VI. Income Statement

A. Missouri Jurisdictional Rate Revenue

The following section describes how Staff determined the amount of Ameren Missouri's adjusted non-gas operating revenues.[63] Since the largest component of non-gas operating revenues is a result of rates charged to Ameren Missouri's retail customers, a comparison of non-gas operating revenues with the cost of service is fundamentally a test of the adequacy of the currently effective retail natural gas rates to meet Ameren Missouri's current costs of providing utility service.

One of the major tasks in a rate case is to determine the magnitude of any deficiency (or excess) between a company's cost of service and its operating revenues. Test year revenues need to be appropriately normalized and annualized in order to accurately measure the amount of any deficiency (or excess) in the current level of operating revenues. Once determined, the deficiency (or excess) can only be made up (or otherwise addressed) by adjusting retail rates (i.e., rate revenue) prospectively.

1. Definitions

Non-gas operating revenues are composed of two components: (1) Rate Revenue and (2) Other Operating Revenue. The definitions of these components are as follows:

Rate Revenue: Rate Revenues are defined as the revenue a utility collects from its customers based on its Commission approved base rates. Base rates are made up of a variable rate that is dependent on usage and a fixed monthly customer charge. Test period rate revenues consist solely of the revenues derived from Ameren Missouri's Commission approved rates for providing natural gas service to its retail customers for the 12 months ending December 31, 2020 and updated through April 30, 2021. Ameren Missouri's variable charges are determined by the amount of each customer's usage and the (per unit) rates that are applied to that usage. Each customer also pays a flat monthly customer charge dependent upon each customer's rate class. The Ameren Missouri rate classes include residential, general service, large volume, and transportation customer classifications.

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[63] The cost of gas is recovered from customers in Ameren Missouri's Purchased Gas Adjustment (PGA) and removed from Ameren Missouri's revenue requirement for purposes of establishing non-gas rates.

Other Operating Revenue: Other operating revenue are dollars collected by the utility for items other than the sale of natural gas. Other operating revenue includes late payment charges, collection trip charges, special meter reading charges and disconnection/reconnection of service charges. Each of these charges is also established by the Commission, and all of these revenue items are taken into account in setting retail rates for gas service to customers.

2. The Development of Revenue in this Case

To determine the level of Ameren Missouri's test year revenue, Staff applied standard ratemaking adjustments to actual monthly gas usage and customer counts. Staff makes these adjustments in order to determine the normalized level of revenue that Ameren Missouri would collect on an annual basis, under normal weather or climatic conditions, natural gas usage and customer levels, based on information that is "known and measurable" as of the end of the update period. In this particular case, the test year is the 12 months ended December 2020, updated for known and measurable changes through April 2021. There also will be a true-up in this case through September 30, 2021.

Rate revenue was developed and summarized in two different ways: (1) type of regulatory adjustment and (2) total revenue by rate class. This Report describes the nine major regulatory adjustments Staff made to test year billed rate revenues:

a. weather normalization
b. 365-day adjustment
c. update period adjustment
d. customer growth
e. large customer annualization
f. removal of gas costs
g. removal of off-system sales ("OSS") and capacity revenue
h. removal of Gross Receipts Tax ("GRT") revenue and expense
i. removal of Infrastructure System Replacement Surcharge ("ISRS") revenue

Not all of these adjustments affect both sales (ccfs) and rate revenue dollars, and not all rate classes are subject to all adjustments.

Other revenue adjustments proposed by Staff in this proceeding are briefly described in the following Cost of Service Report sections.

Staff Expert/Witness: Michelle A. Bocklage

3. Regulatory Adjustments to Test Year Sales and Rate Revenue

a. Remove Unbilled Revenue

Staff has made an adjustment to remove unbilled revenues from its calculation of the revenue requirement. The recording of unbilled revenue to the books of Ameren Missouri recognizes the sales of gas that have occurred, but have not yet been billed to the customer. Therefore, it is necessary to remove unbilled revenue in order to accurately determine the revenue requirement based upon gas sales actually billed to customers to ensure that only 365 days of revenue are included in the calculation of normalized and annualized revenues.

Staff Expert/Witness: Jason Kunst, CPA

b. Delivery Charge Adjustment Rider Removal

As part of the previous Ameren Missouri rate case, Case No. GR-2019-0077, the Commission approved a Stipulation and Agreement that authorized Ameren Missouri to include a Volume Indifference Reconciliation to Normal Rider, which Ameren Missouri has named the Delivery Charge Adjustment Rider ("DCA"). As these revenues are recovered through the DCA it is necessary to remove them from the test year to accurately reflect normalized revenues. Staff would note that Ameren Missouri did not remove these revenues as part of its direct case.

Staff Expert/Witness: Jason Kunst, CPA

c. Infrastructure System Replacement Surcharge ("ISRS") Revenue

ISRS investment and related costs are typically included in the cost of service calculation during a rate case to determine permanent rates, with the ISRS surcharge being reset to zero. As a part of that process, ISRS revenue is removed from the test year for purposes of general rate proceedings. Ameren Missouri does not currently have an ISRS rider at this time so no test year revenue was necessary to remove.

Staff Expert/Witness: Lisa M. Ferguson

d. Remove Gross Receipts Taxes: GRT

Ameren Missouri acts as tax collector for certain taxes imposed on utility service revenues by municipalities and other taxing authorities. These taxes include gross receipt taxes ("GRT"), which Ameren Missouri collects from customers and passes on to the appropriate taxing authority. Since GRT is a pass through item, Staff has made an adjustment to remove the test year amounts from both Ameren Missouri's revenues and expenses in the cost-of-service calculation; however because of timing differences the adjustments may be similar but are not identical. The elimination of both the expense and revenues associated with the GRTs ensures that there will be no impact on the calculation of net income for revenue requirement purposes.

Staff Expert/Witness: Jason Kunst, CPA

e. Remove Purchased Gas Adjustment (PGA) Revenue and Removal of Gas Costs

Through its Purchased Gas Adjustment ("PGA") clause, Ameren Missouri passes the costs of purchased gas to ratepayers through the use of a surcharge. All components of the PGA are audited on an annual basis by the Commission Staff's Procurement Analysis Department as part of an Actual Cost Adjustment ("ACA") filing. These revenues and related purchased gas expenses are not included in the determination of base rates, therefore Staff has made an adjustment to remove test year PGA revenues and gas expenses from the cost-of-service calculation.

Staff Expert/Witness: Jason Kunst, CPA

f. Provision for Rate Refunds

Ameren Missouri records an accrual for any possible over or under-collection of PGA revenues through the surcharge since the previous ACA filing. Any over or under-collection of the PGA will be addressed in the next ACA filing and not as part of base rates. Staff has made an adjustment to remove the amounts for the provision that were accrued during the test year.

Staff Expert/Witness: Jason Kunst, CPA

g. Paperless Bill Credit Imputed Revenue

In its most recent electric rate case, Case No. ER-2019-0335, Ameren Missouri proposed a $0.50 "paperless bill credit" for a 12 month period for customers who signed up for paperless billing. As part of the Stipulation and Agreement filed in that case, the parties agreed that Ameren Missouri could offer the bill credit, however Ameren Missouri would not seek any recovery of the incentives or costs directly associated with paperless billing. Additionally, the credits were to be excluded from the revenues used to determine the revenue requirement in the next case. The language from the stipulation and agreement is cited below:

> Paperless Bill Credit: The signatories agree that Ameren Missouri may implement its paperless bill credit proposal as outlined in the Direct Testimony of Mark Birk. The Company shall exclude bill credits from revenues used to determine the revenue requirement in its next rate case. Ameren Missouri shall not seek recovery for any incentives or other costs directly associated with paperless billing.[64]

Staff Expert/Witness: Jason Kunst, CPA

h. Update Period Adjustment

The update period, encompassing the 12 months ending in April 2021, provides an opportunity for Staff to update revenues for known and measurable changes through April 2021. The update period adjustment is determined by calculating the difference of billed usage and revenue through December 31, 2020 compared to the billed usage and revenue through April 2021.

Staff Expert/Witness: Michelle A. Bocklage

i. Customer Growth

Staff analyzed customer growth for the Residential, General Service, Standard Transportation, Large Transportation, Interruptible, and Special Contract classes for Ameren Missouri. Adjustments for the non-weather sensitive[65] customers are discussed starting on page 56 of this Report.

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[64] Corrected Stipulation and Agreement, Case No. ER-2019-0335, page 47.
[65] The non-weather sensitive rate classes are Large Volume Transportation, Interruptible and Special Contracts.

The annualization of customer growth contains two components, the base charge and the commodity charge. The customer charge is the minimum monthly charge that Ameren Missouri assess to a customer for supplying gas service. The delivery charge portion is the portion of the customer's non-gas rates that is charged based on the customer's level of gas usage.[66]

The number of natural gas customers tends to fluctuate seasonally over a 12-month period, with some customers leaving the system during the spring and summer months and then rejoining the system during the fall and winter months. This seasonal sensitivity in customer numbers makes it impractical to base a customer growth adjustment on one period-ending customer number value as is normally done for electric utilities. Further, the test period ending December 2020 and updated through April 2021 includes potential customer changes due to COVID-19. For this reason, Staff applied actual customer charge counts for January 2020 through December 2020 for the residential and general service classes of Ameren Missouri. Actual customer charge counts were also used for January 2021 through April 2021 and the average of the customer charge counts for January 2021 through April 2021 was then applied to the customer charge counts for May 2020 through December 2020. The resulting difference in rate revenue for each class is then referred to as the growth adjustment. Staff will review customer growth for the residential and general service classes through the true-up period ending September 30, 2021 and will make any necessary adjustments in the true-up filing.

Staff determined that a growth adjustment is not necessary for the Standard Transport class as the average number of billed customers from month to month generally remained consistent. Staff will review the growth of the Standard Transport rate class through August 2021 and will make any necessary adjustments in the true-up filing in this case. The table below reflects Staff's normalized rate revenue by each rate class; Residential, General Service, Interruptible, Standard Transport, Large Transport and Special Contracts.

[66] The commodity portion discussed herein does not refer to the recovery of a customer's actual cost of gas that is recovered through the PGA mechanism.

Rate Class	Total MO Normalized Revenue
Residential Service	$45,079,797
General Service	$15,585,762
Standard Transport	$11,137,417
Large Transport	$5,064,541
Interruptible	$399,297
Special Contract	$546,748

Staff Expert/Witness: Michelle A. Bocklage

j. Revenue-Weather Normalization

Introduction and Summary

Since the primary use of natural gas in Missouri is for the purpose of space heating, natural gas sales are dependent upon weather conditions. Therefore, it is important to remove abnormal weather occurrences from the test period in order to provide a more accurate representation of normal natural gas usage. This analysis addresses Staff's weather-normalization of natural gas sales for Ameren Missouri customers.

Weather Normalization Adjustment

Staff conducted an analysis of weather normalization for the Residential Service (RS), General Service (GS), and Standard Transportation (ST) classes for the update period ending April 30, 2021. Staff's overall weather normalization analyses determined that the weather during the update period was warmer than normal, so actual sales were lower than normal. In order to account for the reduced sales and warmer weather, Staff performed an adjustment to increase natural gas usage to reflect a normal weather conditions. The following table illustrates the approximate adjustments to the natural gas volumes of each class.

Class	Approximate Adjustment
Residential Service	1.95%
General Service	1.70%
Standard Transportation	.60%

These adjustments account for changes in usage to reflect normal weather and an annual number of days in the billing cycles.

Process Used to Weather Normalize Sales

The process to weather normalizing natural gas sales includes several steps. First, Staff receives actual billed usage from Ameren Missouri for the test period for each rate class and by each billing cycle. Ameren Missouri has approximately 21 separate billing cycles that indicate when a customer's meter is read in a given month. For example, the first billing cycle of the month may indicate a customer's meter is read on the first business day of the month and the second billing cycle may indicate a customer's meter is read on the second business day of the month. Customers' accounts are usually grouped into one of approximately twenty one (21) billing cycles. Staggering the billing of customers' accounts through the billing month allows Ameren Missouri to distribute the work required in order to bill its customers. A billing cycle is generally no more than 34 days long and no less than 26 days long.

In order to make sure a rate class has a complete 12 months of billing determinants, Staff adjusted the billing determinants[67] for each class to account for customers who switched between rate classes during the 12 months ending April 30, 2021 and to account for known and measurable changes to rate classes during the update period.

Staff adjusted monthly natural gas volumes to reflect 365 days for each billing cycle, since the number of days can fluctuate from month to month. If the annual number of days in a billing cycle, over a 12 month period, is below or above 365, Staff added or subtracted the average daily usage difference to the non-heating season. This adjustment is performed so that each billing cycle is set to the same total number of days over a 12 month period. Since natural gas utilities are winter peaking, HDDs[68] that are removed based on the 365 day

[67] Billing determinants are the detailed customer usage data for each rate schedule that are necessary to calculate retail rate revenue for each rate schedule charge type.

[68] HEATING DEGREE DAYS (HDD): A measure of the coldness of the weather experienced, based on the extent to which the daily mean temperature falls below a reference temperature, usually 65 degrees F. For example, on a day when the mean outdoor dry-bulb temperature is 35 degrees F, there would be 30 degree days experienced. A daily mean temperature usually represents the sum of the high and low readings divided by two.

adjustment are added back to the October billing month, since it is a shoulder month to the heating season.[69] Using the non-heating months minimizes the impact on the heating season.

After each billing cycle is adjusted so that it contains the proper number of days, the next step is to calculate the difference between normal and actual HDDs for each billing cycle. Then, Staff will multiply these differences by the estimate rendered from the regression analysis described in further detail below to determine the change in usage in each billing cycle due to abnormal weather. The next step is to sum the change in usage per billing cycle over the month. Lastly, Staff will add the monthly adjustments in usage to the total monthly natural gas sales to calculate the normalized level of usage per month. The normalized level of natural gas usage per month is sent to Staff witness Michelle A. Bocklage to calculate revenue.

Application of Weather Normalization Process

Staff witness Michael L. Stahlman provided the daily actual and daily normal HDDs for Ameren Missouri. Mr. Stahlman addresses the calculation of HDDs as part of his section of this Cost of Service Report.

As mentioned above, Ameren Missouri has established billing cycles for groups of customers where each billing cycle corresponds to different days of the month. Based on the number of customers, usage, and HDDs per billing cycle per month, Staff calculated the average use per customer per day and the number of HDDs per day for each of the twelve months of the update period for the rate classes mentioned above for Ameren Missouri.

The billing month averages are calculated from the data provided by the utility on the numbers of customers, natural gas usage, and summed HDDs from the billing cycles for each billing month by customer class. The daily average HDDs in each billing month and billing cycle is weighted by the percentage of customers in that billing cycle. Thus, the billing cycles with the most customers are given more weight when computing the daily average HDDs for the billing month. Staff uses the twelve monthly average-usage-per-customer amounts across the billing cycles to calculate the daily average usage for one month. The usage and weather billing month averages are used to study the relationship between space-heating natural gas

[69] HDDs that belong to a day that is removed are added back so that over a 365 day period, the total HDDs match the normal level of HDDs.

usage and cold weather, which is used to estimate the change in usage related to a change in HDDs.

Staff uses regression analyses to estimate the relationship for each rate class. The regression equation develops quantitative measures that describe the relationship between daily usage per customer in ccf to the daily HDDs. The regression equation estimates a change in the daily natural gas usage per customer whenever the daily average weather changes by a HDD.

Staff recommends that the Commission utilize Staff's weather normalization adjustments that are outlined above and in the supporting work papers.

Staff Expert/Witness: Joel McNutt

k. Revenue - Weather Normal Variables Used for Weather Normalization

Natural gas usage and revenue vary from year to year based on weather conditions. The temperature pattern in the test year is the primary determinant for weather-sensitive[70] customers' gas usage and Ameren Missouri's revenue in the test year. Each year's weather is unique, so rates for weather-sensitive customer classes must be based on test year usage and revenue adjusted to a level commensurate with "normal" weather conditions, rather than actual test year usages and revenue.

Weather Variables - Staff obtained weather data from the Midwest Regional Climate Center (MRCC).[71] The Columbia Regional Airport ("COU") and the Cape Girardeau Municipal Airport ("CGI") weather data were used for actual and normal weather variables. These weather stations are selected based on the availability and reliability of the weather data as well as their approximate location to Ameren Gas's customer base. The weather data sets consist of actual daily maximum temperature ("T_{max}") and daily minimum temperature ("T_{min}") observations. Staff used these daily temperatures to develop a set of normal mean daily temperature ("MDT")[72] values.

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[70] Residential, General Service and Standard Transportation are considered weather sensitive.

[71] http://mrcc.isws.illinois.edu/CLIMATE/

[72] By National Climatic Data Center convention, MDT is average of daily maximum temperature (Tmax) and daily minimum temperature (Tmin) e.g. $MDT = (Tmax + Tmin) / 2$

Natural gas sales are predominantly influenced by "ambient air temperature,"[73] so MDT and the derivative measure, heating degree days ("HDD"),[74] are the measures of weather used in adjusting test year natural gas sales. HDDs were originally developed as a weather measure that could be used to determine the relationship between temperature and gas usage. HDDs are calculated as the difference between 65°F and when MDT is below 65°F, and are equal to zero when MDT is above 65°F.

Normal Weather - According to the National Oceanic and Atmospheric Administration ("NOAA"), a climate "normal" is defined as the arithmetic mean of a climatological element computed over three consecutive decades.[75] In developing climate normal temperatures, the NOAA focuses on the monthly maximum and minimum temperature time series to produce the serially-complete monthly temperature ("SCMT") data series.[76]

Staff utilized the SCMT published in July 2011 by the National Climatic Data Center ("NCDC") of NOAA. To Staff's knowledge, NOAA is the only entity that provides reasonably reliable weather data for 30 year historical period and test year period for the Columbia and Cape Girardeau regions. For the purposes of normalizing the test year gas usage and revenues, Staff used the adjusted T_{max} and T_{min} daily temperature series for the 30-year period of January 1, 1988, through December 31, 2017, at COU and CGI. The series are consistent with NOAA's SCMT during the most recent NOAA 30-year normal period ending 2010.

There may be circumstances under which inconsistencies and biases in the 30-year time series of daily temperature observations occur, (e.g. such as the relocation, replacement, or recalibration of the weather instruments). Changes in observation procedures or in an instrument's environment may also occur during the 30-year period. NOAA accounted for documented and undocumented anomalies in calculating its SCMT.[77] The meteorological and

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[73] Ambient air temperature is the outside temperature of the surrounding air without taking into account the humidity or wind in the air.

[74] Where MDT < 65°F, HDD = 65 – MDT; otherwise, HDD = 0.

[75] Retrieved on October 17, 2013, https://www.ncdc.noaa.gov/data-access/land-based-station-data/land-based-datasets/climate-normals

[76] Retrieved on October 17, 2013, http://www1.ncdc.noaa.gov/pub/data/normals/1981-2010/source-datasets/.The SCMT, computed by the NOAA, includes adjustments to make the time series of daily temperatures homogeneous.

[77] Arguez, A., I. Durre, S. Applequist, R. S. Vose, M. F. Squires, X. Yin, R. R. Heim, Jr., and T. W. Owen, 2012: NOAA's 1981-2010 U.S. Climate Normals: An Overview. Bulletin of the American Meteorological Society, 93, 1687-1697.

statistical procedures used in the NOAA's homogenization for removing documented and undocumented anomalies from the T_{max} and T_{min} monthly temperature series is explained in a peer-reviewed publication.[78]

Subsequent to determining the homogenized monthly temperature time series described above, NOAA also calculates monthly normal temperature variables based on a 30-year normal period, e.g. maximum, minimum, average temperatures, and HDD values. These monthly normals are not directly usable for Staff's purposes because the NOAA daily normal temperatures and HDD values are derived by statistically "fitting" smooth curves through these monthly values.[79] As a result, the NOAA daily normal HDD values reflect smooth transitions between seasons and do not directly relate to the 30-year time series of MDT as used by Staff. However, in order for Staff to develop adjustments to normal HDD for gas usage, Staff must calculate a set of normal daily HDD values that reflect the actual daily and seasonal variability.

Staff used a ranking method to calculate normal weather estimates of daily normal temperature values, ranging from the temperature that is "normally" the hottest to the temperature that is "normally" the coldest, thus estimating "normal extremes." Staff ranked MDTs for each month of the 30-year history from hottest to coldest and then calculated the normal daily temperature values by averaging the ranked MDTs for each rank, irrespective of the calendar date. The ranking process results in the normal extreme being the average of the most extreme temperatures in each month of the 30-year normals period. The second most extreme temperature is based on the average of the second most extreme day of each month, and so forth. Staff's calculation of daily normal temperatures is not the same as NOAA's calculation of smoothed daily normal temperatures because Staff calculated its normal daily temperatures based on the rankings of the actual temperatures of the test year, and the test year temperatures do not follow smooth patterns from day to day. More details of Staff's ranked average method for normal weather are explained in a peer-reviewed publication.[80] Using these normal daily temperatures, Staff calculated normal HDD for each day of the test year. This

[78] Menne, M.J., and C.N. Williams, Jr., (2009) Homogenization of temperature series via pairwise comparisons. J. Climate, 22, 1700-1717.

[79] A more detailed description is discussed in Won, S. J., Wang, X. H., & Warren, H. E. (2016). Climate normals and weather normalization for utility regulation. Energy Economics, 54, 405-416.

[80] Won, S. J., Wang, X. H., & Warren, H. E. (2016). Climate normals and weather normalization for utility regulation. Energy Economics, 54, 405-416.

information was made available to Staff witness Joel McNutt to calculate the weather normalization adjustments.

Staff Expert/Witness: Michael L. Stahlman.

l. <u>Large Volume Customer Adjustments</u>

Ameren Missouri provided monthly billing determinants[81] and customer charge information for every customer who took service on the Interruptible Service, Large Volume Transportation Service, or Special Contract rates during the test year and updated through April 30, 2021. Staff traditionally uses these determinants as the basis of its analysis and adjustments for the calculation of large customer revenues. Based upon Staff's investigation and analysis of this information, Staff made adjustments to reflect the migration of customers to other rate classes ("Rate Switching") for Large Volume Transportation, Interruptible, and Special Contract customers and the effect of COVID-19 on certain Large Volume Transportation customers. Staff will further review customers through the true-up period ending September 30, 2021.

Staff/Expert/Witness: Joel McNutt

m. <u>Rate Switching Adjustment</u>

Adjustments to reflect customer gains and/or losses are made to the large customers' rate revenues. These adjustments reflect the effects of customers that either began taking service on the Ameren Missouri system during the test period, or that quit taking service on the Ameren Missouri system during the test period. The purpose of these adjustments is to provide a more accurate representation of the number of customers taking service in the class. If a customer came on the system during the test period, customer revenues were adjusted for the 'missing' months, so that the customer would have 12 months of usage during the test period. If a customer dropped off the Ameren Missouri system, their revenues were removed from the current revenue calculation, so that all customers in the class had 12 months of usage reflected in the test period.

Staff/Expert/Witness: Joel McNutt

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[81] Billing determinants are the detailed customer usage data for each rate schedule that are necessary to calculate retail rate revenue for each rate schedule charge type.

n. COVID-19 Adjustment

Staff made adjustments for two Large Volume Transport customers whose usage was determined to be adversely affected from COVID during the update period. To make these adjustments, Staff looked at specific customer usage from the immediate prior and subsequent months for the two customers. These usage figures were added together and then averaged to determine usage for the months during the update period that no usage was shown for the customers. These adjusted usage figures were included to determine appropriate revenue estimates for the Large Volume Transport Class.

Staff/Expert/Witness: Joel McNutt

o. Special Contract Customers

Three customers are currently served under the Ameren Missouri special contract rate tariff.[82] For these customers Staff annualized revenues as if the rate in effect at the end of the update period was in effect for the entire test period. Two customers have exceeded the original expiration date of their contracts; however, the contracts are not canceled or changed unless either Ameren Missouri or the customer requests a change or gives notice of cancellation. However, per the Special Contract tariff ratemaking, treatment of any flexed transportation charges will be reviewed and considered by the Commission in subsequent rate proceedings. Staff found that one customer's contract rate was not prudent given the customer's total cost to bypass as provided by the Company. Staff cannot recommend reflection of the discounted rate in the absence of information to further review the prudency of continuation of the discounted rate. Staff annualized revenue for this customer as if the customer was served under the Large Volume Transportation tariff through the 12 months ending April 30, 2021. Staff will review customer contracts and revenues through the true-up period ending September 30, 2021.

Staff/Expert/Witness: Joel McNutt

B. Other Revenue Adjustments

Ameren Missouri collects revenue for items such as forfeited discounts, late payment charges, rents, disconnects and reconnect fees, customer installation fees, and other miscellaneous revenue. As part of its review Staff has performed an analysis of each of the

[82] Tariff Sheet 18.1.

separate types of revenues to determine an annualized amount to include in the revenue requirement. For late fees revenues, Staff is recommending to include a normalized level based on a three year calendar average for years 2017 through 2019. For disconnect and reconnection fees Staff is recommending use of calendar year 2019, and for account 495, which contains misc. billings and discounts for sales tax remittances. Staff is recommending a five year average for the 12 months ending June 30, 2021. For the revenues not mentioned above, or discussed further in detail below, Staff believes the test year level of revenue is reasonable.

a. Software Rental Revenue

Ameren Missouri owns several software programs for which it charges rental costs for its use to other Ameren affiliates. Staff annualized affiliate software rental revenue by applying the last known amount at June 2021 over a 12-month period. Staff will continue to review this issue through the true up cutoff date of September 30, 2021.

Staff Expert/Witness: Paul K. Amenthor

b. Affiliate Rentals

Ameren Missouri receives rental revenue from its affiliates for the use of space in the Ameren general office building and other facilities. Staff has made an adjustment to reflect these intercompany revenues to reflect the current use of the space.

Staff Expert/Witness: Jason Kunst, CPA

c. Bank of America Lease

Ameren Missouri had leased swing space at the Bank of America building located at 800 Market Street in downtown St. Louis while renovations were ongoing at the Ameren general office building. Ameren Missouri was receiving rental income from Ameren Services for the use of the swing space, but due to the cancelation of the lease, Staff has made an adjustment to remove the lease revenue from the test year.

Staff will continue to review miscellaneous revenues through the true-up period and may propose further adjustments as part of its true-up audit in this case.

Staff Expert/Witness: Jason Kunst, CPA

C. Expenses

1. Payroll and Employee Benefits

a. Payroll and Payroll Taxes

Payroll

Staff computed annualized payroll by adjusting the test year labor costs as of the twelve (12) months ending December 31, 2020 in order to reflect:

A) Staff's inclusion of wage increases to each payroll class (contract and management), ** [redacted] **and ** [redacted] * respectively at January 1, 2021[83];

B) Staff's removal of portions of certain employees' salaries dedicated to lobbying activities as proposed by Staff witness Jane C. Dhority;

C) Staff's inclusion of the change in headcount of ongoing management and contract employees through June 30, 2021: and

D) Staff's inclusion of current O&M ratio for the twelve (12) months ending June 30, 2021.

Staff's adjustment for payroll expense was distributed by account based on the actual payroll distribution experienced by Ameren Missouri during the test year ending December 31, 2020.

There was no severance cost during the test year. Staff will reexamine payroll and any payroll related costs during its true-up audit in this case in order to determine whether any further adjustments to the cost of service are necessary.

Staff Expert/Witness: Paul K. Amenthor

Payroll Taxes

Staff applied the current 2021 tax rates for the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA), and the State Unemployment Tax Act (SUTA) to Staff's annualized payroll to determine the ongoing level of payroll taxes.

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[83] 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.

Staff's payroll tax adjustment reflects the change in the overall level of payroll that exists at June 30, 2021. Staff will re-examine this issue as part of its true up audit in this case.
Staff Expert/Witness: Paul K. Amenthor

2. Other Employee Benefits

Ameren Missouri offers employee benefits comprised of medical, dental, and vision insurance as well as 401k. Staff annualized these expenses based on the benefit plan rates that were in effect during the test year as applied to the actual level of employees for each payroll class (management and contract) at June 30, 2021. Staff will reexamine employee benefits costs and any new benefit plans as part of its true up audit through September 30, 2021.
Staff Expert/Witness: Paul K. Amenthor

3. Pensions and Other Post-Employment Benefits ("OPEBs")

Defined benefit pension costs and postretirement benefit costs consist of several components, referred to as service costs and non-service costs and these costs are grouped in a company's financial statements. Service costs represent the present value of pension benefits earned during the year, whereas non-service costs are mostly related to prior service of employees. The Financial Accounting Standards Board ("FASB") issued ASU-2017-07, an accounting standard update ("ASU") in March 2017 regarding topic 715, Compensation –Retirement Benefits. The update was released to improve the presentation in the financial statements of net periodic pension cost and net periodic postretirement benefit cost in order to improve the consistency, transparency, and usefulness of financial information. Further, the Federal Energy Regulatory Commission (FERC) Office of Enforcement issued an accounting guidance order on December 28, 2017 to the industry on how to apply the accounting and reporting requirements when adopting ASU-2017-07. FERC directed that there would be no change in recording of the non-service costs. Those costs are to remain in account 926. However, FERC provided two options to utilities:

1. Continuance of capitalizing all or a portion of service and non-service net benefit costs; or

2. Follow the capitalization requirements under the ASU, and elect to make a one-time non-revocable election to switch to fully expensing the non-service costs to conform

to generally accepted accounting principles ("GAAP") reporting and then provide notice of that change to FERC. Ameren Missouri instituted the new FASB guidance in January 2018 and utilized FERC's one-time election for expense treatment. Staff has agreed to reflect this treatment for regulatory purposes. Since its adoption, Ameren Missouri has been fully expensing the non-service pension and OPEB costs and capitalizing a portion of the service cost component.

a. <u>Pensions</u>

1. Accounting Standards Codification ("ASC") 715-30 (Formerly FAS 87)

Ameren has a qualified pension plan called the Ameren Retirement Plan and a non-qualified pension expense program called the Ameren Supplemental Retirement Program that covers Ameren's overall operations. Ameren's actuarial consultants, Willis Towers Watson, determine the allocation valuation for Ameren Missouri's portion of net benefit cost. The most current actuarial report is expected to be reviewed at the true-up September 30, 2021. Staff will reflect the most current plan costs available for the qualified pension plan in its true-up calculation.

i. ASC-715-30 Pension Tracker

In Case No. ER-2007-0002, a stipulation and agreement was established that required Ameren Missouri to fund its qualified annual pension expense through an external trust and track the difference between the annual funded pension expense and the level included in rates as established in a previous rate case. The agreement between the parties established the ongoing ratemaking treatment for annual qualified pension cost under FASB ASC Subtopic 715-30 (formerly FAS 87). Ameren Missouri's pension expense and rate base amounts include direct charged costs as well as allocated costs from Ameren Services. To calculate whether an addition or reduction to ongoing pension expense should be applied, Staff accumulates the difference between the annual funded pension cost and the amount included in rates in the tracking mechanism and then includes that balance in rate base and amortizes it over a period of five years.

Non-qualified pension expense is not included in the pension tracking mechanism, as it is a supplemental benefit program.

Staff has updated the pension tracker amounts through September 30, 2021. Staff recommends a five-year amortization of the new pension tracker balance and to reset the prior case tracking mechanisms over three years. In this current case, Staff is recommending that only the service portion of the tracking amounts receive rate base treatment. Since the time that Ameren Missouri adopted the one-time election to fully expense the non-service portion of Pensions, only the service portion has been allocated to capital. Thus, only the service portion of the tracker amount should receive rate base treatment. Staff is recommending that this change in rate base treatment for the tracker balances be applied prospectively starting with the current tracker balance for this rate case. Staff will re-examine the amounts in the pension tracking mechanism, associated amortization, and reflect the expensed amounts and updated plan costs through September 30, 2021, the true up cut-off date in this case.

ii. Annualization

Staff annualized the qualified pension expense to reflect the 2021 plan estimated expense for FAS 87 recommended by the actuarial firm Willis Towers Watson for Ameren Missouri's qualified pension plan. Staff includes this amount to ensure that the amount collected in rates is sufficient to recover the estimated pension expense provided by Willis Towers Watson. This is the new base expense level that will be utilized in the pension tracker, after rates are established in this case, in order to determine the difference between pension expense included in rates and the amount actually incurred and funded by Ameren Missouri on an ongoing basis for qualified pension expense. Staff has included in its direct filing the current amount provided by Ameren Missouri's actuary, Willis Towers Watson for qualified pension expense, until Staff can update these estimated amounts with updated plan costs.

Staff will re-examine pension expense through the September 30, 2021 cut-off date, during its true-up audit.

Staff Expert/Witness: Paul K. Amenthor

b. Other Post-Employment Benefits ("OPEBs")

1. ASC 715-60 (formerly FAS 106) OPEBs

Ameren has a postretirement benefit plan called the Ameren Retiree Welfare Benefit Plan, which covers all of Ameren's operations and provides health benefits to eligible retirees, their spouses and other eligible dependents.

Staff has included Ameren Missouri's estimated OPEB cost included in its direct filing. The most current actuarial report is expected to be reviewed at the true-up September 30, 2021. Staff will reflect the most current plan costs available for the post-employment benefit plan in its true-up calculation.

i. ASC 715-60 OPEBs Tracker

The stipulation and agreement in Case No. ER-2007-0002 also addresses the ratemaking treatment for the annual OPEB cost under FASB's ASC Subtopic 715-60 (formerly FAS 106). As with pension expense, the agreement among the parties requires Ameren Missouri to externally fund annual OPEB expense and establish a tracker for the difference between the amount of OPEB expense in rates from the previous rate case and the actual expense incurred. The agreement between the parties established the ongoing ratemaking treatment for annual OPEBs under FASB ASC Subtopic 715-60, formerly known as Financial Accounting Standard No. 106 ("FAS 106"). Ameren Missouri's OPEB expense and rate base amounts include direct charged costs as well as allocated costs from Ameren Services. Staff accumulates the difference between the annual funded OPEB cost and the amount included in rates in the tracking mechanism, and has then included that balance in rate base and amortized it over a period of five years as an addition or reduction to OPEB expense.

Staff has updated the OPEB tracker amounts through June 30, 2021. Staff recommends a five-year amortization of the new OPEB tracker balance and to reset the prior case tracking mechanisms over three years. In this current case, Staff is recommending that only the service portion of the tracking amounts receive rate base treatment. Since the time that Ameren Missouri adopted the one-time election to fully expense the non-service portion of Pensions, only the service portion has been allocated to capital. Thus, only the service portion of the tracker amount should receive rate base treatment. Staff is recommending that this change in rate base treatment for the tracker balances be applied prospectively starting with the current tracker balance for this rate case. Staff will re-examine the amounts in the OPEB tracking mechanism and associated amortization, and reflect the expensed amounts and updated plan costs through the September 30, 2021, cut-off date, in its true-up audit.

ii. Annualization

Staff also annualized OPEB expense to reflect the projected ASC 715-60 cost provided by Ameren Missouri's actuary, Willis Towers Watson. This level will be the amount used in the OPEB tracker, after rates are established in this case, to determine the difference between ASC 715-60 expense included in rates and the amount actually incurred and funded by Ameren Missouri. Staff adjusted test year OPEB expense to reflect the 2021 plan estimated expense for FAS 106 provided by the actuarial firm Willis Towers Watson for Ameren Missouri's post-retirement benefit plan. Staff used this estimated amount to determine the adjustment necessary to ensure the amount collected in rates is sufficient to recover the estimated OPEBs expense provided by Willis Towers Watson. Staff has included in its direct filing the current amount provided by Ameren Missouri's actuary, Willis Towers Watson for OPEB expense, until Staff can update these estimated amounts with updated plan costs. Staff will re-examine OPEB expense through September 30, 2021, the true up cut-off date in this case.

Staff Expert/Witness: Paul K. Amenthor

c. <u>Non-Qualified Pension Expense</u>

Ameren Missouri has a non-qualified pension plan, called the Ameren Supplemental Retirement Plan, which is an added benefit to qualified executives, in addition to Ameren Missouri's qualified pension plan. This plan is unfunded and the plan benefit payments are made on either a lump sum or an annuity disbursement basis. Non-qualified pension expense is not included in the tracking mechanism due to it being a supplemental plan. Staff has included a normalized amount of non-qualified pension expense in the cost of service, as the amount provided by Ameren Missouri's actuary is merely an estimate, not known actual expense. To calculate Staff's normalized non-qualified pension expense, Staff utilized the twelve months ending December 30, 2020 annuity payments and a five year average ending December 31, 2020 of lump sum payments. Staff will review non-qualified pension expense again as part of its true-up audit in this case.

Staff Expert/Witness: Paul K. Amenthor

4. Incentive Compensation

Ameren Missouri has both short-term and long-term incentive compensation plans, additionally Ameren Missouri has an exceptional bonus award program. The annual incentive compensation expense consists of incentive compensation paid to Ameren Missouri employees as well as incentive compensation costs that are allocated from Ameren Services Corporation ("Ameren Services") which provides various management and administrative functions to Ameren Missouri.

Staff has relied upon the criteria established by the Commission in the Report and Order In re Union Electric Co., Case 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."29 Mo. P.S.C. (N.S.) 313, 325, (1987). Additionally, Staff took guidance from the Report and Order issued in Kansas City Power & Light in Case No. ER-2006-0314 where the Commission noted, that "maximizing [Earnings Per Share ("EPS")] could compromise service to ratepayers, such as by reducing customer service or tree trimming costs, the ratepayers should not have to bear that expense." Based upon the guidance received in those two cases, Staff recommends the disallowance of any incentive compensation that is based on Ameren Missouri achieving EPS goals.

a. Short-Term Incentive Compensation

** [redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted] **

b. Long-Term Incentive Compensation

** [redacted] **

c. Exceptional Performance Bonus (EPB)

In addition to the above plans, Ameren Missouri offers an Exceptional Bonus Plan ("EPB") to non-Ameren Leadership Team ("ALT") employees for exceptional performance. The awards are limited to performance that is truly outstanding. Staff has reviewed the historical payouts related to the EPB and is recommending an adjustment to normalize the payouts.

Staff Expert/Witness: Jason Kunst, CPA

D. Other Expenses

1. Property Tax Expense

Ameren Missouri provides the taxing authorities a valuation of its property based upon January 1 of the current year. The taxing authority then provides Ameren Missouri with its assessed values and dues dates for the property taxes payments based upon the assessed value of the property and the current tax rate. These payments are typically due by December 31 of the tax year. Ameren Missouri records a monthly accrual to record property tax expenses throughout the year. In this case, Staff is proposing to use the most current property taxes, which were paid in December of 2020 as the annualized level of property tax expense.

a. Property Tax Tracker

In the Stipulation and Agreement filed in the previous Ameren Missouri gas rate case, Case No. GR-2019-0077, the parties agreed to a Property Tax Tracker to address the issue of Ameren Missouri's property tax appeals for its gas operations. As the appeals for calendar years 2014 through 2020 are still ongoing and will likely not be settled before the true-up cut-off date in this case, Staff is recommending that the Property Tax Tracker agreed to in the previous case continue as agreed upon until the next Ameren Missouri gas general rate case.

Staff Expert/Witness: Jason Kunst, CPA

2. Rate Case Expenses

Rate case expenses are the costs incurred by a utility for the preparation and filing of a rate case. In the current case, Ameren Missouri has incurred expenses associated with external legal counsel, outside consultants, and expert witnesses. In this case Staff is recommending that the rate case expense be split between the shareholders and the ratepayers of Ameren Missouri on a 50/50 basis with the exception of Commission ordered costs such as the depreciation study and customer notices. Staff's recommended level of rate case expense includes one fifth of the most recent Ameren Missouri depreciation study costs. This is split is based upon the guidance from the Commission in the recent Spire Missouri Inc. ("Spire Missouri") rate cases, Case Nos. GR-2017-0215 and GR-2017-0216. The total amount of rate case expense is based upon the average of the three most recent Ameren Missouri rate cases.

Staff's recommendation to share rate case expense is based upon the following:

1) The sharing of rate case expenses creates an incentive for the utility to control rate case expenses to a reasonable level, while eliminating the disincentive for the utility to control the rate case expenses.

2) Ratepayers and Shareholders both benefit from the rate case process. While the ratepayer receives safe and adequate service at a just and reasonable rate, the shareholder is afforded the opportunity to earn an adequate return on their investment.

3) Ratepayers will continue to pay for the majority of the rate case expenses regardless of any sharing mechanism when including the internal labor costs that are not included in the sharing mechanism, therefore it is a fair and equitable to allocate a portion of the rate case expenses to the shareholders, and

4) It is highly probably that some recommendations advocated by the utility through the rate case process, will ultimately be determined to be not in the public interest by the Commission.

Rate case expenses are defined to be all incremental costs incurred by a utility directly related to an application to change its general rates. Normally, these applications are initiated by a utility filing, however rate case expenses could also be incurred as a result of an earnings complaint case filed by another party. While rate case expenses do include costs for document preparation and filing, the largest costs incurred during a rate case are typically for external legal, consultants, and outside expert witnesses contracted by the utility for the rate case proceeding.

Utility management typically has a high degree of control over rate case expense. Attorneys, consultants, and other services used during a rate case can be provided by existing utility personnel or sourced from an outside party. Some Missouri utilities employ in-house counsel and primarily utilize internal labor to processes rate filings; thus it is not always necessary to contract with outside attorneys and consultants in rate proceedings. The incremental rate case expenses included in the sharing mechanism proposed by Staff in this case do not include the cost for internal labor as those costs are reflected in the annualized level of payroll included in Staff's revenue requirement. Those non-incremental costs are fully included in the cost of service calculation.

There are four categories of costs that are incurred during a regulatory filing and in particular a rate case filing:

1) The costs incurred by the Commission for itself and Staff,
2) The cost incurred by the Office of the Public Counsel,
3) The cost incurred by intervenors in Commission proceedings, and
4) The costs incurred by the utility itself during the regulatory process

Category 1 are the costs incurred by the Commission. This includes all operating expenses, salaries, wages, and benefits of the Commission and Staff. The Commission's operating expenses are limited to the amount the Missouri General Assembly appropriates for that purpose. On an annual basis, the Commission assesses each utility it regulates an amount of operating expenses, which are subsequently passed on to ratepayers through rates. The utility is not charged for the direct costs of processing its filings or company-specific activities. Ameren Missouri is charged based on an assignment of the Commission's budget to regulation of the electric industry, which is allocated based upon the percentage of Ameren Missouri's regulated revenues compared to the total of electric regulated revenues in Missouri.

Category 2 are the costs incurred by the Office of the Public Counsel. The Office of the Public Counsel represents the public and the interests of the utility's customers in proceedings before the Commission. An amount for the Office of the Public Counsel's annual operating expenses is appropriated by the Missouri General Assembly, which is sourced from general revenue paid by Missouri taxpayers.

Category 3 are the costs incurred by intervenors to the Commission's proceedings. Intervenors may be involved in a Commission proceeding for various reasons, but rate design and revenue requirement are the typical concerns brought up by intervenors in a general proceeding. Intervening parties can represent a large individual utility customer or a group of utility customers. In this case, there are several intervenors, some of which who have retained their own experts and legal counsel to review Ameren Missouri's proposed rate increase. The intervenors to a case are responsible for their own rate case expenses.

Category 4 are the costs incurred by the utility itself during the regulatory and rate setting process. In prior rate cases, utilities were allowed to pass through the full amount of normalized and prudently incurred rate case expense and regulatory expenses to the ratepayer through rates. If utilities are allowed to pass full rate case costs to ratepayers, the utilities are the only participant who does face an inherit limit in the amount of rate case expenses they choose to incur. The other participants in the rate case processes are constrained by the amount of rate case expense they can occur by budgetary decisions of the General Assembly or by the willingness of an intervening party to fund rate case activities. When allowed full recovery of rate case expenses, utilities are free to plan their rate case activities with the knowledge that the associated costs will be passed on to customers and recovered in rates.

By allowing a utility to recover all, or almost all, of its rate case expense from ratepayers creates an inherent disincentive for the utility to control rate case expenses. For every other participant in the rate case proceeding, their funds are ultimately limited by budgetary and financial constraints. The ability to pass through the entire amount of expenses along with significant financial resources creates what can be viewed as an unfair advantage over the parties during a rate case proceeding.

Other discretionary utility expenses are not recovered by the utility during the rate setting process. Charitable contributions, which are discretionary amounts paid to individuals or organizations for charitable reasons that have no direct business benefit, are examples of costs that have not historically been included as an expense in the cost of service calculation. While the utility believes it has the responsibility to be a "good corporate citizen," these donations would represent an involuntary contribution by the ratepayer if they were to be included in rates. Another cost that is routinely disallowed by Staff is for political activities ("lobbying"). Lobbying and charitable contributions represent costs which are not necessary for the provision of safe and adequate service, and not recovered through rates. The lack of recovery of those costs has not dissuaded utilities from participating in them. While the sharing of rate case expense may act as an incentive to control those costs, Auditing Staff has not identified any substantial curtailment of incremental rate case expenses by the utilities affected by sharing.

In 2011, the Commission established Case No. AW-2011-0330 to investigate current rules and practices regarding the recovery of rate case expense by Missouri utility companies. The report included discussion of both sharing rate case expense 50/50 as well as sharing based upon ordered rate increase versus requested rate increase were discussed in that report.

In KCPL's rate Case No. ER-2014-0370, the Commission ordered sharing of KCPL's rate case expenses.

The Commission finds that in order to set just and reasonable rates under the facts of this case, the Commission will require KCPL shareholders to cover a portion of KCPL's rate case expense. One method to encourage KCPL to limit its rate case expenditures would be to link KCPL's percentage recovery of rate case expense to the percentage of its rate increase request the Commission finds just and reasonable. The Commission determines that this approach would directly link KCPL's recovery of rate case expense to both the reasonableness of its issue positions and the dollar value sough from customers in this rate case.

The Commission concludes that KCPL should receive rate recovery of its rate case expenses in proportion to the amount of revenue requirement it is granted as a result of this Report and Order, compared to the amount of its revenue requirement rate increase originally requested. This amount should be normalized over three years. The Commission also finds that it is appropriate to require a full disclosure to ratepayers of the expenses for KCPL's depreciation study, recovered over five years, because this study is required under Commission rules to be conducted every five years.[Footnotes omitted][84]

The omitted footnote in the reference above provides further clarification for the Commission's conclusions regarding the recovery of rate case expenses:

It is understood that some of the issues litigated in this case do not directly affect the overall revenue requirement granted by the Commission; but it is also clear that the vast majority of litigated issues do have a direct or indirect impact on the revenue requirement. Accordingly, percentage sharing is a reasonable approach to correlating recovery of rate case expense to the relationship between the amount of litigation that benefited both ratepayers and shareholders and that which benefited only shareholders[85]

In the more recent, Spire Missouri rate cases, the Commission ordered a 50/50 sharing of rate case expense between the ratepayers and the shareholders:

Therefore, it is just and reasonable that the shareholders and the ratepayers, who both benefited from the rate case, share in the rate case expense. The Commission finds that in order to set just and reasonable rates under the specific facts in this case, the Commission will require Spire Missouri shareholders to cover half of the rate case expense and the ratepayers to cover half with the exception of the cost of customer notices and the depreciation study.[86]

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[84] Report and Order, Case No. ER-2014-0370 page 72.
[85] Report and Order, Case No. ER-2014-0370, page 72, Footnote 251.
[86] Report and Order, Case Nos. GR-2017-0215 and GR-2017-0216, page 52.

After reviewing the facts and circumstances in Ameren Missouri's filings, Staff is recommending that the Commission order a 50/50 sharing of rate case expense.

To normalize rate case expense, Staff divides rate case expense over the period of time that will pass before the utility's next rate case and includes an annual amount in the revenue requirement. These costs are not "amortized" for ratemaking purposes, and the utility's recovery of these expenses are not tracked versus actual rate case expense for any over- or under-recovery. It is Staff's recommendation that these costs should be "normalized" by including a normal level in the revenue requirement calculation. In this case Staff is proposing a two year normalization due to the frequency of Ameren Missouri's rate case filings. Staff has also included the costs of Ameren Missouri's most recent depreciation study costs over five years outside of the sharing mechanism, as the study is required to be completed every five years.

Staff is recommending including a 50% sharing of the average of the rate case expense incurred by Ameren Missouri over its two most recent general rate Case Nos. GR-2010-0363, and GR-2019-0071. The actual costs incurred for those cases is summarized below:

Case No.	**Total Rate Case Expense**
GR-2010-0363	$582,957
GR-2019-0071	$257,187
Two Case Average	$420,072
50% Shared Amount	$210,036
Three Year Normalization	$70,012

To provide a comparison through June 30, 2021 Ameren Missouri has incurred $171,289 of incremental rate case of expenses associated with processing this case.

To summarize, Staff is recommending a 50% share of the average incremental rate case expenses from the two most recent Ameren Missouri rate cases and then normalizing that expense over a three year period. Staff is including $70,012 as the annualized amount of rate case expense in its recommended revenue requirement in this case. The recommended rate case expense would not be subject to true-up in this case for any actual expenses incurred, nor would it be tracked for any over- or under-recovery.

Staff is also recommending to include an annualized amount of Ameren Missouri's most recent depreciation study in the revenue requirement. Staff used the most recent costs from the depreciation study from Ameren Missouri's last general rate, Case No. ER-2019-0335. Staff has included one fifth of expense to determine the annualized amount to include in rates, which resulted in an annual amount of $3,097.

Staff Expert/Witness: Jason Kunst, CPA

3. Interest on Customer Deposits

Generally, interest is calculated on customer deposits and paid to the customers for the use of their money. Customers earn an interest rate equal to the prime rate that was 3.25%, as published in the Wall Street Journal on the last day of the month of November 2020, plus an additional 1% on their deposits. Staff applied this interest rate to the 13-month average of customer deposits. Staff will re-examine the amount of interest expense related to customer deposits as part of its true-up audit in this case.

Staff Expert/Witness: Christopher D. Caldwell

4. Advertising & Promotional Expense

In determining its recommended level of allowed advertising expense for Ameren Missouri, Staff applied the principles in the Commission's decision in Re: Kansas City Power and Light Company, Case Nos. EO-85-184 et al., 28 Mo.P.S.C. (N.S.) 338, 269-71 (1986). In that case, the Commission adopted an approach that classifies advertisements into five categories and provides rate treatment of recovery or disallowance based upon a specific rationale. The five categories of advertisements recognized by the Commission are as follows:

1. General: informational advertising that is useful in the provision of adequate service;
2. Safety: advertising which conveys the ways to safely use electricity and to avoid accidents;
3. Promotional: advertising used to encourage or promote the use of electricity
4. Institutional: advertising used to improve the company's public image;
5. Political: advertising associated with political issues.

The Commission utilized these categories of advertisements to explain that a utility's revenue requirement should: (1) always include the reasonable and necessary cost of general and safety advertisements; (2) never include the cost of institutional or political advertisements; and (3) include the cost of promotional advertisements only to the extent the utility can provide cost-justification for the advertisements. (Report and Order in KCPL Case Nos. EO-85-185, et al., 28 Mo.P.S.C. (N.S.) 338, 269-271 (April 23, 1986)).

In a prior Ameren Missouri rate case, Case No. ER-2008-0318, the Commission issued a Report and Order that indicated that the KCPL standard for advertising continued to be useful but also introduced an additional test which essentially required that advertising costs should also be reviewed and analyzed on a campaign basis. Specifically, the Commission's Order in ER-2008-0318 indicated the following:

> If on a balance a campaign is acceptable then the cost of individual advertisements within that campaign should be recoverable in rates. If the campaign as a whole is unacceptable under the Commission's standards, then the cost of all advertisements within that larger campaign should be disallowed.

In accordance with the standards set out in KCPL Case Nos. EO-85-185, et al., 28 Mo.P.S.C. (N.S.) 338, 269-271 (April 23, 1986), as well as the Report and Order issued in Case No. ER-2008-0318, Staff recommends adjustments to exclude the costs of institutional advertising and promotional items from recovery in rates in the current case. A quantification of Staff's disallowed advertising adjustments as well as the advertisements themselves are included in Appendix 3. General and safety advertising costs that were directed towards benefiting existing customers were not adjusted by Staff. Additionally, Staff reviewed advertising related items that were allocated from the Ameren corporate level. Consistent with the categorization of Ameren Missouri direct advertising, Staff recommends adjustments to remove the allocated advertising costs associated with items found to be institutional in nature.

Staff recognizes the guidance established in Ameren Missouri case number ER-2008-0318; however, Staff's position is that reviewing advertising strictly on a "campaign" basis would not be appropriate in this particular circumstance because it would allow inclusion of costs that are institutional in nature. Staff performed an analysis of Ameren Missouri's advertising campaigns for gas operations and found that over 50% of the advertisements in the Company's Safety campaign are recoverable under the KCP&L standard. To allow the Safety campaign to be recovered as a whole would have ratepayers bear the costs of institutional advertising such as the "Louie the Lightning Bug" parade balloon that is not deemed recoverable under the KCP&L standard. Therefore, it is Staff's position that adjustments should be made on an ad-by-ad basis as this allows Ameren Missouri to recover the full cost of advertising attributable to general or safety messages and ratepayers are not burdened with costs for advertising that is not allowed under the KCP&L standard. However, should the Commission choose to allow the entire amount of the campaign as structured by Ameren Missouri, Staff has also attached a workpaper reflecting costs on the campaign basis.

Staff has had chronic issues regarding Ameren Missouri's responses to advertising data requests. With every case, Staff submits a standard set of data requests that are consistent from case to case. Ameren Missouri is well aware of the information Staff is requesting as it has not changed in the past several rate cases. That being said, the Company has consistently failed to provide complete answers to Staff's advertising data requests in a timely manner in this current case.

In this case, Ameren Missouri took 75 days and 2 supplemental responses to provide all the relevant advertisements and costs needed for Staff to make a complete analysis of this issue. Staff recommends the Commission order Ameren Missouri to explore methods that can be utilized so Staff can receive the quickest and most efficient responses that are adequate at the outset. For example, Ameren Missouri can provide Staff actual shots to view of social media posts that company is seeking recovery for, rather than providing hyperlinks. Also, company can clearly lay out the spreadsheet of all costs and then ensure that all invoices, such as the HLK[87] invoices, are provided that make up the costs shown in the spreadsheet. This will hopefully prevent the multiple follow up DRs that have had to be asked in several of Ameren Missouri's past rate cases as well as allow for more productive meetings.

Staff Expert/Witness: Jane C. Dhority

[87] HughesLeahyKarlovic advertising and digital marketing agency.

5. Board of Directors and Executive Expenses

During the test year ending December 31, 2020, Ameren Missouri was allocated certain expenses related to the activities of the Ameren Corporation Board of Directors. These expenses include ** [redacted] **. Ameren Missouri witness Mitchell Lansford proposed an adjustment to remove $349,000 of these expenses as part of Ameren Missouri's direct filing. The costs proposed for removal relate to the ** [redacted] **.

Staff has proposed an adjustment to remove additional expenses beyond those proposed for removal by Ameren Missouri witness Lansford. The costs which Staff disallowed are related to additional costs within the test year for ** [redacted] **, ** [redacted] **, and the use of ** [redacted] ** that were not included in the adjustment proposed by Ameren Missouri as part of its direct filing. It is Staff's position that these costs are excessive in nature as Ameren has other options available them for holding board meetings and airline travel. These additional expenditures are not necessary and Missouri ratepayers should not bear the costs.

Additionally, during the test year, Ameren Corporation ** [redacted] ** as this expense is non-recurring in nature.

Staff Expert/Witness: Jane C. Dhority

6. Lease Expense

During the test year, Ameren Missouri incurred lease expense for items such as land, equipment and facilities that are utilized to provide service to ratepayers. Staff reviewed leases in order to remove leases that have expired and were not renewed, to include an annualized level of cost associated with new leases, and to annualize the expense for leases with premiums that have increased. Staff has also proposed an adjustment to remove costs associated with the Bank of America lease from test year expenses as this contract expired on June 30, 2021 and will not be continued. Staff witness Lisa M. Ferguson will address all new lease/easement agreements regarding the High Prairie and Atchison wind facilities that recently went into service.

Staff Expert/Witness: Jane C. Dhority

7. Convenience and Credit Card Fees

Ameren Missouri proposes including the costs of convenience fees[88] incurred at walk-in locations and credit card processing fees in its revenue requirement. These fees are currently paid by individual customers who choose to utilize these services. The convenience fees at walk-in locations are $1.10 and credit card payment fees are $1.85 per transaction.

a. Current Payment Methods and Fees

Ameren Missouri currently provides customers several options and methods to pay their utility bill. The chart below shows the fee customers currently pay associated with each payment type[89]:

Mobile App	Electronic Check (No Fee)	Credit Card ($1.85)	Debit Card ($1.85)
Guest Pay/Website	Electronic Check (No Fee)	Credit Card ($1.85)	Debit Card ($1.85)
Quick Pay/E-mail Link	Electronic Check (No Fee)	Credit Card ($1.85)	Debit Card ($1.85)
By Phone	Electronic Check (No Fee)	Credit Card ($1.85)	Debit Card ($1.85)
Walk-in Location or Convenience Fee	Cash ($1.10)	Check/Cashier's Check ($1.10)	Money Order ($1.10)
Auto Pay (Direct Debit)	Auto Deduction Checking (No Fee)	Auto Deduction Savings (No Fee)	
Electronic Data Interchange	Electronic Payment (No Fee)		

[88] Convenience fees are a charge for making a payment in person at a pay station or a walk-in location.
[89] Ameren Missouri Response to Staff Data Request No. 0221.

(EDI)			
CheckFree	Bank Website (No Fee)		
Non-Authorized Walk-in Locations or Pay Stations	Various payment methods no contract (Unknown)		
Mail	Check (No Fee)		

b. Ameren Missouri's Payment Vendors

Ameren Services has contracted with FirsTech, Inc. to provide customers an option to pay their utility bills at certain authorized partner locations. Currently each customer utilizing this method is charged a processing fee of $1.10 that is distributed between FirsTech and the partner location to assist with paying for the computer equipment, supplies, internet connection, and customer service. At these walk-in locations, customers can only pay with check, cash, cashier's check or money order. Credit cards are not accepted at the walk-in locations.[90] Ameren Services contacted FirsTech to inquire about anticipated increase of utilization of walk-in locations if the fee to customers is waived. FirsTech indicated there is no expectation of an increase due to the fact that many customers pay at these locations because that is their only option and most payments taken at walk-in locations are cash.[91]

Ameren Missouri uses Speedpay ACI Payments Inc. (Speedpay) to offer credit card or debit payment options for customers. A request for proposal (RFP) was conducted to select this vendor. The final selection was made based on the vendor meeting certain cyber and security requirements and being the lowest cost option to Ameren Missouri's customers.[92] Ameren Missouri discussed the anticipated increase of credit card usage with its vendor. Based on similar instances with other regulated utility clients, Speedpay indicated that credit card

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[90] Ameren Missouri Response to Staff Data Request No. 0629 in Case No. ER-2021-0240.
[91] Ameren Missouri Response to Staff Data Request No. 0629 in Case No. ER-2021-0240.
[92] Ameren Missouri Response to Staff Data Request No. 0341.

payments may increase 15-30%. Ameren Missouri could not identify any point within the range that seemed more or less likely, so it estimated the anticipated increase of utilization of credit card payments to be 22.5%.[93]

c. **Staff's Analysis**

Ameren Missouri has a contract in place for all of the authorized walk-in locations and the fee ($1.10) remains consistent for all of its authorized locations. Staff reached out to other large Missouri investor owned utilities (IOUs) and found that some have contracts with authorized locations and others do not. Most Missouri utilities stated various locations charge different amounts and some do not charge a fee at all. Customers are encouraged to call ahead as the locations can make changes to hours and fees. Most of the utilities' authorized walk-in payment locations only take cash or check. Some walk-in locations are trying to eliminate customers paying via personal checks.

Staff recognizes other states include the convenience fees in their rates. According to Ameren Missouri, ** [redacted] **are the IOUs that include walk-in fees in their rates. The states that allow these in their rates include ** [redacted] **.[94] Currently, Evergy includes convenience fees in its revenue requirement.[95]

Ameren Services states that it works with payment transaction providers to renegotiate payment fees to make fees as affordable as possible for its customers. Credit card transaction fees have been reduced over the last several years from over $3.00 to $1.85. Ameren Missouri indicated that discussions have taken place at various industry meetings and more utilities are removing the fees associated with the various options for customer payment. During focus groups and transactional surveys, customers' expectations include no fees for paying with credit cards.[96]

Every payment option has associated costs to both the customer and Ameren Missouri. For example, if a customer pays by a paper check, the customer will pay for a stamp to mail the

[93] Ameren Missouri Response to Staff Data Request No. 0342.
[94] Ameren Missouri Response to Staff Data Request No. 0628 in Case No. ER-2021-0240.
[95] Ameren Missouri Response to Staff Data Request No. 0379.
[96] Ameren Missouri Response to Staff Data Request No. 0628 in Case No ER-2021-0240.

payment and Ameren Missouri will be assessed a fee of $.10 per transaction to have that check processed.[97] Ameren Missouri does not pass on the fee it is assessed for processing those checks to the individual customer. The fee is shared by every customer in the rates they pay whether or not that customer utilizes the paper check option. In Case No. ER-2019-0374, the Commission stated, "As bank fees are already recovered in the cost of service, credit card transaction fees should be similarly treated."[98]

The Commission currently allows credit card fees in the overall cost of service for other utilities. The Commission started allowing credit card fees in the overall cost of service in 2006 for Kansas City Power and Light[99], and most recently for Empire District Electric Company in 2020.[100] Currently Evergy, Spire Missouri and Empire have credit card fees included in their overall cost of service.

d. Recommendations

From a customer service perspective, Staff does not oppose including convenience fees and credit card fees in the overall cost of service. However, Staff recommends Ameren Missouri track performance, savings, usage, and communication plans pertaining to payment options. If the Commission approves this treatment, Staff recommends that Ameren Missouri be ordered to track performance and savings for both the Company and its customers from this initiative. Staff further recommends that should the Commission order convenience and credit card fees to be included in the overall cost of service, Ameren Missouri be required to monitor the level of customers using the walk-in location and credit card options, along with the increase in the number of payments, if any, for these methods. In addition, Staff recommends that the savings to the customer and/or Ameren Missouri is tracked. Staff requests that the communication plan that Ameren Missouri utilizes to inform customers that there is no fee to pay their bill by walk-in and credit card, be provided to Staff.

[97] Ameren Missouri Response to Staff Data Request No. 0745, in Case No ER-2021-0240.
[98] Amended Report and Order, Page 76, Line 1-2, Case No. ER-2019-0374.
[99] Case No. ER-2006-0314.
[100] Case No. ER-2019-0374.

Staff witness Jane C. Dhority is sponsoring the adjustments proposed by Staff in regard to inclusion of convenience fees and customer credit card payment processing costs in cost of service.

Staff Expert/Witness: Tammy Huber

c. Accounting for Customer Convenience Fees

Customers who pay by credit card or at walk-in locations are charged a convenience fee per transaction. Ameren Missouri is proposing to eliminate individual customer-facing convenience charges and include them for recovery in the cost of service for this case.

Staff is not opposing the elimination of fees charged to customers paying by credit card or at walk-in locations and including them in Ameren Missouri's cost of service.

Ameren Missouri's adjustment is based on current convenience fees for walk-in and credit card payments for a forecasted number of transactions. The Company arrived at this number using 2019 actual payment levels adjusted to represent an estimated change in transactions due to the impact of the COVID-19 pandemic. However the magnitude of this impact is not clearly known at this time.

Staff's proposed adjustment is based on analysis of a 5-year history of actual payment transactions ending June 30, 2021. This is a known and measureable level of actual customer transaction experience and takes into account some of the impact COVID-19 has had on transaction levels. Staff normalized this amount and then applied the current contracted fees for processing payments through Ameren Missouri's third-party vendors to arrive at the amount to be included in the cost of service for this case. Staff will update its position on this issue during its true-up audit in this case.

Staff Expert/Witness: Jane C. Dhority

8. Insurance Expense

Ameren Missouri maintains insurance policies with various third-party insurance providers for the purpose of mitigating potential risk of financial loss. Insurance coverage for Ameren Missouri includes crime, excess property, directors and officers, workers' compensation, fiduciary, cyber liability, and owners and contractors protection. Staff's annualization reflects the most current premium amounts as of July 2021 in order to

determine an ongoing level of insurance expense. Staff will review this issue as part of true-up and examine any further policy renewals.
Staff Expert/Witness: Christopher D. Caldwell

9. Injuries and Damages

Injuries and damages represent the portion of legal claims against a utility that are not subject to reimbursement under the utility's insurance policies. Ameren Missouri records an accrual for injuries and damages for an anticipated amount of future payouts. Staff reviewed the actual injuries and damages payment levels and compared them to on-going reserves recorded for this item by Ameren Missouri gas operations from July 2013 through March 2021. Ameren Missouri also indicated that there are currently no injury and damage lawsuits pending against Ameren Missouri gas operations in its response to Staff Data Request No. 0021. This response combined with analysis of the accrual as compared to the actual expense reveals that the test year accrual for injuries and damages is excessive in relation to actual costs occurred year over year for at least the last five years. Staff recommends adjusting the accruals for injuries and damages expense using a five year average ending March 2021 to bring the expense in line with the actuals currently recorded on Ameren Missouri's records. This adjustment reflects the most recent experience and the best indication of an ongoing level of these expenses.
Staff Expert/Witness: Christopher D. Caldwell

10. Dues and Donations

Staff reviewed all membership dues paid and donations made by Ameren Missouri, or allocated to Ameren Missouri from Ameren Corporate and Ameren Services, to various organizations during the test year ending December 31, 2020. Staff proposed adjustments to disallow various dues and donations to organizations that were incurred during the test year as they are not necessary for the provision of safe and adequate service. Examples of such disallowances include membership to the Mexico Elks Association and a donation to Mid MO Legends Baseball Association, among others.

There is growing concern within utility regulation as to whether investor owned utilities are ultimately passing lobbying costs through to ratepayers when lobbying has either been removed from the cost of service by the utility itself (e.g. recording the lobbying portion of a membership expense below the line) or through proposed adjustment by other parties to a rate case.[101] There is concern that while utilities are required to remove the lobbying portion of membership dues to certain trade groups, some of the remaining membership amount paid may still go toward these group's efforts to shape policy. Some memberships provide the utilities invoices with a lobbying percentage specifically delineated and some do not. However there is still concern that there is a lack of understanding of what that percentage amount of lobbying that is billed to the utility is based on. In addition there is concern that the remaining membership fee that is not delineated as lobbying could ultimately be used by the organization to pursue lobbying activities. Staff has analyzed Ameren Missouri's memberships in certain trade groups and at this time has removed 50% of all memberships that may have lobbying activity or for which Staff does not know how the organization determines the invoiced lobbying percentage Staff will continue to work with Ameren Missouri to ensure a proper amount of test year membership dues are included in the cost of service in this case.

Staff Expert/Witness: Jane C. Dhority

a. <u>Lobbying</u>

Staff reviewed the dues and donations expense recorded during the test year and has determined that some of the organizations to which Ameren Missouri is a member use a portion of member payments to fund government affairs or lobbying activities. Staff traditionally disallows costs related to lobbying recorded above the line and, therefore, has removed any portion of costs related to lobbying from test year expenses. Additionally, Staff removed costs from the test year relating to the American Gas Association that had been recorded above the line. Staff also reviewed the calendars and itineraries of certain executives who dedicated time to lobbying activities during the test year and removed a portion of their salaries proportionate to the time spent on those activities.

Staff Expert/Witness: Jane C. Dhority

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[101] MISSOURI, KANSAS UTILITIES MAY USE LOOPHOLE TO CHARGE CUSTOMERS FOR FOSSIL FUEL LOBBYING Sierra Club: 'Millions of Americans may be unwittingly contributing to political advocacy on the behalf of fossil fuel interests' By Allison Kite / The Missouri Independent Midwest Energy News / The Missouri Independent June 7, 2021. See Appendix 4, Appendix JCD-1.

11. Distribution Maintenance Expense

Staff has reviewed Ameren Missouri's actual historical non-labor distribution maintenance costs for the period of January 2016 through June 2021, and is recommending an ongoing level of maintenance expense based on 3-year average ending June 2021 due to the fluctuation over time of these costs. Staff will re-examine the non-labor distribution maintenance costs as part of its true-up audit in this case.

Staff Expert/Witness: Paul K. Amenthor

12. Uncollectible Expense

Uncollectable expense, or "bad debt expense," is the portion of retail revenues that Ameren Missouri is unable to collect from retail customers due to non-payment of bills. After a certain amount of time, these accounts are "written off" by Ameren Missouri and turned over to third party collection agencies for collection efforts. Ameren Missouri is sometimes successful in collecting on accounts that have been written off due to the efforts of the third party collection agencies. These collections are then netted with the write-offs to determine "net write-offs". The amount of bad debt expense recorded by Ameren Missouri during the test year reflects an accrual, or estimation, by Ameren Missouri to provide a reserve for bad debt expense.

Ameren Missouri filed Case No. GU-2021-0112 seeking to recover expenses and revenues impacted by COVID-19. This included expenses for bad debts as Ameren Missouri voluntarily suspended disconnections during the pandemic. During the Covid-19 pandemic, Ameren Missouri incurred lower net write-offs than in prior periods partially due to Ameren Missouri offering extended deferred payment plans to customers. Additionally, the amount of write-offs were impacted by the availability of assistance for customers having difficulties paying their bill, such as Ameren Missouri's COVID-19 Clean Slate program[102]as well as additional funding that was made available to the Low Income Home Energy Assistance Program ("LIHEAP"). For a complete discussion of the COVID-19 AAO please see the COVID AAO Cost Recovery section of this report by Staff Witness Kimberly K. Bolin.

[102] Through the Covid-19 Clean Slate program Ameren Missouri provided an additional $3.5 million in energy assistance to customers.

Staff traditionally determines the amount of uncollectable expense to include in rates by analyzing the actual historical net write-offs for a period of time. Staff has proposed an adjustment to normalize the amount of uncollectible expense in rates by reflecting the actual net write-offs as of December 31, 2019. Staff's proposed adjustment results in a decrease to the test year level of expense of $103,652. Staff will continue to review the actual net write-offs incurred by Ameren Missouri through the true-up date of September 30, 2021, and may make further adjustments as part of its true-up audit in this case.

Staff Expert/Witness: Jason Kunst, CPA

13. PSC Assessment

Commission operations are funded by assessments levied upon utility companies under its jurisdiction. The required funding level from each utility is re-evaluated each year, and a new assessment amount is billed to each regulated utility on July 1. All of the assessments collected in total are used to meet the Commission's operating costs for regulating those utilities. Staff's PSC assessment annualization adjustment represents the difference between the amount of PSC assessment recorded on Ameren Missouri's gas books during the test year, or twelve months ending December 31, 2020 and the most recent PSC assessment that went into effect as of July 1, 2021 (fiscal year 2022) in the cost of service in this case.

Staff Expert/Witness: Christopher D. Caldwell

14. Energy Efficiency and Low Income Programs

a. Energy Efficient Natural Gas Programs

Ameren Missouri gas currently has three (3) Commission approved programs in its energy efficiency portfolio: (1) Missouri Energy Efficient Natural Gas Equipment and Building Shell Measure Rebate Programs (2) Missouri Energy Efficient Natural Gas Co-Delivery Program ("Co-Delivery Program") with Ameren Missouri electric and (3) Missouri Energy Efficient Natural Gas Residential Low income Program

Missouri Energy Efficient Natural Gas Equipment and Building Shell Measure Rebate Program

The Missouri Energy Efficient Natural Gas Equipment and Building Shell Measure Rebate Program is designed to encourage more effective utilization of natural gas by encouraging cost effective energy efficient improvements through the replacement of less efficient natural gas equipment with high efficient Energy Star qualified natural gas equipment and other high efficiency equipment and building shell measures. Rebates are being offered on a limited bases for a portion of the cost of measures purchased by participants. This program is voluntary. A participant may receive rebates for the quantities listed for each measure, each calendar year. Residential rebates apply only to residential customers, or their landlords purchasing measures listed as residential in the Rebate Range sheet, tariff sheet no. 81.1. General Service rebates apply only to General Service customers, purchasing measures listed as Business in the Rebate Range sheet, tariff sheet no. 81.2.

Missouri Energy Efficient Natural Gas Co-Delivery Program

The Missouri Energy Efficient Natural Gas Co-Delivery Program is designed to deliver energy savings to customers receiving service under the Residential Service Rate or the General Service Rate that also receive electric service from Ameren Missouri. The program is co-delivered in combination with one or more energy efficiency programs offered by Ameren Missouri Electric. This program is offered through various channels such as direct install, direct mail, secondary education school, community based organization, market-rate and low-income multifamily properties. Energy efficiency measures are delivered through the Co-Delivery Program at no cost to participants and may include but are not limited to thermostats, low flow faucet aerators, low flow showerheads, pipe wrap, and furnace tune-ups. Eligible measure and incentive ranges can be found on the Rebate Range Sheet – Residential & Landlord Measures list in the Missouri Energy Efficient Natural Gas Equipment and Building Shell Measure Rebate Programs Tariff sheet no. 81.1.

Missouri Energy Efficient Natural Gas Residential Low Income Program

The Missouri Energy Efficient Natural Gas Residential Low Income Program is designed to deliver energy savings to properties housing customers who meet the following criteria:

> 1. Qualifying single family low-income customers receiving service under the Residential Service Rate residing in single family detached housing, duplexes, and mobile homes (wood-frame bolted to steel chassis, designed to be transported);

2. Owners and operators of any multi-family properties of three or more dwelling units receiving service under the Residential Service Rate or Service Classifications General Service Rate: or

3. Organizations who perform qualified installations or distributions to homes of qualified low-income residential end users may participate in this Program by making application for a low-income efficiency housing grant.

In order to qualify for participation, low-income participants must meet one of the following income eligibility requirements:

1. Participation in federal, state, or local subsidized housing program.

2. Proof of income levels at or below 80% of area median income (AMI) or 200% of federal poverty level.

3. Fall within a census tract included on Company's list of eligible low income census tracts.

Where a multi-family property does not meet one of the eligibility criteria listed above and has a combination of qualifying tenants and non-qualifying tenants, at least 50% of the tenants must be eligible for the entire property to qualify.

The measures to be installed in this program are the same as the list of residential measures in the Missouri Energy Efficient Natural Gas Equipment and Building Shell Measure Rebate Program tariff sheet no. 81.1, however the incentives could be as high as 100% of the installed cost of the measure. Maximums provided in the Missouri Energy Efficient Natural Gas Equipment and Building Shell Measure Rebate Program will be applied per tenant unit, rather than per property in the case of multi-family properties.

Program Funding

In Case No. GR-2019-0077, the Commission approved the *First Amended Non-Unanimous Stipulation and Agreement*[103] which allowed Ameren Missouri to retain the

[103] GR-2019-0077; *In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase Its Revenues for Natural Gas Service, First Amended Non-Unanimous Stipulation and Agreement*, page 3, paragraph 16, *Order Approving Stipulations and Agreements, and Compliance Tariffs*,

current $700,000 annual collection for the Energy Efficiency Portfolio with the Energy Efficiency Programs at $312,000, and Ameren Missouri's Income Eligible Weatherization Assistance Program[104] at $263,000 and will include the Income Eligible Multi-family subprogram ("IEMF")[105] at $125,000. Ameren Missouri agreed to the full $700,000 annually and may exceed funding levels by up to 20%, but may not exceed the 20% buffer without Commission approval.

On March 22, 2021, in Case No. GR-2019-0077 Ameren Missouri filed a *Motion for Expedited Treatment and Request for Budget Increase for Natural Gas Energy Efficiency Programs*, to temporarily increase its natural gas energy efficiency budget through the remainder of the current program year. The current natural gas program period runs from September 2020 to August 2021. Ameren Missouri discovered through ongoing monitoring efforts of its funds for the program, that at the current pace of spending, the program funding, including the 20% buffer, would be exhausted by the end of April 2021.

On April 7, 2021 in Case No. GR-2019-0077, Staff filed its *Staff Recommendation for Approval,* and on April 14, 2021 the Commission issued an Order Authorizing Ameren Missouri to Temporarily Increase its Budget for Natural Gas Energy Efficiency Programs and Granting Motion for Expedited Treatment.

Proposed Changes

Ameren Missouri has filed a proposal of a Pay As You Save Program ("PAYS")[106], (a financial mechanism that allows a utility to pay for the upfront cost of a distributed energy solution and to recover its cost on the monthly bill with a charge that is less than the estimated savings), to replace the energy efficiency portfolio of programs and maintain the current portfolio annual budget of $700,000. Staff will further address this proposal in rebuttal.

Recommendation

Staff recommends the Commission order Ameren Missouri to retain the current $700,000 annual collection for the Energy Efficiency Portfolio allocated as currently ordered:

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[104] This program is discussed in greater detail in the Income- Eligible Weatherization Assistance Program section of this report.
[105] This is not a separate tariffed program, it was included as a subprogram in the Missouri Energy Efficient Natural Gas Residential Low Income Program
[106] Direct testimony of Ameren Missouri witness Jeffrey R. Berg, page 3.

- Energy Efficiency Programs at $312,000
- Income-Eligible Weatherization Assistance Program $263,000; and
- Income Eligible Multi-family subprogram at $125,000.

Staff Expert/Witness: Kory J. Boustead

b. Income-Eligible Weatherization Assistance Program

The Ameren Missouri low-income weatherization program provides supplemental funding in support of the larger federally funded nationwide US Department of Energy ("DOE"), Low-Income Weatherization Assistance Program ("LIWAP"). LIWAP provides eligible households with home energy conservation services. The program provides cost-effective, energy-efficient home improvements to Missouri's low-income households, especially the elderly, children, those with physical disadvantages and others most affected by high utility costs.

The program objectives are to lower utility bills and improve comfort while ensuring health and safety. Income eligible home owners and tenants with their landlord's permission are eligible. Typical weatherization measures include air sealing to reduce infiltrations, attic insulation, sidewall insulation, floor and foundation insulation, pipe or duct insulation, water heater blankets, energy efficient lighting replacement and heating and cooling system repair or replacement.

Ameren Missouri was first authorized to implement a new weatherization program in Case No. GR-2000-0512 when the representatives of Ameren Missouri, Staff, the Public Counsel and the Missouri Department of Natural Resources ("DNR") entered into the *Unanimous Stipulation and Agreement*,[107] filed September 20, 2000 and approved by the Commission in the *Order Approving Unanimous Stipulation and Agreement*[108] on October 17, 2000.

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[107] GR-2000-512; *In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Gas Service Provided to Customers in the Company's Missouri Service Area*, page 5, paragraph 3.

[108] GR-2000-512; *In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Gas Service Provided to Customers in the Company's Missouri Service Area*, page 3, paragraph 3.

The original program was authorized at an annual funding level of $125,000 by ratepayers to be distributed to social service agencies identified later by the parties as part of the Commission ordered collaborative process, which commits to use funding for Ameren Missouri natural gas customers on: (1) the procurement of weatherization services or (2) energy audits provided in conjunction with the provision of weatherization services. As a condition precedent to receiving the weatherization funds from Ameren Missouri, the social service agencies must agree to provide to Ameren Missouri, Staff, the Public Counsel and DNR certain reporting information developed in the collaborative process.

The program was continued by the Commission,[109], with an annual funding of $155,000, in Case No. GR-2003-0517,[110] an increase from the $125,000 annual funding approved prior.

In Case No. GR-2007-0003,[111] the weatherization program had continued success and was authorized to continue at an increased annual funding level of $263,000 forwarded to the Environmental Improvement and Energy Resources Authority ("EIERA") for disbursement to weatherization agencies within Ameren Missouri's service territory. The EIERA shall serve as a repository for funds received in accordance with the Stipulation and Agreement and funds will be dispersed to weatherization agencies based upon the recommendations of the DNR Energy Center and the Collaborative to assure program consistency between the Ameren Missouri low-income weatherization program and the federal weatherization program administered by DNR.

The program is further continued in Case No. GR-2010-0363[112] at the previously approved annual funding level of $263,000 which will continue to be forwarded to the EIERA

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[109] GR-2003-0517; *In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Gas Service Provided to Customers in the Company's Missouri Service Area, Report & Order.*

[110] GR-2003-0517; *In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Gas Service Provided to Customers in the Company's Missouri Service Area, Unanimous Stipulation and Agreement* page 6. Paragraph 6.

[111] GR-2007-0003; *In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Natural Gas Service Provided to Customers in the Company's Missouri Service Area, Stipulation and Agreement,* page 1, paragraph 2.; page 7, paragraph 16; page 8 paragraph 16 continued.

[112] GR-2010-0363; *In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Natural Gas Service Provided to Customers in the Company's Missouri Service Area, Unanimous Stipulation and Agreement, page 3, paragraph 6A., D., E.*

for disbursement to the social service agencies. The Energy Efficiency Collaborative ("EEC"), which was established when the program was implemented, will function as an advisory group and the name changed to the Energy Efficiency Advisory Group ("EEAG"). An EFIS docket was opened as a repository for Ameren Missouri to file updates on the programs. DNR was ordered to file Ameren Missouri Gas Low Income Weatherization Progress Reports, at least quarterly in the repository docket.

In Ameren Missouri's most recent rate case, Case No. GR-2019-0077[113] the program was authorized to continue at the existing ratepayer annual funding level of $263,000. Ameren Missouri agreed to take over the administration of the weatherization program which would stop the forwarding of the program funds to the EIERA and allow Ameren Missouri to pay the social service agencies directly. With the change of administration the strict adherence to the USDOE guidelines on how the weatherization dollars were able to be used was removed. This allows the social service agencies to utilize the supplemental funds provided by the utility for broader repair issues which previously would of caused the home to be ineligible for weatherization. The name of the program was also changed to the Income-Eligible Weatherization Assistance Program ("IEWAP").

Staff has confirmed with Ameren Missouri that the transition from DNR to Ameren Missouri is complete and the program funds paid directly to the social service agencies for their use in the current program year. Staff has reviewed the program year budgets and quarterly weatherization reports from the social service agencies. Staff may reserve the right to comment on this program or respond to any testimony filed at a later date in this case.

Staff recommends the Commission order the Income-Eligible Weatherization Assistance Program to continue at the existing funding level of $263,000.

Staff Expert Witness: Kory J. Boustead

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[113] GR-2019-0077; *In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase Its Annual Revenues for Natural Gas Service, Stipulation and Agreement,* page 4, paragraph 13.

c. Accounting Treatment of Energy Efficiency and Weatherization Programs

In the Stipulation and Agreement from the most recent Ameren Missouri gas rate case, Case No. GR-2019-0077, the parties agreed to keep the annual funding for weatherization in the amount of $263,000, and $437,000 for other energy efficiency programs, for a total of $700,000. Staff has reviewed the costs that were recorded in the test year and the expenditures by Ameren Missouri and is proposing no adjustments as part of its direct filing.

As part of its direct testimony, Ameren Missouri witness Jeffrey R. Berg proposed to replace the spending for energy efficiency programs with a Pay as You Save ("PAYS") program. Staff will address the proposed accounting for the PAYS program as part of its rebuttal testimony.

Staff Expert/Witness: Jason Kunst, CPA

15. Amortization of Over and Under Collected Regulatory Assets and Liabilities

In a prior Ameren Missouri rate case, Case No. ER-2010-0036, the Commission approved a stipulation and agreement regarding the amortization of severance cost and equity issuance costs incurred in 2009. As part of Ameren Missouri's last gas rate case, Case no. GR-2019-0077, Staff combined the amortizations for the severance cost and equity issuance costs into a netted amortization, similar to those that have been established for various combined amortizations in the electric rate case. As part of the stipulation and agreement in case no. GR-2019-0077, the combined amortization balance and annual amortization was memorialized. However, Staff noticed in the current case that the balance was memorialized as of the true-up cutoff date in the last case, May 31, 2019, but the amortization was based on an amortization of the balance that would have existed at the operation of law date, November 2, 2019, amortized over a five year period. Staff has corrected this prospectively by amortizing the balance memorialized in the stipulation with the monthly amortization amount that was set in Ameren Missouri's gas rate case, Case No. GR-2010-0363, until the effective date of rates in the last rate case, September 1, 2019 and then began to amortize the balance from that date forward based on the annualized amortization amount memorialized in the GR-2019-0077 stipulation through the operation of law date established in this current case, February 28, 2022. Staff recommends a return of the over collection related to this netted amortization over a period of three years.

Staff Expert/Witness: Lisa M. Ferguson

16. Miscellaneous Expense

Miscellaneous expenses are recorded in FERC Uniform System of Accounts (USOA) 900 accounts and are expenses that have not been included within lobbying, dues & donations, memberships, advertising, outside services and board of directors' expenses. Staff reviewed these miscellaneous expenses along with the monthly expense reports of Ameren Missouri and Ameren Services officers. Staff removed from the test year costs for items such as contributions to civic groups, sponsorships of community events, and various charges that are not necessary in the provision of safe and adequate service.

Staff discovered that some of the miscellaneous expense that Staff disallowed were recorded in capital overhead accounts. Staff has removed the charge from plant and has also removed estimated reserve from Account 398. These amounts will be addressed further once Staff has determined what capital accounts these charges were finally recorded in as well as calculate the actual reserve based on that account's depreciation rates.

Staff Expert/Witness: Jane C. Dhority

17. Sales Tax Audit

During the course of its review, Staff discovered payments made by Ameren Missouri to the Missouri Department of Revenue as a result of a sales tax audit for years 2015-2017. In response to Staff Data Request No. 0347, Ameren Missouri indicated that the audit is still ongoing, however Ameren Missouri made the payments to avoid paying interest. Ameren Missouri indicated they are in the process of appealing the audit results. Staff is recommending that these payments be removed from the test year as they represent a non-recurring payment and has made an adjustment to remove them from the revenue requirement.

Staff Expert/Witness: Jason Kunst, CPA

18. Electric Vehicle Incentive

** [redacted]

[redacted] ** Staff has made an adjustment to remove the incentive payments that were charged to Ameren Missouri during the test year, as these charges should be borne by ratepayers.

Staff Expert/Witness: Jason Kunst, CPA

19. Call Center Costs

Ameren Missouri has a contractual agreement with First Contact/IQOR to manage part of its incoming customer calls. Staff learned during its review in this case that the initial three-year contract between Ameren Missouri and First Contact/IQOR expired in November 2020 and the parties are negotiating an amendment. Ameren Missouri records an accrual of this expense at the beginning of each month and reverses it once it pays it. Staff annualized call center costs by applying the current hourly rate to the actual hours worked during the twelve months ending June 2021. Staff will review the new contract once it is finalized and propose an adjustment, if necessary, as part of its true up audit.

Staff Expert/Witness: Paul K. Amenthor

20. Permanent Cleaning Costs

Ameren Missouri initiated ongoing permanent cleaning procedures due to the COVID-19 pandemic that are beyond cleaning costs currently in base rates. Ameren Missouri seeks recovery of this additional cleaning cost. Staff included the twelve months ending June 30, 2021 in the cost of service. Staff will review Ameren Missouri's new cleaning contract once it's approved and propose an adjustment, if necessary, as part of its true up audit in this case.

Staff Expert/Witness: Paul K. Amenthor

21. Software Rental Expense

Ameren Missouri leases the use of several software programs from its affiliates. Staff annualized affiliate software rental expense by applying the last known amount at June 2021 for a 12-month period. Staff will continue to review this issue through the true up cutoff date of September 30, 2021.

Staff Expert/Witness: Paul K. Amenthor

22. Software Maintenance Expense

Staff has proposed adjustments to remove software maintenance agreements that have expired and to include contracts that were renewed during the test year as well as to reflect the current contract pricings. Staff will continue to review this issue through the true up cutoff date of September 30, 2021.

Staff Expert/Witness: Paul K. Amenthor

E. Income Taxes

Income tax expense, as calculated by Staff, is largely consistent with the methodology used in Ameren Missouri's last electric rate case, Case No. ER-2019-0335. The income tax calculations begin by taking Staff's adjusted net operating income before taxes amount and adding to or subtracting from net operating income various timing differences in order to obtain the net taxable income amount for ratemaking purposes. These "add back" and/or subtraction adjustments are necessary to identify new amounts for the tax deductions that are different from those levels reflected in the income statement as revenues or expenses. A tax timing difference occurs when the timing used in reflecting a cost (or revenue) for financial reporting purposes (book purposes) is different than the timing required by the IRS in determining taxable income (tax purposes). Current income tax reflects timing differences consistent with the timing required by the IRS. The tax timing differences used in calculating taxable income for computing current income tax are as follows:

Add Back to Operating Income Before Taxes:

- Book Depreciation Expense
- Book Depreciation Charged to O&M

Subtractions from Operating Income:

- Interest Expense – Weighted Cost of Debt X Rate Base
- Tax Straight-Line Depreciation
- Preferred Dividend Deduction

Tax timing differences can be treated for ratemaking purposes under either the "flow-through" or "normalization" approaches. The tax normalization method defers for ratemaking purposes the deduction taken for tax purposes for certain tax timing differences. The effect of use of tax normalization is to allow utilities the net benefit of certain net tax deductions for a period of time before those benefits are passed on to the utility's customers in rates. The flow-through tax method essentially provides for the same tax deduction taken as a deduction for ratemaking purposes as is taken for tax purposes. For purposes of this rate case, Staff has normalized the depreciation deduction but has flowed through the preferred dividend deduction and the interest expense deduction. However, under either the tax normalization or tax flow-through approach, the resulting net taxable income for ratemaking is then multiplied by the appropriate federal, state and city tax rates to obtain the current liability for income taxes. A federal tax rate of 21 percent, a state income tax rate of 4.00 percent, and a city tax rate of .1220 percent were used in calculating Ameren Missouri's current income tax liability. The difference between the calculated current income tax provision and the per book income tax provision is the current income tax provision adjustment.

In Ameren Missouri Case No. ER-2016-0179, normalized deductions and credits were unable to be used due to the Net Operating Loss situation that Ameren and Ameren Missouri had. Ameren Missouri had to first use its loss before it was able to take advantage of its normalized credits or deductions. Ameren Missouri has paid tax to the Ameren consolidated group for 2017, 2018, 2019, and is expected to for the 2020 tax year which means that Ameren Missouri is in a taxable position. Ameren Corporation was in a taxable position in 2019 but did not pay tax due to a previous tax overpayment but is expected to pay tax to the IRS for the 2020 tax year. In this case, Staff has included the preferred dividend deduction and the St. Louis city payroll tax credit.

Staff will review income tax expense as part of its true-up audit in this case and make additional adjustments as necessary.

Staff Expert/Witness: Lisa M. Ferguson

1. Amortization of Excess ADIT

a. Federal Corporate Tax Rate Reduction

The Tax Cuts and Jobs Act was signed into law in December 2017, and the reduction in the corporate tax rate required the revaluation of accumulated tax timing differences that were previously valued at 35% to be revalued at 21%. This excess deferred tax value is required to be returned to customers based on whether the excess deferred taxes are protected or unprotected. Protected excess ADIT is the portion associated with accelerated depreciation tax timing differences that must be "normalized" for rate making purposes and where the flow back of excess ADIT cannot be returned to customers any more quickly than over the estimated life of the assets that gave rise to the ADIT. Unprotected excess ADIT is the portion of the deferred tax reserve that resulted from normalization treatment of tax timing differences other than accelerated depreciation. The amortization of the return of excess ADIT was initially included in rates for Ameren Missouri gas customers as part of the interim rate decrease that was stipulated to and ordered by the Commission to take effect on January 2, 2019, in Case No. GR-2018-0227. That interim rate decrease was reviewed by Staff, agreed to amongst the parties and approved by the Commission in order to promptly reduce rates in recognition of the amounts Ameren Missouri gas operations will save due to the corporate federal income tax reduction resulting from the Tax Cuts and Jobs Act of 2017. Staff has continued to include this ongoing excess ADIT tracking mechanism as part of restating rates in this current proceeding.

b. <u>State Corporate Tax Rate Reduction</u>

In the last Ameren Missouri gas rate case, Case No. GR-2019-0077, Staff could not reflect the state corporate tax reduction that was set to occur on January 1, 2020 for current income tax as the date that this tax reduction took effect was subsequent to the true-up cutoff of May 31, 2019. Ameren Missouri however anticipated this tax reduction for the accumulated tax timing differences that were previously valued at 6.25% that are now revalued at 4.00%. All of Ameren Missouri's state related accumulated deferred taxes are considered unprotected and began amortization as of the effective date of rates in the last gas rate case, September 1, 2019.

Staff recommends continuation of the amortization of the return of excess ADIT for both the federal and state corporate tax reductions in rates for Ameren Missouri gas customers as part of restating rates in this rate proceeding.

Staff Expert/Witness: Lisa M. Ferguson

VII. Depreciation

A. Summary

Ameren Missouri is required to submit a depreciation study under rule 20 CSR 4240-40.090.[114] Ameren Missouri submitted a depreciation study prepared by Gannett Fleming Valuation and Rate Consultants, LLC for the capital assets of Ameren Missouri based on plant balances as of December 31, 2019. This was submitted to Staff along with the property unit catalog and database on July 9, 2020 via email from Mitchell Lansford of Ameren Missouri. In this case, the depreciation study was submitted as schedule MJL-D13 of Ameren Missouri Witness Mitchell Lansford's direct testimony.

Depreciation as applied to depreciable plant is defined as "the loss in service value, not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities."[115] Staff accounts for depreciation by recording the actual purchase cost of the asset, known as book cost, and charging depreciation expense over the expected or average service life of the asset.

Staff receives data in excel or notepad format for retirements and salvage information. The data includes installment year (vintage), FERC account, type of transaction, transaction year, amount of transaction, and group or location codes. Staff uses a version of Gannett Fleming Software to complete the following actions with the company provided data. The data is sorted and checked for errors.

Using the data supplied by Ameren Missouri, and the methods below, Staff calculated its own depreciation rates of Ameren Missouri's plant. Staff used the straight-line method,

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[114] 20 CSR 4240-40.090(1)(B): A gas utility shall submit its depreciation study, database, and property unit catalog on the following occasions: 1. Upon the date five (5) years from the last time the commission's staff received a depreciation study, database, and property unit catalog from the utility; and 2. Upon submission of a general rate increase request. However, a gas utility need not submit a depreciation study, database, or property unit catalog to the extent that the commission's staff received these items from the utility during the three (3) years prior to the utility's filing for a general rate increase request.

[115] 18 CFR Part 101 Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to Provision of the Federal Power Act Definition 12.

broad group-averaging life procedure, and remaining life technique for its calculations for most of the accounts. The straight-line method allocates expense evenly over the expected life of the assets. The broad group-averaging life procedure bases annual depreciation on the average service life of the account group rather than the specific vintage year. The broad group method views each vintage of asset in the continuous group as having identical life and salvage characteristics. A remaining life technique applies the depreciation rate over the estimated remaining life of the asset group. The remaining life technique calculates the depreciation rate by taking into account the depreciation reserve for the account. This corrects any under or over accrual that may have accrued in the accounts. It then applies the remaining balance over the estimated average remaining life of the assets in the accounts. Staff used this method, procedure, and technique for the majority of the accounts evaluated.

For each account, Staff estimated the average service life and net salvage rate. Average service life is the estimated useful life of the assets in the account and net salvage is the scrap value of the asset minus the cost of removal.

To estimate the average service life for the accounts, Staff reviewed the historical plant, salvage, and cost of removal data provided by Ameren Missouri. This data is checked for reasonableness. Staff then uses depreciation software to analyze the data and calculate the ratio of retirements to exposures by age, and solve for the percent surviving by age to develop a survivor curve for each account. To determine a survivor curve, the exposures at a given age are the dollars remaining from the various vintages that have survived to that age. The retirement ratio is the dollars retired during an age interval divided by the exposures at the beginning of that interval. The survivor ratio is then calculated by subtracting the retirement ratio from "1". Multiplying each successive survivor ratio by the percent surviving of the previous age will generate a survivor curve. For an account in which all plant is retired, the full survivor curve is available and average service life can be calculated. Accounts with plant remaining have a partial curve, which is known as a stub curve. This survivor curve or stub curve is then smoothed and fitted to an empirically developed statistical model known as

MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

COST OF SERVICE

APPENDIX 3

Other Staff Schedules

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2021-0240

Jefferson City, Missouri
September 2021

** Denotes Confidential Information **

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