

**FILED<sup>3</sup>**  
APR 20 2007  
Missouri Public  
Service Commission

Exhibit No.:

Issues: Corporate Allocations, Payroll and  
Payroll Taxes, Employee Benefits,  
Incentive Compensation,  
Miscellaneous Expenses

Witness: Lisa K. Hanneken

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No: ER-2007-0002

Date Testimony Prepared: December 15, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**LISA K. HANNEKEN**

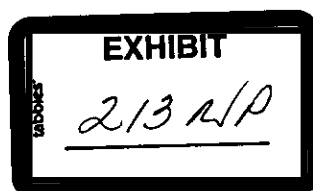
**UNION ELECTRIC COMPANY  
d/b/a AMERENUE**

**CASE NO. ER-2007-0002**

*Jefferson City, Missouri  
December 2006*

**\*\* Denotes Highly Confidential Information \*\***

**NP**



*Staff* Exhibits and *213 NP*  
Date *3/29/07* Case No. *ER-2007-0002*  
Reporter *PF*

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter on Union Electric d/b/a AmerenUE    )  
for Authority to File Tariffs Increasing Rates for    )  
Electric Service Provided to Customers in the    )  
Company's Missouri Service Area.                    )

Case No. ER-2007-0002


AFFIDAVIT OF LISA K. HANNEKEN

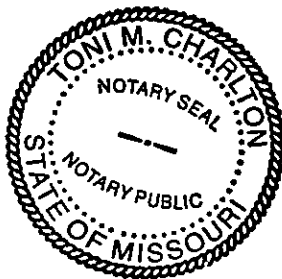
STATE OF MISSOURI        )  
                                  )       ss.  
COUNTY OF COLE        )

Lisa K. Hanneken, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 23 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
Lisa K. Hanneken

Subscribed and sworn to before me this 14<sup>th</sup> day of December 2006.

  
Notary Public



TONI M. CHARLTON  
Notary Public - State of Missouri  
My Commission Expires December 28, 2008  
Cole County  
Commission #04474301

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

**TABLE OF CONTENTS**  
**DIRECT TESTIMONY OF**  
**LISA K. HANNEKEN**  
**CASE NO. ER-2007-0002**

EXECUTIVE SUMMARY .....	2
TRAINING AND EXPERIENCE .....	3
CORPORATE ALLOCATIONS .....	4
PAYROLL .....	7
PAYROLL TAXES .....	9
EMPLOYEE BENEFITS .....	11
ADDITIONAL EMPLOYEE COMPENSATION .....	11
MISCELLANEOUS EXPENSE ADJUSTMENTS .....	21

**DIRECT TESTIMONY**  
**OF**  
**LISA K. HANNEKEN**  
**UNION ELECTRIC COMPANY**  
**d/b/a AMERENUE**  
**CASE NO. ER-2007-0002**

Q. Please state your name and business address.

A. Lisa K. Hanneken, 9900 Page Avenue, Ste. 103, Overland, Missouri 63132.

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

A. I am a Utility Regulatory Auditor IV for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. In July of 2001, I earned a Bachelors degree in Accounting from Webster University in St. Louis. In December of this year, I will complete my Masters of Business Administration with an emphasis in Accounting at Maryville University, St. Louis.

Q. Please describe your work background.

A. In August 1989, I began employment with Rinderer's Union Drug as a pharmacy technician and bookkeeper. Beginning in June of 1997, I was employed by Bucklick Creek, Inc. as the head of accounting and office manager. During 2000, I completed an internship at the Internal Revenue Service (IRS) as an auditor of small corporations and businesses. In September 2001, I commenced employment with the Commission's Staff (Staff).

1 Q. What is the nature of your duties at the Commission?

2 A. I am responsible for assisting in the audits and examinations of the books and  
3 records of utility companies operating within the state of Missouri.

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

5 A. Yes, please refer to Schedule 1, attached to this direct testimony, for a  
6 complete listing of testimony I have filed, including the related case numbers and issues  
7 involved.

8 Q. Did you make an examination and analysis of the books and records of Union  
9 Electric Company d/b/a AmerenUE (UEC or Company) in regards to matters raised in this  
10 case?

11 A. Yes, in conjunction with other members of the Staff. I specifically examined  
12 the Company's workpapers and testimony, the Company's response to Staff data requests,  
13 minutes of the Board of Director's, portions of the Company's general ledger and trial  
14 balances, as well as the Company's Cost Allocation Manual (CAM). I also examined  
15 testimony, workpapers and Commission Report And Orders from recent rate proceedings  
16 involving the Company.

17 **EXECUTIVE SUMMARY**

18 Q. What matters will you address in your direct testimony?

19 A. I am addressing corporate allocations; payroll and related taxes; employee  
20 benefits; additional compensation; and other miscellaneous adjustments. Staff is proposing an  
21 adjustment to reduce the allocations received from Ameren Services Company (AMS) to  
22 reflect an ongoing level of expense. In addition, Staff annualized payroll, payroll taxes and  
23 employee benefits to reflect an ongoing level. In regards to additional compensation, Staff has

1 removed some of the incentive payments related directly to earnings per share (EPS), as this  
2 expense should be borne by the shareholders who benefit from increased Company earnings.  
3 Staff also removed expenses related to a bonus plan, which given the information provided, it  
4 is unclear whether this plan actually provides any ratepayer benefit or increased productivity.  
5 Additionally, Staff made disallowances of miscellaneous Company costs that provide no  
6 direct benefit to the ratepayer.

7 Q. Please list the adjustments you are sponsoring.

8 A. I am sponsoring the following list of adjustments:

9	<u>Adjustment Area</u>	<u>Adjustment Number(s)</u>
10	Corporate Allocations	S-17.14
11	Employee Benefits	S-17.13
12	Incentive Compensation	P-128.1, R-128.1, S-6.2, S-6.3, S-6.4, S-10.2,
13		S-10.3, S-10.4, S-11.2, S-11.3, S-11.4, S-12.2
14		S-12.3, S-12.4, S-13.3, S-13.4, S-13.5, S-14.2,
15		S-14.3, S-14.4, S-15.2, S-15.3, S-15.4, S-17.2,
16		S-17.3, S-17.4
17	Miscellaneous Expense	S-12.8, S-13.8, S-14.6, S-15.6, S-17.16
18	Payroll	S-6.1, S-10.1, S-11.1, S-12.1, S-13.2, S-14.1,
19		S-15.1, S-17.1 and S-6.9 (Callaway)
20	Payroll Taxes	S-33.2, S-33.3, S-33.4

21 **TRAINING AND EXPERIENCE**

22 Q. What knowledge, skill, experience, training or education do you have in these  
23 matters?

24 A. Through the accounting classes, training and internships required for my  
25 educational degrees, as well as my previous work experience, I have obtained a broad  
26 working knowledge of accounting. In addition, I regularly attend continuing professional  
27 education seminars and classes. From the review of workpapers and other information from  
28 this and previous rate cases, as well as researching the Commission's orders, I have acquired

1 knowledge of my assigned issues related to UEC and other companies. Since joining the  
2 Commission Staff, I have assisted with and directed audits and examinations of the books and  
3 records of utility companies operating within the state of Missouri. I have also conducted  
4 audits of small water and sewer companies in conjunction with the Commission's small  
5 company rate increase procedure. Furthermore, I have received and continue to receive  
6 training and guidance from the experienced senior auditors at the Commission.

7 **CORPORATE ALLOCATIONS**

8 Q. Please describe Ameren Services Company (AMS) and its relationship to  
9 UEC.

10 A. AMS is a subsidiary of Ameren Corporation (Ameren) and provides a variety  
11 of support services to Ameren and its subsidiaries such as administrative, management,  
12 engineering and construction. UEC receives services from AMS and is billed monthly for the  
13 services it is provided.

14 Q. Please explain how the billing to UEC is determined.

15 A. \*\* \_\_\_\_\_  
16 \_\_\_\_\_  
17 \_\_\_\_\_  
18 \_\_\_\_\_  
19 \_\_\_\_\_  
20 \_\_\_\_\_  
21 \_\_\_\_\_  
22 \_\_\_\_\_  
23 \_\_\_\_\_

1 \_\_\_\_\_  
2 \_\_\_\_\_  
3 \_\_\_\_\_  
4 \_\_\_\_\_  
5 \_\_\_\_\_  
6 \_\_\_\_\_  
7 \_\_\_\_\_  
8 \_\_\_\_\_  
9 \_\_\_\_\_  
10 \_\_\_\_\_  
11 \_\_\_\_\_  
12 \_\_\_\_\_  
13 \_\_\_\_\_  
14 \_\_\_\_\_  
15 \_\_\_\_\_  
16 \_\_\_\_\_  
17 \_\_\_\_\_ \*\*  
18 Q. Does the amount billed to each affiliate company change if a new company  
19 initiates billing or if an existing company is no longer billed?  
20 A. \*\* \_\_\_\_\_  
21 \_\_\_\_\_  
22 \_\_\_\_\_  
23 \_\_\_\_\_



1 \_\_\_\_\_

2 \_\_\_\_\_ \*\*

3 Q. During the test year were any companies added or removed from AMS's

4 allocation process?

5 A. \*\* \_\_\_\_\_ \*\*

6 Q. What effect did this have on UEC's allocations?

7 A. \*\* \_\_\_\_\_

8 \_\_\_\_\_

9 \_\_\_\_\_

10 \_\_\_\_\_ \*\*

11 Q. Were there any companies added to the number receiving AMS services that

12 affected the allocation percentages?

13 A. \*\* \_\_\_\_\_

14 \_\_\_\_\_

15 \_\_\_\_\_ \*\*

16 Q. Did Staff take this change into account when analyzing the AMS billed

17 amounts for the test year?

18 A. \*\* \_\_\_\_\_

19 \_\_\_\_\_

20 \_\_\_\_\_

21 \_\_\_\_\_

22 \_\_\_\_\_

23 \_\_\_\_\_

1

2

\*\*

3

**PAYROLL**

4

Q. Please explain the different components of Staff's payroll adjustment.

5

6

7

8

9

A. Staff annualized payroll to recognize the wage increases for both union and non-union Company employees. Non-union employees can be divided into two parts: management employees, and the Ameren Leadership Team (ALT) which encompasses upper-level managers, directors, and officers. In addition, Staff normalized payroll to reflect the Callaway refueling, which occurred during the test year.

10

11

Q. Please explain the methodology you employed to determine annualized payroll.

12

13

14

15

A. The Staff's annualization of the Company's actual labor dollars for the test year ending June 30, 2006, reflects the adjustments for any incentive compensation disallowed, the normalization of the Callaway refueling, the adjustment to the allocation of AMS costs and all incurred wage increases.

16

Q. Please discuss the Staff's adjustments for incentive compensation.

17

18

19

20

A. Staff began with the total test year amount of payroll, less all incentive compensation. To this level of payroll Staff added the amount of the Company's Generation Incentive Plan (GIP). This plan, which is more fully discussed later in my testimony, has been included as part of the ongoing level of employee compensation.

21

Q. Please discuss Staff's adjustment S-6.9 for the Callaway refueling.

22

23

A. This adjustment reflects Staff's removal of one third of the total amount of overtime labor involved with the refueling in order to normalize this expense given the 18

1 month interval between refuelings. Staff is only including two-thirds of the cost because  
2 although refueling occurs regularly, it does not occur on an annual basis. As it occurs every  
3 18 months, Staff has used the ratio 12/18 (or two-thirds) to calculate the appropriate amount  
4 to include in rate base.

5 Q. Please discuss Staff's adjustment related to the change in the corporate  
6 allocation percentage.

7 A. In order to reflect the impact of Staff's adjustment to the corporate allocation  
8 percentage discussed previously, Staff removed the amount of labor associated with its  
9 adjustment S-17.14.

10 Once all adjustments were made to Company's test year payroll levels, Staff then  
11 applied the overall wage increase percentage to determine its payroll annualization  
12 adjustment. By doing this Staff calculated an increase on only the labor dollars it believes  
13 represent an ongoing level.

14 Q. How was the wage increase percentage determined?

15 A. The Staff weighted the various union and non-union labor increases that  
16 occurred during the test year by the associated amount of payroll for each group to calculate  
17 an average wage increase percentage.

18 Since different unions received different wage increases at different effective dates, to  
19 properly determine the non-management portion of the wage increase percentage the Staff  
20 requested the amount of labor by union in Data Request 355. The Company objected to this  
21 request, therefore Staff utilized the information it received in response to Staff Data  
22 Request 405, which included a listing of the number of employees by labor union, as a basis  
23 for separating non-management payroll by union. While this data did not allow Staff to

1 precisely calculate the non-management payroll by union, it was the only information  
2 available to make this determination.

3 \*\*

6 \*\*

7 Regarding the Company's management and ALT employees, Staff was able to obtain  
8 the amount of test year labor related to each group. Based on the Staff's calculation of payroll  
9 by union and non-management group and the application of the associated wage increase  
10 percentages and effective dates, Staff calculated the total weighted average wage increase  
11 percentage as 2.80%. This overall wage increase percentage was applied to the allowed test  
12 year payroll, as previously determined, to calculate Staff's annualized labor adjustments  
13 S-6.1, S-10.1, S-11.1, S-12.1, S-13.2, S-14.1, S-15.1, and S-17.1 in the amount of \$7,746,082;  
14 \$7,402,425 related to electric and \$343,657 related to gas. These calculations resulted in an  
15 annualized and normalized on-going level of labor expense for the Company of  
16 \$284,546,659; \$271,922,672 related to electric and \$12,623,987 related to gas.

17 **PAYROLL TAXES**

18 Q. Please explain the Staff's Payroll tax adjustments.

19 A. This adjustment represents the Staff's annualization of Federal Insurance  
20 Contributions Act taxes (FICA), State Unemployment Tax (SUTA) and Payroll Earnings Tax  
21 (PET).

22 Q. How did Staff annualize the FICA tax for its adjustment S-33.2?

1           A.     Staff analyzed the relationship of test year payroll to the amount of test year  
2 FICA to develop an overall FICA percentage. The Staff then applied this percentage to the  
3 amount of Staff's annualized and normalized payroll to arrive at the annualized amount of  
4 FICA tax.

5           Q.     How did Staff annualize the level of SUTA?

6           A.     In addition to Missouri, the Company is required to make payments to various  
7 other States where their employees work. These amounts reflect an on going level of tax and  
8 are not adjusted. In Missouri, the Company is not currently required to pay SUTA. However,  
9 because Missouri has received Federal loans, it is requiring Missouri corporations to pay their  
10 share of the related interest. Therefore, Staff analyzed the Company's test year SUTA  
11 expenses for Missouri to determine an ongoing level.

12                 Staff discovered that the Company had not allocated any expense for SUTA to its gas  
13 operations, although it did capitalize amounts related to SUTA for both gas and electric. In  
14 addition, Staff found an accrual that was made prior to the test year, but was reversed during  
15 the test year related to the possible loss of federal credits, which did not take place. Therefore,  
16 in addition to reflecting the removal of the accrual reversal in order to normalize the test year,  
17 Staff's adjustment S-33.4 utilizes the latest known and measurable interest payment to  
18 annualize the Company's SUTA amount. These calculations resulted in the ongoing level of  
19 SUTA payments, which Staff then allocated to both the Company's electric and gas  
20 operations utilizing the Company's electric/gas ratio.

21           Q.     Please explain Staff adjustment S-33.3 related to PET.

1           A.     Since Staff did not have an exact amount of employees and salary amounts to  
2 calculate the PET, Staff utilized the test year ratio between the amount of payroll and the  
3 amount of PET to determine an annualized ongoing level of PET.

4     **EMPLOYEE BENEFITS**

5           Q.     Please explain the Staff's adjustment S-17.13 related to employee benefits.

6           A.     Staff analyzed the Company's test year records for health, dental, optical,  
7 401K matching, and long-term disability. Staff found that while some items such as medical  
8 increased during the test year due to new contracts, the Company's 401K matching amounts  
9 actually decreased. Based on the most recent data available, Staff annualized the amounts  
10 related to these various employee benefits as a basis for its adjustment.

11     **ADDITIONAL EMPLOYEE COMPENSATION**

12          Q.     Please discuss the compensation received by employees in addition to their  
13 normal payroll during the test year.

14          A.     During the test year the Company had three programs in place through which  
15 an employee could earn above their normal pay. These programs were called the Employee  
16 Performance Incentive Plan (PIP), Generation Incentive Bonuses Plan (GIP), and Exceptional  
17 Performance Bonus Plan (EBP).

18          Q.     Is Staff aware of any other additional compensation plans?

19          A.     The Staff is currently unaware of any; however, they have requested this  
20 information through Staff Data Request 410. Should the Company provide Staff with any  
21 information that indicates the Company has other programs, Staff will analyze the data it  
22 receives to determine whether or not an adjustment should be made.

1 Q. Please discuss the terms "business line" and "individual performance," as  
2 contained in the descriptions of some of these plans.

3 A. The term "business line" refers to the various functions of the company, such  
4 as production and distribution, and functionally related areas such as human resources.  
5 "Individual performance" relates to the job performance of each individual employee and is  
6 evaluated by the manager of the function to which each individual employee is assigned.

7 Q. Please discuss the Company's GIP program.

8 A. \*\* \_\_\_\_\_  
9 \_\_\_\_\_  
10 \_\_\_\_\_  
11 \_\_\_\_\_  
12 \_\_\_\_\_  
13 \_\_\_\_\_  
14 \_\_\_\_\_  
15 \_\_\_\_\_  
16 \_\_\_\_\_  
17 \_\_\_\_\_  
18 \_\_\_\_\_  
19 \_\_\_\_\_  
20 \_\_\_\_\_

21 \_\_\_\_\_  
22 \_\_\_\_\_  
23 \_\_\_\_\_  
24 \_\_\_\_\_  
25 \_\_\_\_\_ \*\*

26 Q. How did the Staff treat the Company's GIP?

1           A.     Given that these supervisors earned overtime for past refuelings and are  
2 expected to earn overtime for future refuelings, Staff feels that the costs associated with GIP  
3 represents ongoing compensation that is necessary for continuing operations \*\* \_\_\_\_\_  
4 \_\_\_\_\_ \*\*. Therefore, Staff included this  
5 amount in its refueling overtime normalization calculations and included it in the overall  
6 payroll annualization as discussed previously in this testimony.

7           Q.     Please discuss the Company's EBP.

8           A.     The Company's Exceptional Performance Bonus \*\* \_\_\_\_\_  
9 \_\_\_\_\_  
10 \_\_\_\_\_  
11 \_\_\_\_\_ \*\* At the end of the year this account is trued-up to  
12 match the accrual with actual pay outs. \*\* \_\_\_\_\_  
13 \_\_\_\_\_  
14 \_\_\_\_\_ \*\*

15          Q.     What types of activities are considered for this bonus?

16          A.     In response to Staff's Data Request 50.1, the Company listed storm or plant  
17 outage coverage, work that achieves extraordinary results, or completion of special  
18 assignments as the criteria to be awarded a bonus.

19          Q.     Are the same employees eligible for this bonus as were eligible for GIP?

20          A.     No. The employees eligible for EPB do not receive overtime pay; therefore  
21 they were not eligible for GIP.

22          Q.     How did Staff treat EPB?



1       A.     The Company has not provided Staff with enough specific information  
2 regarding performance measures or detailed award criteria to determine whether this plan  
3 actually provides any ratepayer benefit or increased productivity; therefore, in the absence of  
4 sufficient information to make this determination, through adjustments S-6.4, S-10.4, S-11.4,  
5 S-12.4, S-13.5, S-14.4, S-15.4, and S-17.4 Staff has excluded the EPB awarded in the test  
6 year. Should the Company provide more detailed information regarding this plan, Staff will  
7 review its position considering this information.

8       Q.     Please describe the Company's PIP program.

9       A.     The Company has three separate incentive plans that are encompassed by PIP:

10       1)     \*\* \_\_\_\_\_

11 \_\_\_\_\_

12 \_\_\_\_\_

13 \_\_\_\_\_ \*\*

14       2)     \*\* \_\_\_\_\_

15 \_\_\_\_\_

16 \_\_\_\_\_

17 \_\_\_\_\_

18 \_\_\_\_\_

19 \_\_\_\_\_ \*\*

20       3)     \*\* \_\_\_\_\_

21 \_\_\_\_\_

22 \_\_\_\_\_

23 \_\_\_\_\_ \*\*

24 \*\* \_\_\_\_\_

25 \_\_\_\_\_

26 \_\_\_\_\_

27 \_\_\_\_\_

1 \_\_\_\_\_  
2 \_\_\_\_\_  
3 \_\_\_\_\_  
4 \_\_\_\_\_  
5 \_\_\_\_\_  
6 \_\_\_\_\_ \*\*  
7 Q. Please discuss how the AIP incentives are awarded.  
8 A. \*\* \_\_\_\_\_  
9 \_\_\_\_\_  
10 \_\_\_\_\_  
11 \_\_\_\_\_  
12 \_\_\_\_\_ \*\*  
13 Q. What are these KPIs?  
14 A. At this time, Staff has not received specific data from the Company regarding  
15 the KPIs related to PIP. Even though Staff understands from conversations with the Company  
16 that they include such items as financial goals, safety goals, customer satisfaction goals, etc.,  
17 Staff does not know specifically what these goals are or how they apply to each business line.  
18 Q. How are the AMIP incentives awarded?  
19 A. \*\* \_\_\_\_\_  
20 \_\_\_\_\_  
21 \_\_\_\_\_  
22 \_\_\_\_\_  
23 \_\_\_\_\_  
24 \_\_\_\_\_

1 \_\_\_\_\_

2 \_\_\_\_\_

3 \_\_\_\_\_

4 \_\_\_\_\_

5 \_\_\_\_\_

6 \_\_\_\_\_

7 \_\_\_\_\_

8 \_\_\_\_\_

9 \_\_\_\_\_

10 \_\_\_\_\_

11 \_\_\_\_\_

12 \_\_\_\_\_

13 \_\_\_\_\_

14 \_\_\_\_\_

15 \_\_\_\_\_

16 \_\_\_\_\_

17 \_\_\_\_\_

18 \_\_\_\_\_

19 \_\_\_\_\_ \*\*

20 Q. Please describe Ameren's EIP.

21 A. \*\* \_\_\_\_\_

22 \_\_\_\_\_

23 \_\_\_\_\_

1 \_\_\_\_\_  
2 \_\_\_\_\_  
3 \_\_\_\_\_  
4 \_\_\_\_\_ \*\*

5 Q. In past cases, has the Commission set minimum standards for an incentive  
6 compensation plan to qualify for inclusion in the cost of service?

7 A. Yes. In its Report And Order in Case Nos. EC-87-114 and EC-87-115, Union  
8 Electric Company, the Commission stated:

9 At a minimum, an acceptable management performance plan should  
10 contain goals that improve existing performance, and the benefits of the  
11 plan should be ascertainable and reasonably related to the plan.  
12 (29 Mo. P.S.C. (N.S.) 313, 325.)

13 In several cases, the Commission has indicated that if the incentive plan is based on  
14 superior employee performance that enhances ratepayer benefit, such as areas related to safety  
15 and O&M expenses, it should be included in Staff's calculations. On the other hand, plans  
16 based on financial goals such as earnings per share and net income are aligned with  
17 shareholder value enhancement and have no direct correlation with ratepayer benefit. As well,  
18 outside influences not under the employees' control could have an impact on the financial  
19 goals, such as weather and interest rates.

20 In addition, in the Southwestern Bell Telephone (SWB) Case No. TC-89-14, the  
21 Commission agreed with Staff that incentives based on goals related to non-regulated  
22 subsidiaries and non-Missouri portions of SWB should not be included in the Staff's amounts  
23 stating that "achieving the goals of SBC and unregulated subsidiaries is too remote to be a  
24 justifiable cost of service for Missouri ratepayers". 29 Mo.P.S.C. (N.S.) 607, 627 (June 20,  
25 1989).

1           These principles remain reasonable to consider in the current utility environment.

2           Q.     What is the Staff's opinion of EPS as a basis for determining incentive  
3 compensation?

4           A.     EPS is influenced by a myriad of factors completely outside of the control of  
5 the company's employees. For example, significantly warmer than normal summer  
6 temperatures can drastically increase the level of earnings for an electric company. In  
7 addition, other items like reductions in interest rates or tax changes can significantly increase  
8 earnings. These increases in earnings do not reflect improved management performance or  
9 efficiency that should be rewarded. Therefore, it is entirely inappropriate to pass the costs of  
10 such profit-driven awards onto the ratepayers. Additionally, by utilizing the EPS for Ameren  
11 Corporation, any changes in EPS caused by another subsidiary could determine whether or  
12 not UEC employees will receive an incentive. If for some reason another subsidiary's  
13 performance reduces the overall EPS to a level below the threshold, the employees of UEC,  
14 even though they meet their goals, would not be awarded an incentive.

15          Q.     Do the AIP, AMIP, and EIP meet the criteria for an acceptable incentive plan  
16 as described above?

17          A.     \*\* \_\_\_\_\_  
18 \_\_\_\_\_  
19 \_\_\_\_\_  
20 \_\_\_\_\_  
21 \_\_\_\_\_  
22 \_\_\_\_\_  
23 \_\_\_\_\_

1  
2  
3  
4 \*\*

5       The Staff believes that it is difficult, if not impossible, to ascertain what the impact of  
6 any individual's performance was in relation to the level of EPS for any given year. EPS is  
7 affected by the efforts of employees not involved in Missouri electric operations. Any  
8 benefits from achieving a given level of earnings per share are simply too remote to Missouri  
9 ratepayers. Indeed, increased earnings per share, upon which all increases in the level of  
10 incentive plan funding are based, may actually cause a reduction in the quality of service to  
11 Missouri ratepayers if the Company cuts costs to achieve higher earnings. \*\*

12  
13  
14       \*\* The Staff believes that there is insufficient evidence to connect incentive  
15 compensation expense for a particular group of employees to a direct benefit to Missouri  
16 ratepayers or the Company's overall EPS performance.

17       Q.   Has the Commission provided more recent guidance with regard to using  
18 financial performance in awarding incentive compensation packages?

19       A.   Yes. In the 2004 Missouri Gas Energy case, GR-2004-0209, the Commission  
20 stated:

21           Those financial incentives seek to reward the company's employees for  
22 making their best efforts to improve the company's bottom line.  
23 Improvements to the company's bottom line chiefly benefit the  
24 company's shareholders, not its ratepayers. Indeed, some actions that  
25 might benefit a company's bottom line, such as a large rate increase, or  
26 the elimination of customer service personnel, might have an adverse

1 effect on ratepayers....the shareholders that benefit from that plan  
2 should pay the costs of that plan. 12 Mo.P.S.C.3d 581, 606-07.

3 Given this guidance and using the logic that improvements to Ameren's bottom line chiefly  
4 benefit the shareholders, not UEC's ratepayers, the Staff has proposed that all expenses  
5 relating to UEC's AIP, AMIP and EIP be borne by the shareholders, rather than UEC's  
6 ratepayers.

7 Q. During the test year did the amount of incentive compensation based on EPS  
8 exceed normal levels?

9 A. \*\* \_\_\_\_\_  
10 \_\_\_\_\_  
11 \_\_\_\_\_  
12 \_\_\_\_\_ \*\*

13 Q. Given this, how did Staff treat the Company's incentive plans?

14 A. First, Staff made adjustments to normalize the amount of PIP in the test year  
15 (S-6.2, S-10.2, S-11.2, S-12.2, S-13.3, S-14.2, S-15.2 and S-17.2), then through adjustments  
16 S-6.3, S-10.3, S-11.3, S-12.3, S-13.4, S-14.3, S-15.3, and S-17.3 Staff removed the remaining  
17 amount of the AIP, AMIP, and EIP from the test year expense level \*\* \_\_\_\_\_

18 \_\_\_\_\_ \*\* which does not meet the criteria set forth by the Commission.

19 Q. How did Staff treat the amounts of these awards that were capitalized for each  
20 type of plan?

21 A. Staff did not make an adjustment to plant related to GIP since Staff included it  
22 in its calculations, however, Staff did make adjustments to the amounts related to the  
23 Company's AIP, AMIP, and EIP in the plant balances and reserve amounts.

1 Q. How did Staff calculate adjustments P-128.1 and R-128.1 in regards to the  
2 capitalized portion of incentive compensation?

3 A. Since the Staff does not believe the cost of these plans should be borne by  
4 ratepayers, no amount of compensation from these plans should be recognized in rates by  
5 including the capitalized amount in the Company's plant accounts. Therefore Staff removed  
6 the incentive compensation that was capitalized from 2002 to the end of June 2006 from its  
7 plant in service. Since Staff was unable to allocate the total amount to specific plants  
8 accounts, Staff applied a composite depreciation rate, based on the Company's current rates,  
9 to calculate the total amount of related accumulated depreciation in the plant reserve. A  
10 composite rate based on the Staff's proposed depreciation rates was used to remove the  
11 annualized depreciation expense related to this disallowance.

12 Q. Why did you only consider amounts capitalized since January 1, 2002?

13 A. Staff requested all available historical data from the Company and was  
14 provided with information from this time period. Staff would have analyzed any prior data  
15 had it been made available to them.

16 **MISCELLANEOUS EXPENSE ADJUSTMENTS**

17 Q. Please explain your adjustments S-12.8, S-13.8, S-14.6, S-15.6, and S-17.16  
18 regarding miscellaneous expenses.

19 A. After analyzing several of the Company's accounts, Staff has removed  
20 \$471,026 (\$450,771 electric, \$20,255 gas) of expense related to various miscellaneous items.  
21 This amount includes items such as \$251,615 related to Christmas decorations for the Ameren  
22 building, \$29,476 for an ALT Christmas party at the Marriott, as well as amounts for



1 entertainers, wine and gifts, sporting events, toy trucks for Chamber of Commerce fundraising  
2 auctions, promotional giveaways and other items.

3 Q. Why did Staff remove the above items?

4 A. Staff has removed these items because the expenses do not provide any benefit  
5 to the ratepayer. For example, if AMS wishes to provide the Ameren Leadership Team with a  
6 \$50,000 Christmas party, \$29,000 of which was paid for by UEC, this expense should be  
7 borne by the shareholders not the ratepayers, as the ratepayer does not benefit by it.

8 Q. Were there other items included in the miscellaneous adjustment?

9 A. Yes, also included in this amount was \$36,000 related to a regulatory attorney  
10 and \$29,303 related to a former employee for legal assistance.

11 Q. Please discuss the adjustment related to these amounts.

12 A. Regarding these individuals, Staff has not been provided currently or in past  
13 cases with any supporting data that indicates what additional benefit these individuals supply  
14 to the ratepayers. While hiring former employees to provide services to a company is common  
15 practice, in some arenas it is also common to see past employees hired as consultants simply  
16 as a gesture of gratitude for past service. In the Company's most recent electric case involving  
17 rates (Case No. EC-2002-01), Staff requested information regarding the regulatory attorney;  
18 the Company responded to part of the question by saying the Company did not keep specific  
19 records related to the services provided and objected to producing any documentation of items  
20 worked on by the regulatory attorney.

21 The Staff has requested the Company provide some type of data to show the necessity  
22 of retaining these consultants. Staff feels that the Company currently has several employees

Direct Testimony of  
Lisa K. Hanneken

1 with varying degrees of experience and expertise to perform these services. The Staff will  
2 reconsider these items at such time additional data is provided by the Company.

3 Q. Does this conclude your testimony in this case?

4 A. Yes, it does.

**CASE PROCEEDING PARTICIPATION**

**LISA K. HANNEKEN**

<b>PARTICIPATION</b>		<b>TESTIMONY</b>
<b>COMPANY</b>	<b>CASE NO.</b>	<b>ISSUES</b>
Laclede Gas Company	GR-2002-356	<u>Direct</u> - Cash Working Capital, Rate Case Exp./PSC Assessment, Advertising, Misc. Expense
Missouri American Water Company	WR-2003-0500	<u>Direct</u> – Rate Base and Related Expenses, AFUDC, Dues and Donations, Waste Disposal Expense, Storage Tank Lease Expense, Deferred Maintenance Expense, Transportation Expense, Insurance Other Than Group, Cost of Depreciation Study Expense
Missouri American Water Company	WR-2003-0500	<u>Surrebuttal</u> – AFUDC, Dues and Donations, St. Joseph Waste Disposal Expense, Transportation Expense, Property Taxes
Fidelity Telephone Company	IR-2004-0272	<u>Direct</u> - Rate Base and Related Expenses; Insurance Other Than Group; Miscellaneous Other Taxes
Atmos Energy Corporation	GR-2006-0387	<u>Direct</u> – Corporate Allocations and Expenses, Payroll and Payroll Taxes, PSC Assessment, Taxes Other, Legal Fees

**HANNEKEN SCHEDULE 2**

**DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS ENTIRETY**