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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

LISA M. FERGUSON

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

CASE NO. ER-2012-0166

Staff Exhibit No. 232
Date 9-27-12 Reporter KF
File No ER-2012-0166

Jefferson City, Missouri
September 2012

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

NP

EXHIBIT 232

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **LISA M. FERGUSON**

4 **UNION ELECTRIC COMPANY**

5 **d/b/a Ameren Missouri**

6 **CASE NO. ER-2012-0166**

7 Q. Please state your name and business address.

8 A. Lisa M. Ferguson, 111 N. 7th Street, Suite 105, St. Louis, MO 63101.

9 Q. By whom are you employed?

10 A. I am employed by the Missouri Public Service Commission ("Commission") as a
11 member of the Auditing Unit Staff ("Staff").

12 Q Are you the same Lisa M. Ferguson who contributed to Staff's *Revenue*
13 *Requirement Cost of Service Report* filed July 6, 2012 in this case?

14 A. Yes, I am.

15 Q. What is the purpose of your surrebuttal testimony in this proceeding?

16 A. My surrebuttal testimony will respond to the rebuttal testimony of Union Electric,
17 d/b/a Ameren Missouri ("Company" or "Ameren Missouri") witness Trina J. Muniz regarding
18 the issue of advertising. I will respond to the rebuttal testimony of Company witness
19 Lynn M. Barnes regarding the issue of severance costs, and also the rebuttal testimony of
20 Company witness Gary S. Weiss regarding the issues of employee benefits and training costs.
21 Finally, I will address an update to payroll and related expenses in regards to the Maryland
22 Heights Energy Center.

ADVERTISING

Q. On page 2, lines 11 and 12, of Company witness Muniz's rebuttal testimony, she states "While I realize the Staff calls these expenditures 'advertising,' it is not advertising in the traditional sense; that is, an attempt to attract new customers." Do you agree with this statement?

A. No. It is clear by the Commission's Kansas City Power & Light ("KCPL") standard that advertising expenditures are not restricted to those costs incurred only to attract new customers. There are five categories of advertising clearly defined by this case precedent, and only one type covers the intent to attract new customers. Even if the advertising expenditures are not specifically used to attract new customers, these costs are still considered advertising by the Commission.

Q. Company witness Muniz states that individuals have testified at past local public hearings as to not understanding why the Company spends money on advertising. Is the level of advertising an issue in this case?

A. Staff is confused as to why Company witness Muniz is bringing up the level of advertising as an issue in this case. This was an issue in the last case, but since Company witness Muniz has brought the subject up, Staff will briefly respond. In past cases, Staff has observed that Ameren Missouri's level of advertising expenditures increased significantly due to an Ameren Missouri management decision to attempt to restore Ameren's corporate image in light of the Taum Sauk reservoir breach and its perceived poor response to the storms of 2006.

Q. Do you wish to respond to the comments Company witness Muniz states on page 4, lines 7-17, in her rebuttal testimony in regards to the Staff methodology and the Staff *Cost of Service Report*?

A. Yes. Staff has been using the same method for classifying advertising since the Commission established the KCPL advertising standard as part of KCPL cases, Nos. EO-85-185

1 and EO-85-224. The Staff has also been utilizing this form of the *Cost of Service Report* for the
2 last three Ameren Missouri rate cases and finds no reason to deviate from this standard. Staff
3 gives a basic explanation as to what advertising is allowed versus disallowed in the *Cost of*
4 *Service Report* and, in addition, Staff provides the Company with a workpaper where each ad is
5 clearly classified using the five categories of advertising. Staff utilizes the method from the
6 KCPL case and determines what the *primary message* of each advertisement is and then places
7 each ad in its respective category. Any ads that are “safety” or “general” in nature are accepted
8 by the Staff while any institutional or political advertising is proposed for disallowance.
9 Promotional advertising is only allowable if the benefit exceeds the cost of the advertising.
10 Simply stated, Staff would not have placed certain ads in categories unless the Staff believed that
11 the primary message was explained by that category of advertising. In addition, it is common
12 procedure to have another auditor independently review each advertisement. This was
13 performed in this case and both auditors came to agreement on the appropriate classification of
14 all advertisements.

15 Q. Please reference Company witness Muniz’s statement on page 5, lines 19-22.
16 What costs does Staff review as advertising related in its audit of Ameren Missouri?

17 A. Staff reviews any direct or indirect costs for advertising incurred by Ameren
18 Missouri, but also reviews any advertising costs allocated to Ameren Missouri from Ameren
19 Services Company for advertising pertaining to only Ameren Corporation. There were several
20 allocated advertising charges that would not have been reviewed by Staff if Staff had not
21 specifically requested the materials. For example, the Matthews Dickey Anniversary Brochure
22 was a brochure about how the Matthews Dickey organization has helped many people in the
23 St. Louis area. This cost flowed down through allocation to Ameren Missouri, but supporting

1 documentation was not provided until Staff requested it. This brochure had nothing to do with
2 the provision of safe and reliable utility service and was disallowed.

3 Q. On page 6, lines 1-2, Company witness Muniz mentions that Staff "...has
4 reclassified many of our General advertisements, changing them to Institutional. We disagree
5 with her reclassification." Has Staff reclassified Company's categorization of any
6 advertisements in this case?

7 A. Staff was not questioning the Company's internal determination of how their
8 advertising should be appropriately classified, but Staff did make its own independent
9 classification of each ad based on the primary message of that ad. Another auditor independently
10 classified the same ads and both auditors were in agreement on the classification. In some cases,
11 Staff's classifications did not match the classifications determined by the Company.

12 **SPECIFIC ADVERTISING CAMPAIGNS**

13 **Clean Air**

14 Q. Do you agree with Company witness Muniz that the Clean Air campaign costs
15 should be allowed in the cost of service?

16 A. No. Company witness Muniz states that the Clean Air television and radio spots
17 were used to educate customers on the Sioux Scrubbers and how that investment has lowered the
18 emission levels at the Sioux Energy Center. Staff did not see that as the primary message of this
19 advertising campaign. This advertisement contains one sentence that refers to the scrubbers that
20 were added to the Sioux Energy Center: "These (scrubbers) remove 95% of emissions so that we
21 can all breathe easier." While it is true that the ad includes this line, the remainder of the
22 advertisement talks about the "Power On" promise that the Company made to the public for
23 cleaner and more reliable energy as well as the fact that the Company is exploring renewable

1 energy sources and improving the existing power plants. The primary message of this
2 advertisement is improving the public image of the Company and, accordingly, this
3 advertisement is institutional. If customers wish to further their education in regards to any of
4 the issues mentioned in this advertisement, they are required to visit the Ameren website, the
5 costs for which the Staff has consistently allowed in this and past rate proceedings. Staff does
6 not believe it is correct to include advertising costs in the cost of service simply because they
7 reference the Company's website. That would allow the Company to put their website address
8 on any advertising material and consider it general (i.e., informational) advertising. Just because
9 the Company is telling the customers that they are following federal law (i.e., EPA regulations),
10 which is expected of them in any case, doesn't mean that the primary message of the
11 advertisement is general in nature.

12 **Banners, Signs, and Table Skirts**

13 Q. Have you consistently disallowed Company banners, signs, and table skirts in
14 prior Ameren Missouri rate cases, and has the Company agreed with that position?

15 A. Yes. This is the fourth Ameren Missouri rate case in which I have been the
16 auditor assigned to the advertising issue. In each and every case I have disallowed these types of
17 charges as "institutional" in nature. These items do not contain any contact information or any
18 other information that is needed for the provision of adequate service; they only portray the
19 Company's name and logo. Company witness Muniz states that the Company uses these items
20 to identify themselves in the community at different events; Staff believes that is because the
21 Company wishes to promote their image in the community. The Company did in fact classify
22 banner, sign and table skirt charges as "institutional" in the last Ameren Missouri rate case,
23 ER-2011-0028. Finally, Staff is aware that the Company changed its name in October 2010 and

1 as such required items such as these to have the new name and logo applied. If the decision to
2 change the Company's name is what is driving these costs, they should still be disallowed. The
3 Company is ultimately responsible for the decision to change the Company's name. Due to that
4 fact, the ratepayer should not be expected to fund the costs to reapply the logo and Company
5 name on any items.

6 **Taum Sauk Open House Inserts**

7 Q. Do you believe it is proper to include the cost of the Taum Sauk Open House
8 inserts in this case?

9 A. No. Please refer to Company witness Muniz' schedule TJM-ER3. When looking
10 at the title on the front page of this document, you will see the line "Celebrating a Successful
11 Return to Service." This particular tour of Taum Sauk occurred only because of Ameren
12 Missouri's responsibility for the breach of the upper reservoir and therefore Staff classified this
13 as "institutional" advertising.

14 Q. On page 8, lines 14-17, of Company witness Muniz' rebuttal testimony, she refers
15 to badge inserts that were provided to the public when they toured the facility (i.e., Taum Sauk).
16 Why did Staff include the costs of badge inserts and not the Taum Sauk Open House Inserts?

17 A. Staff included the badge insert costs because the badge inserts are actually fact
18 sheets that could have been created before or after the breach at Taum Sauk. The badge inserts
19 are much like the other fact sheets for the other energy centers, and Staff believes that if those
20 facts sheets for the other energy centers are included in rates, that it seems logical that these
21 would be included as well. This is general information that the public would want to know and
22 would be available to customers outside of the badges for the Taum Sauk tour.

Personal Energy Report Signs

Q. Were the costs of the Personal Energy Report Signs disallowed by the Staff as Company witness Muniz states on page 8, lines 21-23, and page 9, lines 1-8, of her rebuttal testimony?

A. No. After reading Ms. Muniz's rebuttal testimony, Staff reviewed its advertising workpaper, a copy of which was provided to the Company. This review revealed that Staff categorized these personal energy report signs as "general" and their costs are included in our recommended cost of service. Ms. Muniz is mistaken with regard to Staff's classification of this cost.

St. Louis Rams – Mr. Efficiency

Q. Does Staff believe that the Mr. Efficiency radio advertisement raises the awareness of budget billing and its benefits?

A. No. The primary message of this radio ad is that Ameren Missouri is dedicated to their customers and to relay to customers how they can win free tickets to see the St. Louis Ram's football team. One section of the ad references budget billing and the wording is "Enroll. Budget Billing. Free. Levels payments. Year round." The rest of the ad has to do with how to win a trip to see the Ram's play football, as well as the date and opponent for the giveaway game. The Company has run other advertisements about budget billing where this topic is explained in much more detail to the customer and is actually the primary message of the ad. The Staff has included the cost of those ads in this case. This appears to be a case where the Company is using the topic of budget billing as a basis to include this advertising in rates when the primary message is not about that topic. Staff has reviewed its classification of this ad and now believes it is more properly classified as "institutional". This ad does not promote the use of

1 electricity so it cannot be reasonably classified as “promotional”. However, the ad does promote
2 the Company’s image in the eyes of the customer because they are giving away an item most
3 consumers would desire. Staff has included all costs associated with the St. Louis Ram’s
4 sponsorship that it has classified as “general” advertising.

5 **Gloves and Storage Cost for Louie the Lightning Bug Balloon**

6 Q. Has Staff consistently disallowed costs for the “Louie the Lightning Bug” balloon
7 (“Louie”) and the balloon handlers’ gloves in prior rate cases?

8 A. Yes. In the last three Ameren Missouri electric rate cases, Staff has disallowed
9 the cost of the Louie balloon and balloon handlers’ gloves. While Staff realizes that Louie is a
10 symbol of safety for the Company, Staff also believes that the same goals can be met with the
11 Louie the Lightning Bug costumes whose costs have been included by Staff in rates. The Louie
12 costumes can be worn at any location, at any time, and for any occasion that the Company
13 desires, while the balloon can only be used for parades. The Louie costumes are also more cost
14 effective than the Louie balloon, in that the balloon requires more labor costs for handlers,
15 gloves for the handlers, special storage, and costs for patching holes in the balloon as well as
16 field testing costs. These are not necessary costs for the costumes. Staff has classified the costs
17 of the Louie balloon as “institutional”. Regarding Ms. Muniz’ comments on the Staff’s proposed
18 disallowance of balloon handler gloves, those costs were disallowed because they would not be
19 incurred if not for the use of the Louie balloon.

20 **VS 11 SEVERANCE**

21 Q. Is Company witness Barnes correct in her statement found in her rebuttal
22 testimony on page 16, lines 17-20, that “If the benefit of taking steps like this to substantially

1 reduce costs is, *in effect*, going to be given only to customers, then there will be little to no
2 incentive for the Company to take these types of prudent cost-cutting actions?"

3 A. No. First of all, the benefit is not being given only to customers and I believe
4 Ms. Barnes is recognizing that when she uses the disclaimer, "in effect." If the Company makes
5 an active effort to reduce costs, everything else being equal, this will increase the Company's net
6 operating income, which in turn will increase its achieved return on equity for a period of time.
7 This is a direct benefit to shareholders. It is a matter of concern to Staff that a Vice President of
8 Business Planning and Controller would testify that there is no incentive for the Company to
9 reduce costs.

10 Q. On page 16, lines 7-11, of Company witness Barnes' rebuttal testimony,
11 Ms. Barnes states that "The Staff's and MIEC's positions are tantamount to saying that when
12 regulatory lag benefits customers (as is the case when costs are increasing), then the Company is
13 expected to absorb the loss; but when regulatory lag benefits the Company (as is the case when
14 costs drop between rate cases, as in the case of VS-11), then the Company is expected to return
15 those benefits to customers." Does Staff's position make that point in any way?

16 A. No. Regulatory lag is not meant to *work* in any specific way. It is a by-product of
17 the historical cost-driven regulatory process. It has worked in the favor of the consumer but has
18 also worked in the favor of the Company in different instances. For example, in Case No.
19 ER-2011-0028, Staff built into rates the full amount of \$1,250,000 that the Company was
20 granted for heavy underground distribution training costs on July 31, 2011. The Company did
21 not spend any of this funding until November 2011. The Company has been receiving this level
22 of funding in rates since the effective date of rates in that case which was July 31, 2011. This
23 level will be in rates until new rates go into effect in this case, which will be January 2, 2013.

1 By that time, the Company will have recovered approximately ** _____ ** in total
2 underground distribution training costs which is ** _____ ** more than what was granted in
3 that case and Staff has not proposed to remove that additional amount from its case. The
4 Company has clearly benefitted in some circumstances from regulatory lag.

5 Q. Did Staff allow the Company to recover Voluntary Separation
6 Election/Involuntary Separation Program (VSE/ISP) costs in Case No. ER-2010-0036?

7 A. Yes. The VSE/ISP program was a previous employee reduction program utilized
8 by Ameren Missouri. The Staff did allow the Company to amortize the VSE/ISP separation
9 costs in that case. The difference in treatment from this case was due to the fact that the
10 Company would not have had enough time prior to the new rates going into effect in the 2010
11 rate case to recover those costs. In those circumstances, allowing rate recovery of separation
12 costs was appropriate, as otherwise the associated savings would have been included in rates but
13 not the costs that brought about the savings. In the current case, if Staff had included the
14 amortization of the severance costs, the Company would not only have recovered the full amount
15 of severance costs in savings prior to new rates going into effect but would have recovered the
16 amount a second time through the amortization to expense, in essence doubling its recovery.

17 Q. Since the Staff proposes to exclude the VS11 severance costs from the cost of
18 service calculation in the current case, should this be regarded as a disincentive for the Company
19 to lower costs through future severance programs?

20 A. No. The benefit of reducing costs is enjoyed by both the customer and the
21 Company and as such this should not disincentivize the Company to properly control its costs.

1 Q. On page 17, lines 5-14, of Company witness Barnes' rebuttal testimony, she
2 discusses an approximately \$84 million under-recovery of payroll and related costs. Does Staff
3 wish to comment?

4 A. Yes. Staff believes Company witness Barnes recognizes that the Staff position on
5 recovery of separation costs has merit and is correct; therefore, perhaps she is attempting to
6 divert attention from Staff's and MIEC's position in her discussion of this matter. That being
7 said, in each and every rate case, Staff will analyze the employee counts as well as take into
8 account any known and measurable changes in employee benefit costs or salary increases. All of
9 these items are included in Staff's annualization of labor and other employee benefits. Staff has
10 performed the same analysis in every Ameren Missouri rate case and the Company has been in
11 agreement with these calculations. If the Company experiences major changes in actual payroll
12 and related costs between rate cases, it is the Company's responsibility to plan their rate cases in
13 order to minimize its shortfall in earnings related to such changes.

14 Q. Has the Commission ruled on severance cost issues in a past rate
15 case proceeding?

16 A. Yes. In Case No. GR-96-285, Missouri Gas Energy ("MGE") proposed that the
17 severance costs associated with the permanent elimination of employee positions be amortized
18 over three years. Staff and the Office of the Public Counsel ("OPC") were opposed to the
19 increase in cost of service for the amortization. OPC maintained that MGE's three-year
20 amortization of severance payments incurred to reduce the number of employees should be
21 eliminated from the prospective cost of service because MGE had already recovered these costs
22 from the savings resulting from the reduction in the number of employees. In fact, OPC's
23 evidence showed that the savings to MGE from the time the severance occurred to the time the

1 rates in that case went into effect were greater than the accrued costs of the severance. This was
2 also the position taken by the Staff in that case. The Commission's decision read as follows:

3 The Commission finds that MGE's position is based upon fallacious
4 reasoning. It is appropriate that prospective rates will be set on recently
5 available payroll expense. MGE overlooks the substantial cash flow
6 savings that it has achieved by terminating the employees. OPC's
7 evidence shows that Southern Union's shareholders have already received
8 more than the severance costs in terms of reduced payroll. The rates that
9 MGE has been charging are premised on a payroll level higher than that
10 which it currently has, so it has profited by the decreased number of
11 employees... The Commission finds that MGE's shareholders have
12 already received monetary compensation through the reduction in payroll
13 expense. The Commission will not allow MGE to charge ratepayers the
14 costs associated with employee severances where MGE has already
15 recovered those costs. The Commission finds that the position of Staff
16 and OPC is most reasonable on this issue.

17 **EMPLOYEE BENEFITS**

18 Q. What level of employee benefits does Staff intend to include in this case?

19 A. Staff is now including the current ongoing level of employee benefits per the
20 true-up information that was provided to Staff with adjustments for employee counts and VS 11
21 employee reductions. This also takes into account the change in the ongoing cost of employee
22 benefits.

23 Q. Does the Staff agree with the Company's recommended treatment of the Other
24 Employee Benefits?

25 A. Staff has analyzed the employee benefits data that the Company provided and
26 agrees to use the six months of actual expenses for Other Employee Benefits for the period of
27 February 2012 through July 2012 to annualize this item to an ongoing level. Again, Staff will
28 consider any changes in employee counts as part of its annualization of this item as a part of its
29 true-up calculations.

1 **TRAINING COSTS**

2 Q. What guidance did the Commission provide through issuance of report and orders
3 in regards to the treatment of training costs for Case Nos. ER-2008-0318, ER-2010-0036, and
4 ER-2011-0028?

5 A. In the *Report and Order* for Case No. ER-2008-0318, the Commission granted
6 Ameren Missouri an annual amount of \$1,410,000 to fund an increased level of training for its
7 staff. An additional \$1,800,000 for additional training equipment and materials, and external
8 costs, were to be spread over a five-year period for production training costs. In the *Report and*
9 *Order* for Case No. ER-2010-0036, the Commission granted Ameren Missouri an annual amount
10 of \$1,290,000 to fund increased training staff as well as an additional \$2,100,000 for training
11 equipment and materials to be amortized over five years and recovered in rates for distribution
12 training costs. In the *Report and Order* for Case No. ER-2011-0028, the Commission granted
13 \$1,250,000 directly to Ameren Missouri's cost of service to fund increased training for heavy
14 underground work.

15 Q. What amount of training expenses is Staff proposing to include in the expense
16 portion of the cost of service?

17 A. Staff has included the full test year amounts of \$1,410,000 and \$1,290,000 that
18 funds the increased training staff. Staff has also included a full year's worth of amortization for
19 production and distribution training costs in the expense portion of the cost of service. In regards
20 to the heavy underground training costs, Staff has agreed to accept the Company's position and
21 will include the entire \$1,250,000 in rates in this case.

22 Q. What is Staff's position in regards to the treatment of capital training items which
23 Company witness Weiss mentions in his rebuttal testimony on page 11, lines 15-23, and page 12,
24 lines 1-12?

1 A. Staff is simply following what is stated in the *Report and Orders* that were issued
2 in the aforementioned cases. Staff has been amortizing the funds spent for equipment and
3 materials over five years per Commission order as well as any subsequent stipulations and
4 agreements that were agreed to by all parties in prior Ameren Missouri rate cases. The *Report*
5 *and Orders* issued by the Commission did not specifically state that Ameren Missouri include
6 the unamortized balances of the capital items in rate base at the Commission's authorized rate of
7 return. If that was the intent of the Commission, Staff believes that the Commission would have
8 stated as such when those former *Report and Orders* were produced. The Staff's recommended
9 treatment allows the Company to recover the costs of all training equipment and materials that
10 the Company spent for this purpose. The Company is able to recover the costs of each item
11 they invested in as per the Commission's intent and, in Staff's view, that is not a penalty to
12 the Company.

13 **PAYROLL AND RELATED EXPENSE**

14 Q. Has the Staff included the payroll and related expense in regards to the Maryland
15 Heights Energy Center as part of true-up in this case?

16 A. Yes, Staff has reviewed the true-up data Company has provided and is now
17 including a level of labor costs for the Maryland Heights Energy Center. ** _____
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____

1 _____
2 _____
3 _____
4 _____
5 _____ **

6 Q. Does this conclude your surrebuttal testimony?

7 A. Yes, it does.

NP

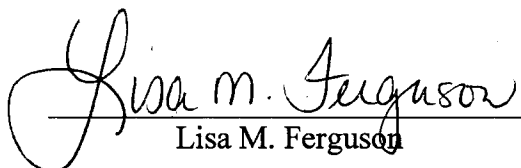
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a)
Ameren Missouri's Tariffs to Increase Its) Case No. ER-2012-0166
Revenues for Electric Service)
)

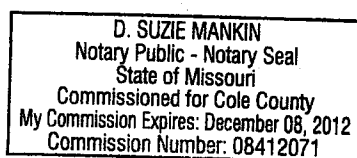
AFFIDAVIT OF LISA M. FERGUSON

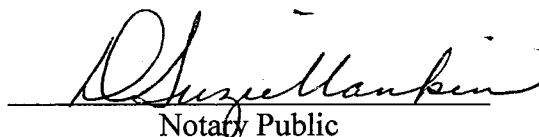
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lisa M. Ferguson, of lawful age, on her oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 15 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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 M. Ferguson

Subscribed and sworn to before me this 7th day of September, 2012.




Notary Public