Exhibit No.:	
Issue(s):	*Severance, Exceptional Performance Bonuses, Non-Qualified Pension Expense, Employee Benefits, Incentive Compensation, True-Up Adjustments*
Witness:	*Amanda C. McMellen*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal/True-Up Direct Testimony*
Case No.:	*GR-2024-0369*
Date Testimony Prepared:	*May 2, 2025*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL/TRUE-UP DIRECT TESTIMONY

OF

AMANDA C. MCMELLEN

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. GR-2024-0369

Jefferson City, Missouri
May 2025

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UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. GR-2024-0369

Q. Please state your name and business address.

A. My name is Amanda C. McMellen. My business address is 200 Madison Street, Suite 440, Jefferson City, MO 65101.

Q. Are you the same Amanda C. McMellen who previously provided testimony in this case?

A. Yes. I provided direct testimony in this case on February 28, 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 Benjamin Hasse (severance expense, exceptional performance bonuses, non-qualified pension expense and employee benefits) and Stephen J. Hipkiss (long-term incentive compensation) and to identify the rate base items and income statement adjustments that I am sponsoring as part of Staff's true-up filing.

SEVERANCE

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

A. No.

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

A. Ameren Missouri wants Staff 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 payroll expense for the vacant position 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) experiences a financial change and when the change is reflected in its rate levels. 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. In this particular case, Ameren Missouri is experiencing positive regulatory lag, in that the cost of vacant positions are 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."[1] Is Ameren Missouri, in fact, recognizing cost savings from vacant positions due to positive regulatory lag?

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

[1] Rebuttal Testimony of Benjamin Hasse, pg. 5 lines 5 - 6.

expense. By the time new rates in this case take effect, Ameren Missouri will have saved roughly $94,000 in payroll expenses, including taxes and benefits, from vacant positions. The actual amount of severance expense incurred by Ameren Missouri's gas operations during the test year is roughly $17,000. 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 $77,000 in savings due to positive regulatory lag.

Q. Mr. Hasse's testimony states that severance expense is part of payroll as it is another form of compensation to employees.[2] 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 pay differs from payroll in that it is non-recurring, it is not known and measurable, and it is only provided to former employees.

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."[3] 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 or pattern. There is no guarantee that Ameren Missouri will incur severance costs in the future and in what amounts.

Q. Has the Commission ruled on this issue previously?

A. Yes, it has.

Q. What was the Commission's decision?

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[2] Rebuttal Testimony of Benjamin Hasse, pg. 5 lines 8-9.
[3] Rebuttal Testimony of Benjamin Hasse, pg. 6 lines 4-5.

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 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 chooses 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.[4]

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

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, specifically stating that a normalization is required when an abnormal event occurs and no such event occurred during the test year.[5]

Q. How does Staff respond?

A. In my direct testimony, I recommended a normalized level (3-year average) of EPB expense.[6] A normalized level is a synonym for average in this instance and not the same as a normalization adjustment (adjustment for an abnormal event) as Mr. Hasse states.

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

A. Yes. It has.

NON-QUALIFIED PENSION EXPENSE

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

[5] Rebuttal Testimony of Benjamin Hasse, pg. 6, lines 11-16.
[6] Direct Testimony of Amanda C. McMellen pg. 5, line 3

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. Hasse 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.[7] 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 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").

<u>EMPLOYEE BENEFITS</u>

Q. Please describe Ameren Missouri's issue with Staff's disallowance adjustment to employee benefits.

A. Ameren Missouri witness Mr. Hasse disagrees with Staff's disallowance of Ameren Missouri's Tuition Assistance Program since this program provides financial support to employees for educational programs to further their professional development, expand their knowledge, skills, and abilities for a qualified workforce[8].

[7] Rebuttal Testimony of Benjamin Hasse, pg. 8 lines 13-19.
[8] Rebuttal Testimony of Benjamin Hasse, pg. 9 lines 14-22

Q. How does Staff respond?

A. Since filing direct, Ameren Missouri has provided Staff with a detailed explanation of the Tuition Assistance Program. Staff agrees with Mr. Hasse that the program provides Ameren Missouri's workforce the opportunity to gain more knowledge and develop professionally which is a benefit to ratepayers. Staff will reflect the Tuition Assistance Program in its true-up recommendation for employee benefits.

<u>LONG-TERM INCENTIVE COMPENSATION</u>

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 Missouri's 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."[9] 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

[9] Rebuttal Testimony of Stephen J. Hipkiss, pg. 3 lines 7 - 8.

return because the metric aligns the interests of Ameren Missouri 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.[10]

Mr. Hipkiss states that the components of Ameren Missouri's LTIP tied to RSUs are not tied to EPS, shareholder return, or any other financial metrics of the Company.[11] How does Staff reply?

A. 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. 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.[12] How does Staff respond?

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[10] File No. EC-87-114, Report and Order, pg. 18.
[11] Rebuttal Testimony of Stephen J. Hipkiss, pg. 6 lines 8-10.
[12] Rebuttal Testimony of Stephen J. Hipkiss, pg. 10 line 22 through pg. 11 line 19.

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

Q. Mr. Hipkiss lists Staff's additional adjustments in relation to Ameren Missouri's long-term incentive awards.[13] 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[14] deferral removed those return on and of amounts from PISA that are based upon LTIP capital removals.

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, payroll and payroll taxes, EPBs, incentive compensation and pension and other post-employment benefits ("OPEB").

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, the true-up cutoff date in this case.

[13] Rebuttal Testimony of Stephen J. Hipkiss, pg. 13lines 12-16.
[14] Plant-in-service accounting ("PISA").

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 the changes discussed above.

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 2022, 2023, and 2024.

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 December 31, 2024, the 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.

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 Natural Gas Service	)))	Case No. GR-2024-0369

AFFIDAVIT OF AMANDA C. MCMELLEN

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW AMANDA C. MCMELLEN 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 Amanda C. McMellen*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Amanda C. McMellen

AMANDA C. MCMELLEN

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 28th day of April 2025.

D. Suzie Mankin

Notary Public

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2029
Commission Number: 12412070