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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. ER-2011-0028**

**REBUTTAL TESTIMONY**

**OF**

**RANDALL K. LYNN**

**On Behalf**

**Of**

**UNION ELECTRIC COMPANY**

**d/b/a Ameren Missouri**

**St. Louis, Missouri  
March, 2011**

*Ameren* Exhibit No. 145  
Date 5/10/11 Reporter SK  
File No. ER-2011-0028

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **RANDALL K. LYNN**

4 **CASE NO. ER-2011-0028**

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

6 A. My name is Randall K. Lynn. My business address is 101 South Hanley,  
7 Suite 900, St. Louis, Missouri 63105.

8 **Q. Are you the same Randall K. Lynn who filed direct testimony in this**  
9 **proceeding?**

10 A. Yes, I am.

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. The purpose of my rebuttal testimony is to discuss the changes to the Tracker for  
13 Pension and Other Post-Retirement Benefits ("Tracker") suggested by Staff witness  
14 Kofi A. Boateng, including a discussion of how non-qualified pension expense is  
15 treated by the Tracker.

16 **Q. What is "non-qualified pension expense"?**

17 A. Under federal law, "qualified" pension plans receive more advantageous tax treatment  
18 in exchange for following a strict set of regulations covering all operations of the plan,  
19 including how the plan is funded and designed, and how benefits are paid to  
20 employees. "Non-qualified" pension plans, on the other hand, do not have to meet the  
21 same regulations, thereby affording employers more flexibility in the manner in which  
22 they provide retirement benefits. Ameren Missouri currently has both qualified and  
23 non-qualified pension plans that provide retirement benefits to its employees.

1 **Q. Why does Ameren Missouri provide non-qualified benefits?**

2 A. Under federal law, a qualified pension plan may only provide pension benefits on  
3 compensation up to an annual limit. For 2011, this limit is \$245,000. Similar to many  
4 other large companies, Ameren Missouri offers pension benefits through a non-  
5 qualified plan which account for pay in excess of this annual limit.

6 **Q. Does Ameren Missouri provide any employer-paid, non-qualified pension  
7 benefits beyond benefits to offset the impact of the annual compensation limit?**

8 A. No. Ameren Missouri's non-qualified pension plan only restores the benefits that  
9 cannot be provided to employees due to the annual limit on compensation which can  
10 be used to determine benefits from a qualified pension plan. No additional employer-  
11 paid benefits beyond those provided to Ameren Missouri's broad-based employee  
12 population through the Company's qualified plans are paid through the non-qualified  
13 pension plan.

14 **Q. How may Ameren Missouri fund its pension plans?**

15 A. The law allows Ameren Missouri to fund its plans in two ways. First, Ameren  
16 Missouri may set aside money in a trust to be used to pay pension benefits at a later  
17 date. This is how Ameren Missouri has been funding the qualified pension expense  
18 annually. Alternatively, Ameren Missouri may fund a pension plan by paying plan  
19 benefits to participants directly from corporate assets. Mr. Boateng's Schedule KAB 4  
20 does not seem to include payments made directly to participants even though that is  
21 the method Ameren Missouri has chosen to fund its non-qualified plan.

22 **Q. How does the Tracker say that Ameren Missouri should fund its expense  
23 annually?**

1 A. In Section 3, the Tracker that is currently in effect states, in relevant part, that "[e]ach  
2 year AmerenUE shall contribute to its pension and VEBA trust the amount of its ASC  
3 715-30 and ASC 715-60 costs for that year." The language of the Tracker does not  
4 distinguish between contributions to qualified and non-qualified plans and clearly  
5 contemplates that all of the Company's annual pension expense will be recognized,  
6 regardless of the funding mechanism used.

7 **Q. Does the Tracker discuss plan benefit payments made directly to participants by**  
8 **Ameren Missouri?**

9 A. No, it does not. As noted previously, the Tracker contemplates that all pension  
10 expense will be recognized regardless of whether Ameren Missouri chooses to fund a  
11 trust or directly pay the benefits out of corporate assets.

12 **Q. Why are benefit payments made from corporate assets to participants**  
13 **considered a "contribution" to the non-qualified pension plan under the**  
14 **accounting rules?**

15 A. When Ameren Missouri makes a benefit payment from corporate assets directly to a  
16 participant, it is permanently utilizing an asset of the corporation for the sole purpose  
17 of paying pension benefits. This is just the same as a contribution to a pension trust,  
18 where corporate assets are permanently set aside to pay benefits at some point in the  
19 future. In both cases, the payment results in an offset to the plan's net accounting  
20 obligation, reducing the plan's future accounting expense.

21 **Q. What were the actual Ameren Missouri non-qualified benefit payments from**  
22 **2007-2010?**

1 A. Ameren Missouri has made over \$3.6 million of non-qualified benefit payments from  
2 2007-2010. Additionally, another \$2.1 million of benefits were paid at Ameren  
3 Services; a portion of these payments are attributable to Ameren Missouri. The  
4 following table details Ameren's contribution history:

| <u>Year</u>  | <u>Non-Qualified Plan Benefit Payments to Participants:</u> |                        |
|--------------|---|------------------------|
|              | <u>Ameren Missouri</u>                                      | <u>Ameren Services</u> |
| 2007         | \$874,553   | \$494,063              |
| 2008         | \$805,610   | \$343,141              |
| 2009         | \$1,001,299   | \$391,820              |
| 2010         | <u>\$992,728</u>  | <u>\$922,236</u>       |
| <b>Total</b> | \$3,674,190   | \$2,151,260            |

5

6 **Q. How do the \$3,674,190 of non-qualified benefit payments at Ameren Missouri**  
7 **compare to Staff witness Boateng's suggested adjustment to the pension tracker**  
8 **for non-qualified pension plan costs allowed in rates?**

9 A. Staff witness Boateng has proposed an adjustment of \$3,099,975 for non-qualified  
10 expense that he alleges was allowed in rates but not funded to a trust. But, as I noted  
11 earlier in my rebuttal testimony, Ameren Missouri does not fund its non-qualified plan  
12 by making contributions to a trust. Instead, it funds its non-qualified pension  
13 obligations through direct payments from corporate assets. In fact, the actual cash  
14 payments that Ameren Missouri made to fund its non-qualified obligations was  
15 \$3,674,190, which exceeds the amount of Mr. Boateng's adjustment. Therefore,  
16 Ameren Missouri actually funded more than the non-qualified pension expense built  
17 into rates from 2007-2010. Accordingly, no adjustment to the pension tracker seems  
18 necessary.

1    **Q.    Should benefit payments made directly to plan participants be considered the**  
2           **same as contributions to a trust under the Tracker?**

3    A.    Yes.  Alternatively, Ameren Missouri could have set up a trust for non-qualified  
4           benefits.  The Company could have made annual contributions to this new trust and  
5           then immediately paid those contributions out as benefits to participants.  Under this  
6           scenario, where the cash would simply pass through a trust, the cash outlay by Ameren  
7           Missouri and by ratepayers would be unchanged.  Additionally, the obligation and the  
8           future expense of the non-qualified plan would be the same.  Payments made directly  
9           to participants provide the same benefit to ratepayers as benefit payments that pass  
10          through a trust first.  In some cases, it is simply easier and more cost efficient to pay  
11          plan benefits directly to participants.

12   **Q.    How does Ameren Missouri intend to fund its non-qualified expense in the future**  
13           **under the Tracker?**

14   A.    Ameren Missouri intends to fund an amount equal to expense annually through a  
15          combination of plan benefit payments directly to participants and contributions to a  
16          trust.  Contributions will be made to a trust in years when the benefit payments from  
17          corporate assets to participants are less than the non-qualified pension expense for the  
18          year, if there are any such years.

19   **Q.    Did Staff witness Boateng suggest any other changes to the Tracker?**

20   A.    Yes.  Schedule KAB 4 contains two major revisions from the Tracker language I  
21          suggested in Schedule RKL-ER2.  First, on page 1, Section 1.C. was deleted.  This  
22          language clarifies how Ameren Missouri will account for annual changes in its net  
23          pension and OPEB obligation for ratemaking purposes.  Since the pension accounting

1 rules have not been changed, we believe this language should remain in the Tracker so  
2 there is no question about the intended ratemaking treatment of pension costs recorded  
3 under the Tracker. (Section 1.C. was included in the Tracker approved in the last rate  
4 case.) Secondly, Schedule KAB 4 does not incorporate the treatment of a contribution  
5 in excess of expense to avoid benefit restrictions, which I proposed in my direct  
6 testimony.

7 **Q. What Tracker language should be adopted by the Commission?**

8 A. I believe the revised Tracker language submitted as Schedule RKL-ER2, should be  
9 adopted without Staff witness Boateng's suggested edits. Specifically, I believe the  
10 Tracker should include language prescribing the treatment of contributions in excess  
11 of expense and include non-qualified pension expense. Additionally, I believe  
12 Section 3 should be revised to clarify that plan benefit payments made directly to  
13 participants are considered contributions, consistent with their accounting impact.

14 **Q. Does this conclude your rebuttal testimony?**

15 A. Yes, it does.





## **Tracker For Pension and Other Post-Employment Benefits**

### **Intent:**

1. These provisions of the Stipulation and Agreement are intended to accomplish the following:
  - a. To ensure that the amount collected in rates for pension and other post-employment benefit (OPEB) costs is based on the Accounting Standards Codification (ASC) 715-30 and ASC 715-60 (formerly FAS 87 and FAS 106) costs AmerenUE recognizes for financial reporting purposes; and
  - b. To ensure AmerenUE recovers in rates certain contributions it makes to its pension and OPEB trusts; and
  - c. To clarify, for ratemaking purposes, the accounting treatment of future charges AmerenUE would be required to record to equity (e.g., decreases to other comprehensive income) by ASC 715-20 (formerly FAS 158) or any other Financial Accounting Standards Board (FASB) codification relative to the recognition of pension and OPEB costs and / or liabilities.

### **Procedure:**

2. The ASC 715-30 and ASC 715-60 costs AmerenUE recognizes for financial reporting purposes shall be recognized in rates. The calculation of these costs shall be, unless specifically changed by the issuance of new FASB codifications, based on the Market Related Value of Assets that reflects asset gains and losses over a 4 year period. Unrecognized gains and losses shall be, unless specifically changed by the issuance of new FASB codifications, amortized over a 10-year period. This calculation does not employ the corridor approach. AmerenUE will inform the Staff of the Missouri Public Service Commission and the Office of Public Counsel as soon as it becomes aware of a new FASB codification that would affect the calculation parameters discussed above.

3. Each year AmerenUE shall contribute to its pensions and VEBA trusts the amount of its ASC 715-30 and ASC 715-60 costs for that year, less the amount of benefit payments made

directly to participants, excluding any cost or credit triggered due to any special events as described in paragraph 9.

4. AmerenUE shall be allowed rate recovery for contributions it makes to its pension trust that exceed its ASC 715-30 cost for any of the following reasons: the minimum required contribution is greater than the ASC 715-30 cost, avoidance or reduction of Pension Benefit Guaranty Corporation (PBGC) variable premiums, and contributions necessary to avoid or lessen benefit restrictions as defined by Section 436 of the Internal Revenue Code. To track any such excess contributions, a regulatory asset will be established and will be included in rate base.

5. The difference between the level of pension (ASC 715-30) or OPEB (ASC 715-60) costs AmerenUE incurs and the level of those costs built into rates shall be tracked by means of regulatory assets and/or liabilities described in the following paragraphs.

6. Regulatory assets or liabilities shall be established on AmerenUE's books to track the difference between the level of ASC 715-30 and ASC 715-60 costs AmerenUE incurs during the period between general electric rate cases and the level of ASC 715-30 and ASC 715-60 costs built into rates for that period. If the ASC 715-30 or ASC 715-60 cost during the period is more than the ASC 715-30 or ASC 715-60 cost built into rates for the period, AmerenUE shall establish a regulatory asset which has been reduced by any existing regulatory liability for pensions, or OPEBs, maintained pursuant to the following paragraph. If the ASC 715-30 or ASC 715-60 cost during the period, adjusted for any amount of such expense used to reduce a regulatory liability maintained pursuant to the following paragraph, is less than the cost built into rates for the period, AmerenUE shall establish a regulatory liability. Since this is a cash item, the regulatory asset or liability will be included in rate base for purposes of setting new rates in the next rate case, and amortized over 5 years beginning with the effective date of the new rates.

7. If AmerenUE incurs negative ASC 715-30 or ASC 715-60 cost, AmerenUE shall set up a regulatory liability to offset the negative cost. The regulatory liability will increase by the amount of negative cost, or decrease by the amount of positive cost, in each subsequent year. Positive cost in such subsequent year will be used to reduce this regulatory liability before being used to establish a regulatory asset pursuant to the preceding paragraph. Any existing regulatory liability related to prior negative ASC 715-30 or ASC 715-60 cost will reduce the ASC 715-30 or ASC 715-60 cost included in cost of service in AmerenUE's next rate case. This regulatory liability is a non-cash item that AmerenUE shall exclude from its rate base in future rate cases.

8. The parties have designed this agreement so that AmerenUE will receive through rates reimbursement of its ASC 715-30 and ASC 715-60 costs. Therefore, AmerenUE shall set up a regulatory asset to offset any charges that would otherwise be recorded against equity (e.g., decreases to other comprehensive income) caused by applying the provisions of ASC 715-20 or any other FASB codification that requires accounting adjustments due to the funded status or other attributes of AmerenUE's Pension or OPEB plans. This regulatory asset shall not be amortized into rates or included in rate base because AmerenUE will recover for the amounts in this regulatory asset in rates through AmerenUE's ASC 715-30 or ASC 715-60 costs in future years. This regulatory asset will increase or decrease each year by the same amount that the equity charge increases or decreases.

9. If AmerenUE has a curtailment, settlement, or special termination cost or credit due to requirements of applicable accounting rules according to ASC 715-30 (formerly FAS 88) and ASC 715-60 (formerly FAS 106), the following procedure will be used to address such a cost or credit.

- a. If the special event triggers a charge, then AmerenUE will establish an offsetting regulatory asset. This regulatory asset will not be added to rate base (since it is not a cash item), and it will be amortized over five years beginning when new rates are implemented in AmerenUE's next general electric rate increase or decrease proceeding before the Missouri Public Service Commission. AmerenUE shall make additional contributions to the applicable pension or OPEB trust equal to the amount of the amortization.
- b. If the special event triggers a credit, then AmerenUE shall establish an offsetting regulatory liability. This regulatory liability will not be added to rate base (since it is not a cash item), and it will be amortized over five years beginning when new rates are implemented in AmerenUE's next general electric rate increase or decrease proceeding before the Missouri Public Service Commission. Generally, AmerenUE will contribute to the applicable pension or OPEB trust an amount equivalent to its ASC 715-30/715-60 costs for the year less the amortization amount, subject to the following condition:

If pension or OPEB cost becomes negative as a result of an ASC 715-30 or ASC 715-60 credit, the Parties agree AmerenUE shall set up an offsetting regulatory liability. This regulatory liability is a non-cash item which will not require rate base treatment. When ASC 715-30 or ASC 715-60 costs becomes positive again, the regulatory liability will be amortized over five years, or longer, if necessary to avoid the net of the ASC 715-30 or ASC 715-60 cost and the offsetting amortized regulatory liability yielding a result which is less than \$0 in any year.