

Exhibit No.:

*Issue(s): Incentive Compensation,
Payroll, Payroll Taxes,
Employee Benefits,
Severance Expense,
Pensions and OPEBs, Non-
Qualified Pension Expense*

Witness: Amanda C. McMellen

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: GR-2024-0369

Date Testimony Prepared: February 28, 2025

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

AMANDA C. MCMELLEN

**UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri**

CASE NO. GR-2024-0369

*Jefferson City, Missouri
February 2025*

**** Denotes Confidential Information ****

1
2
3
4
5
6
7
8
9
10
11
12
13
14

**TABLE OF CONTENTS OF
DIRECT TESTIMONY OF
AMANDA C. MCMELLEN
UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri
CASE NO. GR-2024-0369**

EXECUTIVE SUMMARY1
INCENTIVE COMPENSATION.....1
PAYROLL AND PAYROLL TAXES5
EMPLOYEE BENEFITS6
SEVERANCE EXPENSE6
PENSIONS AND OPEBS7
NON-QUALIFIED PENSION EXPENSE.....10

1 **DIRECT TESTIMONY**

2 **OF**

3 **AMANDA C. MCMELLEN**

4 **UNION ELECTRIC COMPANY,**
5 **d/b/a Ameren Missouri**
6

7 **CASE NO. GR-2024-0369**

8 Q. Please state your name and business address.

9 A. My name is Amanda C. McMellen. My business address is 200 Madison Street,
10 Suite 440, Jefferson City, MO 65101..

11 Q. Have you previously filed testimony before this Commission?

12 A. Yes. Please refer to Schedule ACM-d1, attached to this direct testimony, for a
13 list of cases for which I have filed testimony and a description of my credentials.

14 **EXECUTIVE SUMMARY**

15 Q. What is the purpose of your direct testimony?

16 A. The purpose of this direct testimony is to present Staff's recommendations for
17 the following items: incentive compensation, payroll, payroll taxes, employee benefits,
18 severance expense, pensions and other post-employment benefits ("OPEBs"), and
19 non-qualified pension expense.

20 **INCENTIVE COMPENSATION**

21 Q. What is incentive compensation?

22 A. Incentive compensation is a variable component of an employee's compensation
23 that rewards them for achieving specific goals or objectives.

1 Q. What types of incentive compensation does Ameren Missouri offer to
2 its employees?

3 A. Ameren Missouri offers a short-term incentive plan (“STIP”), a long-term
4 incentive plan (“LTIP”), and exceptional performance bonuses (“EPB”).

5 **Short-Term Incentive Plan**

6 Q. Please describe Ameren Missouri’s STIP.

7 A. ** [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED] **. ¹

13 Q. How did Staff evaluate short-term incentive compensation expense in this case?

14 A. Staff relied upon the guidance provided by the Commission in
15 Case No. EC-87-114:

16 At a minimum, an acceptable management performance plan should
17 contain goals that improve existing performance and the benefits of the
18 plan should be ascertainable and reasonably related to the plan.²

19 The Commission provided additional guidance in Case No. ER-2006-0314:

20 ...[M]aximizing [Earnings Per Share] could compromise service to
21 ratepayers, such as by reducing customer service or tree trimming costs,
22 the ratepayers should not have to bear that expense.

23 Q. Does Staff recommend an adjustment to Ameren Missouri’s short-term
24 incentive compensation expense?

¹ Staff Data Request No. 0081

² Mo. P.S.C. (N.S.) 313, 325, (1987).

1 A. Yes. Staff recommends an adjustment to remove STIP amounts awarded for
2 earnings-based metrics.

3 **Long-Term Incentive Plan**

4 Q. What is long-term incentive compensation?

5 A. Long-term incentive pay is a strategy that rewards employees for achieving
6 goals over a period of time, usually more than one year.

7 Q. How is Ameren Missouri's long-term incentive compensation provided?

8 A. LTIP awards are provided in the form of Ameren Corporation common stock.

9 Q. Why does Ameren offer this plan to eligible officers and leadership?

10 A. According to the 2023 and 2024 Ameren Missouri LTIP plan documents
11 provided in response to Staff Data Request No. 0081, ** [REDACTED]

12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED] **. Shares paid in satisfaction of the LTIP awards may, at Ameren
17 Missouri's discretion, be newly issued shares or may be shares purchased on the open market.
18 In recent years, Ameren Missouri has elected to issue new shares to satisfy the LTIP awards.³

19 Q. Does Ameren Missouri require and/or encourage its leaders and officers to own
20 Ameren Corporation stock?

21 A. ** [REDACTED]
22 [REDACTED]

³ Staff Data Request No. 0263

1 [REDACTED]
2 [REDACTED] T
3 [REDACTED] **.

4 Q. How did Staff evaluate Ameren Missouri’s long-term incentive compensation?

5 A. Staff used the same guidance provided by the Commission as it applied to
6 Ameren Missouri’s short-term incentive compensation.⁴

7 Q. Does Staff recommend adjustments to LTIP in this case?

8 A. Yes. Staff recommends removing all long-term incentive compensation expense
9 from rates in this case.

10 Q. Why does Staff recommend exclusion of this expense?

11 A. Ownership of Ameren Corporation common stock creates a common interest
12 between Ameren Missouri’s eligible officers, ALT, and Ameren shareholders, which is to
13 increase the value of Ameren stock. As this is a shareholder benefit, the cost should not be
14 borne by Ameren Missouri electric ratepayers.

15 **Exceptional Performance Bonus**

16 Q. What are exceptional performance bonuses?

17 A. In addition to Ameren Missouri’s short-term and long-term incentive programs,
18 Ameren Missouri has a third program called the Exceptional Performance Bonus (“EPB”)
19 Program. ** [REDACTED]

20 [REDACTED]
21 [REDACTED] **. ⁵

⁴ See above section pertaining to Ameren’s STIP for references to Commission guidance.
⁵ ER-2024-0319 Staff Data Request No. 0311

1 Q. Does Staff recommend an adjustment to EPB expense in this case?

2 A. Yes. Consistent with Staff's approach in Case No. ER-2022-0337, Staff
3 recommends including a normalized level of EPB expense based on an average of actual
4 payouts made during the three most recent calendar years.

5 **PAYROLL AND PAYROLL TAXES**

6 Q. What is Staff's recommendation for payroll expense?

7 A. Staff recommends including an annualized level of payroll expense for contract
8 and management employees which includes a wage increase that became effective on
9 January 1, 2024⁶. Staff also adjusted payroll expense to reflect changes in employee levels
10 through June 30, 2024.

11 Q. Does Staff recommend an adjustment to payroll taxes?

12 A. Yes. Staff recommends annualizing payroll taxes by applying the current
13 Federal Insurance Contributions Act ("FICA"), Federal Unemployment Tax Act ("FUTA"),
14 and State Unemployment Tax Act ("SUTA") tax rates to the annualized payroll amount as of
15 June 30, 2024.

16 Q. Will these items be addressed as part of Staff's true-up audit?

17 A. Yes. Staff will recommend true-up adjustments to include changes in staffing
18 levels at the December 31, 2024, true-up cutoff date, as well as wage increases for contract and
19 management employees which took effect on January 1, 2025. Staff will also recalculate

⁶ For the purposes of calculating the annualized effect of the wage increases, Staff removed all incentive compensation and bonus payments from the test year payroll expense in order to isolate base payroll expense before applying the wage increases.

1 payroll taxes based on annualized payroll through the December 31, 2024, true-up cutoff date.

2 This treatment is consistent with Staff's approach in past Ameren Missouri rate cases.

3 **EMPLOYEE BENEFITS**

4 Q. Please explain this issue.

5 A. Ameren Missouri provides benefits to current employees including medical,
6 dental, and vision insurance, and 401(k) retirement savings. An ongoing amount of employee
7 benefit expense needs to be determined and subsequently included in Ameren Missouri's cost
8 of service.

9 Q. What is Staff's recommendation regarding employee benefits?

10 A. Staff recommends annualizing employee benefits expenses based on actual
11 benefits expense levels at June 30, 2024, the update period in this case. Staff will reexamine
12 these costs as part of its true-up audit.

13 **SEVERANCE EXPENSE**

14 Q. Please explain this issue.

15 A. Severance payments are compensation awards provided to employees who are
16 involuntarily terminated from their jobs.

17 Q. Were there any severance payments made during the 12 months ending
18 March 31, 2024, the test year period in this case?

19 A. Yes, severance payments were made to six employees during the test year.

20 Q. What is Staff's recommendation regarding severance costs?

21 A. Staff reviewed severance payments made during the test year and found that
22 Ameren Missouri has recognized and will continue to recognize costs savings through

1 regulatory lag from each employee's respective separation date until new rates take effect in
2 this case. Staff recommends an adjustment to remove severance payments made during the test
3 year as they are not recurring costs and should not be borne by ratepayers.

4 **PENSIONS AND OPEBS**

5 **Pensions**

6 Q. What are pensions?

7 A. Pensions are a form of employee retirement plan that offers payments to
8 employees upon meeting the plan criteria for retirement.

9 Q. What pension plans are offered by Ameren Missouri?

10 A. Ameren Missouri offers a qualified pension plan called the Ameren Retirement
11 Plan, and a non-qualified pension plan called the Ameren Supplemental Retirement Program.
12 See below for a discussion of Ameren's non-qualified pension plan.

13 Q. Are Ameren Missouri's pension cost subject to a tracking mechanism?

14 A. Yes. The difference between actual pension expense and the amount of pension
15 expense included in Ameren Missouri's revenue requirement is tracked. Amounts that are
16 over-collected are refunded to customers and amounts that are under-collected are recovered
17 by Ameren Missouri through an amortization.

18 Q. What adjustments does Staff recommend pertaining to pensions?

19 A. First, the unamortized balance of any pension asset or liability is recalculated
20 with a new amortization period going forward. Second, an expected amount of current pension
21 expense is calculated to be included in Ameren Missouri's revenue requirement. Third, the
22 balance of the pension regulatory asset or liability is included in rate base.

23 Q. How many pension tracker layers does Ameren Missouri have at this time?

1 A. Ameren Missouri currently has three prior rate case pension tracker layers in
2 addition to the current layer. The layers were established in Ameren Missouri's prior rate case
3 Nos. GR-2021-0241, GR-2019-0077 and GR-2010-0363.

4 Q. How did Staff address Ameren Missouri's various tracker layers?

5 A. Staff removed test year amortization balances for the two oldest tracker layers
6 which were established in case Nos. GR-2019-0077 and GR-2010-0363. These layers will now
7 be included in expired & expiring amortizations⁷. Staff then updated the balance in the pension
8 tracker layer that began amortizing on the effective date of rates in Ameren Missouri's most
9 recently completed general rate case, Case No. GR-2021-0241, through the June 30, 2024,
10 update cutoff in this case. Staff calculated an annualized amount of amortization expense
11 pertaining to Ameren Missouri's current pension as of the update period ending June 30, 2024.
12 The sum of the pension tracker balances as of June 30, 2024, for the current layer and the layer
13 created in Case No. GR-2021-0241 results in a regulatory liability, therefore, Staff included the
14 balances as a reduction to rate base.

15 Q. How did Staff determine the amount of ongoing pension expense to include in
16 Ameren Missouri's revenue requirement in this case?

17 A. Staff reviewed the actuarial calculations of the current pension expense for
18 service and non-service costs that were included in Ameren Missouri's Adjustment 39
19 workpaper and reflected the Ameren Missouri's adjustment in Staff's accounting schedules.

20 Q. Will pensions be included in Staff's true-up audit in this case?

21 A. Yes.

⁷ See Staff witness Paul K. Amenthor's direct testimony for discussion of expired and expiring amortization adjustments.

1 **OPEBs**

2 Q. What are OPEBs?

3 A. OPEBs are costs incurred by Ameren Missouri to provide certain retirement
4 benefits to retirees; primarily medical insurance.

5 Q. Are Ameren Missouri's OPEB costs subject to a tracking mechanism?

6 A. Yes. Similar to pension costs, the difference between actual OPEB expense and
7 the amount of OPEB expense included in Ameren Missouri's revenue requirement are tracked.
8 Amounts that are over-collected are refunded to customers, and amounts that are
9 under-collected are recovered by Ameren Missouri through an amortization.

10 Q. What adjustments does Staff recommend pertaining to OPEBs?

11 A. First, the unamortized balance of any OPEB asset or liability is recalculated with
12 a new amortization period going forward. Second, an expected amount of current OPEB
13 expense is calculated to be included in Ameren Missouri's revenue requirement. Third, the
14 balance of the OPEB regulatory asset or liability is included in rate base.

15 Q. How many OPEB tracker layers does Ameren Missouri have at this time?

16 A. Ameren Missouri currently has three prior rate case OPEB tracker layers in
17 addition to the current layer. The layers were established in Ameren Missouri's prior rate case
18 Nos. GR-2021-0241, GR-2019-0077 and GR-2010-0363.

19 Q. How did Staff address Ameren Missouri's various tracker layers?

20 A. Staff removed test year amortization balances for the two oldest tracker layers
21 which were established in Ameren Missouri's prior rate case Nos. GR-2021-0241,
22 GR-2019-0077 and GR-2010-0363. These layers will now be included in expired and expiring

1 amortizations.⁸ Staff then updated the balance in the OPEB tracker layer that began amortizing
2 on the effective date of rates in Ameren Missouri’s most recently completed general rate case,
3 Case No. GR-2021-0241, through the June 30, 2024, update cutoff in this case. Staff calculated
4 an annualized amount of amortization expense pertaining to the Ameren Missouri’s current
5 OPEBs as of the update period ending June 30, 2024. The sum of the OPEB tracker balances
6 as of June 30, 2024, for the current layer and the layer created in Case No. GR-2021-0241
7 results in a regulatory liability. Therefore, Staff included the balances as a reduction to
8 rate base.

9 Q. How did Staff determine the amount of ongoing OPEB expense to include in
10 Ameren Missouri’s revenue requirement in this case?

11 A. Staff reviewed the actuarial calculations of the current OPEB expense for service
12 and non-service costs that were included in Ameren Missouri’s Adjustment 39 workpaper and
13 reflected the Ameren Missouri’s adjustment in Staff’s accounting schedules.

14 Q. Will OPEBs be included in Staff’s true-up audit in this case?

15 A. Yes.

16 **NON-QUALIFIED PENSION EXPENSE**

17 Q. Please explain Ameren Missouri’s non-qualified pension plan.

18 A. In addition to pensions and OPEBs, Ameren Missouri offers a non-qualified
19 pension plan, called the Ameren Supplemental Retirement Plan (“SERP”). SERP is offered to
20 executive officers and other highly-compensated former employees, and provides additional
21 retirement benefits that these individuals would have received under other Ameren Missouri

⁸ See Staff witness Paul K. Amenthor’s direct testimony for discussion of expired and expiring amortization adjustments.

1 pension plans, but for compensation and benefit limits imposed by the Internal Revenue
2 Service (“IRS”).

3 This plan is unfunded and the plan benefit payments are made either in a lump sum or
4 through an annuity. Non-qualified pension expense is not included in Ameren Missouri’s
5 tracking mechanism nor in the cost of service, as the amount provided by Ameren Missouri’s
6 actuary is merely an estimate, not actual cash expense.

7 Q. What is Staff’s recommendation for Ameren Missouri’s SERP expense?

8 A. Staff has consistently reflected an amount of SERP based on cash payments, and
9 recommends setting a normalized amount of SERP expense based on a three-year average of
10 historical lump-sum and annuity payment amounts.

11 Q. Does this conclude your direct testimony?

12 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company)
d/b/a Ameren Missouri's Tariffs to Adjust)
Its Revenues for Natural Gas Service) Case No. GR-2024-0369

AFFIDAVIT OF AMANDA C. McMELLEN

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

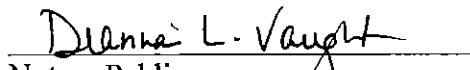
COMES NOW AMANDA C. McMELLEN, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Amanda C. McMellen*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.


AMANDA C. McMELLEN

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 26th day of February 2025.


Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2027
Commission Number: 15207377

Amanda C. McMellen
Utility Regulatory Audit Unit Supervisor

EDUCATION

Bachelors of Science
DeVry Institute of Technology, Kansas City, MO-June 1998

PROFESSIONAL EXPERIENCE

Missouri Public Service Commission
Utility Regulatory Audit Unit Supervisor
March 2022 – Present
Utility Regulatory Auditor V (Utility Regulatory Audit Supervisor)
February 2013 – March 2022
Utility Regulatory Auditor IV
November 2006 – February 2013
Utility Regulatory Auditor III
June 2002 – November 2006
Utility Regulatory Auditor II
June 2000 – June 2002
Utility Regulatory Auditor I
June 1999 – June 2000

I am a Utility Regulatory Supervisor (former title Utility Regulatory Auditor V) for the Missouri Public Service Commission (Commission). I graduated from the DeVry Institute of Technology in June 1998 with a Bachelor of Science degree in Accounting. Before coming to work at the Commission, I worked as an accounts receivable clerk. I commenced employment with the Commission Staff in June 1999. As a Utility Regulatory Auditor, I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

AMANDA C. McMELLEN

SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Osage Water Company	SR-2000-556	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Osage Water Company	WR-2000-557	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Empire District Electric Company	ER-2001-299	Plant in Service Depreciation Reserve Depreciation Expense Cash Working Capital Other Working Capital Rate Case Expense PSC Assessment Advertising Dues, Donations & Contributions
UtiliCorp United, Inc./ d/b/a Missouri Public Service	ER-2001-672	Insurance Injuries and Damages Property Taxes Lobbying Outside Services Maintenance SJLP Related Expenses
BPS Telephone Company	TC-2002-1076	Accounting Schedules Separation Factors Plant in Service Depreciation Reserve Revenues Payroll Payroll Related Benefits Other Expenses
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2004-0034	Revenue Annualizations Uncollectibles
Fidelity Telephone Company	IR-2004-0272	Revenue Revenue Related Expenses
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2005-0436	Revenue Annualizations Uncollectibles

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Empire District Electric Company	ER-2006-0315	Payroll Payroll Taxes 401(k) Plan Health Care Costs Incentive Compensation Depreciation Expense Amortization Expense Customer Demand Program Deferred State Income Taxes Income Taxes
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2007-0004	Revenue Annualizations Uncollectibles Maintenance Expenses Turbine Overhaul Maintenance
Empire District Electric Company	ER-2008-0093	Revenues Bad Debts Employee Benefits Tree Trimming Storm Costs Customer Programs Amortizations Current Income Taxes Deferred Income taxes Jurisdictional Allocations Corporate Allocations
Missouri Gas Energy, a Division of Southern Union Company	GR-2009-0355	Staff Report Cost of Service Revenues-Customer Growth Corporate Allocations Other Rate Base Items Amortization Expense Interest expense on customer Deposits Rents and Leases
Missouri-American Water Company	WR-2010-0131	Staff Report Cost of Service Corporate and District Allocations Lobbying Costs Net Negative Salvage Amortization of Regulatory Assets Belleville Lab Expenses Comprehensive Planning Study Payroll Payroll Taxes

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Kansas City Power & Light Company	ER-2010-0355	Staff Report Cost of Service Revenues-Customer Growth In-Field Service Fees Gross Receipts Taxes Forfeited Discounts Other Revenues Credit Card Acceptance Program Bad Debts
KCP&L Greater Missouri Operations Company	ER-2010-0356	Staff Report Cost of Service Revenues-Customer Growth Other Revenues Credit Card Acceptance Program Bad Debts
Empire District Electric Company	ER-2011-0004	Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Pensions & OPEBs Customer Programs Amortizations Carrying Costs Revenue Annualizations
Empire District Electric Company	ER-2012-0345	Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Prepayments Materials and Supplies Customer Demand Programs Amortization of Electric Plant Customer Deposits Customer Advances Carrying Costs Customer Programs Customer Deposit Interest Expense Franchise Taxes Amortizations Banking Fees Lease Expense Pay Station Fees Amortizations
Summit Natural Gas Company of Missouri, Inc.	ER-2014-0086	Corporate Allocations Capitalization Policy MGU Purchase Price SMNG Legacy Asset Valuation Energy Efficiency Programs

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Empire District Electric Company	ER-2016-0023	Staff Report Cost of Service Test Year/Update/True-Up Accumulated Deferred Income Taxes SWPA Hydro Reimbursement SPP Revenues and Expenses SPP Transmission Expenses ASM Revenue and Expense Miscellaneous SPP Related Revenues and Expenses Off-System Sales Revenue and Expense Current Income Taxes Deferred Income Taxes Rate Case Expense-Sharing Advertising Dues and Donations SWPA Amortization Tornado AAO Amortization Corporate Expenses Capitalized Depreciation Proposed Acquisition
Terre Du Lac utilities Corporation	WR-2017-0110	Rate Base
Spire Missouri, Inc.	GR-2017-0215 GR-2017-0216	Bad Debts
Missouri-American Water Company	WR-2017-0285	Plant in Service Contributions in Aid of Construction Regulatory Deferrals Depreciation Reserve Depreciation Expense Amortization Expense Customer owned Lead Service Lines
Empire District Electric Company	ER-2019-0374	Fuel Inventories Fuel and Purchased Power
Missouri-American Water Company	WR-2020-0344	Plant in Service Contributions in Aid of Construction Other Rate Base Regulatory Deferrals Depreciation Reserve Depreciation Expense Amortization Expense Property Tax Tracker Customer owned Lead Service Lines

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Empire District Electric Company	ER-2021-0312	Staff Report Cost of Service Test Year/Update Fuel Inventories Asbury Retirement AAO AMI – Regulatory Asset Tornado AAO Amortization Fuel and Purchased Power – Fixed Costs Rate Case Sharing
Empire District Gas Company	GR-2021-0320	Energy Efficiency Programs
Empire District Electric Company	EO-2022-0040 EO-2022-0193	Financing Issues – Securitization
Liberty Utilities (Missouri Water) LLC	WR-2024-0104 SR-2024-0105	Revenue Requirement CIAC Amortization of CIAC and Expense Transaction Fee-Free Program Fees Chemicals Miscellaneous Expenses Deferred Tank Painting and Tracker