Exhibit No.:
Issue(s): Board of Directors' Expense, Miscellaneous Expenses, Membership Dues, Bad Debt Expense, Insurance Expense, Remodeling Costs
Witness: Blair Hardin
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal / True-Direct Testimony
Case No.: ER-2024-0319
Date Testimony Prepared: February 14, 2025

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL / TRUE-UP DIRECT TESTIMONY

OF

BLAIR HARDIN

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2024-0319

Jefferson City, Missouri
February 2025

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d/b/a Ameren Missouri

CASE NO. ER-2024-0319

Q. Please state your name and business address.

A. Blair Hardin, 111 North 7th Street, Suite 105, St. Louis, Missouri 63101.

Q. Are you the same Blair Hardin that filed Direct testimony on December 3, 2024, and Rebuttal testimony on January 17, 2025, in this case?

A. Yes.

Q. What is the purpose of your Surrebuttal / True-Up Direct testimony?

A. My Surrebuttal testimony will address the Rebuttal testimony of Ameren Missouri witnesses Stephen J. Hipkiss regarding Board of Directors' Fees and Expenses and Miscellaneous Expenses; Benjamin Hasse regarding Bad Debt Expense, and Charles Steib regarding Membership Dues. This testimony will also address issues analyzed and updated as part of Staff's true-up audit.

BOARD OF DIRECTORS' FEES AND EXPENSES

Q. Has Staff fixed the charter flights allocation to reflect only the electric portion of those costs?

A. Yes. In my Rebuttal testimony, Staff addresses that the allocation factor was fixed, and the charter flights should reflect the electric portion only.

Q. In his Rebuttal testimony, Ameren Missouri witness Mr. Hipkiss states that:

> Of the costs included in Staff's adjustment, $54,619 have no relation to Board of Directors' meetings. Instead, these are primarily ordinary and necessary business travel expenses for Ameren Missouri employees who are required to travel away from home as part of their job duties, or who are attending industry conferences and trainings. Staff's adjustment also includes various professional services expenses, primarily for audio/visual services for internally produced employee training sessions.[1]

How does Staff respond?

A. The costs are related to luxury hotels, entertainment, and alcohol purchases. They are not necessary for providing safe and reliable service to ratepayers.

Q. In Mr. Hipkiss' Rebuttal testimony[2], he states that Staff did not allocate its adjustments to the gas operations. How does Staff reply?

A. Staff fixed this error in its Rebuttal testimony by removing the gas portion of the expenses from Staff's proposed adjustment to electric operations.

Q. Does Staff agree with Ameren Missouri's proposed adjustment for the Board of Directors' expense in the updated response to Staff data request ("DR") 0217?

A. After closer review of DR 0217, Staff agrees with Ameren Missouri's proposal to remove $238,909 from its hotel costs and other Board of Directors' meeting expenses.

MISCELLANEOUS EXPENSES

Q. In Mr. Hipkiss' Rebuttal testimony, he states:

> Employee expenses are an ordinary and necessary component to operating a business and to the provision of utility service, as acknowledged by regulators such as the FERC[3] and the Internal Revenue Service ("IRS"). The Operating Expense Instructions to the USoA[4] states that above-the-line electric utility non-labor operating expenses

[1] Hipkiss Rebuttal pg. 26 (Ll. 9-15)
[2] Hipkiss Rebuttal pg. 27 (Ll. 4-5)
[3] Federal Energy Regulatory Commission.
[4] Uniform System of Accounts

> include, 'Meals, traveling and incidental expenses'. Furthermore, the IRS' Publication 463 (2023), Travel, Gift, and Car Expenses provides guidance on the deductibility of employee travel and meals that are determined to be 'ordinary and necessary business-related expenses.'"[5]

How does Staff respond?

A. Staff acknowledges that employees are going to incur expenses when performing job duties for their employer. Staff disagrees that the items proposed for disallowance consititute a "universal disallowance of employee expenses," as is portrayed by Mr. Hipkiss. The expenses that Staff disallowed pertained to alcohol purchases and entertainment purposes. Some examples of the entertainment expenses are the St. Louis Cardinals game, the putt shack, and a limousine. These costs can be controlled as they are not needed to provide adequate service at just and reasonable rates and can help to keep customers rates low.

Q. In Staff's direct filing, did Staff include a disallowance of $5,000 for a real estate appraisal?[6]

A. Yes. Staff disallowed a $5,000 lease valuation for Ameren Missouri's Meramec plant in its direct filing; however, Staff conducted further discovery in DR 0711. Ameren stated that their real estate valuation services (both valuing real property they are considering selling and real property they are considering purchasing) was going to be a recurring expense, so Staff has allowed this charge back into rates.

[5] Hipkiss Rebuttal testimony pg. 35 (Ll. 5-12)
[6] Hipkiss Rebuttal Testimony, Page 36, lines 1-9.

BAD DEBT EXPENSE

Q. In Ameren witness Mr. Hasse's Rebuttal testimony, he states that, "Staff has, without a valid reason, abandoned the methodology they have utilized in the four most recent Ameren Missouri rate cases of utilizing actual net write-offs over a 12-month period to determine the level of bad debt expense to include in the revenue requirement and is instead proposing to normalize these costs using a three-year average."[7] How does Staff reply?

A. Staff has not abandoned its methodology in determining the proper amount of expense to include in rates, in this case bad debt expense. It appears Ameren Missouri believes that once Staff uses a methodology, it is bound by that methodology moving forward. When reviewing any aspect of the cost of service, Staff will review the costs involved and the supporting documentation presented by the company, then seek further discovery to determine what is affecting a level of revenue, expense, or investment. Circumstances change from case to case that can have an effect on how Staff proposes a normalization method.

Staff did just that in Staff DR 0586. Specifically, Staff asked Ameren Missouri to explain why its net write offs for 2023 was the highest amount compared to the prior years since 2016. Ameren Missouri responded to Staff, stating that "in 2023, there were a number of economic factors/changes that impacted our customers financially that resulted in an overall increase in our year-end net-write offs: Energy Assistance funding received from LIHEAP[8] was reduced as a result of COVID Federal stimulus funding going away, inflation hit an all-time high, and overall commodity prices for many necessary consumer goods continued to grow, resulting in customers having a higher expense to income ratio and having to make decisions on where to spend their already stretched money. According to data from the New York Federal

[7] Hasse Rebuttal testimony pg. 2 (Ll. 13-17)
[8] Low Income Home Energy Assistance Program

Reserve Bank's Household Debt and Credit Report, consumer debt topped 1 trillion."[9] As a result of this spike in their data, Staff took a three-year average to normalize bad debt expense.

Q. On page 4, lines 11-16 of Mr. Hasse's Rebuttal testimony, he argues that Staff's position on Ameren Missouri's 2023 level of bad debt expense is based on the flawed presumption that the same or new economic factors and inflation pressures will not exist in 2024 or in the future.

A. While inflation is one of the various factors that can affect bad debt levels, it is not the only factor that may impact bad debt levels. For instance, in the response to Staff DR 0586, Ameren Missouri states that it incurred some unexpected write-offs in 2023 tied to the closing of healthcare facilities. This is an occurrence that could increase the level of bad debts in 2023 but not 2024.

Q. Starting on page 4, line 17-20 and on page 5, lines 1-4, of Mr. Hasse's Rebuttal, he discusses Staff's position, utilizing the last known 12 months ending March 31, 2024, bad debt amounts rather than an average, as used in the recent Evergy Missouri West[10] and Liberty Midstates Gas[11] rate cases. Does Staff's method used in those cases have any bearing on what Staff proposes in this current Ameren Missouri electric rate case?

A. No. While attempting to remain consistent in its methods, rate case to rate case, Staff takes into account the data and background information for each utility and proposes adjustments based upon the circumstances that exist for the utility reviewed. Ameren Missouri, Evergy Missouri West, and Liberty Midstates Gas all have different customer bases located in

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[9] Staff Data Request 0586 (ER-2024-0319)
[10] File No. ER-2024-0189
[11] File No. GR-2024-0106

different parts of the state, with customers in rural, urban, and suburban areas. Inflation may be universal but it is not the only item that affects bad debt.

Q. Mr. Hasse discusses on page 5, lines 11-18, of his Rebuttal testimony that bad debt expense is a function of revenues because it is strongly correlated to the amount of sales made by the Ameren Missouri, so as sales revenue increases, so does the potential for write-offs. Does Staff agree with this logic?

A. No. Net write-offs relate to amounts owed to a utility that are net of amounts that were able to be recovered. Just because revenues increase does not mean it is directly tied to an increase in net-write-offs. For example, there may be a period of time where the collections company can recover a large amount of uncollectibles and other times they may not be able to recover any. Also, if a customer loses their job, the inability to pay that person's bill has no bearing on what level of revenue the utility has. They cannot pay their bill regardless of whether the utility's revenue goes up or down.

MEMBERSHIP DUES

Q. In Ameren Missouri witness Charles Steib's Rebuttal testimony, he states that "witness Hardin states that dues related to EEI[12], UWAG[13] and GSLI[14] were removed 'due to their lobbying affiliations.' Later in my testimony, I will show that the Company has already reviewed the invoices of these organizations and removed the portion of these membership dues related to lobbying activities from its revenue requirement."[15] How does Staff respond?

[12] Edison Electric Institute.
[13] Utility Water Act Group.
[14] Greater St. Louis Inc.
[15] Steib Rebuttal testimony pg. 3 (Ll. 1-5)

A. Staff is seeking further discovery on what percentage of these membership dues were recorded below-the-line for the lobbying piece to ensure the appropriate amount was removed. However, Staff is removing all EEI dues from the test year consistent with multiple prior Commission Reports and Orders. In the Commission's Report and order in Kansas City Power & Light Company ("KCPL")[16] Case No. ER-81-42, the Commission stated the following:

> The rule has always been that dues to organizations may be allowed as operating expenses where a direct benefit can be shown to accrue to the ratepayers of the company. Conversely, where that sort of benefit does not appear, disallowance of the dues is required. It follows that the mere fact that an activity might fall within the very broad general definition of lobbying as used by Public Counsel should not necessarily mean that it is an improper expense for ratemaking purposes. This question is one of benefit or lack of benefit to the ratepayers.[17]

In the Commission's Report and Order in KCPL Case No. ER-83-49, The Commission adopted a criterion to determine whether a portion of EEI dues should be allowed into rates:

> The Commission finds that the Company's analysis to be faulty in that the Company has quantified the benefits to the ratepayers but has ignored any potential benefit to the shareholders. It is entirely possible that the amount of monetary benefit to the shareholders could exceed the amount of alleged benefit to the ratepayers. In that event the shareholders should bear a larger portion of the EEI dues than the ratepayers. Thus, the Company has not met its burden of proof of the proper assignment of EEI dues based on the respective benefit to the two involved groups. In the absence of that allocation the EEI dues should be excluded as an expense for setting the permanent rates in this matter.[18]

By Staff disallowing all EEI dues in this case, it remains consistent with the Commission's guidance in Commission's order in Case No. ER-83-49 because Ameren Missouri has not

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[16] Evergy Missouri Metro, formerly known as Kansas City Power & Light Company (KCPL).
[17] Commission Reports, 25 Mo. P.S.C. (N.S.), page 244.
[18] Commission Reports, 26 Mo. P.S.C. (N.S.), page 115.

provided an assessment of the benefits of this membership to their shareholders. The Commission also found that EEI dues should not be included in rates from KCPL's 1982 rate case, Case No. ER-82-66. The Commission stated the following:

> …until the Company (KCPL) can better quantify the benefit and the activities that were the causal factor of the benefit, the Commission must disallow EEI dues as an expense.[19]

Q. In his rebuttal testimony Mr. Steib states that "EEI is also required to report that part of its dues go to lobbying activities. EEI's IRS-required report indicates that 13.5% of its dues go to pay lobbying and political activities."[20] How does Staff respond?

A. According to EEI's public quarterly lobbying reports, EEI has spent a little over $11M for lobbying in 2023. Also within this public lobbying report, 16.4% of EEI dues were used for lobbying activities, and they project 16% for 2024.[21] As stated earlier, Staff has also submitted discovery to ensure the proper amount of dues have been recorded below the line.

Q. Has the Commission provided guidance on how to approach EEI lobbying costs in previous cases?

A. Yes. In Case No. ER-82-39, the Commission report and order states:

> The two percent figure, however is based solely on the amount reported by EEI pursuant to the Federal Registration of Lobbying Act, 2 U.S.C. Section 267(a). That federal statute requires any person engaged for pay in attempting to influence the passage or defeat of any legislation by the United States congress to register with the Clerk of Congress and to file a quarterly verified report of all money received and expended by such person during the previous calendar quarter in carrying on his work. By its own terms, the Act does not apply to any person who "merely appears before a committee of the Congress of the United States in support of or in opposition to legislation." Nor does the Federal Registration of Lobbying Act require EEI to report expenditures related to its efforts to influence the Executive Branch of the federal government, regulatory

[19] See in the Matter of Kansas City Power & Light Co., 28 MO P.S.C. (N.S.) 228, 259 (1986).
[20] Steib Rebuttal testimony pg. 8 (Ll. 1-3)
[21] Edison Electric Institute, 2024 Lobbying, Advocacy, and Other Expenditures, pg. 4

> commissions and Presidential task forces, or its efforts related to its support of witnesses testifying before Congressional committees.

The report and order continues as follows:

> The Commission has heard this two percent argument concerning EEI's lobbying activities on numerous occasions in the past, and has uniformly rejected that argument. The Commission holds that the fact that EEI reports two percent of its expenditures as lobbying expense under the Federal Regulation of Lobbying Act is irrelevant to the Commission's consideration of this issue.[22]

Q. In his Rebuttal testimony, Mr. Steib states that Ameren Missouri agrees with Staff's removal of Chamber of Commerce dues. However, Ameren Missouri does not agree with Staff disallowing $476,211 of GSLI dues and $63,311 of UWAG dues, along with $65,107 in other miscellaneous dues and expenses. How does Staff respond?

A. The Commission's report and order in Case No. EO-85-185, page 261, states four criteria established by Staff and accepted by the Commission, for disallowance of dues and donations:

(1) involuntary ratepayer contributions of a charitable nature;

(2) supportive of activities which are duplicative of those performed by other organizations to which the Company belongs or pays dues;

(3) active lobbying activities which have not been demonstrated to provide any direct benefit to the ratepayers; or,

(4) costs of other activities that provide no benefit or increased service quality to the ratepayer.[23]

Staff used the criteria above to establish the appropriate disallowances of dues and donations.

Q. Has the Commission determined the rules of recovery of dues and donations?

[22] Commission Reports, 25 Mo. P.S.C. (N.S.), page 145.
[23] Commission Reports, 28 Mo. P.S.C. (N.S) page 261.

A. Yes. In the Report and Order in GR-96-285, the Commission confirmed its decision in KCPL Case Nos. EO-85-185, ER-83-49, ER-82-66, & ER-82-180. The Commission stated:

> The rule has always been that dues to organizations may be allowed as operating expenses where a direct benefit can be shown to accrue to the ratepayers of the company. Conversely, where that sort of benefit does not appear, disallowance of the dues is required.[24]

Q. Did Ameren Missouri provide an analysis to delineate and clarify the benefits and costs that accrue to ratepayers as opposed to shareholders for the EEI, GSLI, and UWAG dues?

A. No.

<u>TRUE-UP</u>

Q. What adjustments are you sponsoring for True-up?

A. I am sponsoring Insurance expense and Bad debt expense for the True-Up audit. Also, I will be discussing the remodeling costs from my Rebuttal testimony.

Insurance Expense

Q. What is Staffs True-Up position for insurance expense?

A. Staff agrees with Ameren Missouri's true-up position, as the insurance policies have been renewed for the upcoming year.

Bad Debt Expense

Q. What is Staff's True-Up position for bad debt expense?

[24] Commission Reports, 5 Mo. P.S.C 3d., page 455.

A. Staff agrees with Ameren Missouri's true-up position to take last known at December 31, 2024. When Staff filed its Direct testimony, we did not have all of the data for 2024. Now, having seen information for all of the year 2024, it shows that there was a slight decrease in bad debt expense from 2023, so Staff will move to accept Ameren Missouri's position.

Remodeling Costs

Q. In OPC DR100, Ameren states "The costs of the design work was $34,030.50 and is recorded to non-utility plant (these costs were inadvertently included in plant-in-service in File No. ER-2022-0337; an adjustment will be made in this case (ER-2024-0319) to remove these costs from plant-in-service)."[25] Does Staff agree that Ameren Missouri should remove the remodeling costs from the cost of service and transfer these assets to non-utility plant?

A. Yes. Staff agrees with Ameren Missouri that the interior design costs should be transferred to non-utility plant and no longer be included in customer rates. Ameren Missouri has relayed to Staff that the remodeling costs are not included in the plant and reserve balances at December 31, 2024.

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

A. Yes it does.

[25] OPC DR 1100

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 Adjust Its Revenues for Electric Service	)))	Case No. ER-2024-0319

AFFIDAVIT OF BLAIR HARDIN

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

COMES NOW BLAIR HARDIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal / True-Up Direct Testimony of Blair Hardin*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Blair Hardin

BLAIR HARDIN

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of St. Louis, State of Missouri, at my office in St. Louis, on this 11th day of February 2025.

LISA M. FERGUSON
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: June 23, 2028
Commission Number: 16631502

Lisa M. Ferguson

Notary Public