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Severance Payments
Conner/Direct
Public Counsel
ER-2019-0335

DIRECT TESTIMONY

OF

AMANDA C. CONNER

Submitted on Behalf of the Office of the Public Counsel

**UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI**

FILE NO. ER-2019-0335

December 4, 2019

DPC Exhibit No. 211
Date 3/4/20 Reporter JMB
File No. ER-2019-0335

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF THE MISSOURI


In the Matter of the Union Electric Company d/b/a)
Ameren Missouri's Tariffs to Decrease Its) File No. ER-2019-0335
Revenues for Electric Service)

AFFIDAVIT OF AMANDA C. CONNER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Amanda C. Conner, of lawful age and being first duly sworn, deposes and states:

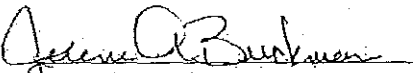
1. My name is Amanda C. Conner. I am a Public Utility Accountant I for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Amanda C. Conner
Public Utility Accountant I

Subscribed and sworn to me this 4th day of December 2019.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037


Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

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DIRECT TESTIMONY
OF
AMANDA C CONNER
UNION ELECTRIC COMPANY
d/b/a AMEREN MISSOURI
CASE NO. ER-2019-0335

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 **A. Amanda C. Conner, P.O. Box 2230, Jefferson City, Missouri 65102.**

4 **Q. By whom are you employed and in what capacity?**

5 **A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Public Utility**
6 **Accountant.**

7 **Q. On whose behalf are you testifying?**

8 **A. I am testifying on behalf of the OPC.**

9 **Q. What is the nature of your duties at the OPC?**

10 **A. My duties include performing audits, reviews and examinations of the books and records of**
11 **public utilities operating within the state of Missouri.**

12 **Q. Have you conducted a review of the books and records of Union Electric Company d/b/a**
13 **Ameren Missouri (Ameren) in this rate case?**

14 **A. Yes, with the assistance of other members of the OPC.**

15 **Q. Please describe your educational background.**

16 **A. I earned a Bachelor of Science degree in Accounting from Columbia College in May 2012.**

17 **Q. Please describe your related background.**

1 A. I began my employment with the OPC in February of 2016. Prior to my current position, I
2 was employed by the Missouri Department of Revenue, in both the Taxation Division
3 Collections Section and General Counsel's Office, Bankruptcy Unit, where I worked with the
4 public addressing various types of tax issues.

5 Q. Have you received specialized training related to public utility accounting and
6 ratemaking?

7 A. Yes. I have received regulatory and ratemaking training as an employee of the OPC, working
8 with the OPC's experts including Certified Public Accountants. In addition, I attended the
9 Utility Ratemaking Fundamentals course sponsored by Brubaker & Associates, Inc. in the
10 spring of 2016. In the fall of 2016, I attended the NARUC Utility Rate School sponsored by
11 Michigan State University.

12 Q. Have you previously filed testimony before the Missouri Public Service Commission
13 ("Commission" or "PSC")?

14 A. Yes. Please refer to Schedule ACC-D-1, attached to this testimony, for a list of cases in which
15 I have submitted testimony.

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

17 A. My testimony addresses the OPC's ratemaking position on the following issues: 1) Rate Case
18 Expense, 2) Management Expense Charges, and 3) Severance.

19 **II. RATE CASE EXPENSE**

20 Q. What is the OPC's position regarding the amount of rate case expense that should be
21 included in customer rates in this case?

22
23 A. OPC's position is that it is not reasonable to include 100% of rate case expense in customers'
24 rates because shareholder(s) also benefit from a rate case.

1 **Q. What process did you use to arrive at that position?**

2 A. First I looked to see if the amount of rate case expense is reasonable. All unreasonable costs
3 were removed to be paid by the Company's owner, as it has the authority to prevent this
4 expenditures from occurring.

5 In that regard, I support the rate case expense methodology of sharing the rate case expense
6 between the Company's customers and its shareholder(s). The Commission ordered this same
7 methodology in KCPL's ER-2014-0370 rate case ("2014 Order") and it is OPC's position that
8 this methodology is appropriate for this case adjusted for unique features in this case.

9 The 2014 Order methodology determines how rate case expense should be shared between
10 ratepayers and shareholders based on the ratio of Ameren Missouri's ("Ameren" or
11 "Company") Commission authorized revenue requirement decrease to the Company's
12 requested revenue requirement effective rate change, net of any of the OPC's adjustments.
13 Accordingly, the adjusted, allocated amount of Ameren's share of the rate case expense
14 should be recovered over four years.

15 **Q. Why should ratepayers not pay all the rate case costs for when the Company asserts**
16 **reduces their customer rates by approximately a million dollars?**

17 A. There are a number of reasons why rate case expense should be shared. First, as the
18 Commission concluded in the 2014 Order, shareholders benefit greatly from rate cases.
19 Second, the fact that this case was characterized as a rate decrease is questionable as one
20 considers customers will no longer receive \$177 million of Tax Cuts and Jobs Act bill credits
21 and may pay over \$100 million more in Fuel and Purchased Power Rate Adjustment
22 Mechanism (FAC) surcharge revenues if Ameren's proposed \$100 million FAC base
23 reduction is later charged back to customers through the FAC adjustment mechanism. See the
24 direct testimony of Lena Mantle and Robert Schallenberg for more details. Lastly, Ameren
25 typically incurs rate case expenses that exceed the total \$700,000 decrease it proposes in this
26 case, which begs the question as to why Ameren even filed this case if the expense of the case

1 itself would erode the claimed customer savings. For all of these reasons, the Commission
2 should require customers to pay *no more* than 50% of Ameren's total rate case expense. I say
3 "no more" because, based on the facts above, the Commission would be justified to order
4 customers to pay even less than 50% for rate case expense.

5 **Q. Do you believe the 2014 Order methodology is reasonable?**

6 A. Yes. I agree with the Commission's approach, which is the methodology the Commission
7 Staff ("Staff") has applied in most, if not all, of its rate case Cost-of Service Reports since the
8 2014 Order.

9
10 **Q. Is rate case expense significantly different from other types of operating expenses?**

11 A. Yes. For example, Ameren can only estimate rate case expense, which varies depending on
12 how the rate case proceeds. Other operating expenses such as prepayments, while subject to
13 updates, will not change directly because of the process of the case. Furthermore, of the rate
14 case expenses incurred, a portion is exclusively for the benefit of Ameren shareholders.

15 **Q. What is the current rate case expense Ameren estimated in answer to Staff's data
16 request 77?**

17 A. In its direct filing, Ameren has an estimated rate case expense of \$501,045 without the
18 Depreciation Study.

19 **Q. What are some of the factors causing this estimated rate case expense?**

20 A. According to Ameren's answer to Staff's data request 153, which asked what containment
21 measures Ameren was using to reasonably minimize costs, Ameren stated that they made
22 an effort to do more work-in-house, but that it was not possible to quantify what level of
23 savings resulted from these measures.

24 **Q. Do you agree with Ameren's statement?**

1 A. No. First, quantifying savings should not be a difficult task since Ameren has the
2 information from their 2016 rate case, Case No. ER-2016-0179.

3 Secondly, I do not believe that Ameren is using any cost containment measures. They
4 are using a consultant for Witness Skills Development, for which they have already spent
5 \$42,276.37 as of September 2019. They are also hiring an outside Rate Design witness
6 whose hourly rates are between \$250 and \$550 an hour, depending on the scope of work
7 being done on any given invoice. This has totaled to \$115,354.81 as of September 2019.
8 They have another consultant for Ameren's cost allocation manual (CAM) that has
9 totaled \$116,048.18 as of September, 2019. They have also signed a contract for Return
10 on Equity testimony for which the not-to-exceed budget is \$31,380.00. The Company's
11 legal expenses are negligible at this point.

12 **Q. What is your position regarding amortizing the rate case expense over three years?**

13 A. First, OPC position is to normalize, not amortize. At this time, OPC is expecting that the
14 Company will file another rate case in about a year. Based on this representation, it is only
15 right that the rate case expense be collected in that year before the next case. If rate case
16 expense are amortized for three years and then the Company files another rate case within
17 the next three years, ratepayers will be charged for both this case's rate case expense and
18 any allowable rate case expense in the next case. By normalizing the rate case expense,
19 any amount left from this rate case would be uncollectable after the next rate case is filed.

20 **Q. What is your position regarding amortizing the Depreciation Study?**

21 A. Ameren is requesting \$54,451 to be included from the last Depreciation Study. I find this
22 problematic because the study was done in 2014 and included in their 2014 rate case, Case
23 No. ER-2014-0258. Ameren is in the process of performing a new Depreciation Study this
24 year. Because the Depreciation Study was included in the 2014 rate case, the five (5) year
25 amortization should be completed before rates for this rate case are in place. Because the

1 2014 Study should already be paid off, I do not believe that this amount should be included
2 in the rate case, especially since Ameren is including costs for the 2019 Depreciation Study
3 in their rate case expense. I oppose this accounting and assert that the costs of the
4 Deprecation Study should be recorded in account 928 "Regulatory commission expenses"
5 as the study is required independent of the rate case. The total of the 2019 Depreciation
6 study as of September 2019 is \$87,984.84, so Ameren can either amortize that over five
7 (5) years or wait until they file the next rate case to include the amount for this Depreciation
8 Study.

9 **Q. Do you have any further opinions regarding Ameren's rate case expense?**

10 A. Yes, I am of the opinion that Ameren is spending an extremely high amount in rate case
11 expense for a relatively small rate reduction. Ameren requested to decrease its rates by
12 \$700,000 annually. Ameren's current rates produce approximately \$3 billion of revenues.
13 The Company asserts its customer rates will be reduced by three (3) pennies a month as a
14 result of their filing. Thus, the Company has initiated a huge commitment of its resources
15 as well as those of the Commission, its Staff, OPC, and other interveners for a negligible
16 reduction.

17
18 **III. MANAGEMENT EXPENSE CHARGES**

19 **Q. What is your concern with the Company's management and officer expenses?**

20 A. It has been my experience in the Company's recent natural gas case that there are
21 significant issues regarding the inappropriate handling of expense account reimbursements.
22 Based on the review I conducted in this case, I discovered some irregularities in the
23 accounting for manager and officer expenses.

1 **Q. Does Ameren have a policy on the types of employee expenses that are reimbursable**
2 **to their managers and officers?**

3 A. Yes. In its response to OPC's DR 1204 Ameren provided an overview of its expense
4 policies ("Expense Policy"). See attached at ACC-D-2.

5 **Q. Did you conduct a review of Ameren management expense charges?**

6 A. Yes. I conducted a significant detailed analysis of the company's officers and managers
7 expenses charged in the first quarter of the 2018 general ledger.

8 **Q. Do you normally audit all of a company's officers and managers?**

9 A. No.

10 **Q. What made you decide to conduct such an extensive audit for this rate case?**

11 A. In Case No. GR-2019-0077, I performed the normal sampling audit that I have done for
12 over three years. However, in that case the Company criticized my audit claiming I did
13 not look at Ameren's non-officer and manager expenses. Therefore, I decided to expand
14 the scope of study to all officers and managers that charged to Ameren Electric during the
15 test year and made my sample from the first quarter. My sample is only from the first
16 quarter because including non-officers increased the volume of data to the point where a
17 full year sample would be impossible to complete before the filing deadline for this
18 testimony.

19 **Q. Did you make any concessions for Ameren regarding this audit?**

20 A. Yes, I am reviewing invoices that I have questions on regarding the charges.

21 **Q. Have you sent your requested invoices yet?**

22 A. I have sent a request for several invoices, and will likely have more as my review continues.

1 **Q. What are your findings from your review?**

2 A. I identified hundreds of violations of Ameren's Expense Policy (Policy).

3 **Q. What are some of these violations?**

4 A. My first concern was the lack of justification for expenses, contrary to Policy requirements
5 for justifying transactions. These Policy requirements are:

6 1. Meals: When practical, Employees should avoid scheduling meetings over the meal
7 period. The business purpose of the meal must be included in the expense
8 justification.

9
10 2. Documenting Transactions: Justification (business reason for transaction).

11 By not providing purpose descriptions as required, the Company's officers and managers
12 did not have sufficient data to justify many of the expenses they approved or submitted.

13 **Q. Does the Expense Policy state anything regarding alcohol consumption?**

14 A. Yes. In item #5, Descriptions of Potential Expenses/Transactions and Instructions, alcohol is
15 listed in category 7. Alcohol purchased with a meal is an allowable expense, but must be
16 submitted separately.

17 **Q. What is OPC's position on alcohol consumption charged to ratepayers?**

18 A. I follow OPC's policy to exclude alcohol expense. Its OPC's position that alcoholic
19 consumption is not conducive to conducting the Company's electric utility business. The
20 expense for alcohol should be charged in below-the-line accounts.

21 **Q. What is the amount of adjustment you are making?**

22 A. The annual amount of management expenses removed as of this filing for Ameren is
23 \$1,306,291. The purpose of removing this amount is to protect ratepayers from

1 reimbursing Ameren for expenses that are not needed to provide safe and adequate service
2 to their customers. These charges include:

- 3 1. Meals in the manager/officers work location without sufficient business justification,
4 which is also against Ameren's Policy regarding local meals.
- 5 2. Charges to Edison Electric Institute (EEL) and Electric Power Research Institute (EPRI).
- 6 3. There are a few managers and officers whose primary job is lobbying but for those
7 personnel whose primary job is lobbying, all charges for this officer were excluded because
8 lobbying expenses benefit the shareholder.
- 9 4. All other charges that are otherwise unreasonable or imprudent for which I may identify as
10 my review continues.

11 **Q. Are you providing documentation in regards to your calculation?**

12 **A.** Yes. This calculation is attached as ACC-D-3.

13 **Q. What are some of the examples of your fourth excluded category, "otherwise
14 unreasonable or imprudent"?**

15 **A.** Examples of such charges:

- 16 1. A trip to Canada that is posted to FERC Account 524 that includes meals, travel, and
17 hotel accommodations.
- 18 2. A trip to Rome, Italy posted to FERC Account 517 that includes meals, travel, and
19 hotel accommodations.
- 20 3. There are also charges for the storm relief efforts in Puerto Rico, which are charged
21 to various FERC Accounts. The company was reimbursed for these charges, and they
22 are also considered a non-recurring event.

23 **Q. Are all of the "otherwise unreasonable or imprudent" expenses travel-related then?**

24 **A.** No. I also found questionable charges related to Ameren Missouri's membership in the
25 Utility Air Regulatory Group (UARG). UARG is a lobbying group that pursues various
26 legislative goals that may not be in the best interests of Ameren Missouri's customers or

1 be those that customers may not wish to support. I therefore excluded UARG related
2 charges in my audit. Public reporting has also recently addressed this topic. See Schedule
3 ACC-D-4 for context.

4 **IV. SEVERANCE PAYMENTS**

5 **Q. Does the Commission typically allow rate recovery of utility severance payments?**

6 **A.** No. The Commission typically does not allow rate recovery of utility severance payments.

7 **Q. Are severance payments a type of utility cost that should be included in a utility's cost**
8 **of service?**

9 **A.** No, for numerous reasons. The primary reason is that severance payments are often
10 recovered by the utility through regulatory lag. Regulatory lag usually allows a utility to
11 not only recover the amount of severance payments, but in some cases recover two and
12 three times the amount of the severance payment. This is the result of a utility recovering
13 the salaries and benefits, after the employees have been severed, in rates until rates are
14 changed in the next utility rate case.

15 Another major reason why I believe that the cost of utility severance agreements should
16 not be included in cost of service is that the agreements signed by the severed employee
17 contains language designed to safeguard utility officers and shareholders from potential
18 litigation and embarrassment. Utility severance agreements typically require the severed
19 employee to surrender and release any legal claims the employee may have against the
20 utility for any reason and prohibits the employee from making any disparaging or critical
21 statements of any nature whatsoever about the utility. These agreements primarily benefit
22 the utility's shareholder, while discouraging benefits customers may get from former-
23 employee whistleblower revelations. The cost of securing these types of commitments
24 from severed employees should therefore be borne by shareholders and not ratepayers.

1

2

Q. Does this conclude your direct testimony?

3

A. Yes, it does.

**CASE PARTICIPATION
OF
AMANDA C. CONNER**

<u>Company Name</u>	<u>Case No.</u>
Empire District Electric Company	ER-2016-0023
Kansas City Power & Light Company	ER-2016-0285
Laclede Gas Company	GR-2017-0215
Missouri Gas Energy	GR-2017-0216
Missouri American Water Company	WR-2017-0285
Liberty Utilities	GR-2018-0013
KCP&L Greater Missouri Operations Company	ER-2018-0146
Kansas City Power & Light Company	ER-2018-0145
Union Electric Company D/B/A Ameren Missouri	GR-2019-0077

Case No. ER-2019-0335

Schedule ACC-D-2 to

Amanda C. Conner's

Direct Testimony has been
deemed "Confidential" in its
entirety

UNION ELECTRIC D/B/A AMEREN MISSOURI

ER-2019-0335

Source: DR1211

Management Expenses

Prepared By: Amanda C. Conner

Totals as of Direct Filing

First Quarter Disallowed Expenses		Annual Disallowance	
Meals	\$126,249	Meals	\$504,995
Parking	\$1,900	Parking	\$7,601
Hotel	\$43,175	Hotel	\$172,699
Taxi	\$1,460	Taxi	\$5,838
Airfare	\$29,886	Airfare	\$119,543
Dues/Training/Meetings	\$28,235	Dues/Training/Meetings	\$112,939
Miscellaneous	\$83,772	Miscellaneous	\$335,088
Car Rental	\$4,999	Car Rental	\$19,996
Mileage	\$6,898	Mileage	\$27,591
Total First Quarter	\$326,573	Annual Total	\$1,306,291

BUSINESS

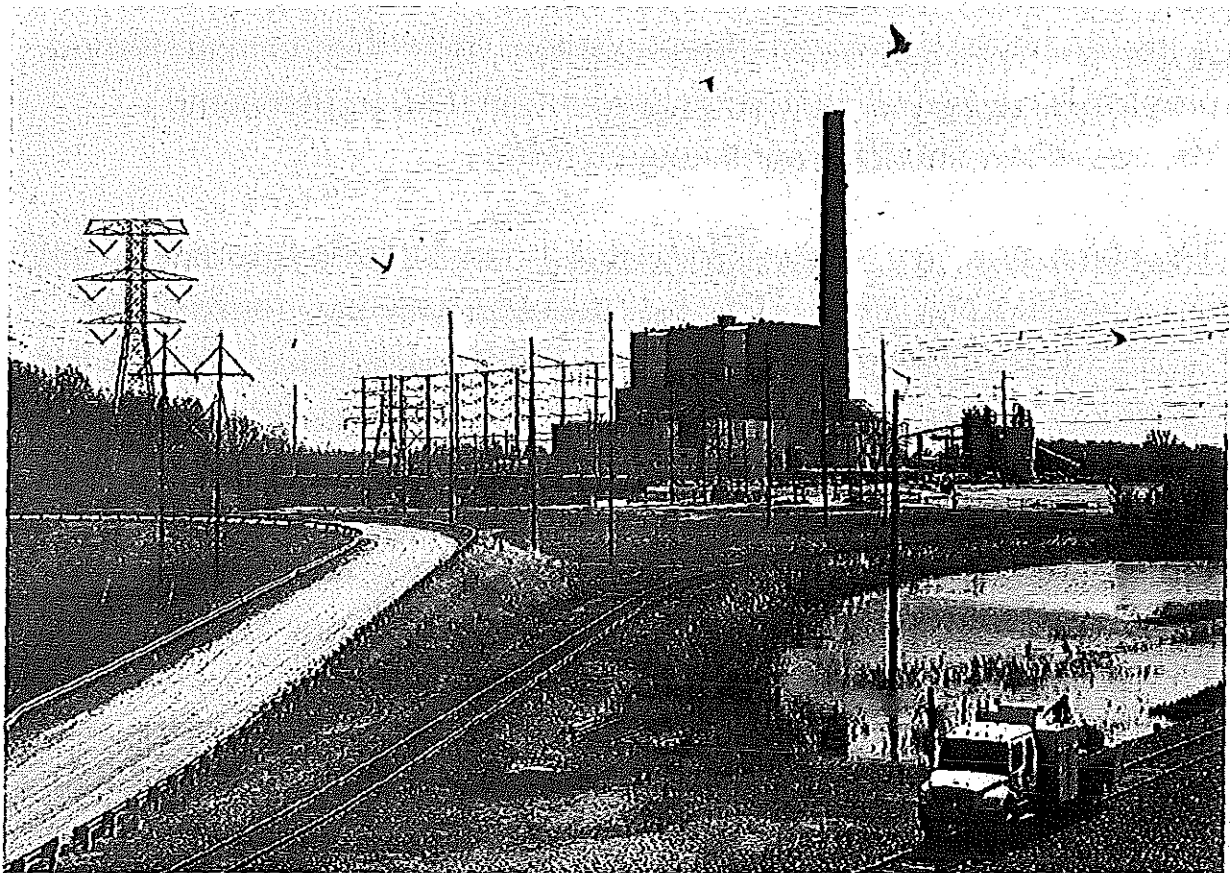
https://www.stltoday.com/business/local/congressional-probe-looks-at-lobbying-group-funded-by-ameren-other/article_4c61b33d-b7fd-5e4c-9a08-d26a0d3a8486.html

Congressional probe looks at lobbying group funded by Ameren, other utilities

By Bryce Gray St. Louis Post-Dispatch Apr 22, 2019

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1 of 3



The coal-fired Rush Island Energy Center electricity generation plant owned by Ameren Missouri in Jefferson County.

Photo by David Carson, dcarson@post-dispatch.com

Schedule ACC-D-4

1/6

A congressional probe of two Environmental Protection Agency officials has ensnared St. Louis-based Ameren Corp., which is being asked to disclose its ties to a lobbying group accused of trying to undermine federal air pollution regulations.

Ameren is one of eight coal-heavy power companies that have been asked by the House Committee on Energy and Commerce to produce records documenting their support of the Utility Air Regulatory Group (UARG), which is described as "a secretive front group" by the committee's Democratic leadership.

The request comes amid the committee's look into the activities of EPA officials William Wehrum and David Harlow, who serve in leading roles in the agency's Office of Air and Radiation. Both Wehrum and Harlow previously worked at Hunton Andrews Kurth LLP, a Richmond, Va.-based law firm that represented UARG.

The committee, in a statement on April 11 announcing the inquiry, said the agenda of the Office of Air and Radiation was now "remarkably similar to the substantive agenda" of UARG, raising the possibility that Wehrum and Harlow may have violated federal ethics rules.

"These allegations have raised substantial questions regarding whether Mr. Wehrum and Mr. Harlow are properly carrying out the (Clean Air Act) as directed by Congress, or instead changing Agency policies and programs to benefit former clients," the committee said.

The committee, led by its chairman, Rep. Frank Pallone Jr., D-N.J., also wants to understand how UARG is being funded: Are shareholders of companies such as Ameren paying for lobbying or are ratepayers?

According to its letter to Ameren, the committee says the utility paid "\$265,865 in 2017 to fund UARG's activities, with a higher contribution projected for 2018. This amount appears to be directly proportional to your company's amount of fossil fuel-powered electrical generation."

Some other companies involved in the investigation paid higher amounts, the committee said.

"It is upsetting to think that you're paying for a utility to lobby for what's not in their customers' interest," said John Coffman, a lawyer and utilities expert representing the Consumers Council of Missouri. "(UARG) is a group that environmental groups would be at odds with."

Warren Wood, vice president of legislative and regulatory affairs for Ameren Missouri, acknowledges the utility has been a UARG member "since its formation some four decades ago."

He and other Ameren officials said UARG primarily helped member companies interpret complex air quality regulations and develop "cost-effective" plans for compliance. The company also said UARG, along with environmental organizations, had helped the EPA develop requirements for things such as continuous air monitoring.

As recently as 2017, Ameren argued before utility regulators at the Missouri Public Service Commission that it should be allowed to recover more than \$200,000 tied to membership dues for groups such as UARG, "since Ameren Missouri customers benefit from membership in these groups," according to testimony from Laura Moore, the company's director of regulatory accounting.

Ameren also suggested that lobbying is not the focus of UARG, and said that the group's charter prohibits "legislative lobbying" — though it was unclear if that extends to the regulatory arena.

The PSC sees things differently.

While reviewing Ameren's finances during a rate case in 2015, PSC staff voiced "concerns with the amount of lobbying that is performed by" UARG and other groups, according to testimony from Jason Kunst, a utility regulatory auditor for the agency. That lobbying didn't necessarily align with the interests of ratepayers, Kunst said.

It's not immediately clear how Ameren pays for UARG activities. The so-called "black box" settlements that often resolve Ameren rate cases mask any breakdowns of what specific expenses are passed to ratepayers. Traditionally, the PSC has not allowed lobbying costs to be recovered through electric rates, but it's uncertain as to whether that happened in at least 2015, when parties agreed to a revenue increase of \$11 million to resolve a set of issues that included dues, donations and lobbying expenses.

The confusion is apparently shared by the House committee, whose first questions to Ameren ask how it covers its UARG expenses, and to explain how its "substantial annual contributions to UARG are consistent with your obligations to ratepayers."

Ameren declined to provide those answers to the Post-Dispatch, citing the ongoing process of gathering information to respond to the House request. The committee has given the company until Thursday to reply.

Over the years, UARG has led legal challenges to major components of the Clean Air Act that affect coal power. Matt Kasper, research director for the Energy & Policy Institute, a utility industry watchdog group, said a prominent example included the EPA's 2009 classification of carbon dioxide as a pollutant that threatens the current and future welfare of the public — a finding that essentially forms the legal basis of any federal action on climate change.

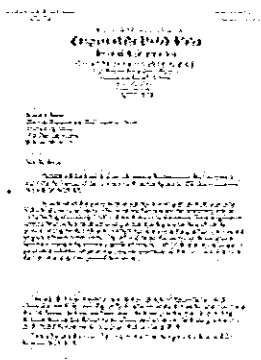
“(UARG) has kind of been set up for the whole industry to share legal costs for fighting EPA regulations,” Kasper said. “Clearly, it’s political.”

As the House probe has surfaced, several of UARG’s top donors have reportedly left the group in recent days, according to various news outlets — including Duke Energy Corp., Dominion Energy Corp., and DTE Energy Co.

“As the company winds down coal, we view our continued participation as not aligned with our company’s priorities,” DTE told E&E News in a statement.

Wood said that Ameren had “not made a decision” about whether it would stay in the group, adding that the company evaluated the net benefits of its UARG membership each year.

In addition to Ameren and DTE, other utilities that received letters from the congressional committee are American Electric Power, FirstEnergy, Southern Company Services, Tennessee Valley Authority, Tri-State Generation and Transmission Association, and Vistra Energy.



Oversight letter sent to Ameren

Bryce Gray

Reporter covering energy and the environment for the St. Louis Post-Dispatch.