

*Exhibit No.:*  
*Issues:* TCJA Tax Reform, AAO  
*Witness:* Lisa M. Ferguson  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Direct Testimony  
*Case No.:* GR-2018-0227  
*Date Testimony Prepared:* November 20, 2018

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**AUDITING DEPARTMENT**

**DIRECT TESTIMONY**

**OF**

**LISA M. FERGUSON**

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

**CASE NO. GR-2018-0227**

*Jefferson City, Missouri  
November 2018*

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1 natural gas operations (“Ameren Missouri”) since January 1, 2018, due to the enactment of  
2 the Tax Cuts and Jobs Act (“TCJA”) in December 2017.<sup>1</sup>

3 Q. Please summarize your testimony in this proceeding.

4 A. In this testimony, I present Staff’s recommendation that the Commission  
5 authorize an Accounting Authority Order (AAO) that requires Ameren Missouri to quantify,  
6 track and defer as a “regulatory liability” all amounts associated with the reduced level of  
7 federal corporate income tax expense pertaining to its Missouri natural gas permanent rates<sup>2</sup>  
8 from January 1, 2018, forward to the effective date of rates in Ameren Missouri’s next general  
9 rate proceeding. This action is appropriate because the passage of the TCJA should be  
10 considered to be an “extraordinary event” and is thus eligible for deferral accounting.  
11 The appropriate ratemaking treatment for this deferred regulatory liability balance would be  
12 addressed by the parties in Ameren Missouri’s next natural gas rate case, which is anticipated  
13 to be filed under Case No. GR-2019-0077.<sup>3</sup>

14 **TAX REFORM**

15 Q. How has the TCJA impacted Ameren Missouri’s gas operations?

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<sup>1</sup> When referring to Ameren Missouri in this direct testimony filing, Staff is referring to Ameren Missouri Natural Gas operations. The Commission has already addressed the impact of the TCJA on Ameren Missouri’s electric operations as part of Case No. ER-2018-0362.

<sup>2</sup> On August 18, 2016, Union Electric Company, d/b/a Ameren Missouri submitted a tariff sheet revising its infrastructure system replacement surcharge (ISRS) values. This revision reset those values to “zero” and effectively terminated Ameren Missouri’s ISRS. The Commission allowed the proposed tariff sheet to become effective by operation of law on September 17, 2016. As part of Case No. GO-2017-0061, the Commission’s *ORDER ACCEPTING STAFF RECONCILIATION AND DIRECTING ONE-TIME BILL CREDIT* ordered a one-time bill credit to customers to refund a small over-recovery amount related to Ameren Missouri’s final ISRS balance. This Order was effective January 28, 2017. As a result of the foregoing, Ameren Missouri’s ISRS collections were not impacted by the effect of the TCJA.

<sup>3</sup> On September 20, 2018, Ameren Missouri filed a sixty day *NOTICE OF CASE FILING* indicating that it would file an application before this Commission seeking a natural gas rate increase on or after November 19, 2018.

1           A.     The TCJA was signed into law in December 2017 and affected  
2 Ameren Missouri in two primary ways. First, the TCJA reduced the federal corporate income  
3 tax rate that Ameren Missouri was required to pay from 35% to 21%. Secondly, the new law  
4 resulted in a portion of Ameren Missouri's previously recorded accumulated deferred income  
5 tax (ADIT) balances to become "excess" in nature, as these amounts were previously booked  
6 by Ameren Missouri assuming the higher 35% federal corporate income tax rate, but now will  
7 actually be paid to the Internal Revenue Service (IRS) by Ameren Missouri at a 21% federal  
8 corporate income tax rate. Ameren Missouri's excess ADIT should be flowed back to its  
9 customers over a time frame compliant with the TCJA.

10          Q.     Is Staff recommending that Ameren Missouri defer the impact of the excess  
11 ADIT flow-back as part of this AAO request?

12          A.     No, Staff's deferral request only pertains to the financial impact of the  
13 reduction in the corporate tax rate. Staff is not seeking any AAO deferral treatment  
14 associated with excess ADIT, on the basis of Ameren Missouri's representations that no such  
15 amortization will begin on its books prior to the amortization being incorporated in Ameren  
16 Missouri's next general rate case. Accordingly, the ratemaking impact of excess ADIT will  
17 be addressed as part of Ameren Missouri's planned rate increase application to be filed in  
18 Case No. GR-2019-0077.

19 **AAOs**

20          Q.     What is an AAO?

21          A.     In general, an AAO is an authorization from the Commission allowing a utility  
22 to account for a revenue, expense, asset or liability item in a different manner than the  
23 accounting treatment normally required by the Uniform System of Accounts (USOA)

1 prescribed for the utility. In almost all AAO cases, Missouri utilities have sought authority to  
2 defer to their balance sheets certain costs that would normally be charged to expense as  
3 incurred. This results in the establishment of a “regulatory asset” on the utility’s books,  
4 which represents an amount that the utility may then seek recovery of in a subsequent rate  
5 case. The advantage to a utility of receiving this type of deferral treatment is to avoid an  
6 immediate charge against income, which is what would have occurred if the cost in question  
7 had been charged to expense. As well, receiving deferral authority increases the chance that  
8 the utility will receive rate recovery for the cost in question even if it was not incurred within  
9 the test year, update period or true-up period of a general rate proceeding. Conversely,  
10 Commission approved deferral accounting can also result in the establishment of a  
11 “regulatory liability,” which would represent amounts that the utility would treat as increases  
12 to earnings under normal USOA accounting, but are instead preserved on the utility’s balance  
13 sheet for potential return to ratepayers in a subsequent rate case.

14 Q. Does the Commission order ratemaking recovery as part of any party’s request  
15 for an AAO?

16 A. No. The Commission only makes a determination of whether or not the item  
17 warrants deferral accounting treatment in an AAO proceeding. The actual ratemaking  
18 determination regarding the deferred balances are properly made by the Commission within  
19 the context of the utility’s next general rate proceeding.

20 Q. What type of items is an AAO used for?

21 A. The Commission’s policy has been to only authorize AAOs in order to capture

1 the financial impact of extraordinary events<sup>4</sup>. Extraordinary events often involve natural  
2 disasters or “acts of God,” such as severe, widespread ice storms, wind storms or major flood  
3 events. Under normal accounting practices, costs associated with these types of events are  
4 normally recorded as expense during the period that the costs were incurred. By receiving  
5 permission from the Commission to defer such extraordinary costs, the utility can avoid  
6 immediately charging the costs to expense and decreasing its earnings. Deferral permits a  
7 utility to record such extraordinary costs as a “regulatory asset” on the balance sheet and to  
8 seek subsequent rate recovery for these costs even if the costs were incurred prior to the test  
9 year, update and/or true-up cutoff period ordered by the Commission in the utility’s next rate  
10 proceeding. For example, recovery of reasonable and prudently incurred costs incurred to  
11 complete repairs and to restore service in the aftermath of a natural disaster has been  
12 permitted by the Commission through an amortization to expense for the regulatory asset over  
13 a reasonable time period in a utility’s subsequent general rate case. In other instances, the  
14 Commission has permitted AAO treatment and subsequent rate recovery to utilities for items  
15 such as gas safety related service line replacement programs, significant capital improvement  
16 projects, security related costs and even “Year 2000”<sup>5</sup> costs.

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<sup>4</sup> For example, refer to the Report and Order in Case No. EO-91-358, et al., Missouri Public Service Company, a division of UtiliCorp United Inc. regarding a request by that utility to defer certain costs associated with the life extension construction and coal conversion project at the Sibley Generating Station through use of an AAO. “Deferral of costs as discussed earlier, is only made for unusual or extraordinary events.”

Also refer to the Report and Order in Case No. ER-2017-0370, et al., Kansas City Power & Light Company, regarding a request by that utility to defer certain transmission expenses through use of a tracker mechanism: “The evidence presented in this case showed that KCPL’s transmission costs, while having increased in recent years, are normal, ordinary and recurring operation costs. These recurring costs are not abnormal or significantly different from the ordinary and typical activities of the company, so they are not extraordinary and, therefore, not subject to deferral under the USoA.”

<sup>5</sup> Refer to the Report & Order in Case No. GO-99-258 Missouri Gas Energy, regarding a request to defer expenditures to upgrade or replace computer equipment for Y2K compliance through use of an AAO. “...the Commission stated materiality is an issue that may be considered when determining whether to allow deferral of expenses. However a finding of materiality is not necessary to allow deferral...”

1 Q. How has the Commission defined the term “extraordinary event?”

2 A. The Commission has defined extraordinary events as being unusual, unique  
3 and non-recurring in nature.

4 Q. Has the Commission applied any other criteria in the past to issuance  
5 of AAOs?

6 A. Yes. Secondly, the Commission has considered whether or not the financial  
7 impact of the event in question is material in nature. A cost that exceeds the level of at least  
8 5% of the utility’s net income is considered to be a material in nature for purposes of  
9 AAO requests.

10 **APPROPRIATENESS OF AAO TO DEFER IMPACT OF REDUCTION IN**  
11 **FEDERAL CORPORATE INCOME TAX RATE**

12 Q. Is the reduction in the federal corporate income tax rate associated with the  
13 TCJA an extraordinary event under the Commission’s criteria?

14 A. Yes. As stated earlier, the TCJA reduced Ameren Missouri’s corporate income  
15 tax rate by approximately 40%, by reducing the rate from 35% to 21%. This event is certainly  
16 unusual, unique and non-recurring in that such a dramatic and material change in the federal  
17 corporate income tax rate and federal tax laws has not occurred since the passage of the  
18 Tax Reform Act of 1986.<sup>6</sup> For this reason, the TCJA is unique, unusual and non-recurring in  
19 nature. A federal tax rate change of this size has not occurred in over three decades.

20 Q. Is the financial impact of the federal corporate income tax rate reduction  
21 material to Ameren Missouri’s natural gas operations net income?

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<sup>6</sup> At the time of the change in tax law the federal corporate income tax rate was reduced from 48% to 34%. In 1993, the federal corporate income tax rate was increased to the 35% level which was reduced by the TCJA that is the subject of this proceeding.



1           A.     Yes. Staff applied the “Financial Impact of TCJA” amount that was included  
2 in *Ameren Missouri’s Revised Response to Order Scheduling a Conference Regarding*  
3 *Procedures for Consideration of an Accounting Authority Order*, filed on October 24, 2018,  
4 to the net income amount for the twelve months ending March 2018 that was provided as part  
5 of a gas revenue requirement cost of service calculation provided by Ameren Missouri on  
6 June 27, 2018, in order to determine whether the financial impact of the federal corporate  
7 income tax rate change should be considered to be material:

8

Financial Impact of TCJA (As of September 30, 2018)	\$1,343,311
Net Income Before Taxes	**       _____       **
	**       _____       **

9

10 The amount of the financial impact of the TCJA provided in Ameren Missouri’s revised  
11 response is only for nine months (January - September 2018), so this percentage will only  
12 increase as Ameren Missouri’s benefit from the TCJA tax rate reduction continues in the  
13 coming month. Once Ameren Missouri files its direct case in GR-2019-0077, Staff will  
14 update its materiality assessment.

15           Q.     Does this conclude your direct testimony?

16           A.     Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of the Propriety of the Rate       )  
Schedules for Natural Gas Service of       )  
Union Electric Company, Doing       )  
Business as Ameren Missouri       )  
Case No. GR-2018-0227

**AFFIDAVIT OF LISA M. FERGUSON**

STATE OF MISSOURI       )  
                                      )  
COLE COUNTY       )  
                                      )  
                                      ss.

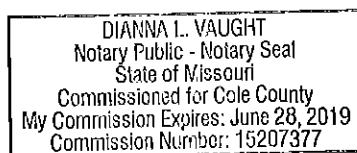
**COMES NOW LISA M. FERGUSON**, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony*; and that the same is true and correct according to her best knowledge and belief.

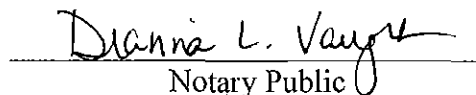
Further the Affiant sayeth not.

  
LISA M. FERGUSON

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the Cole County, State of Missouri, at my office in Jefferson City, Missouri on this 19th day of November, 2018.



  
Notary Public

## **Lisa M. Ferguson**

### **Present Position:**

I am a Utility Regulatory Auditor V, Auditing Department, Commission Staff Division of the Missouri Public Service Commission. As a Utility Regulatory Auditor, I review all exhibits and testimony on assigned issues, develop accounting adjustments and issue positions that are supported by workpapers and written testimony.

### **Educational Credentials and Work Experience:**

I have an Associate of Science degree from Moberly Area Community College, a Bachelor's of Science degree in Accounting from Truman State University, and a Master's degree in Accounting from Truman State University. I have been employed by the Missouri Public Service Commission since June 2008. Prior to joining the Commission, I worked in several departments, primarily Customer Service and as an accounting assistant, for Hy-Vee Food and Drug from July 1998 to May 2002. I was also employed by Kelly L. Lovekamp as a legal office assistant during 2001. From June 2002 to May 2008, I was employed as a support staff for Chariton Valley Association. My duties included support of daily living activities for people with disabilities.

## Lisa M. Ferguson

### Past Rate Case Proceedings:

<u>Company Name</u>	<u>Case No.</u>	<u>Issue</u>
Ameren Missouri (ELEC)	EA-2018-0202	Terra-Gen Wind Generation CCN
Ameren Missouri (ELEC)	ER-2018-0362	2017 TCJA Tax Reform effect on current and excess deferred taxes
Liberty Gas (MNG)	GR-2018-0013	Income tax, Accumulated Deferred Income Tax (ADIT), Property Tax, Vegetation Management, Payroll, Payroll Tax, Employee Benefits Accounting Schedules/Reconciliation Filed Direct, Rebuttal, Surrebuttal (True-up Direct)
Spire Missouri (Laclede Gas & Missouri Gas Energy)	GR-2017-0215 GR-2017-0216	Co-Lead Auditor Insulation Financing, EnergyWise Revenue/Rate Base, Gas Safety AAO Overcollection, Natural Gas/Propane Inventory, MGE Rate base Offset, Income Taxes, ADIT, Surveillance Reporting, Uniform Expense, AMR Devices Filed Direct, Rebuttal, Surrebuttal Testified on FIN 48 as part of ADIT, Surveillance Reporting, AMR Devices, 2017 TCJA Tax Reform effect on current and excess deferred taxes
Ameren Missouri	EO-2017-0176	Cost Allocation Manual
Ameren Missouri	EO-2017-0127	Asset Sale Case – Mercy Health

## Lisa M. Ferguson

### Past Rate Case Proceedings:

<u>Company Name</u>	<u>Case No.</u>	<u>Issue</u>
Ameren Missouri (ELEC)	ER-2016-0179	Allocations, Coal Refinement, Callaway II Write-Off, Capacity, FAC expense removal, FIN 48, Income Taxes, ADIT, Mark Twain Transmission, MISO revenues & expenses, MISO Transmission revenues & expenses, Sioux Construction Accounting Accounting Schedules/Reconciliation Filed Direct, Rebuttal, Surrebuttal
Rex Deffenderfer Enterprises	WR-2016-0267	Lead Auditor – Oversee All Issues
House Springs Sewer Co.	SM-2016-0204	Sale of Company Assets to Jefferson County Public Sewer District
Missouri American	WR-2015-0301 & SR-2015-0302	Amortizations, Arnold Acquisition, Belleville Labs, Capitalized O&M Depreciation, Regulatory Assets & Liabilities, Regulatory Deferrals, Hickory Hills Receivership Costs Accounting Schedules/Reconciliation
Missouri American	WO-2016-0054	Asset Purchased Case; Missouri American Acquisition of Jaxson Estates
House Springs Sewer Co.	Earnings Investigation	Operations & Maintenance Contract, Legal Fees, Office Rent & Electric, Plant/Reserve/CIAC, Repairs & Maintenance, Sludge Hauling, City of Byrnes Mill Expense, Garnishment

## Lisa M. Ferguson

### Past Rate Case Proceedings:

<u>Company Name</u>	<u>Case No.</u>	<u>Issue</u>
Ameren Missouri (ELEC)	ER-2014-0258	Fuel, NBEC, Fuel Additives, Fuel Inventory, Off System Sales, Purchased Power, Callaway Refueling, Coal Car Depreciation, Low Level Radioactive Waste Expense Accounting Schedules/Reconciliation Filed Direct, Rebuttal, Surrebuttal
Liberty Gas (MNG)	GR-2014-0152	Board of Directors Fees, Payroll, Employee Benefits, Incentive Compensation, Environmental Expense, Fleet Fuel Expense, Property Tax, Relocation Expense
Terre Du Lac Utility Co.	WR-2014-0104 SR-2014-0105	Revenues, Uncollectibles, Water Loss Adjustment
Laclede Gas Co.	GR-2013-0171	Revenue, Energy Wise and Insulation Revenues and Ratebase, Gas Costs, Gross Receipts Tax, ISRS Revenue, OSS and Capacity Release, Postage Expense, Unbilled Revenues, Uncollectibles
Lincoln County Water & Sewer	SR-2013-0321	Revenues, Bank Fees, Billing Expense, DNR Fees, Office Supplies, Postage Expense, PSC Assessment, SOS Fees, Uncollectibles
Gladlo Water and Sewer Co.	SR-2013-0258 WR-2013-0259	Informal Rate Case – All Issues
Missouri American	SO-2013-0260	Asset Purchased Case; Missouri American Acquisition of Meramec Sewer Co; Rate Base Determination
Ameren Missouri	EO-2013-0044	Asset Sale Case

## Lisa M. Ferguson

### Past Rate Case Proceedings:

<u>Company Name</u>	<u>Case No.</u>	<u>Issue</u>
Meramec Sewer Co	SR-2012-0309	Rate Base, Revenues, Uncollectibles
Ameren Missouri (ELEC)	ER-2012-0166	Advertising, AMS Allocations, Capitalized O&M Depreciation, Distribution Training, Employee Benefits other than Pensions, Environmental Expense, Incentive Compensation, Legal Expense, Name Change/Branding Expense, Payroll, Payroll Taxes, Production Training Expense, Severance, Underground Training Expense, VSE/ISP Amortization  EMS Accounting Schedules  Filed Direct and Surrebuttal Testimony  Deposed on Severance and Advertising  Testified on Severance
Missouri American	SO-2012-0091	Asset Purchased Case; Missouri American Acquisition of Meramec Sewer Co; Rate Base Determination
House Springs Sewer Co.	SR-2011-0274	Revenues, Billing Supplies Expense, Bank Fees, Dues & Donations, Outside Services, Miscellaneous Expense, Rent Expense, Postage Expense, PSC Assessment, Rate Case Expense, Secretary of State Fees, EMS Accounting Schedules
Missouri American	WO-2011-0106	ISRS Filing; Extending data to Effective Date; Retirements; Deferred Taxes; Accumulated Depreciation

**Lisa M. Ferguson**

**Past Rate Case Proceedings:**

<b><u>Company Name</u></b>	<b><u>Case No.</u></b>	<b><u>Issue</u></b>
Ameren Missouri (ELEC)	ER-2011-0028	Capitalized O&M Depreciation, Dues & Donations, 900 Account analysis, Property Taxes, Other Rate Base Items, Corporate Franchise Taxes, CWC, Plant and Reserve, PSC Assessment, Rate Case Expense, Advertising, Interest on Customer Deposits, Outside Contractors/Services, Allocations Accounting Schedules/Reconciliation Filed Direct and Surrebuttal Testimony Deposed on Advertising Testified on Property Tax
AmerenUE (GAS)	GR-2010-0363	Capitalized O&M Depreciation, Dues & Donations, 900 Account analysis, Property Taxes, Other Rate Base Items, Corporate Franchise Taxes, CWC, Plant and Reserve, PSC Assessment, Rate Case Expense, Advertising, Interest on Customer Deposits, Outside Contractors/Services Accounting Schedules/Reconciliation Filed Direct Testimony
KMB Utility Corporation	WR-2010-0345 & SR-2010-0346	Revenues, Late Fees, Electric Bills, Lost Water Adjustment, Uncollectibles, Master meter reads Filed Staff Recommendation



## Lisa M. Ferguson

### Past Rate Case Proceedings:

<u>Company Name</u>	<u>Case No.</u>	<u>Issue</u>
Ameren UE (ELEC)	ER-2010-0036	Advertising, Capitalized O&M Depreciation, Dues & Donations, 900 Account Analysis, Property Taxes, Other Rate Base Items, Corp. Franchise Taxes, Leases, CWC, Plant, Depreciation/ Reserve, PSC Assessment, Rate Case Expense, Interest on Customer Deposits, Insurance Expenses, Accounting Runs, Injuries and Damages  Accounting Schedules/Reconciliation Filed Direct and Surrebuttal Testimony
Peaceful Valley	SR-2009-0146 WR-2009-0145	Informal Small Water and Sewer Request for Rate Increase
Cannon Home Association	SR-2009-0144	Informal Small Water Request for Rate Increase
Atmos Energy	GO-2009-0046	Assisted on ISRS Filing; Extending data to Effective Date; Retirements; Deferred Taxes; Accumulated Depreciation; Removal of Meters
Ameren UE (GAS)	GT-2009-0038	Assisted on ISRS Filing; Extending data to Effective Date; Additions/Retirements; Deferred Taxes; Accumulated Depreciation
Laclede Gas Company	GO-2009-0029	Assisted on Abandonment Case – Recommendation Submission
Mill Creek	SR-2005-0116	Quarterly Reviews; Procedural Schedule; A/P Billing Calendar; Conference Calls; Discussion Notes; Revenues