

Exhibit No.:
Issue(s): *Expense*
Witness: *Lisa M. Ferguson*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *ER-2019-0335*
Date Testimony Prepared: *January 21, 2020*

MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

LISA M. FERGUSON

**UNION ELECTRIC COMPANY,
d/b/a AMEREN MISSOURI**

CASE NO. ER-2019-0335

Jefferson City, Missouri
January 2020

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

REBUTTAL TESTIMONY

OF

LISA M. FERGUSON

UNION ELECTRIC COMPANY,
d/b/a AMEREN MISSOURI

CASE NO. ER-2019-0335

Q. Please state your name and business address.

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

Q. By whom are you employed?

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

Q. Are you the same Lisa M. Ferguson who contributed to Staff’s *Revenue Requirement Cost of Service Report* filed December 4, 2019 in this case?

A. Yes, I am.

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

A. My rebuttal testimony will address the direct testimony of Ameren Missouri witness Laura M. Moore as her direct testimony developed and addressed the overall revenue requirement (cost of service), including current income taxes and accumulated deferred income tax (ADIT), for the electric operations of Ameren Missouri. This testimony will specifically address the topic of excess accumulated deferred income tax regarding the Missouri state corporate tax reduction.

Q. Please explain the state corporate tax reduction and its effects on the Ameren Missouri electric cost of service.

1 A. On June 1, 2018, the Missouri Governor signed Senate Bill 884 into law creating
2 the following changes:

- 3 • For all tax years beginning on or after January 1, 2020, the corporate income
4 tax rate is reduced from 6.25 percent to 4.0 percent
- 5 • For all tax years beginning on or after January 1, 2020, corporations will be
6 required to apportion and allocate income according to a new single sales factor
7 apportionment formula

8 Q. What effect do the state corporate tax changes have on the Ameren Missouri
9 electric cost of service?

10 A. As far as the change to the state corporate tax rate, Staff applied the lower state
11 tax rate of 4% as part of its current income tax position in direct testimony in this case. Ameren
12 Missouri also proposed the reduced corporate tax rate of 4% in its calculation of current income
13 taxes in its direct case. The second state corporate income tax change simply deals with what
14 specific income is taxable and how that income is apportioned to be taxed when a Missouri
15 corporation has income that is taxable in another state. Staff continues to investigate the full
16 impact of the new sales factor apportionment formula and will determine if this change will
17 have any effect on Ameren Missouri's cost of service in this case as part of its true-up audit.

18 Q. What effect does the reduction in the Missouri corporate income tax have on
19 deferred taxes and accumulated deferred income tax (ADIT)?

20 A. Prior to the January 1, 2020 implementation date of the reduced state corporate
21 tax rate, all deferred taxes related to state tax timing differences would have been calculated at
22 the higher 6.25% state tax rate. As of January 1, 2020 the balance of deferred taxes that are
23 currently included in ADIT in rate base will have to be revalued at the new 4.00% tax rate; thus
24 creating an excess of deferred taxes that should be returned to customers. Neither Staff nor
25 Ameren Missouri proposed a flow back of excess ADIT in their direct cases regarding the state

1 tax reduction. However, Staff believes it is appropriate to include the flow back of excess ADIT
2 as the tax reduction went into effect on January 1, 2020 which coincides with the true-up cutoff
3 in this rate proceeding.

4 Q. Does Staff support starting the flow back of excess deferred taxes arising from
5 the reduced state corporate income tax rate to ratepayers in this rate case?

6 A. Yes. Staff supports the flow back of excess deferred taxes, beginning with the
7 effective date of rates in this rate proceeding, to ratepayers amortized over the appropriate time
8 period, based on whether the excess deferred income taxes are “protected” or “unprotected.”¹
9 Staff has learned from Ameren Missouri personnel that the Company considers all excess
10 deferred income taxes arising from state corporate tax deductions to be “unprotected,” and thus
11 no portion of the excess amount is required to be returned over the estimated life of the assets
12 that gave rise to the original ADIT, unlike the situation for federal excess deferred income taxes
13 arising from the 2017 Tax Cuts and Jobs Act.

14 Q. What time period does Staff propose for the flow back of excess ADIT that is
15 determined in this case?

16 A. Staff proposes the return of the excess unprotected ADIT through an
17 amortization period of five years. This is a somewhat shorter time frame than the federal excess
18 ADIT was returned to customers; however the magnitude of excess ADIT for state taxes is
19 significantly less than for the federal tax deduction.

¹ Protected excess ADIT is the portion associated with accelerated depreciation tax timing differences that must be “normalized” for rate making purposes and where the flow back of excess ADIT cannot be returned to customers any more quickly than over the estimated life of the assets that gave rise to the ADIT. Unprotected excess ADIT is the portion of the deferred tax reserve that resulted from normalization treatment of tax timing differences other than accelerated depreciation.

Rebuttal Testimony of
Lisa M. Ferguson

1 Q. Is the amount of excess unprotected ADIT known and measureable?

2 A. Yes. According to Ameren Missouri's response to Staff data request 549, there
3 is \$105,613,810 in unprotected excess ADIT related to the state tax reduction for electric
4 operations prior to factoring up for tax.

5 Q. What amount of excess ADIT is Staff proposing to include in Ameren
6 Missouri's cost of service to flow back to customers?

7 A. Staff proposes to reduce Ameren Missouri's cost of service approximately
8 \$27.7 million related to electric operations to begin the flow back of excess ADIT to customers
9 in this current rate proceeding.

10 Q. Does this conclude your rebuttal testimony?

11 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 Decrease)
Its Revenues for Electric Service) Case No. ER-2019-0335

AFFIDAVIT OF LISA M. FERGUSON

STATE OF MISSOURI)
)
COLE COUNTY) ss.

COMES NOW LISA M. FERGUSON and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony of Lisa M. Ferguson*; and that the same is true and correct according to her best knowledge and belief.

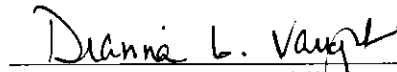
Further the Affiant sayeth not.



LISA M. FERGUSON

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for Cole County, State of Missouri, at my office in Jefferson City, on this 21st day of January, 2020.



Notary Public

