Exhibit No.	
Issues:	Income Tax Expense – Cost of Removal Normalization
Witness:	Michael L. Brosch
Type of Exhibit:	Supplemental Surrebuttal Testimony
Sponsoring Party:	State of Missouri
Case No.	ER-2007-0002
Date Testimony Prepared:	March 2, 2007

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

SUPPLEMENTAL SURREBUTTAL TESTIMONY

OF

MICHAEL L. BROSCH

ON BEHALF OF

STATE OF MISSOURI

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company 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 MICHAEL L. BROSCH

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Michael L. Brosch, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Supplemental Surrebuttal Testimony in question and answer form to be presented in the above case; that the answers in said Supplemental Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Michael L. Brosch

Subscribed and sworn to before me this 2nd day of March, 2007.

Notary

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

LORI M. RICE
My Commission Expires
June 7, 2010
Jackson County
Commission #06897296

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SUPPLEMENTAL SURREBUTTAL TESTIMONY OF MICHAEL L. BROSCH
ON BEHALF OF THE STATE OF MISSOURI
CASE NO. ER-2007-0002

Q. Please state your name and business address.

A. My name is Michael L. Brosch. My business address is 740 North Blue Parkway, Suite 204, Lee's Summit, Missouri 64086.

Q. Are you the same Michael L. Brosch who submitted Direct Testimony in this Case on December 15, 2006 addressing revenue requirements and on December 29, 2006 addressing Fuel Adjustment Clause issues, Rebuttal Testimony on January 31, 2007 and Surrebuttal Testimony on February 27, 2007?

A. Yes. My qualifications were described in the initial revenue requirement submission.

Q. On whose behalf are you appearing in this proceeding?

A. As before, I am appearing on behalf of the State of Missouri ("State"). My firm, Utilitech, Inc., was retained by the State of Missouri to examine the rate case filing of AmerenUE ("UE" or "Company") and to sponsor expert testimony resulting from this work.

Q. Why is it necessary for you to file Supplemental Surrebuttal testimony at this time?

A. Both AmerenUE and the Commission Staff have significantly revised their calculations of test year income tax expense as part of their Surrebuttal testimony filed on February 27, 2007. These changes represent fundamental shifts in the accounting policy treatment

afforded utility plant cost of removal ("COR"). This Supplemental Surrebuttal testimony is responsive to these recent changes, which could not have been addressed in previous testimony submissions.

Q. What AmerenUE Surrebuttal Testimony are you responding to at this time?

A. Company witness Mr. Charles Mannix states at page 3 of his Surrebuttal, "The amount of the accrued Cost of Removal was understated in the original Income Tax Expense Calculation...this was an error. The original calculation used a forecasted 2006 accrued Cost of Removal, which was inconsistent with the accrued Cost of Removal reflected in the depreciation rates used for the case."

Mr. Mannix quantifies the impact of this "error" at page 4, where he states, "The Income Tax Expense Calculation prepared by the Company uses a flow through method for accrued and incurred Cost of Removal. Under this flow through method, using the corrected Company Cost of Removal and a composite tax rate of 38.34%, the current income tax expense would increase by $14,887,921. The resulting increase in the revenue requirement from this specific correction would be an increase of $24,145,184."

Q. What Staff Surrebuttal are you responding to at this time?

A. Staff witness Mr. Rackers states at page 4 states, "In its original calculation of income tax expense, the Staff added back the amount of accrued net salvage (salvage received less cost of removal) included in its annual amount of depreciation expense and deducted the amount of net salvage experienced as a result of actual plant retirements. This resulted in 'flow through' treatment for the timing difference associated with net salvage. A timing

difference exists because the amount of net salvage included in depreciation expense will be recognized in the future and significantly exceeds the actual amount of net salvage experienced for current plant retirements. As a result of the correction to reflect normalization, as well as making other changes, the cumulative affect on revenue requirement from the Staff's initial filing is approximately $35 million."

Q. Is it correct that both AmerenUE and Staff are now proposing revisions to their prefiled positions with respect to Cost of Removal?

A. Yes. While Staff refers to the issue as "net salvage" by combining smaller amounts of salvage with the gross COR amounts, the important changes that are now proposed by the Company would increase AmerenUE's revenue requirement by $24 million, while the changes now being proposed by Staff would decrease Staff's quantification of the AmerenUE revenue requirement by about $35 million. The combined effect of these newly proposed error corrections is a broadening of the revenue requirement difference between AmerenUE and Staff of about $59 million.

Q. What is your recommendation to the Commission with regard to this issue?

A. For many reasons that I will describe in this testimony, COR should be afforded normalization tax treatment, with a provision of deferred income taxes on the books and for ratemaking purposes to defer the taxes associated with temporary book/tax timing differences associated with COR. This is the treatment that is now proposed by Commission Staff.

Q. What is COR and how is it treated on the books?

A. Cost of removal represents the expenditures made by a utility to remove, dismantle and retire utility plant assets. COR is accrued on the books during the useful life of the utility plant asset, as part of the prescribed depreciation accrual rates that are approved by the Commission. These book depreciation accrual rates are also used to quantify depreciation expense for ratemaking purposes, so that ratepayers are charged COR as part of test year depreciation expense.

Q. How much book COR is included in test year expense?

A. According to Staff witness Mr. Rackers Surrebuttal Testimony at page 5, line 19, the Staff's proposed depreciation accrual rates includes about $96 million of "Accrued Net Salvage", an amount that represents COR reduced by estimated salvage proceeds that are expected to be realized in the future from selling retired materials upon their removal.

According to Mr. Mannix' Surrebuttal, "The Cost of Removal based on the Company's depreciation rates should have been $63,805,871." These amounts are different for Staff and the Company primarily because of differences in proposed depreciation accrual rate recommendations. As a result, the ultimate "value " of this issue will be determined by the Commission's decision regarding the appropriate depreciation accrual rates to be applied to the updated true-up amount of Plant in Service within rate base.

Q. In contrast to the book expense amount, how is COR treated for income tax purposes?

A. The accrual basis expenses I just referenced are not deductible in calculating taxable income. Instead, what is deductible is actual, current-year COR expenditures. Again with reference to Mr. Rackers' Surrebuttal at page 5, the "Actual Net Salvage Incurred" is shown at $25 million for the test year. Under the "flow-through" accounting method now being proposed by AmerenUE, this smaller amount is the only tax deduction that would be recognized for COR, in spite of the much larger accrual-basis COR amounts that would be collected from ratepayers under the recommendations of both the Company and Staff.

Q. Please explain the difference between "normalization" versus "flow-through" treatment of book/tax timing differences.

A. For COR and many other elements of expense, the amounts recorded on the books in any particular year are determined using a different basis or methodology than the amounts that can be deducted on a corporation's income tax return. These differences are referred to as "book/tax timing differences", because such differences are temporary and are expected to turn-around in future years. In general, expenses must be recorded on the books using an "accrual basis" of accounting, while for many items, the corresponding tax deduction amount is prescribed by Internal Revenue Code provisions on a different basis of accounting (e.g., actual expenditures, different accrual methods, etc.). For example, tax deductible depreciation for most utility assets is based upon accelerated methods and shorter assumed asset lives than are reflected within the utility's straight-line book accruals of depreciation.

The existence of book/tax timing differences creates an issue for accountants and utility regulators:

1. Should the income taxes that are recognized as expenses on the books be based upon the cash-basis amount of actual taxes paid for the year, essentially "flowing through" the income tax value of the timing differences; or,
2. Should the income taxes that are recognized as expenses on the books be based upon accrual basis accounting, by providing deferred income taxes on the books for each book/tax timing difference that will be reversed in future years when the timing difference turns-around?

With regard to the COR timing difference, AmerenUE witness Mr. Mannix is recommending alternative 1, while Staff witness Mr. Rackers is recommending alternative 2.

Q. Can you provide a simplified example of how income tax expenses in each year are impacted by normalization versus flow-through accounting for an illustrative COR book/tax timing difference?

A. Yes. I have prepared Schedule MLB-13 for this purpose. It assumes the following input values to illustrate how cost of removal in isolation for a single power plant asset would impact a utility's income tax expenses:

- Assume a single-asset utility with $8.0 million in annual revenues and no book expenses except for depreciation of its new power plant.
- Assume a newly acquired power plant investment of $100 million.

- Assume a 50-year asset life with straight line depreciation for both book and tax purposes.
- Assume 20 percent COR (referred to as net salvage by Staff), with plant retirement occurring at the end of year 50.
- Assume a 40 percent composite Federal/State income tax rate in all years.

Schedule MLB-13 calculates income tax expenses and effective annual income tax rates in each year using alternative flow-through and normalization income tax accounting methods with these assumptions.

Q. What conclusions are supported by Schedule MLB-13?

A. Several important points distinguishing flow-through and normalization income tax accounting are illustrated by this example:

1. Flow-through Income Tax Expense in column J is higher in the years 1 through 49 than Normalized Income Tax Expense in column L, because of income taxes payable on the timing difference arising from COR included in book depreciation that is not tax deductible, but is a large negative value in year 50 when cash COR is deductible.
2. Normalization accounting results in the recording of "Deferred Tax Expense" as shown in column K, which causes the resulting "Normalized Tax Expense" in column L to be level in all years 1 through 50 and a resulting "Effective Tax Rate" in column N that is equal to the assumed statutory income tax rate in all years.

3. The total overall amount of Book Depreciation equals total Tax Depreciation plus COR Paid after 50 years (see Total of columns D versus E+F), but the amount are different in each year because of the ratable COR recovery within Book Depreciation that is not included in Tax Depreciation. This timing difference is shown in column I and explains the difference between Book Income and Taxable Income in each year.
4. Total Income Tax Expense overall for the entire 50-year period is equal (see Totals of columns J and L), but is levelized with normalization accounting while being front-loaded under flow-through accounting.
5. Effective tax rates are above assumed statutory rates in all years 1 through 49, but are then negative in year 50 when the entire amount of deductible COR is incurred and deducted for tax purposes.

Q What does Schedule MLB-13 tell us about accounting for the income tax consequences of Cost of Removal?

A. This illustrative example shows the importance of practicing normalization accounting for COR. Normalization accounting is the only reasonable way to provide any assurance that ratepayers will actually receive the income tax deduction they are entitled to after paying the COR amounts embedded within rate case depreciation expense. Under normalization accounting, deferred income taxes will be systematically provided on AmerenUE's books for the annual difference between accrual-basis and cash-basis COR, resulting in levelized income tax expenses being recognized on the books and for ratemaking purposes.

Under the Company's proposed flow-through approach, a different (and much lower) cash-basis COR tax deduction is used for ratemaking than is being collected from customers for COR. This ratemaking tax deduction would only rarely include any actual COR for the retirement of life-span depreciated power generating stations (see year 50 in Schedule MLB-13). Moreover, in the event a distant future test year actually did include a large power plant retirement with a correspondingly large lump-sum COR tax deduction, it would be highly unlikely for the Company to propose and the Commission to set rates based on the the resulting negative income tax expense in that year (i.e., year 50) as being representative of normal, ongoing conditions that should be recognized for ratemaking purposes. Flow-through accounting for COR will persistently overcharge customers for income taxes associated with accrual basis COR amounts included in rates at levels that are not tax deductible until much later. Unless the large tax deduction for COR is recognized in setting rates in the final year of retirement, ratepayers would never realize the benefit, or turnaround, of the timing difference under flow-through accounting.

Q. Regarding this last point, how does flow-through accounting change the revenue requirement associated with collecting each dollar of COR from ratepayers as a component of book depreciation accrual rates that are used for ratemaking purposes?

A. Under flow-through accounting, each additional dollar of accrual-basis COR that is recognized for ratemaking purposes as a component of approved depreciation accrual rates, in excess of the current year actual COR expenditures, will add $1.62 into revenue

requirements. This makes advance collection of COR within book accrual rates highly uneconomic for customers.

Q. Why is advance collection of COR extremely costly for customers if flow-through income tax accounting, as advocated by AmerenUE, is approved?

A. As shown in Schedule MLB-13, what is deductible for income taxes for COR is the amount actually paid for COR in the year of asset retirement. Under flow-through accounting, the income tax savings associated with COR expenses are not recognized on the books (or for ratemaking purposes) until COR is paid and actually deducted on the income tax return. This means that advance collection of COR from ratepayers, during the life of the asset as a component of book depreciation accrual rates, requires an expanded pretax revenue stream for which there is no corresponding tax deduction until the much later year of retirement. Because the amount of COR recovered through book depreciation rates exceeds the COR deductible on the tax return, the Company must pay taxes on the excess accrual amount. The $1.62 amount mentioned above for COR recovery under flow through includes income taxes of $0.62 (38.34% composite tax rate times $1.62), which allows the utility to recover the $1.00 of COR ($1.62 revenue requirement minus $0.62 income taxes) embedded in the authorized book depreciation rate for advance ratepayer funding for COR.

Q. How does normalization income tax accounting reduce the burden upon customers when COR is included in book depreciation accrual rates?

A. Customers would only need to pay $1.00 in revenue requirement for each dollar of COR intended to be charged them. Normalization accounting would require the Company to provide deferred income taxes for the COR book/tax timing difference. For each dollar of COR paid by customers as a component of book depreciation accrual rates that exceeds the currently deductible COR paid by AmerenUE, the Company would pay the income tax, record negative deferred income tax expense and record a related debit deferred tax balance. This deferred tax reserve balance would be includable in rate base and ultimately reverse in the future year(s) when deductible COR expenditures happen to exceed accrual basis amounts (see Year 50 of Schedule MLB-13). Instead of collecting $1.62 for every COR dollar and making customers pay the income taxes currently, normalization accounting recognizes that the Company and its shareholders are receiving the cash flow benefit of COR advance collection and should temporarily bear the income tax expenses that arise from this benefit.

Q. Does AmerenUE practice normalization accounting for other book/tax timing differences that are experienced?

A. Yes. Most of these differences are normalized on the Company's books. When I inquired verbally of Mr. Mannix regarding its normalization versus flow accounting policies, I was told that most book/tax timing differences are normalized by AmerenUE, but that the Company has flowed through COR historically, even though he was unaware of any regulatory authority for such flow-through accounting by the Company.

Q. Is income tax normalization accounting required for all book/tax timing differences under Generally Accepted Accounting Principles ("GAAP")?

A. Yes.[1] While regulated utilities can be allowed to depart from GAAP in certain instances due to actions of regulators,[2] the income tax accounting practices required of business entities in general industry include normalization income tax accounting for book/tax timing differences.

Q. Is income tax normalization accounting required for all book/tax timing differences under the Uniform System of Accounts ("USOA") that is prescribed by the Federal Energy Regulatory Commission ("FERC") and followed by AmerenUE in keeping its books?

A. Yes. The FERC has embraced full normalization accounting for income taxes, as codified at 18 CFR 101.18:

> 18. Comprehensive Interperiod Income Tax Allocation.
>
> A. Where there are timing differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income, the income tax effects of such transactions are to be recognized in the periods in which the differences between book accounting income and taxable income arise and in the periods in which the differences reverse using the deferred tax method. In general, comprehensive interperiod tax allocation should be followed whenever transactions enter into the determination of pretax accounting income for the period even though some transactions may

[1] Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes, requires, at paragraph 8(b), that "A deferred tax liability or asset is recognized for the estimated future tax effects attributable to **temporary differences** and carryforwards". SFAS 109 supercedes previous SFAS 96 and APB. No11 provisions that also required comprehensive interperiod tax normalization for temporary book/tax timing differences.

[2] Statement of Financial Accounting Standard No. 71, Accounting for the Effects of Certain Types of Regulation (as partially superceded by SFAS 90 and SFAS 96), at paragraphs 9 through 12, recognizes generally that rate actions of a regulator can provide reasonable assurance of the existence of an asset or can impose a liability and such actions can change the value of a recorded asset or liability, in which case departures from GAAP are required.

affect the determination of taxes payable in a different period, as further qualified below.

B. Utilities are not required to utilize comprehensive interperiod income tax allocation until the deferred income taxes are included as an expense in the rate level by the regulatory authority having rate jurisdiction over the utility. Where comprehensive interperiod tax allocation accounting is not practiced the utility shall include as a note to each financial statement, prepared for public use, a footnote explanation setting forth the utility's accounting policies with respect to interperiod tax allocation and describing the treatment for ratemaking purposes of the tax timing differences by regulatory authorities having rate jurisdiction.

As in the case of GAAP, state regulators can order ratemaking actions that depart from the USOA, for instance by not recognizing deferred income taxes as an expense in the rate levels they establish, but the FERC default accounting provides for full normalization of book/tax timing differences and for footnote disclosure of any departures from this policy.

Q. At page 6 of his Surrebuttal, Mr. Rackers states, "The Company's proposed depreciation rates significantly increase the amount of accrued net salvage included in depreciation expense. This significant increase in accrued net salvage was normalized by the Company." Is this a true statement?

A. Yes. In its original filing, AmerenUE did not "factor up" its proposed increase in COR recoveries by the 1.62 multiplier required under flow-through accounting. However, Mr. Mannix now claims in his surrebuttal testimony that this was unintentional and was done in error.[3] At page 4, Mr. Mannix now claims that the flow-through method, "...has been the traditional method used by both the Staff and the Company for preparing the Income Tax Expense Calculation." By this change, AmerenUE seeks to factor up its increased

[3] Mannix Surrebuttal, page 3, line 18.

COR collections from ratepayers by charging them for income taxes that would be payable on such collections.

Q. If a flow-through method of accounting was used in the past to account for COR income tax effects, can that method be changed today?

A. Yes, and it is essential that any ambiguity regarding flow-through versus normalization be remedied. The authority that may have been relied upon by AmerenUE to use flow-through accounting for COR in the past is unclear. However, there is no reason why this flawed method of accounting should be continued today. With much larger amounts of COR now proposed for inclusion in book depreciation accrual rates, it is essential that related income tax timing differences be normalized as a matter of equity to ratepayers. Normalization income tax accounting is needed to levelize effective income tax rates, as shown in my Schedule MLB-13, while mitigating the cost impact of COR recoveries and ensuring that ratepayers are not ultimately denied the tax benefits that correspond to the COR amounts they are asked to pay in their utility rates.

Q. Does this conclude your Supplemental Surrebuttal Testimony?

A. Yes.

AmerenUE Case No. ER-2007-0002
Illustrative Projection of Flow-through Versus Normalization of Cost of Removal

Year	Annual Revenue	Beginning Book Value	Book Depreciation	Tax Depreciation	COR Paid	Book Income	Taxable Income	Timing Difference	Flow Through Tax Expense	Deferred Tax Expense	Normalized Tax Expense	Effective Income Tax % Flow Through	Effective Income Tax % Normalized
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
1	$ 8.0	$ 100.0	$ 2.4	$ 2.0	$ -	$ 5.6	$ 6.0	$ (0.4)	$ 2.4	$ (0.2)	$ 2.2	43%	40%
2	$ 8.0	97.6	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
3	$ 8.0	95.2	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
4	$ 8.0	92.8	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
5	$ 8.0	90.4	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
6	$ 8.0	88.0	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
7	$ 8.0	85.6	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
8	$ 8.0	83.2	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
9	$ 8.0	80.8	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
10	$ 8.0	78.4	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
11	$ 8.0	76.0	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
12	$ 8.0	73.6	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
13	$ 8.0	71.2	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
14	$ 8.0	68.8	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
15	$ 8.0	66.4	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
16	$ 8.0	64.0	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
17	$ 8.0	61.6	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
18	$ 8.0	59.2	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
19	$ 8.0	56.8	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
20	$ 8.0	54.4	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
21	$ 8.0	52.0	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
22	$ 8.0	49.6	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
23	$ 8.0	47.2	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
24	$ 8.0	44.8	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
25	$ 8.0	42.4	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
26	$ 8.0	40.0	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
27	$ 8.0	37.6	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
28	$ 8.0	35.2	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
29	$ 8.0	32.8	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
30	$ 8.0	30.4	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
31	$ 8.0	28.0	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
32	$ 8.0	25.6	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
33	$ 8.0	23.2	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
34	$ 8.0	20.8	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
35	$ 8.0	18.4	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
36	$ 8.0	16.0	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
37	$ 8.0	13.6	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
38	$ 8.0	11.2	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
39	$ 8.0	8.8	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%

Schedule MLB-13
Page 1 of 2

AmerenUE Case No. ER-2007-0002
Illustrative Projection of Flow-through Versus Normalization of Cost of Removal

Year	Annual Revenue	Beginning Book Value	Book Depreciation	Tax Depreciation	COR Paid	Book Income	Taxable Income	Timing Difference	Flow Through Tax Expense	Deferred Tax Expense	Normalized Tax Expense	Effective Income Tax % Flow Through	Effective Income Tax % Normalized
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
40	$ 8.0	6.4	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
41	$ 8.0	4.0	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
42	$ 8.0	1.6	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
43	$ 8.0	(0.8)	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
44	$ 8.0	(3.2)	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
45	$ 8.0	(5.6)	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
46	$ 8.0	(8.0)	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
47	$ 8.0	(10.4)	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
48	$ 8.0	(12.8)	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
49	$ 8.0	(15.2)	2.4	2.0	-	5.6	6.0	(0.4)	2.4	(0.2)	2.2	43%	40%
50	$ 8.0	(17.6)	2.4	2.0	20.0	5.6	(14.0)	19.6	(5.6)	7.8	2.2	-100%	40%
TOTALS	$ 400.0		$ 120.0	$ 100.0	$ 20.0	$ 280.0	$ 280.0	$ -	$ 112.0	$ -	$ 112.0	40%	40%

Assumptions:

Column	Description
A	Utility assumed to have single asset with 50 year life.
B	Annual revenues are assumed at $8 million, with no expenses except depreciation
C	Net Book Value of new power plant as of beginning of each year, reduce by book depreciation each year
D	Book Depreciation based upon $100 million investment, plus 20 percent COR (net salvage), over 50 year life.
E	Tax Depreciation assumed straight line, over 50-year life (actual tax depreciation methods/lives ignored)
F	Actual COR incurred at end of year 50, tax deductible in that year.
G	Book Pretax Income - column B less column D.
H	Taxable Income - column B, less column E, less column F.
I	Book/tax timing difference - column E less column D.
J	Cash income tax paid at 40% of column H.
K	Deferred income taxes recorded if normalization accounting practiced.
L	Normalized income tax expense - column J plus column K
M	Effective annual income tax percentage under flow-through accounting
N	Effective annual income tax percentage under normalization accounting.

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