the Company's
21 revenue requirement, resulting in an increase in Ameren Missouri's over-earnings.

1 **Long-Term Incentive and Stock Compensation Disallowance**

2 **Q PLEASE EXPLAIN THIS ADJUSTMENT.**

3 A I have reduced operating expenses to reflect a disallowance of the amount of
4 long-term incentive and stock compensation paid to Ameren Missouri executives.

5 **Q HOW DID YOU QUANTIFY THE AMOUNT OF THIS ADJUSTMENT?**

6 A The amount of the adjustment equals the disallowance that was proposed by the
7 Staff in Ameren Missouri's most recent rate case, Case No. ER-2012-0166.

8 **Q HAS THIS ADJUSTMENT BEEN MADE BY BOTH THE STAFF AND AMEREN
9 MISSOURI IN PREVIOUS RATE CASES?**

10 A Yes. In recent rate cases, Ameren Missouri has not sought recovery in retail rates for
11 long-term incentives and stock compensation. As a result, both the Staff and Ameren
12 Missouri have made adjustments to eliminate all costs relating to these plans from its
13 revenue requirement.

14 **Q WHY IS THIS ADJUSTMENT APPROPRIATE?**

15 A Considering that Ameren Missouri has incurred these expenses in the past and both
16 the Staff and Ameren Missouri have made similar disallowances in all of the recent
17 rate cases, it is reasonable to assume that Ameren Missouri is continuing to provide
18 this compensation to its executives, which should be eliminated from the cost of
19 service. As a result, a similar adjustment is necessary in this complaint to restate
20 operating expenses to eliminate this item. The amount of the adjustment in Case
21 No. ER-2012-0166 provides the most recent level of long-term incentive and stock
22 compensation that was charged to operating and maintenance expense and is the

1 most reflective of the amount that should be eliminated in this complaint. Therefore, I
2 have reduced expense and decreased Ameren Missouri's revenue requirement,
3 resulting in an increase in Ameren Missouri's over-earnings.

4 **Disallowance of Certain Miscellaneous & Advertising Expenses**

5 ***Advertising Expense***

6 **Q PLEASE EXPLAIN THIS ADJUSTMENT.**

7 A I have reduced operating expenses to reflect a partial disallowance of advertising
8 expense.

9 **Q HOW DID YOU QUANTIFY THE AMOUNT OF THIS ADJUSTMENT?**

10 A The amount of the adjustment equals the advertising disallowance that was proposed
11 by the Staff in Ameren Missouri's most recent rate case, Case No. ER-2012-0166.

12 **Q HOW WAS THE STAFF'S ADJUSTMENT CALCULATED IN CASE**
13 **NO. ER-2012-0166?**

14 A Staff relied on the principles it has consistently applied, by adhering to the
15 Commission's decision in *Re: Kansas City Power and Light Company*, Case
16 Nos. EO-85-185, et al., 28 Mo.P.S.C. (N.S.) 228, 269-71 (1986). In that case, the
17 Commission adopted an approach that classifies advertisements into five categories
18 and provides recovery or disallowance based upon a specific rationale. The five
19 categories of advertisements recognized by the Commission are as follows:

- 20 1. General: informational advertising that is useful in the provision of
21 adequate service;
- 22 2. Safety: advertising which conveys the ways to safely use electricity and to
23 avoid accidents;

- 1 3. Promotional: advertising used to encourage or promote the use of
2 electricity;
- 3 4. Institutional: advertising used to improve the company's public image; and
- 4 5. Political: advertising associated with political issues.

5 The Commission utilized these categories of advertisements explaining that a
6 utility's revenue requirement should: (1) always include the reasonable and
7 necessary cost of general and safety advertisements; (2) never include the cost of
8 institutional or political advertisements; and (3) include the cost of promotional
9 advertisements only to the extent that the utility can provide cost-justification for the
10 advertisement.¹

11 **Q WHY IS THIS ADJUSTMENT APPROPRIATE?**

12 A In all of Ameren Missouri's most recent rate cases, the Staff has made a similar
13 adjustment to eliminate a portion of advertising expense. Therefore, it is reasonable
14 to assume that Ameren Missouri is continuing to engage in advertising that does not
15 meet the Commission's standard. As a result, a similar adjustment is necessary in
16 this complaint to restate operating expenses to eliminate a portion of advertising
17 expense. The amount of the adjustment in Case No. ER-2012-0166 provides the
18 most recent level of advertising expense that was incurred by Ameren Missouri, which
19 did not meet the Commission's standard and is most reflective of the expense level
20 that should be eliminated in this complaint.

¹Report and Order in KCPL Case Nos. EO-85-185, et al., 28 Mo.P.S.C. (N.S.) 228, 269-271 (April 23, 1986).

1 ***Miscellaneous Expense***

2 **Q PLEASE EXPLAIN THIS ADJUSTMENT.**

3 A I have reduced operating expenses to reflect a disallowance of miscellaneous
4 expenses that provide no benefit to ratepayers. These expenses include donations,
5 lobbying, other miscellaneous expenses and dues, including the dues paid to the
6 Edison Electric Institute (“EEI”).

7 **Q HOW DID YOU QUANTIFY THE AMOUNT OF THIS ADJUSTMENT?**

8 A The amount of the adjustment equals the miscellaneous expense disallowance that
9 was proposed by the Staff in Ameren Missouri’s most recent rate case, Case No.
10 ER-2012-0166.

11 **Q HOW WAS THE STAFF’S ADJUSTMENT CALCULATED IN CASE**
12 **NO. ER-2012-0166?**

13 A Staff reviewed a list of membership dues paid and donations made to various
14 organizations by Ameren Missouri. Staff disallowed these dues and donations
15 because they were not necessary for the provision of safe and adequate service, and
16 thus have no direct benefit to ratepayers. Allowing Ameren Missouri to recover these
17 expenses results in ratepayers becoming involuntarily contributors to these
18 organizations. An example of the type of expense Staff disallowed was Ameren
19 Missouri’s sponsorship of St. Louis Earth Day.

1 Q HAS THE COMMISSION APPROVED THESE TYPES OF DISALLOWANCES IN
2 THE PAST?

3 A Yes. In *Re: Missouri Public Service, a Division of UtiliCorp United, Inc.*, Case
4 Nos. ER-97-394, et al., Report and Order, 7 Mo.P.S.C.3d 178, 212 (1998), the
5 Commission stated:

6 The Commission has traditionally disallowed donations such as these.
7 The Commission finds nothing in the record to indicate any discernible
8 ratepayer benefit results from the payment of these donations. The
9 Commission agrees with the Staff in that membership in the various
10 organizations involved in this issue is not necessary for the provision of
11 safe and adequate service to the MPS ratepayers.

12 In addition to the above disallowances, Staff removed all costs related to
13 lobbying that were included in the membership dues to the various organizations, as
14 well as dues related to EEI.

15 Q HOW DID THE STAFF DETERMINE ITS DISALLOWANCE OF LOBBYING?

16 A As part of its analysis of dues, the Staff determined that some of the organizations
17 use a percentage of member payments to fund government affairs or lobbying
18 activities. Staff traditionally disallows the cost of these activities and the Commission
19 has historically supported these adjustments.

20 Q HOW DID THE STAFF DETERMINE ITS DISALLOWANCE OF EEI DUES?

21 A Based on the information reviewed by the Staff, part of EEI's function is to represent
22 the interests of the electric utility industry in legislative and regulatory arenas. This
23 function includes engaging in lobbying activities.

1 **Q HAS THE COMMISSION APPROVED THE DISALLOWANCES OF EEI DUES IN**
2 **THE PAST?**

3 A Yes. In Case No. ER-83-49, a KCPL rate increase case, 26 Mo.P.S.C. 104, 155
4 (1983), the Commission stated its position respecting EEI dues:

5 In the Company's last rate case, ER-82-66, the Commission reiterated
6 its position that while there may be some possible benefit to the
7 Company's ratepayers from Company's membership in EEI, the dues
8 would be excluded as an expense until the Company could better
9 quantify the benefit accruing to both the Company's ratepayers and
10 shareholders.

11 This position has been re-affirmed by the Commission in subsequent rate
12 proceedings. *In Re: Kansas City Power & Light Co.*, Case Nos. EO-85-185 et al.,
13 *Report and Order*, 28 Mo.P.S.C. (N.S.) 228, 259 (1986), the Commission stated:

14 The argument that allocation is not necessary if the benefits lessen the
15 cost of service to the ratepayers by more than the cost of the dues,
16 misses the point. It is not determinative that the quantification of
17 benefits to the ratepayer is greater than the EEI dues themselves. The
18 determining factor is what proportion of those benefits should be
19 allocated to the ratepayer as opposed to the shareholder. It is obvious
20 that the interests of the electric industry are not consistently the same
21 as those of the ratepayers. The ratepayers should not be required to
22 pay the entire amount of EEI dues if there is benefit accruing to the
23 shareholders from EEI membership as well. The Commission finds this
24 to be the case.
25

26 **Q WHY IS THIS ADJUSTMENT APPROPRIATE?**

27 A In past cases, the Staff has made a similar adjustment to eliminate a portion of
28 miscellaneous expenses. Therefore, it is reasonable to assume that Ameren Missouri
29 is continuing to incur these types of expenses. As a result, a similar adjustment is
30 necessary in this complaint to restate operating expenses to eliminate a portion of
31 miscellaneous expense. The amount of the adjustment in Case No. ER-2012-0166
32 provides the most recent level of miscellaneous expense that was incurred by
33 Ameren Missouri, which the Staff disallowed in accordance with prior Commission

1 orders. Therefore, this amount is the most reflective of the expense level that should
2 be eliminated in this complaint.

3 **Steam Production Maintenance Expenses Normalization**

4 **Q PLEASE DESCRIBE THE ADJUSTMENT YOU ARE PROPOSING.**

5 A I am proposing to increase expense by \$28.2 million for steam production
6 maintenance expenses. This adjustment will also increase Ameren Missouri's
7 revenue requirement by \$28.2 million.

8 **Q WHY ARE YOU PROPOSING TO INCREASE STEAM PRODUCTION**
9 **MAINTENANCE EXPENSE?**

10 A The level of steam production maintenance expense recorded on Ameren Missouri's
11 books for the 12 months ended September 30, 2013 appears low in relation to
12 previous years. I have prepared Table 2, which lists the historic levels of steam
13 production maintenance expense.

Year	Amount (\$000)
2008	\$120.2
2009	99.5
2010	113.0
2011	91.5
2012	91.3
12 Months Ended September 30, 2013	74.9
2008 - 2012 Average	103.1

Source: FERC Form 1 reported data.

1 As Table 2 illustrates, the level of steam production maintenance expense for
2 the 12 months ended September 30, 2013 is low compared to historic amounts.
3 Based on this information, I propose to increase steam production maintenance
4 expense by \$28.2 million. This adjusted amount reflects the average level of steam
5 production maintenance expense experienced during the five-year period ending
6 2012.

7 **Distribution Maintenance Expenses Normalization**

8 **Q PLEASE DESCRIBE YOUR PROPOSED ADJUSTMENT TO DISTRIBUTION**
9 **MAINTENANCE EXPENSES.**

10 A I am proposing to increase distribution maintenance expenses by \$18.2 million.

11 **Q WHAT IS THE BASIS FOR YOUR ADJUSTMENT?**

12 A The level of distribution maintenance expenses recorded for the 12 months ended
13 September 30, 2013 is low compared to the levels of maintenance expense recorded
14 annually for 2009 - 2011. I have prepared Table 3, which shows the annual totals for
15 each of the periods.

TABLE 3	
<u>Distribution Maintenance Expenses</u>	
<u>Year</u>	<u>Amount (\$000)</u>
2009	\$124
2010	\$116
2011	\$130
2012	\$102
12 months ended September 30, 2013	\$105
Average 2009 - 2011	\$123

Source: FERC Form 1 reported data.

1 . As can be seen from Table 3, the level of distribution maintenance expense in
2 2012 and the surveillance report is low compared to the historic levels.

3 Based on the above analysis, I believe the level of distribution maintenance
4 should be adjusted by \$18.2 million. This adjustment reduces Ameren Missouri's
5 excess earning and reflects the 2009 through 2011 average expense actually
6 experienced by the Company.

7 **Pensions and OPEB Expense**

8 **Q PLEASE EXPLAIN THE ADJUSTMENT YOU ARE PROPOSING FOR PENSION**
9 **EXPENSE.**

10 A I am proposing an adjustment to pension expense for the estimated increase in costs
11 through December 31, 2013, based on the rate of increase experienced by Ameren
12 Missouri as reported to the Securities and Exchange Commission in Forms 10K and
13 10Q ("SEC Reports") for the year ended 2012 and the nine months ended
14 September 30, 2013, respectively. I applied this rate of increase in pension cost to

1 the pension expense calculated in the true-up phase in the Company's most recent
2 rate case, Case No. ER-2012-0166.

3 **Q HOW DID YOU QUANTIFY THE AMOUNT OF THIS ADJUSTMENT?**

4 A An examination of the SEC Reports shows that the level of pension cost that was
5 built into the rates that were effective on January 2, 2013, as a result of the previous
6 rate case, was approximately equal to the level reported for the 12 months ended
7 December 31, 2012. Since pension expense is subject to a tracking mechanism, the
8 level of expense that is included in rates is also the on-going level that is being
9 expensed and reflected in the September 30, 2013 surveillance data. Any variance
10 from the expense level included in rates in the previous rate case, according to the
11 operation of the tracker, is deferred to a regulatory asset or liability.

12 The SEC Reports also showed that, through September 30, 2013, pension
13 cost increased by 9.5% compared to the December 31, 2012 level. This level of
14 increase equates to a 12.7% annual rate of increase. Using the 12.7% annual rate of
15 increase, I calculated the amount of adjustment necessary to escalate the pension
16 expense included in rates and reflected in the on-going expense level through
17 December 31, 2013. The amount of the adjustment to the pension expense reflected
18 in the September 30, 2013 test year is \$5.7 million.

19 **Q DID YOU PERFORM A SIMILAR ANALYSIS REGARDING OPEB COST?**

20 A Yes. An examination of the SEC Reports shows that the level of OPEB cost that was
21 built into the rates that were effective on January 2, 2013, as a result of the previous
22 rate case, was approximately equal to the level reported for the 12 months ended
23 December 31, 2012. Like pension expense, OPEB expense is also subject to a

1 tracking mechanism, which results in the level of expense that is included in rates
2 also being reflected in the on-going expense level included in the September 30,
3 2013 surveillance data. However, the SEC Reports showed that, through
4 September 30, 2013, OPEB cost did not exhibit any increase compared to the
5 December 31, 2012 level. Therefore, I am not proposing any adjustment to the
6 OPEB expense reflected in the September 30, 2013 surveillance data.

7 **Annualization of Depreciation Expense**

8 **Q PLEASE EXPLAIN THIS ADJUSTMENT.**

9 A I propose an annualization of depreciation expense for the estimated plant additions
10 through December 31, 2013.

11 **Q HOW DID YOU QUANTIFY THE AMOUNT OF THIS ADJUSTMENT?**

12 A I compared the July 31, 2012 plant investment that was included in Ameren
13 Missouri's most recent rate case with the level reported in Ameren Missouri's
14 September 30, 2013 surveillance report. Based on this comparison, I determined the
15 average monthly plant additions. I also used the depreciation schedule from the
16 Staff's ordered revenue requirement calculation to determine the composite
17 depreciation rate for Ameren Missouri's plant. Using the previously calculated
18 average monthly plant additions and composite depreciation rate, I adjusted the
19 depreciation expense included in the September 30, 2013 surveillance report to an
20 annualized level through December 31, 2013.

1 **Q WHY IS THIS ADJUSTMENT APPROPRIATE?**

2 A This adjustment accounts for the increased depreciation expense associated with the
3 plant investment Ameren Missouri will add through December 31, 2013. As a result
4 of this adjustment, the cost of service in this complaint reflects a level of depreciation
5 expense that has been updated consistent with other major expense items.

6 **Annualization of Labor Expense**

7 **Q DO YOU PROPOSE TO ADJUST LABOR EXPENSE FOR AMEREN MISSOURI?**

8 A Yes. I have proposed to annualize Ameren Missouri's labor costs through
9 December 31, 2013 to reflect estimated wage increases for both management and
10 contract employees.

11 **Q WHEN DO AMEREN MISSOURI'S MANAGEMENT AND CONTRACT**
12 **EMPLOYEES RECEIVE WAGE INCREASES?**

13 A Ameren Missouri's management employees are eligible to receive pay increases on
14 April 1, while the majority of Ameren Missouri contract employees are eligible to
15 receive pay increases on July 1.

16 **Q PLEASE DESCRIBE HOW YOU ANNUALIZED AMEREN MISSOURI'S LABOR**
17 **EXPENSE.**

18 A I obtained the labor dollars from the Staff's true-up workpapers in Ameren Missouri's
19 last rate case. The labor dollars were broken down between the management and
20 contract groups.

21 For management employees, I took the level of annualized payroll from the
22 workpapers and applied an estimated April 1, 2013 wage increase. I then pro-rated

1 that increase through the surveillance period of September 30, 2013. The wage
2 increase needed to be pro-rated as the September 30, 2013 Ameren Missouri results
3 already reflect the effects of the April 1 increase for three months. The annualization
4 of the management payroll resulted in a \$2.36 million increase in payroll expense.

5 For contract employees, I performed the same analysis as I did for
6 management employees. The majority of contract employees are eligible for wage
7 increases on July 1. Therefore, I have annualized contract payroll for an estimated
8 wage increase at July 1, 2013. The annualization of contract payroll resulted in a
9 \$4.18 million increase in payroll expense.

10 **Q YOU STATED THAT YOU USED ESTIMATED WAGE INCREASES FOR**
11 **MANAGEMENT AND CONTRACT EMPLOYEES. PLEASE DESCRIBE THE**
12 **ESTIMATED WAGE INCREASES YOU USED TO ANNUALIZE PAYROLL.**

13 **A** Management employees received approximately a 3.00% wage increase on April 1,
14 2012. I applied the 3.00% increase for the effect of the April 1, 2013 wage increase.
15 Contract employees received approximately a 3% wage increase on July 1, 2012. I
16 applied the 3% increase for the effect of the July 1, 2013 wage increase.

17 **Q DO YOU HAVE ANYTHING FURTHER TO DISCUSS REGARDING PAYROLL**
18 **EXPENSE?**

19 **A** Yes. I estimated the impact of the \$6.54 million increase in wages on payroll taxes. I
20 applied the applicable payroll tax rates to the increased wages and determined that
21 payroll taxes should be increased by \$0.47 million. Adding this amount to the
22 annualized wage total of \$6.54 million derives the total payroll adjustment of \$7.01
23 million.

1 **Healthcare Expense Annualization**

2 **Q PLEASE EXPLAIN THIS ADJUSTMENT.**

3 A I am proposing an adjustment to active employee medical benefits expense to
4 account for the expected increase in medical costs.

5 **Q HOW DID YOU QUANTIFY THE AMOUNT OF THIS ADJUSTMENT?**

6 A The starting place for this adjustment was the amount for employee medical benefits
7 charged to operation and maintenance expense that was included in the cost of
8 service in Ameren Missouri's most recent rate case, Case No. ER-2012-0166. This
9 amount was based on an annualization of the actual cost for the six months ended
10 July 31, 2012. I estimated the increase in these expenses included in the 12 months
11 ended September 30, 2013. I then escalated these expenses by the expected
12 increase in medical costs through December 31, 2013.

13 **Q WHAT SOURCE DID YOU EMPLOY TO DETERMINE THE INCREASE IN
14 MEDICAL COSTS?**

15 A The human resources consulting firm of Towers Watson & Company conducts annual
16 surveys of mid- to large-size companies regarding increases in medical costs. Based
17 on these surveys, the medical cost per employee was expected to rise by 5.9% for
18 2012 and 2013.

19 **Q WHY IS THIS ADJUSTMENT APPROPRIATE?**

20 A This adjustment addresses the expected continuing increase in health care costs. It
21 relies on the most recent costs included in Ameren Missouri's rates, which were
22 established in December 2012. In addition, the adjustment is based on an escalation

1 rate provided by a reliable source. As a result of this adjustment, the cost of service
2 in this complaint reflects a reasonable level of employee medical expense.

3 **Annualization of Amortization Expense**

4 **Q PLEASE EXPLAIN THIS ADJUSTMENT.**

5 A Included in Ameren Missouri's cost of service are several amortizations. An
6 amortization is a regulatory mechanism that spreads a cost over a multi-year period
7 to more accurately reflect an annual expense level. In the last Ameren Missouri rate
8 case some of the ongoing amortizations were reset to better reflect the period during
9 which rates were expected to be in effect. Resetting an expiring amortization over
10 the period rates will be in effect is designed to prevent the over-recovery of the cost.
11 .Also in the last Ameren Missouri rate case some new multiyear amortizations of
12 costs were established. Since the rates in the last case were established on
13 January 2, 2013, the effect of starting new amortizations or resetting existing
14 amortizations is only reflected for nine months in the test year ended September 30,
15 2013. Therefore, I am proposing an adjustment to reflect these amortizations over a
16 full 12-month period.

17 **Q HOW DID YOU QUANTIFY THE AMOUNT OF THIS ADJUSTMENT?**

18 A I examined the amortization expense items included in the Staff's calculation of the
19 "ordered" revenue requirement. For each item that reflected the establishment of a
20 new or reset amortization, I made an adjustment to recognize a full year of the
21 amortization.

1 **Q WHY IS THIS ADJUSTMENT APPROPRIATE?**

2 A By adjusting these amortizations to reflect a full 12 months, the amortization expense
3 level included in this complaint more accurately reflects the ongoing annual cost of
4 service.

5 **Interest on Customer Deposits Annualization**

6 **Q PLEASE EXPLAIN THIS ADJUSTMENT.**

7 A Customer deposits are funds collected from Ameren Missouri's ratepayers as security
8 against the potential loss due to a customer's failure to pay for utility service. Until the
9 deposit is refunded, it is a source of funds available to Ameren Missouri and is
10 included as an offset to the rate base investment. Interest is calculated on customer
11 deposits and paid to the customers for the use of their money. I have made an
12 adjustment to include this interest in Ameren Missouri's operating expense.

13 **Q WHY IS THIS ADJUSTMENT APPROPRIATE?**

14 A By adding the interest associated with the level of customer deposits included in rate
15 base to operating expense, the cost to Ameren Missouri associated with these funds
16 is included in the annual cost of service.

17 **Q HOW DID YOU QUANTIFY THE AMOUNT OF THIS ADJUSTMENT?**

18 A Ameren Missouri is required to pay interest on customer deposits at a rate equal to
19 the prime rate, as of the last day of November of the previous year, plus 1%. The
20 prime rate at November 30, 2013 was 3.25%. Therefore, I have included interest in
21 the cost of service equal to the amount of customer deposits recognized in rate base
22 multiplied by 4.25%.

1 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A Yes.

Qualifications of Greg R. Meyer

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am an Associate in the field of public utility regulation with the firm of Brubaker &
6 Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 A I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree
10 in Business Administration, with a major in Accounting. Subsequent to graduation I
11 was employed by the Missouri Public Service Commission. I was employed with the
12 Commission from July 1, 1979 until May 31, 2008.

13 I began my employment at the Missouri Public Service Commission as a
14 Junior Auditor. During my employment at the Commission, I was promoted to higher
15 auditing classifications. My final position at the Commission was an Auditor V, which I
16 held for approximately ten years.

17 As an Auditor V, I conducted audits and examinations of the accounts, books,
18 records and reports of jurisdictional utilities. I also aided in the planning of audits and
19 investigations, including staffing decisions, and in the development of staff positions in
20 which the Auditing Department was assigned. I served as Lead Auditor and/or Case

Greg R. Meyer
Appendix A
Page 1

1 Supervisor as assigned. I assisted in the technical training of other auditors, which
2 included the preparation of auditors' workpapers, oral and written testimony.

3 During my career at the Missouri Public Service Commission, I presented
4 testimony in numerous electric, gas, telephone and water and sewer rate cases. In
5 addition, I was involved in cases regarding service territory transfers. In the context of
6 those cases listed above, I presented testimony on all conventional ratemaking
7 principles related to a utility's revenue requirement. During the last three years of my
8 employment with the Commission, I was involved in developing transmission policy
9 for the Southwest Power Pool as a member of the Cost Allocation Working Group.

10 In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a
11 Consultant. Since joining the firm, I have presented testimony and/or testified in the
12 state jurisdictions of Florida, Idaho, Illinois, Indiana, Maryland, Missouri and
13 Washington. I have also appeared and presented testimony in Alberta and Nova
14 Scotia, Canada. These cases involved addressing conventional ratemaking
15 principles focusing on the utility's revenue requirement. The firm Brubaker &
16 Associates, Inc. provides consulting services in the field of energy procurement and
17 public utility regulation to many clients including industrial and institutional customers,
18 some utilities and, on occasion, state regulatory agencies.

19 More specifically, we provide analysis of energy procurement options based
20 on consideration of prices and reliability as related to the needs of the client; prepare
21 rate, feasibility, economic, and cost of service studies relating to energy and utility
22 services; prepare depreciation and feasibility studies relating to utility service; assist
23 in contract negotiations for utility services, and provide technical support to legislative
24 activities.

1 In addition to our main office in St. Louis, the firm has branch offices in
2 Phoenix, Arizona and Corpus Christi, Texas.

\\Doc\Shares\ProlawDocs\SDW\9852\Testimony-BAI\252162.docx

Greg R. Meyer
Appendix A
Page 3