Exhibit No.:	
Issue(s):	Long-Term Incentive Compensation; Discrete Adjustments; Billed and Unbilled Revenues; Allowance For Funds Used During Construction
Witness:	Stephen J. Hipkiss
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Union Electric Company
File No.:	GR-2024-0369
Date Testimony Prepared:	April 4, 2025

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. GR-2024-0369

REBUTTAL TESTIMONY

OF

STEPHEN J. HIPKISS

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

St. Louis, Missouri
April 2025

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REBUTTAL TESTIMONY

OF

STEPHEN J. HIPKISS

FILE NO. GR-2024-0369

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Stephen J. Hipkiss. My business address is One Ameren Plaza, 1901 Chouteau Ave., St. Louis, Missouri.

Q. By whom are you employed and what is your position?

A. I am employed by Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company") as Senior Manager, Regulatory Accounting.

Q. Please describe your educational background and employment experience.

A. I received a Bachelor of Science in Accounting and Finance from Truman State University in 2010 and a Master's in Accounting from Truman State University in 2011. I am a Certified Public Accountant (CPA), licensed to practice in the state of Missouri. From 2011 to 2014, I worked for Ernst and Young LLP in its assurance practice, first as an Audit Staff and then as an Audit Senior. From 2014 to 2016, I worked for SunEdison, Inc., a solar and wind energy developer and operator, in its Financial Reporting group, first as a Senior Accountant and then as a Manager. From 2016 to April 2024, I worked for Ameren Services Company, first as a Supervisor and then as a Manager in the Accounting Research, Policy, and Internal Controls group. My primary duties and responsibilities included accounting analyses for non-standard transactions, overseeing the implementation of new accounting guidance, the implementation of new accounting policies, and assessments of the internal control environment.

Q. What are your responsibilities in your current position?

A. From May 2024 to present, I have been working for Ameren Missouri as Senior Manager, Regulatory Accounting. In my current position, my primary duties and responsibilities include preparation of the revenue requirement for Ameren Missouri rate filings, preparing written testimony for rate, regulatory, and audit proceedings, and testifying before the Missouri Public Service Commission.

Q. To what testimony or issues are you responding?

A. My rebuttal testimony responds to the following issues: (1) long-term incentive compensation (Staff witness Amanda McMellen); (2) discrete adjustments (Staff witness Matthew Young); (3) billed and unbilled revenues (Staff witness Kimberly Tones); and (4) Allowance for Funds Used During Construction (Office of Public Counsel witness Dave Murray).

Q. Are you sponsoring any schedules in connection with your testimony?

A. Yes, I am sponsoring, and have attached to my rebuttal testimony, the following schedules, which have been prepared under my direction:

- Schedule SJH-R1 – Response to Company Data Request No. 0681 from File No. ER-2024-0319
- Confidential Schedule SJH-R2 – Discrete Adjustments – Staff Workpaper Supporting Direct Filing
- Schedule SJH-R3 – Response to MPSC 0655 Data Request from File No. ER-2024-0319

II. LONG-TERM INCENTIVE COMPENSATION

Q. Please describe Staff's recommendation related to the cost of long-term incentive compensation.

A. Staff recommends that the entire cost of the Company's long-term incentive compensation plan ("LTIP"), comprised mainly of performance share units based on total shareholder return ("TSR[1]") metrics ("TSR awards") and restricted share units ("RSUs"), should be disallowed. Staff makes no distinction between the different subcomponents of the LTIP, despite the different award types having fundamentally different characteristics.

Q. Please compare the Company's recommendation for recovery of LTIP costs to Staff's recommendation.

A. The Company is seeking recovery of the 40% of its LTIP costs that are not tied to TSR metrics.

Q. What are the primary differences between the two primary award types within the LTIP?

A. RSUs represent the right to receive shares of Ameren Corporation common stock depending solely on an employee's continued employment through a defined vesting period, generally three years. In contrast, the Company's TSR awards are performance share units, which represent the right to receive shares of Ameren Corporation common stock at the end of a defined performance period, also generally 3 years, if certain specified performance targets are met. For TSR awards, the performance targets are based on the

[1] TSR is a measure of how well a publicly traded company is performing financially. TSR measures shareholder returns from both changes in the Company's stock price and from the dividends it pays over any given period.

Ameren Corporation's relative TSR as compared to a pre-determined group of peer utilities.

Q. Why is the Company not seeking recovery of the 60% of LTIP costs related to TSR awards?

A. The Company acknowledges that the Commission has previously ruled[2] that incentive compensation tied to earnings per share ("EPS") or shareholder return metrics do not provide a clear tangible benefit to customers, and thus the costs should not be included in the cost of service. We have therefore elected not to seek recovery of this component of the LTIP costs.

Q. What is Staff's rationale for its recommendation to remove all LTIP costs from rates in this case?

A. Staff's stated rationale for disallowing recovery of all LTIP costs is that ownership of Ameren Corporation common stock creates a common interest between employees and shareholders, which is to increase the value of Ameren Corporation stock. Staff further claims this common interest provides only a shareholder benefit and thus the cost should not be borne by customers. Staff cites Commission orders from File No. EC-87-114 and File No. ER-2006-0314 as "guidance" in support of its recommendation.

Q. Does either Commission order referenced by Staff make mention of employee stock ownership providing exclusively a shareholder benefit?

A. No. Neither Commission order assigns the costs of long-term incentive compensation programs to shareholders based on shareholder benefits from employee stock ownership. In fact, the Commission's order in File No. EC-87-114 did not address

[2] For example, in its Report and Order in File No. EC-87-114, as further discussed below.

stock-based compensation at all, but rather only cash-based incentive compensation awards. The Commission's order in File No. ER-2006-0314 addressed only incentive compensation awards tied to EPS or other financial metrics, such as the Company's TSR awards, not RSUs.

Staff states that it relied upon the following guidance provided by the Commission in File No. EC-87-114:

> At a minimum, an acceptable management performance plan should contain goals that improve existing performance and the benefits of the plan should be ascertainable and reasonably related to the plan.[3]

The RSU component of the Company's LTIP clearly meets the above criteria and should be included in the cost of service. The employee retention benefits provided by RSUs, including a stable workforce and lower employee turnover costs, are readily ascertainable and drive improvements to the Company's operational performance. As stated by the Commission in the below lead-in to the above excerpt quoted by Staff from the Commission's decision in File No. EC-87-114 (which Staff omitted), the Commission has previously expressed support for cost of service recovery for incentive compensation programs, such as the Company's RSUs, designed to improve management performance, as long as such programs are not tied to either EPS or shareholder return metrics.

> The Commission believes that programs designed to improve management performance should be encouraged and is not opposed, in principle, to cost of service recovery of the costs associated with such programs.[4]

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[3] File No. EC-87-114, *Report and Order*, p. 18, issued December 21, 1987.
[4] File No. EC-87-114, *Report and Order*, p. 18, issued December 21, 1987.

Staff also references the following additional statement in the Commission's order in File No. ER-2006-0314:

> … [M]aximizing [Earnings Per Share] could compromise service to ratepayers, such as by reducing customer service or tree trimming costs, the ratepayers should not have to bear that expense.[5]

As noted above, the Company respects the Commission's longstanding practice of disallowing costs related to EPS or shareholder return goals. The RSUs that the Company is requesting to include in the cost of service are not tied to EPS, shareholder return, or any other financial metrics of the Company.

Q. How do RSUs differ from any non-stock-based compensation?

A. RSUs are an important component of the total compensation package offered to the Ameren Leadership Team ("ALT"), which is defined as management employees from the Director level up to the Officer level, as part of the LTIP. Other forms of compensation, such as base pay and cash-based short-term incentive compensation, do not require the employee to remain employed for 3 years before receiving payment. As such, the distinguishing factor between RSUs and other components of the Company's total compensation package is that RSUs provide an important additional long-term retention benefit that is not available from other forms of compensation.

Q. Why were TSR awards reduced and RSUs added to the LTIP, and how does this change benefit customers?

A. TSR awards were reduced and RSUs were added to the LTIP in 2018 after completing a comprehensive study of peer company long-term incentive compensation market practices. Regular studies of market practices are performed to ensure aspects of

[5] File No. ER-2006-0314, *Report and Order*, p. 58, issued December 21, 2006.

the Company's total rewards package remain attractive to current and future employees. This study found that Ameren's plan differed from market practice in that our plan was 100% performance based and yet was attempting to achieve both performance and retention goals. In contrast, peer companies' plans were 70% – 75% performance based, with two-thirds of the peer companies including a time-based RSU component to aid in retention. On that basis, we took the same step that had already been taken by two-thirds of our peers and added RSUs to create a greater incentive for our employees to continue their employment with us. Out of the 21 peer companies included in the Company's current LTIP peer group, 90% grant time-based RSUs as part of the annual long-term incentive grant and, relatively consistent with Ameren's LTIP, on average time-based RSUs make up approximately 25% of the total award.[6]

RSUs are a common component of total compensation for Director and Officer-level roles at peer utilities. They encourage and reward longevity, which benefits customers not only by providing an experienced leadership team, which will provide more effective and efficient management, leading to lower overall costs and better service, but also by avoiding the productivity loss and replacement costs associated with turnover. RSUs motivate employees to stay and remain dedicated to serving our customers, rather than look for new employment.

Having RSUs as part of the Company's total compensation plan serves to attract and retain a sufficient, qualified, and motivated work force. There are a number of customer benefits from a tenured and experienced workforce. Encouraging the retention of tenured

[6] Based on the median value of companies in the LTIP peer group. This information was provided to Staff as part of the Company's response to Staff Data Request No. 0655 in File No. ER-2024-0319 (Schedule SJH-R3).

employees benefits customers by having leaders who are experienced in overseeing utility services generally, but who are also familiar with the uniqueness of Ameren Missouri's service area. The process of having to recruit and replace tenured employees with newer and/or less experienced employees, of course, requires training and a learning curve to ensure optimal processes for the benefit of our customers. There are also costs associated with recruiting and hiring replacements, and those costs tend to be higher at the ALT level. Given the extremely tight labor markets we are seeing in the U.S. generally, and which Ameren also sees, attracting and retaining employees is more important than ever.[7]

Q. Does Staff agree that RSUs provide an employee retention benefit?

A. Yes. In Staff's response to Company Data Request No. 0681 in File No. ER-2024-0319 (Schedule SJH-R1), Staff acknowledged that incentives offered by a company, such as the Company's RSU awards, "can have a positive effect on employee retention."

Q. How does a stable workforce benefit customers?

A. Significant personnel turnover should be avoided from a pure operations standpoint, for obvious reasons. A stable workforce avoids the costs of employee turnover. This in turn keeps the labor costs that are ultimately reflected in the revenue requirement down. Specifically, Josh Bersin, a respected global industry analyst with Bersin by Deloitte, suggests it can cost 2 – 3x first year salary to replace an employee, and he points out that in a tight labor market, the cost gets much higher.[8] For example, replacement costs include recruiting costs, onboarding, cost/time for training, lost productivity, and ramp-up

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[7] Per the Missouri Economic Research and Information Center, Missouri's smoothed seasonally adjusted unemployment rate was 3.7% in November 2024, significantly below historical averages.
[8] *See,* Josh Bersin, "*What To Expect In A Red Hot Job Market? Five Things To Consider.*" Published March 9, 2021, Updated March 11, 2021.

time. Employees get more productive the longer they are at a company, having learned the systems, the products and how to work together with their teams – all of which ultimately benefit customers.

Q. Does Staff agree that a stable workforce benefits customers?

A. Yes. Staff provided the following responses to Company Data Request No. 0681 in File No. ER-2024-0319 (Schedule SJH-R1):

> Q. Does Staff believe a stable workforce is beneficial to customers?
>
> A. Yes.
>
> Q. If so, does Staff believe the benefit to customers is direct or indirect? Please provide a detailed explanation of Staff's belief.
>
> A. Generally, a stable workforce can benefit customers by providing consistent service quality, faster issue resolution, reduced recruitment and training costs, increased productivity and efficiency, and improved customer satisfaction.

Additionally, in File No. ER-2022-0337, Staff witness Matthew Young stated the following in his surrebuttal/true-up direct testimony:

> Q. Do you agree with Ameren Missouri that a stable workforce creates value for ratepayers?
>
> A. Generally speaking, yes. Creating a stable workforce can reduce costs related to turnover and foster efficiency in management. Assuming that these goals materialize and costs are reduced, ratepayers receive an indirect benefit from employee longevity.[9]

Q. Have you quantified any avoided cost of employee turnover?

A. Yes. While the Company does not track all tangible and intangible costs of ALT employee turnover, the most tangible data we have is related to the cost to recruit and

[9] File No. ER-2022-0337, Matthew Young Surrebuttal/True-up Direct Testimony, p. 5, ll. 13-17.

onboard an experienced leader at the Officer level. In most cases, these individuals will have similar compensation packages to what Ameren offers, with vesting periods designed to promote retention. It is frequently necessary for companies to offer sign-on bonuses as part of the offer of employment to attract experienced leaders. At the Officer level, this cost alone has averaged approximately 1.4x base pay, based on five senior-level officer hires at Ameren since 2016. This value does not include other costs, such as relocation, recruitment costs when using an external search firm, lost productivity, and training. As such, Ameren's history with hiring senior level Officers is believed to be in line with Josh Bersin's estimate of 2 – 3x first year salary to replace an employee. By avoiding ALT turnover costs, the Company can keep the labor costs that are reflected in the revenue requirement down. Clearly, the Company's RSU expense is prudent, reasonable, and operates in a manner that provides tangible benefits to our customers.

Q. Has the Company experienced low voluntary turnover at the ALT level?

A. Yes. The Company's voluntary attrition rate at the ALT level has been consistently lower than the Company's voluntary attrition rate for all other employees. The Company's voluntary attrition rate at the ALT level for 2021, 2022, and 2023 was 1.4%, 1.4%, and 1.4%, respectively, compared to a voluntary attrition rate for all other employees of 2.1%, 3.9%, and 1.7%, respectively.

Q. Has the recovery of TSR awards and RSUs been addressed in other jurisdictions?

A. Yes. I am most familiar with the regulatory treatment of long-term incentive compensation at the Company's operating affiliate Ameren Illinois, regulated by the

Illinois Commerce Commission ("ICC"). The Company and Ameren Illinois both utilize the same LTIP, including RSU compensation. Similar to the Commission, the ICC has a long history of disallowing costs from the revenue requirement in rate cases for incentive compensation programs, such as the Company's current TSR awards, that contain performance conditions tied to EPS or shareholder return.[10] The ICC, however, has historically allowed for recovery in utility rates of prudent and reasonable incentive compensation costs for long-term incentive programs that provide tangible benefits to customers, such as the Company's RSUs.[11] Ameren Illinois has recovered its RSU costs in rates since its 2018 natural gas rate review and its 2019 electric formula rate review, shortly after RSUs were included in the LTIP.[12] In one of Ameren Illinois' recent natural gas cases, the ICC acknowledged the tangible benefits to customers provided by the Company's RSU awards by stating the following:

> RSUs are stock units that vest over a defined period of time based solely on continued employment and are not subject to or based on financial metrics for the benefit of shareholders. The Commission holds that employee longevity provides a tangible benefit to ratepayers through reduced expenses and the creation of greater efficiencies in operations due to a more seasoned workforce.[13]

Q. Is there any element of Staff's position that would suggest it would recommend disallowance of RSUs if such long-term incentive payments were made in cash, rather than stock?

A. No. The Company would almost certainly be allowed to recover its RSU costs under an arrangement where it made those same long-term incentive payments in

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[10] *See,* ICC Docket No. 07-0507, Order at 25 (*"The Commission has consistently disallowed recovery of payouts that are tied to overall financial goals."*)
[11] *See, e.g.*, ICC Docket No. 15-0142, Order at 44 and ICC Docket No. 18-1775, Order at 82.
[12] *See*, ICC Docket No. 18-0463 and ICC Docket No. 19-0436.
[13] ICC Docket 20-0308, Order at 60 citing ICC Docket No. 18-1775, Order at 82.

cash, rather than stock. Staff did not propose to disallow from the cost of service any of the Company's cash-based short-term incentive compensation that is tied to retention or operational metrics, as opposed to EPS or shareholder return metrics. Further, in File No. ER-2024-0319, Staff stated the following:

> A. Staff is not opposing recovery of PSUs that promote retention or clean energy transition awards in principle, rather, it is **in form**. All three components of Ameren Missouri's LTIP are awarded in Ameren Corporation common stock.[14] [emphasis added]

Given the clear customer benefits associated with these awards, it would be unreasonable to disallow such prudently incurred compensation costs solely due to the form of payment.

Q. Why are the Company's long-term incentive compensation payments made in stock, rather than cash?

A. As I mentioned previously, the Company regularly benchmarks its compensation arrangements against its peers. This is because we are competing against those peers to attract and retain our skilled employees. Differences from the benchmark (market data) could negatively impact our ability to hire or retain key employees and, as a result, undermine our attraction and retention strategy as well as lead to increased costs. Common industry practice is to make such payments in stock, rather than in cash.

Q. Are there any customer benefits associated with making long-term incentive compensation payments in stock, rather than in cash?

A. Yes. When making long-term incentive payments in cash, Generally Accepted Accounting Principles ("GAAP") and Federal Energy Regulatory Commission ("FERC") accounting rules require the Company to recognize compensation cost equal to

[14] File No. ER-2024-0319, Jane C. Dhority Surrebuttal/True-up Direct Testimony, p. 3, ll. 1-3.

the full amount of the cash payment. For RSUs, GAAP and FERC accounting rules require the Company to recognize compensation cost equal to the value of the common stock on the date the award was granted, rather than on the payout date. Any growth in Ameren Corporation's stock price that occurs in the three years between the grant date and the payment date is not included in compensation cost and recovered as part of the cost of service but is instead borne by shareholders. Given that Ameren Corporation's stock price has tended to increase over time, both due to general inflation and continued rate base growth, making long-term incentive compensation payments in stock, rather than in cash, results in significantly lower compensation cost included in the cost of service.

Q. Has Staff proposed any other adjustments in relation to the Company's long-term incentive awards?

A. Yes. Staff witness Amanda McMellen has also proposed to disallow the return of and return on the portion of RSU costs that have been capitalized to utility plant since the September 30, 2021 true-up date in the Company's most recent rate review.[15] Ms. McMellen has also proposed an adjustment to remove the payroll taxes associated with RSUs.

Q. Should the ratemaking treatment of RSUs capitalized to utility plant and related payroll taxes follow the Commission's decision regarding the cost of long-term incentive compensation?

A. Yes. A Commission decision to authorize RSUs to be included in the cost of service would necessarily mean that the capitalized portion should also be included in utility plant and the related payroll taxes should similarly be included in the cost of service.

[15] File No. GR-2021-0241.

III. DISCRETE ADJUSTMENTS

Q. Did the Commission authorize all parties to propose discrete adjustments beyond the true up period in this case?

A. Yes. In its January 15, 2025 Order Regarding Motion for Reconsideration the Commission found, "…that all parties are permitted to present discrete adjustments beyond the true-up period to propose a more complete picture of Ameren Missouri's operations at the operations of law date."[16]

Q. Did the Company propose any such discrete adjustments?

A. Yes. The Company proposed a discrete adjustment to the rate base in this case to reflect its investment in the second phase ("Phase 2") of a major upgrade to the capacity that serves its Northeast Gas System in and around Wentzville, Missouri. This proposed discrete adjustment is discussed in greater detail in Company witness Steven Wills' direct and rebuttal testimony.

Q. Did any other parties recommend a discrete adjustment beyond the true up period in this case?

A. No, neither Staff nor any other non-utility party recommended a discrete adjustment beyond the true up period in this case as part of their primary position in direct testimony. However, in the event the Commission approves the Company's Phase 2 discrete adjustment, Staff is recommending an alternative position in that the Commission also approve adjustments beyond the true up period for the following:

- Reduction to the investment in Phase 2 of the Northeast Territory Project
- Additional accumulated depreciation of the Phase 2 investment
- Accumulated deferred income taxes from the Phase 2 investment

[16] See page 1 of Order Regarding Motion for Reconsideration. File No. GR-2024-0369.

- Additional accumulated depreciation of Ameren Missouri's December 31, 2024, rate base
- Decrease in depreciation expense from the retirement of December 31, 2024, plant
- Decrease in amortization expense from full amortization of December 31, 2024, intangible assets
- Increase in revenues from customer growth
- Decrease in operations and maintenance ("O&M") costs gained through continuous improvement programs.

The total impact of the alternative position proposed by Staff would be to decrease the Company's revenue requirement by $6.7 million, or a net decrease of $1.3 million after consideration of the $5.3 million increase to the revenue requirement from the Company's proposed Phase 2 discrete adjustment.

Q. Has the Commission provided criteria for evaluating discrete adjustments?

A. Yes. The Commission stated the following criteria for evaluating discrete adjustments on pages 112 and 113 in the Amended Report and Order for File No. ER-2019-0374:

> The criteria for determining whether an event outside the test year should be included is whether the proposed adjustment:
>
> 1) is known and measurable;
>
> 2) promotes the proper relationship of investment, revenues and expenses; and;
>
> 3) is representative of the conditions anticipated during the time the rates will be in effect.

Q. Do Staff's alternative position adjustments meet these criteria?

A. My analysis of each of Staff's alternative position adjustments is provided below.

Q. What adjustment is Staff proposing to the investment in Phase 2 of the Northeast Territory Project?

A. Staff is proposing to reduce the investment in Phase 2 of the Northeast Territory Project by approximately $9.5 million. Staff witness Young states that he compared Ameren Missouri's initial estimation of the total cost of Phase 1 of the Northeast Territory Project with the final actual cost of Phase 1 and concluded that the actual costs were 19% below the budget established for the project. Mr. Young then applied a 19% reduction to the total investment in Phase 2 on the basis that "It is reasonable to assume that Ameren Missouri also overestimated the cost of Phase 2 by the same proportion."[17]

Q. Do you agree with Staff's proposed adjustment to the investment in Phase 2 of the Northeast Territory Project?

A. No, I do not. First, the Company's True-Up Direct testimony in this case is due on May 2, 2025, only a few months before Phase 2 is expected to be placed in service.[18] With Phase 2 nearing completion at the time of True-Up Direct testimony, the Phase 2 cost estimate used to set rates in this case will be far more accurate than the initial pre-construction cost estimation for Phase 1 being referenced by Staff. Accordingly, attempting to apply the 19% initial planning budget-to-actual variance calculated by Staff for Phase 1 to the nearly finalized cost estimation[19] for Phase 2 is clearly not supportable.

However, while the adjustment to the investment in Phase 2 of the Northeast Territory Project proposed by Staff is not supportable, Staff's underlying concern, namely that customers

[17] File No. GR-2024-0369, Matthew Young Direct Testimony, p. 7, ll. 17-18.
[18] The Company will utilize the most recent cost estimates for Phase 2 to develop the true up revenue requirement.
[19] I refer to the Phase 2 costs used to set rates as a cost estimate, since the final project cost will not be known until the project is placed in service. However, given that the project will be nearing completion, most of the costs included in the Company's estimate of the final project cost will be actual costs incurred, with only a small portion representing the estimated remaining cost to complete.

could be forced to pay the Company a return on and of a rate base amount in excess of the final Phase 2 investment level that is placed in service, is completely valid. To alleviate this concern, the Company is proposing a one-way tracker (to protect or benefit customers) to track the difference between the depreciation expense and return included in the revenue requirement in this case for Phase 2 and the actual depreciation expense and return incurred associated with the final investment level that is in service at the time new rates become effective in this case. If the depreciation expense and return included in the revenue requirement in this case for Phase 2 is greater than the actual depreciation expense and return incurred associated with the final investment level that is placed in service, the Company will track any such over-recovered amounts to be refunded in a future rate review.[20]

Q. Do you accept Staff's proposed adjustment to reflect additional accumulated depreciation of the Phase 2 investment?

A. Yes. One of the Commission's criteria for discrete adjustments is that the adjustment is "representative of the conditions anticipated during the time the rates will be in effect." Since Phase 2 is expected to be placed into service on or before July 31, 2025, but the rate change resulting from this case is expected to be on September 1, 2025, the Company accepts Staff's proposal to include an additional month of depreciation in Ameren Missouri's depreciation reserve for Phase 2 to more accurately reflect the estimated net book value at the time rates become effective. The Company will incorporate this adjustment as part of its true-up filing.

[20] The Company's proposal for a one-way tracker is further discussed in Company witness Steven Wills' rebuttal testimony.

Q. Do you accept Staff's proposed adjustment to reflect accumulated deferred income taxes from the Phase 2 investment?

A. In part. The Company does not object to Staff's proposal to reflect an additional rate base offset for accumulated deferred income taxes to reflect the tax benefits of accelerated tax depreciation from the Phase 2 investment. However, Staff incorrectly calculates accumulated deferred income taxes for the Phase 2 investment. First, Staff incorrectly uses the forecasted MACRS tax depreciation for the full 2025 calendar year, rather than only the amount of tax depreciation expected to be recognized prior to the September 1, 2025, operation of law date in this case. In order to promote the proper relationship of investment and expenses, the tax depreciation used in the accumulated deferred income taxes calculation should reflect the same time period as the book depreciation included in Staff's proposed discrete adjustment, discussed above, to reflect additional accumulated depreciation of the Phase 2 investment.

Second, Staff's proposed adjustment is calculated solely based on applying the MACRS tax depreciation rate to the Phase 2 investment, without the appropriate offset for the corresponding book depreciation recognized over the same period. Accumulated deferred income taxes are a temporary difference due to the use of different depreciation methods for book and tax purposes. Accordingly, any calculation of accumulated deferred income taxes must appropriately factor in both book and tax depreciation and should utilize the same time period for both components of the calculation in order to promote the proper relationship between investment and expenses.

The Company will reflect an additional rate base offset for accumulated deferred income taxes to reflect the tax benefits of accelerated tax depreciation for the Phase 2 investment as part of its true-up filing, after correcting for the errors in Staff's calculation of accumulated deferred income taxes described above.

Q. Do you agree with Staff's proposed adjustment to reflect additional accumulated depreciation of Ameren Missouri's December 31, 2024, rate base?

A. Absolutely not. Staff's proposed adjustment explicitly accounts for only one side of future changes in rate base – future decreases to rate base that will occur naturally over time as plant in service depreciates - while ignoring the ongoing investments in infrastructure that will increase rate base contemporaneously with those depreciation-related decreases to rate base. The reality is that, even without projects of the scale and scope of the Northeast Gas System upgrades, the Company's rate base is generally growing over time due to the myriad of smaller projects needed to maintain the reliability of the system and replace older infrastructure. Those investments generally outpace depreciation, resulting in increasing rate base over time. Recognizing one without the other is a clear violation of two of the three criteria established by the Commission for discrete adjustments and would result in rates that are not just and reasonable.

First, Staff's adjustment clearly does not promote the proper relationship of investment, revenues and expenses. The proper relationship of investment levels for setting rates can only exist when the same cutoff date is used for *both* of these competing trends (increased investment in gross plant versus additional accumulated depreciation on existing plant). Second, Staff's adjustment is not at all representative of the conditions anticipated during the time the rates will be in effect. While the Company's rate base is generally growing over time, Staff's adjustment instead reflects a significant <u>decrease</u> in the Company's rate base between the December 31, 2024, true-up date in this case and the September 1, 2025, operation of law date that is not representative of either the Company's expectations or its historical experience.[21]

Q. Do you agree with Staff's proposed adjustments to reflect the decrease in depreciation expense from the retirement of December 31, 2024, plant and the decrease in amortization expense from full amortization of December 31, 2024, intangible assets?

A. For the same reasons listed above, absolutely not. Again, Staff's proposed adjustment explicitly accounts for only one side of future changes in depreciation and amortization expense – future decreases due to retirement or full amortization - while ignoring the expected plant and intangible asset additions that will contemporaneously increase depreciation and amortization expense. As the Company has generally experienced <u>increasing</u> depreciation and amortization expense over time, Staff's proposed adjustment clearly does not promote the proper relationship of investment and expenses and is not representative of the conditions anticipated during the time rates will be in effect.

Q. Do you agree with Staff's proposed adjustment to reflect an increase in revenues from customer growth?

A. No. Staff is attempting to forecast customer growth forward to the time when rates go into effect. If Phase 2 were being conducted to enable new service to a discrete new customer or group of customers, and those customers are expected to start providing new revenues conditioned on Phase 2 going into service, I would fully agree that an adjustment to revenues was required in order to promote the proper relationship of investment, revenues and expenses associated with the Company's Phase 2 investment. But that is simply not the case in this instance. The Company has not identified any incremental 2025 revenues directly

[21] Excluding the impact of the Phase 2 investment.

associated with the Company's Phase 2 investment. The customer growth Staff is forecasting is happening irrespective of the existence of the Phase 2 investment. And the customer growth carries with it *additional incremental investment* (beyond the Phase 2 project) needed to connect those new customers, the cost of which is *not* included in Staff's adjustment. Accordingly, Staff's proposed adjustment does not promote the proper relationship of investment, revenues and expenses.

In addition, Staff's proposed adjustment also fails to meet the known and measurable criteria established by the Commission. Staff is not proposing an adjustment based on a known and measurable discrete item from beyond the true-up period, but rather merely projecting forward normal, ordinary course of business, changes in revenues. Customer growth that occurs as part of the ordinary course of business does not carry the significance to warrant consideration as a discrete adjustment.

Q. Do you agree with Staff's proposed adjustment to reflect a decrease in O&M costs gained through continuous improvement programs?

A. Absolutely not. Staff's proposed adjustment forecasts costs savings from the Company's continuous improvement initiatives into the O&M expense reflected in the revenue requirement in this case. However, this is again a one-sided adjustment related to a two-sided issue. O&M expense is subject to inflationary pressures that generally cause those costs to increase over time, absent improvements in the efficiency of the Company's operations. That the Company has initiatives to try to drive the type of efficiencies that reduce O&M over time relative to levels that would otherwise be experienced is definitely a good thing, but it should not be expected to entirely reverse the inflationary pressures impacting O&M. One-sided forecasting of the impacts of efficiency gains on O&M without forecasting the inflationary pressures of higher wage levels and increases in the cost of input materials that also impact O&M does not promote the proper relationship of investment, revenues and expenses.

Regardless as to the validity, or lack thereof, of Staff's proposed adjustment to reflect a decrease in O&M costs gained through the Company's continuous improvement programs, Staff's calculations supporting its adjustment are fundamentally flawed and should be entirely rejected by the Commission. The first, and most significant, error in Staff's calculation is that the $135.9 million of "Savings unlocked in 2025" per the below excerpt from Staff witness Young's workpaper is simply the sum of the 2025 column from the Company's Cost Savings Report.[22]

135,919,300	Savings unlocked in 2025
46.940%	UEC 2024 Corporate Composite Allocation per ADJ48
63,800,519	UEC Share
5.361%	Gas allocation per ADJ48
3,420,346	Reduction to Gas O&M
2,280,231	Prorate for 8 months

The Cost Savings Report shows estimated cost savings in comparison to a previously established baseline, not in relation to the prior year. As Staff is attempting to calculate the estimated O&M cost savings for 2025 compared to the level of savings that was already in place in 2024, it would need to instead take the difference between the 2025 and 2024 columns on the Cost Savings Report. Correcting this error reduces the "Savings unlocked in 2025" from $135.9 million to $28.8 million.[23]

A second major error in Staff's calculation is that Staff is including cost savings that relate exclusively to the Company's electric business in its "Savings unlocked in 2025" total. The cost savings that relate exclusively to the Company's electric business are readily

[22] Workpaper titled "Discrete Adjustments_GR-2024-0369_Young_Confidential."
[23] As shown on Schedule SJH-R2.

identifiable based on the division name listed in Column C of Staff's workpaper. No portion of the cost savings generated by the Nuclear, Energy Delivery, or Power Operations divisions would be allocable to the Company's gas business. Removing the items from the Cost Savings Report that relate exclusively to the Company's electric business reduces the "Savings unlocked in 2025" from $28.8 million to $3.6 million.[24]

Third, Staff erroneously applies the UEC Corporate Composite Allocation rate (46.94%) to determine the Company's respective share of the 2025 estimated cost savings per the Company supplied Cost Savings Report, as seen in the above excerpt from Staff witness Young's workpaper.[25] However, as the Cost Savings Report already relates exclusively to Ameren Missouri, no such allocation is needed to determine the Company's share of the total estimated cost savings. Instead, the Company's share of estimated cost savings unlocked in 2025 should be the entire balance.[26]

After correcting for the three errors discussed above, the total estimated decrease in O&M costs gained through continuous improvement programs would be only $126,877, as shown in the corrected calculation below,[27] rather than the $2,280,231 calculated by Staff witness Young is his direct testimony.

3,550,000	Savings unlocked in 2025
3,550,000	UEC Share
5.361%	Gas allocation per ADJ48
190,316	Reduction to Gas O&M
126,877	Prorate for 8 months

[24] As shown on Schedule SJH-R2.
[25] While this error actually reduces the size of Staff's proposed adjustment, it is being included for completeness given its significant impact.
[26] As shown on Schedule SJH-R2.
[27] The Company does not take issue with the remainder of Staff's calculation, in which it is applying the gas allocation percentage to the items on the Cost Savings Report that relate to both the Company's electric and gas businesses and prorating the estimated cost savings to reflect the 8 months prior to the September 1, 2025 operation of law date.

Q. What is the Company's updated proposed discrete adjustment to rate base for Phase 2, after taking into account the adjustments proposed by Staff for which the Company has agreed to accept?

A. After taking into account the adjustments proposed by Staff for which the Company has agreed to accept for the purposes of this case, the Company's updated proposed discrete adjustment to rate base for Phase 2 is reduced by $271,453, from $50,142,162[28] to $49,870,710.

IV. <u>BILLED AND UNBILLED REVENUES</u>

Q. What issue is raised in the direct testimony of Staff witness Tones that you will address?

A. Ms. Tones alleges issues with the way the Company records revenues within its general ledger. Specifically, Ms. Tones states the following:

> Accounting Standards Codification 606 ("ASC 606") (see Schedule KKT-d9) is the revenue recognition standard that governs how revenue generated by public and private companies is recorded in their financial statements. **___
> ____
> ____
> ____
> ____
> ____
> ____
> ____**[29]

Q. Do you agree with Ms. Tones' assertion that the Company's revenue recognition practices represent a departure from GAAP?

A. Absolutely not. Ms. Tones correctly identifies ASC 606 as the accounting standard governing the Company's revenue recognition practices. However, the core principle

[28] The amount of the discrete adjustment to rate base for Phase 2 proposed as part of the Company's direct testimony. Refer to Company witness Pamela Harrison's rebuttal testimony for an update on the total projected costs for Phase 2.
[29] File No. GR-2024-0369, Kimberly K. Tones Direct Testimony, p. 8, ll. 9-14.

of ASC 606 is that companies "should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services",[30] <u>regardless as to whether the reporting entity has billed its customers for the goods or services in question</u>. GAAP does not require reporting entities to separately present or disclose revenues into billed and unbilled classifications. In fact, the terms "billed" and "unbilled" do not appear a single time in the hundreds of pages of accounting guidance provided within ASC 606. As such, Ms. Tones' assertion that the Company's revenue recognition practices represent a departure from GAAP is clearly unfounded.

V. <u>ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION</u>

Q. Please summarize Office of Public Counsel ("OPC") witness Dave Murray's recommendation on Allowance for Funds Used During Construction ("AFUDC").

A. OPC witness Murray recommends the Commission order the Company to apply its short-term debt rate as AFUDC to all Construction Work in Progress ("CWIP") instead of following the rules as prescribed by the FERC Uniform System of Accounts ("USoA"), which the Commission has adopted and with which the Company must comply under 20 CSR 4240-20.030.

[30] FASB (Financial Accounting Standards Board) Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), p. 2, May 2014.

Q. What are the rules for AFUDC, as prescribed by the USoA?

A. The USoA rules are as follows:[31]

> (17) *Allowance for funds used during construction* (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. No allowance for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.
>
> (a) The formula and elements for the computation of the allowance for funds used during construction shall be:
>
> $A_i = s(S/W) + d(D/D + P + C)(1-S/W)$
>
> $A_e = [1-S/W][p(P/D+P+C)+c(C/D+P+C)]$
>
> > A_i = Gross allowance for borrowed funds used during construction rate.
> > A_e = Allowance for other funds used during construction rate.
> > S = Average short-term debt.
> > s = Short-term debt interest rate.
> > D = Long-term debt.
> > d = Long-term debt interest rate.
> > P = Preferred stock.
> > p = Preferred stock cost rate.
> > C = Common equity.
> > c = Common equity cost rate.
> > W = Average balance in construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment and fabrication, less asset retirement costs (See General Instruction 25) related to plant under construction.

Q. What proportion of CWIP accrues AFUDC at the Company's short-term debt rate?

A. As indicated above, the short-term debt interest rate ("s") is multiplied by the ratio of average short-term debt (S) and average adjusted CWIP (W). Practically speaking, the Company's short-term debt interest rate is applied to CWIP balances up to but not exceeding average short-term debt balances.

[31] 18 CFR Part 101, Electric Plant Instructions 3(17).

Q. What companies are required to follow the USoA rules for AFUDC?

A. Every regulated investor-owned electric utility is required to follow the USoA rules for AFUDC. Given this requirement, if the Commission were to order the Company to deviate from these rules it would require the Company to prepare and maintain a completely separate set of accounting records and financial statements. Not only would this come at a great cost to customers, but there is no principled basis for departing from the USoA's requirements. While the Commission has required the use of the short-term debt rate in circumstances when an affiliated loan was involved, to my knowledge, it has never required a departure from the requirements of the USoA simply because a party claims it should as a means to lower a utility's rate base and, in fact, recently confirmed that following the USoA is appropriate.[32]

Q. Please summarize the Company's response to OPC's recommendation on AFUDC.

A. The Company fully complies with the USoA rules for AFUDC. These rules are rational, have been consistently applied in this jurisdiction, and found to be appropriate by many other state utility regulators. The Commission should reject Mr. Murray's recommendation and continue to rely on the USoA rules for AFUDC.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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[32] *Cf.* Amended Report and Order, File No. ER-2019-0374 (July 23, 2020) (Where Empire included as long-term debt a loan it had taken out from its affiliate). The affiliate's cost of those funds was just 2.53% but by loaning it to Empire and then Empire including it in Empire's long-term debt, effectively Empire rates would reflect a cost of debt higher than the source of the funds, to the detriment of customers. To that extent, i.e., as for this loan only, the Commission required use of a short-term debt rate to determine AFUDC. However, the Commission specifically rejected what OPC proposes here, stating that the "overall formula and method for calculating AFUDC will still be as directed by the USoA."

Schedule SJH-R1

Data Response Display - ER-2024-0319 - 0681.0

Request Summary

Submission No.
ER-2024-0319

Request No.
0681.0

Requested Date
12/9/2024

Due Date
12/24/2024

Issue
General Information & Miscellaneous

Other General Info & Misc.

Requested From
MO PSC Staff (Other)
Mark Johnson (mark.johnson@psc.mo.gov)

Requested By
Union Electric Company (Electric) (Investor)
Crystal Tassello (amerenmoservice@ameren.com)

Brief Description
Stock Compensation

Description
1. Is Staff aware of any Commission decision regarding the recovery of stock-based compensation costs for awards that vest solely based on service time (such as the Company's RSU awards)? If so, please provide the decisions complete with case reference number. 2. Is Staff aware of any Commission decision regarding the recovery of stock-based compensation costs for awards that vest based on service time and execution of a generation transformation plan (such as the Company's clean energy PSU awards)? If so, please provide the decisions complete with case reference number. 3. Please list and describe any and all actions the Staff contends a Company employee could take to increase the Ameren share price. a. Please identify whether Staff contends that each of these actions benefit only shareholders, only customers, or both shareholders and customers and explain why. b. Please identify whether Staff contends that each of these actions have a direct or indirect impact on the Ameren share price and explain why. 4. Does Staff believe that cliff-vesting after a three year period such as exists for the Company's stock-based compensation awards encourage employee retention? a. Does Staff believe a stable workforce beneficial to customers? b. If so, does staff believe is the benefit to customers is direct or indirect? Please provide a detailed explanation of Staff’s belief.

Request Security
Public (DR)

Response Date
12/23/2024

Response
1. See Staff’s objection letter dated December 17, 2024. 2. See Staff’s objection letter dated December 17, 2024. 3. a. & b.: Company employees can increase share prices by performing their jobs well, contributing to the company’s overall financial health and profitability, which in turn positively impacts investor perception and drives up stock prices. Stock-based compensation has the potential to incentivize managers to prioritize short-term stock price gains over long-term company health, potentially leading to risky decisions. 4. Staff believes that incentives offered by a company can have a positive effect on employee retention. a. Yes. b. Generally, a stable workforce can benefit customers by providing consistent service quality, faster issue resolution, reduced recruitment and training costs, increased productivity and efficiency, and improved customer satisfaction.

Objections

Response Security

Public (DR)

Schedule SJH-R1

Rationale

Attachments ▾

No Attachments Found

GR-2024-0369

Schedule SJH-R2 is Confidential in its Entirety

P

Ameren Missouri's
Response to MPSC Data Request - MPSC
ER-2024-0319
In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Adjust Its Revenues for Electric Service

No.: MPSC 0655

Please see "10.29.24 Stock Compensation Discussion w Staff.pdf", slide 3. Please provide a list of peer companies who grant time-based RSUs as part of their annual long-term incentive grants. Data Request submitted by Jane Dhority (Jane.Dhority@psc.mo.gov <mailto:Jane.Dhority@psc.mo.gov>)

RESPONSE

Prepared By: Jennipher Politte
Title: Manager, Executive Rewards
Date: November 17, 2024

The following is the Ameren LTIP Peer Group and the RSU% of annual LTI grant in time-based RSU/s.

Company (n = 21)	% of Annual LTI Granted in Time-Based Restricted Stock/RSUs
Alliant Energy	25%
American Electric Power	25%
CenterPoint Energy	25%
CMS Energy	25%
Consolidated Edison	30%
Dominion Energy[1]	30%
DTE Energy	30%
Duke Energy	30%
Edison Intl	25%
Entergy	20%

Eversource Energy	25%
FirstEnergy	--
NiSource Inc.	20%
OGE Energy	35%
PG&E	--
Pinnacle West Capital	30%
Portland General Electric	30%
Public Service Enterprise Group	30%
Sempra[2]	33%
WEC Energy	15%
Xcel Energy	20%

Prevalence	90%
Median Weight	25%

Ameren	30%

[1] Excluding the CEO
[2] For select Named Executive Officers

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.	)))	File No.: GR-2024-0369

AFFIDAVIT OF STEPHEN J. HIPKISS

STATE OF MISSOURI	**)**
	) ss
CITY OF ST. LOUIS	**)**

Stephen Hipkiss being first duly sworn on his oath, states:

My name is Stephen J. Hipkiss, and hereby declare on oath that I am of sound mind and lawful age; that I have prepared the foregoing *Rebuttal Testimony*; and further, under the penalty of perjury, that the same is true and correct to the best of my knowledge and belief.

/s/ Stephen J. Hipkiss
Stephen J. Hipkiss

Sworn to me this 3rd day of April 2025.