Exhibit No.:	
Issue(s):	*Incentive Compensation, Non-Qualified Pension Expense, Exceptional Performance Bonuses, Severance, True-Up Adjustments*
Witness:	*Jane C. Dhority*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal / True-Up Direct Testimony*
Case No.:	*ER-2024-0319*
Date Testimony Prepared:	*February 14, 2025*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL / TRUE-UP DIRECT TESTIMONY

OF

JANE C. DHORITY

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2024-0319

Jefferson City, Missouri
February 2025

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

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OF

JANE C. DHORITY

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2024-0319

Q. Please state your name and business address.

A. My name is Jane C. Dhority and my business address is 111 North 7th Street, Suite 105, St. Louis, Missouri 63101.

Q. Are you the same Jane Dhority who previously provided testimony in this case?

A. Yes. I provided direct testimony in this case on December 3, 2024, and I provided rebuttal testimony on January 17, 2025.

EXECUTIVE SUMMARY

Q. What is the purpose of your surrebuttal / true-up direct testimony?

A. The purpose of this filing is to respond to the rebuttal testimonies of Ameren Missouri witnesses Stephen J. Hipkiss (long-term incentive compensation and non-qualified pension expense) and Benjamin Hasse (exceptional performance bonuses and severance expense), and to identify the rate base items and income statement adjustments that I am sponsoring as part of Staff's true-up filing.

LONG-TERM INCENTIVE COMPENSATION

Q. Please describe the components of Ameren Missouri's long-term incentive compensation plan ("LTIP").

A. Ameren Missouri's LTIP is comprised of three components, and each component has a vesting period of three years. Restricted share units ("RSUs") are awarded to Ameren leadership for continued employment during the three-year vesting period. Ameren Missouri awards performance share units ("PSUs") tied to total shareholder return metrics ("TSR"). The third component of Ameren Missouri's LTIP awards PSUs tied to clean energy transition targets.

Q. In his rebuttal testimony, Mr. Hipkiss describes Staff's recommendation as it relates to LTIP and states that "Staff makes no distinction between the different subcomponents of the LTIP, despite the different award types having fundamentally different characteristics."[1] How does Staff respond?

A. Staff agrees that Ameren Missouri's LTIP is comprised of three subcomponents with awards tied to different metrics. Staff removed the portion of LTIP tied to total shareholder return because the metric aligns the interests of Ameren Leadership with that of Ameren Missouri shareholders.

Q. Mr. Hipkiss cites an excerpt from the Commission's decision in File No. EC-87-114 in his rebuttal testimony that is included below.

> The Commission believes that programs designed to improve management performance should be encouraged and is not opposed, in principle, to cost of service recovery of the costs associated with such programs.[2]

Mr. Hipkiss states that the components of Ameren Missouri's LTIP tied to PSUs and clean energy transition awards do exactly that.[3] How does Staff reply?

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[1] Rebuttal Testimony of Stephen J. Hipkiss, pg. 2, ll. 11 - 13.
[2] File No. EC-87-114, Report and Order, pg. 18.
[3] Rebuttal Testimony of Stephen J. Hipkiss, pg. 5, ll. 19 - 20.

A. Staff is not opposing recovery of PSUs that promote retention or clean energy transition awards *in principle*, rather, it is *in form*. All three components of Ameren Missouri's LTIP are awarded in Ameren Corporation common stock. Stock ownership aligns the interests of Ameren Missouri leadership with that of its shareholders. This creates a perverse incentive for Ameren Missouri leadership to cut costs in order to increase the value of Ameren Corporation stock, which could compromise service to ratepayers. As such, it should not be recovered from Ameren Missouri's customers.

Q. Mr. Hipkiss states that "Staff provided no testimony attempting to dispute the customer benefits provided by the Company's clean energy transition awards."[4] What is Staff's response?

A. Again, Staff is not recommending disallowance of Ameren Missouri's LTIP based on retention or clean energy transition target metrics. Testimony such as Mr. Hipkiss suggests is irrelevant as it pertains to Staff's position.

Q. Mr. Hipkiss states that recovery of TSR awards and restricted share units have been addressed by other jurisdictions and that the Illinois Commerce Commission ("ICC") has permitted Ameren Illinois to recover these costs.[5] How does Staff respond?

A. What a different commission in a different state allows a different entity to recover in rates from different ratepayers is inappropriate justification for allowing Ameren Missouri to recover costs that have been consistently disallowed by this Commission in this state.

[4] Rebuttal Testimony of Stephen J. Hipkiss, pg. 12, ll. 12 - 13.
[5] Rebuttal Testimony of Stephen J. Hipkiss, pg. 10, ll. 18 through pg. 11, ll. 6.

Q. Mr. Hipkiss lists Staff's additional adjustments in relation to Ameren Missouri's long-term incentive awards.[6] Please discuss these additional adjustments.

A. Like payroll, long-term incentive compensation has a capital piece as well as an expense piece. In order to ensure that no amount of LTIP is recovered from ratepayers, it is necessary for Staff to make adjustments to Ameren Missouri's expenses as well as its rate base. Staff's adjustment to Ameren Missouri's PISA[7] deferral removed those return on and of amounts from PISA that are based upon LTIP capital removals.

NON-QUALIFIED PENSION EXPENSE

Q. What is the difference between Ameren Missouri's request and Staff's recommendation for non-qualified pension expense funding?

A. Ameren Missouri requests that the level of non-qualified pension expense to be included in the cost of service be based on actuarial projections. Staff recommends that the ongoing level of non-qualified pension expense used to set rates in this case be based on actual cash payments, rather than projections.

Q. In his rebuttal testimony, Mr. Hipkiss asserts that qualified and non-qualified pension are two components of a single plan, and that the benefits under the qualified pension plan are exactly the same as those of the non-qualified pension plan.[8] Does Staff agree?

A. No. Ameren Missouri's pension plan is separate and distinct from its non-qualified plan. Unlike Ameren Missouri's pension plan, Ameren Missouri's non-qualified pension plan (the Ameren Supplemental Retirement Plan, or "SERP") does not have funding

[6] Rebuttal Testimony of Stephen J. Hipkiss, pg. 14, ll. 4 - 12.
[7] Plant-in-service accounting ("PISA").
[8] Rebuttal Testimony of Stephen J. Hipkiss, pg. 22, ll. 17 through pg. 23, ll. 5.

requirements per the Employee Retirement Income Security Act of 1974 ("ERISA"). Furthermore, SERP is only offered to highly compensated executives at Ameren Missouri's discretion and its purpose is to supplement the amounts that would have been received but for limitations imposed by the Internal Revenue Service ("IRS").

Q. Mr. Hipkiss states that "if the Commission were to reject the Company's method, the best alternative is to include these costs in the existing pension tracker."[9] How does Staff respond?

A. Non-qualified pension costs were removed from Ameren Missouri's pension tracker as part of the Stipulation and Agreement in Case No. ER-2011-0028. Staff recommended removal of SERP from the pension tracker upon learning that Ameren Missouri's funding policy for non-qualified pension expense was to pay the expense as it arose. Ameren Missouri was not funding SERP. As part of the settlement, Ameren Missouri agreed to remove non-qualified pension from the tracker and include test year actuals as the ongoing expense amount.

Q. What is the current funding policy for Ameren Missouri's SERP?

A. Staff reviewed the funding policy for the current SERP as part of its review of this issue. According to the Ameren Corporation Nonqualified Pension Plans Consolidated Actuarial Valuation Report Benefit Cost for Fiscal Year Beginning January 1, 2023, under U.S. GAAP[10], (pg. 18) the funding policy states that ** [redacted][11] **

[9] Rebuttal Testimony of Stephen J. Hipkiss, pg. 24, ll. 11 - 12.
[10] General Accepted Accounting Principles ("GAAP").
[11] Staff Data Request No. 0279.

EXCEPTIONAL PERFORMANCE BONUSES

Q. Please describe Staff's adjustment to exceptional performance bonuses ("EPB") as part of its direct filing.

A. Staff recommended including a normalized level of EPB expense based on a three-year average of historical EPB awards. This approach is consistent with Staff's recommendation in Case No. ER-2022-0337.

Q. Does Ameren Missouri agree with Staff's direct adjustment to EPB expense?

A. No. Mr. Hasse's rebuttal testimony states that Ameren Missouri does not agree with the three years used to calculate Staff's normalization adjustment to EPB for its direct filing.[12]

Q. How does Staff respond?

A. Staff agrees that the years upon which Staff's normalization adjustment in direct were not based on the most current data. Staff addressed this in its direct testimony by stating that Staff's EPB adjustment would be revised at true-up.[13]

Q. Has Staff addressed this as part of it's true-up audit?

A. Yes. It has.

SEVERANCE

Q. Does Ameren Missouri agree with Staff's adjustment to remove test year severance expense?

A. No.

[12] Rebuttal Testimony of Benjamin Hasse, pg. 6, ll. 10 - 13.
[13] Direct Testimony of Jane C. Dhority, pg. 11, ll. 13 - 15.

Q. What is Ameren Missouri requesting for severance in this case?

A. Ameren Missouri requests to include test year severance expense in the revenue requirement to be set in this case.

Q. Why did Staff recommend removing test year severance expense from Ameren Missouri's cost of service?

A. Staff removed test year severance expense because it is a non-recurring cost. Furthermore, by the time new rates take effect in this case, Ameren Missouri will have recovered the expense through positive regulatory lag.

Q. What is regulatory lag?

A. Regulatory lag refers to the time delay between when a regulated company (such as Ameren Missouri) requests a rate increase and when the regulatory agency actually approves the increase. This essentially means that the company must operate for a period of time with potentially outdated costs before being allowed to adjust their prices accordingly.

The effects of regulatory lag on a utility can be positive or negative. An example of negative regulatory lag is when rising costs may not be immediately reflected in customer rates due to the time it takes for regulatory review. In this particular case, Ameren Missouri is experiencing positive regulatory lag in that the cost of the open positions is still being recovered in rates until new rates are set.

Q. In Mr. Hasse's testimony, he states that Staff "claims that the Company recognizes costs savings through regulatory lag."[14] Is Ameren Missouri, in fact, recognizing cost savings from the open positions due to positive regulatory lag?

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[14] Rebuttal Testimony of Benjamin Hasse, pg. 7, ll. 4 - 6.

A. Yes. The amount of severance expense paid out during the test year is significantly less than the savings experienced by Ameren Missouri due to reduced payroll expense. By the time new rates in this case take effect, Ameren Missouri will have saved roughly $1.5 million dollars in payroll expenses from the open positions. The actual amount of severance expense incurred by Ameren Missouri's electric operations during the test year is roughly $500,000. This means that by the time new rates take effect in this rate case, Ameren Missouri will have recovered 100% of test year severance expense and realized roughly $1 million dollars in savings due to positive regulatory lag.

Q. Mr. Hasse's testimony states that severance expense is part of payroll as another form of compensation to employees.[15] Does Staff agree?

A. Severance pay can be considered part of payroll as it is taxable income that employers are required to report and withhold taxes from when they issue it to a departing employee. However, severance differs from payroll in that it is non-recurring, it is not known and measurable, and is only provided to former employees.

Q. In Mr. Hasse's rebuttal testimony, he states that "by taking this position Staff is neglecting to recognize other areas of the revenue requirement that the Company suffers from regulatory lag and is instead using regulatory lag in a vacuum by applying it to severance cost."[16] How does Staff respond?

A. Regulatory lag can be positive or negative. It would be inappropriate to include an annual amount in Ameren Missouri's cost of service for unknown possible future severance costs because Ameren Missouri experiences regulatory lag.

[15] Rebuttal Testimony of Benjamin Hasse, pg. 7, ll. 8 - 9.
[16] Rebuttal Testimony of Benjamin Hasse, pg. 7, ll. 15 - 18.

Q. Mr. Hasse states that "some level of ongoing severance costs will exist and is normal for the Company to incur in the normal course of business."[17] How does Staff respond?

A. Severance payments are not unheard of, but unlike payroll, lease payments, or other ongoing expenses, they do not occur with any regularity. There is no guarantee that Ameren Missouri will incur severance costs in the future.

Q. Mr. Hasse's testimony offers an alternative method to calculate an ongoing level of severance expense to include in Ameren Missouri's cost of service, should the Commission reject Ameren Missouri's request to include test year severance expense. What is Mr. Hasse's proposed alternative?

A. Mr. Hasse believes the best alternative to full recovery of test year severance costs is to normalize the costs over a period of five years.[18]

Q. Does Staff agree with Mr. Hasse's suggested alternative?

A. No. Mr. Hasse's alternative proposal is as inappropriate as his direct position. No amount of severance expense should be included in Ameren Missouri's cost of service as the costs are non-recurring, and Ameren Missouri has already recovered test year severance costs through savings due to regulatory lag.

Q. Has the Commission ruled on this issue previously?

A. Yes, it has.

Q. What was the Commission's decision?

A. Similar to Ameren Missouri's request in this case, in Case No. ER-2012-0166, Ameren Missouri sought to recover costs of severance payments associated with a voluntary

[17] Rebuttal Testimony of Benjamin Hasse, pg. 7, ll. 20 - 21.
[18] Rebuttal Testimony of Benjamin Hasse, pg. 8, ll. 7 - 10.

separation program ("VSP") offered to employees, amortized over a three-year period. The issue ultimately went to hearing, and the Commission denied Ameren Missouri's request.

> Despite having already recovered the costs of the severance package, Ameren Missouri asks the Commission to again recover those costs from ratepayers through a direct three-year amortization. Ameren Missouri contends such recovery is justified because ratepayers will ultimately benefit from the cost reductions resulting from the severance package in an amount much greater than the direct costs the company seeks to amortize. Ameren Missouri also complains that from March 2009 through July 2012, the company actually under-recovered its payroll and benefit cost by $51 million. Finally, Ameren Missouri argues that it should be allowed to recover the additional amortization so that it will have an incentive to pursue further cost-cutting measures.
>
> Ameren Missouri prudently took steps to reduce its payroll costs to improve the efficiency of its operations. Under the lag that results from the traditional regulatory model, the company is able to retain those cost savings until it choses to come back for a rate adjustment and a new level of costs is used to reset rates. In this case, Ameren Missouri, for reasons unconnected to the particular costs, has asked the Commission to adjust its rates. The new rates will reflect the lower personnel costs and the company will cease to benefit directly from the reduced payroll after having barely recovered its costs. If Ameren Missouri had not chosen to request a rate increase at this time, it would have continued to benefit from its reduced payroll costs. That is how the system works.
>
> Ameren Missouri is essentially asking the Commission to require ratepayers to give the company a $25.8 million bonus to reward the company for being efficient in reducing its payroll and to give it an extra incentive to reduce costs in the future. The Commission finds that the company does not need and will not receive any extra incentive to operate efficiently.[19]

[19] ER-2012-0166 Report and Order, pp. 62 - 63.

TRUE-UP DIRECT

Q. Please list the adjustments you are sponsoring as part of Staff's true-up audit.

A. Staff is sponsoring true-up adjustments for employee benefits, exceptional performance bonuses ("EPB"), incentive compensation, payroll and payroll taxes, pension and other post-employment benefits ("OPEB"), plant-in-service accounting ("PISA"), and non-qualified pension expense.

Employee Benefits

Q. How did Staff update employee benefits through true-up?

A. Staff updated its adjustment for employee benefits to reflect actual employee benefit expense as of the December 31, 2024, true-up cutoff date in this case.

Exceptional Performance Bonuses

Q. Please describe Staff's updated adjustment to EPB expense.

A. Staff's direct adjustment was based on a three-year average EPB expense for the years 2019, 2020, and 2021. Staff updated its EPB adjustment at true-up to reflect a three-year average EPB expense for the years 2021, 2022, and 2023.

Incentive Compensation

Q. What updates were included in Staff's true-up adjustment to incentive compensation?

A. Staff has updated its plant and reserve adjustment for capitalized incentive compensation to reflect capitalized incentive compensation amounts through the December 31, 2024, true-up cutoff date in this case.

Payroll and Payroll Taxes

Q. How did Staff update its adjustments for payroll and payroll taxes?

A. Staff updated its payroll adjustment to reflect employee headcounts at the December 31, 2024, true-up cutoff date, as well as wage increases for both contract and management employees which occurred on January 1, 2025. This is consistent with Staff's approach in prior cases.

Staff's payroll tax adjustment has been updated to reflect employee headcounts at the December 31, 2024, true-up cutoff date in this case.

Pensions and OPEBs

Q. Has Staff updated its adjustments for pensions and OPEBs as part of true-up in this case?

A. Yes. Staff has updated Ameren Missouri's pension and OPEB tracker balances through December 31, 2024 (the true-up cutoff date in this case), and calculated new amortizations.

Plant-In-Service Accounting

Q. Has Staff updated its position on PISA?

A. Yes. Staff has updated its calculations for Ameren Missouri's PISA deferral to reflect amounts deferred through the December 31, 2024, true-up cutoff date in this case.

Non-Qualified Pension Expense

Q. How has Staff updated its position regarding non-qualified pension expense?

A. Staff's has incorporated non-qualified pension payout amounts for the period beginning October 1, 2024, through December 31, 2024, in its normalization adjustment.

Q. Did Staff make further adjustments to non-qualified pension expense as part of its true-up audit?

A. Yes. During Staff's true-up audit, Staff discovered an error in its calculation of the three-year average of lump-sum annuity payments. To address this error, Staff has removed a lump-sum payment made on June 1, 2024.

Non-Labor Power Plant Maintenance

Q. How did Staff update its adjustment for non-labor power plant maintenance expense?

A. Staff included an ongoing level of maintenance expense based on a six-year average ending December 31, 2024.

Q. Does this conclude your surrebuttal / true-up direct testimony?

A. Yes, it does.

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 Adjust Its Revenues for Electric Service	)))	Case No. ER-2024-0319

AFFIDAVIT OF JANE C. DHORITY

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF ST. LOUIS	)	

COMES NOW JANE C. DHORITY and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal / True-Up Direct Testimony of Jane C. Dhority*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

JANE C. DHORITY

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of St. Louis, State of Missouri, at my office in St. Louis, on this 11th day of February 2025.

LISA M. FERGUSON
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: June 23, 2028
Commission Number: 16631502

Lisa M. Ferguson
Notary Public