



ATTORNEY GENERAL OF MISSOURI

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March 2, 2007

Ms. Colleen Dale, Secretary  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, Missouri 65102-0360

**FILED<sup>3</sup>**

MAR 2 2007

Re: ER-2007-0002

Missouri Public  
Service Commission

Dear Ms. Dale,

Enclosed for filing please find an original and eight copies of the State of Missouri's Motion to File Supplemental Surrebuttal Testimony and Motion for Expedited Treatment.

If you have any questions please do not hesitate to contact me.

Sincerely,

JEREMIAH W. (JAY) NIXON  
Attorney General

  
Douglas E. Micheel  
Assistant Attorney General

Enclosures

FILED<sup>3</sup>

MAR 2 2007

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

Missouri Public  
Service Commission

In the Matter of Union Electric Company )  
d/ba/ 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

**Motion to file the Supplemental Surrebuttal Testimony  
Of Michael Brosch Income Tax Expenses-Cost of Removal  
Normalization and Motion for Expedited Treatment**

Comes now the State of Missouri and pursuant to 4 CSR 240-2.130(8), 4 CSR 240-2.080(16) and Section 386.410 RSMo., and requests leave to file Supplemental Surrebuttal Testimony of Michael Brosch on the issue of Income Tax Expenses-Cost of Removal Normalization. In support of its request the State of Missouri would show as follows:

1. Pursuant to the Commission's Order Surrebuttal Testimony was due to be filed in this matter on February 27, 2006. On that date the Staff of the Commission filed the surrebuttal testimony of Steve Rackers and Union Electric filed the surrebuttal testimony of Charles Mannix.
2. Both Commission Staff witness Rackers and UE witness Mannix has significantly revised their respective calculations of test year income tax expense. These changes represent fundamental shifts in the accounting policy treatment afforded utility plant cost of removal ("COR").
3. The changes proposed by UE would increase its revenue requirement by \$24 million, while the changes now being proposed by Staff would decrease Staff's

quantification of the UE revenue requirement by about \$35 million. The combine effect of this item, raised in surrebuttal testimony broadens the revenue requirement difference between UE and Staff by about \$59 million.

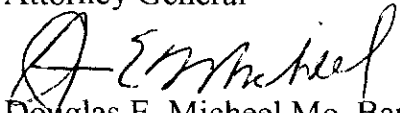
4. The State of Missouri seeks leave to file the Supplemental Surrebuttal Testimony of Michael Brosch on this important issue. A copy of the testimony is attached as Exhibit A.
5. The State of Missouri is making this filing only three days after the initial surrebuttal filing when it became apparent that Income Tax Expense- Cost of Removal would become an issue in this case.
6. Allowing the State's supplemental filing will help this Commission reach resolution on this highly technical policy issue. There will be a positive effect on the general public because the Commission will be receiving further information on this important issue.
7. Along with this filing the State is serving ten copies of the Supplemental Surrebuttal Testimony on the presiding officer.
8. The State is filing this pleading as soon as possible after it discovered this issue in surrebuttal testimony. The State requests that the Commission rule on its request by March 12, 2007.

Wherefore, the State of Missouri requests that on an expedited basis the Commission grant its request to file the supplemental surrebuttal testimony of Michael Brosch on the issue of Income Tax Expense- Cost of Removal Normalization.

Respectfully Submitted,

JEREMIAH W. (JAY) NIXON

Attorney General

A handwritten signature in cursive script, appearing to read "D. E. Micheel".

Douglas E. Micheel Mo. Bar 38371

Assistant Attorney General

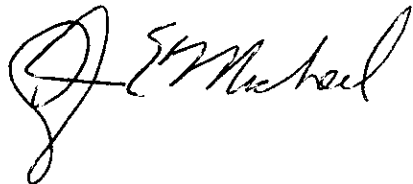
P.O. Box 899

Jefferson City, Missouri 65102

Attorney for the State of Missouri/DED

**Certificate of Service**

I certify that on March 2, 2007 I served on all parties of record a copy of the State's Motion to file Supplemental surrebuttal testimony via e-mail.

A handwritten signature in cursive script, appearing to read "D. E. Micheel".

**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**

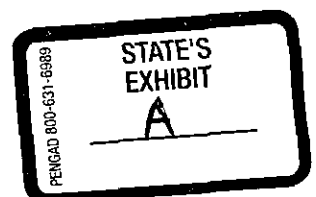
**OF**

**MICHAEL L. BROSCH**

**ON BEHALF OF**

**STATE OF MISSOURI**

**NP**



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

1 Q. Please state your name and business address.

2 A. My name is Michael L. Brosch. My business address is 740 North Blue Parkway, Suite  
3 204, Lee's Summit, Missouri 64086.

4

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

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

10

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

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

16

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

18 A. Both AmerenUE and the Commission Staff have significantly revised their calculations  
19 of test year income tax expense as part of their Surrebuttal testimony filed on February  
20 27, 2007. These changes represent fundamental shifts in the accounting policy treatment

1       afforded utility plant cost of removal ("COR"). This Supplemental Surrebuttal testimony  
2       is responsive to these recent changes, which could not have been addressed in previous  
3       testimony submissions.  
4

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

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

11           Mr. Mannix quantifies the impact of this "error" at page 4, where he states, "The  
12      Income Tax Expense Calculation prepared by the Company uses a flow through method  
13      for accrued and incurred Cost of Removal. Under this flow through method, using the  
14      corrected Company Cost of Removal and a composite tax rate of 38.34%, the current  
15      income tax expense would increase by \$14,887,921. The resulting increase in the revenue  
16      requirement from this specific correction would be an increase of \$24,145,184."  
17

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

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

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

6  
7 Q. Is it correct that both AmerenUE and Staff are now proposing revisions to their prefiled  
8 positions with respect to Cost of Removal?

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

16  
17 Q. What is your recommendation to the Commission with regard to this issue?

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

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

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

8

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

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

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

21

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

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

9  
10 Q. Please explain the difference between "normalization" versus "flow-through" treatment  
11 of book/tax timing differences.

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

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

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

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

13  
14 Q.      Can you provide a simplified example of how income tax expenses in each year are  
15 impacted by normalization versus flow-through accounting for an illustrative COR  
16 book/tax timing difference?

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

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

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

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

9  
10    Q.     What conclusions are supported by Schedule MLB-13?

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

- 13           1. Flow-through Income Tax Expense in column J is higher in the years 1 through  
14             49 than Normalized Income Tax Expense in column L, because of income taxes  
15             payable on the timing difference arising from COR included in book depreciation  
16             that is not tax deductible, but is a large negative value in year 50 when cash COR  
17             is deductible.
- 18           2. Normalization accounting results in the recording of "Deferred Tax Expense" as  
19             shown in column K, which causes the resulting "Normalized Tax Expense" in  
20             column L to be level in all years 1 through 50 and a resulting "Effective Tax  
21             Rate" in column N that is equal to the assumed statutory income tax rate in all  
22             years.

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

13

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

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

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

16  
17 Q. Regarding this last point, how does flow-through accounting change the revenue  
18 requirement associated with collecting each dollar of COR from ratepayers as a  
19 component of book depreciation accrual rates that are used for ratemaking purposes?

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

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

3  
4 Q. Why is advance collection of COR extremely costly for customers if flow-through  
5 income tax accounting, as advocated by AmerenUE, is approved?

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

20  
21 Q. How does normalization income tax accounting reduce the burden upon customers when  
22 COR is included in book depreciation accrual rates?

1 A. Customers would only need to pay \$1.00 in revenue requirement for each dollar of COR  
2 intended to be charged them. Normalization accounting would require the Company to  
3 provide deferred income taxes for the COR book/tax timing difference. For each dollar  
4 of COR paid by customers as a component of book depreciation accrual rates that  
5 exceeds the currently deductible COR paid by AmerenUE, the Company would pay the  
6 income tax, record negative deferred income tax expense and record a related debit  
7 deferred tax balance. This deferred tax reserve balance would be includable in rate base  
8 and ultimately reverse in the future year(s) when deductible COR expenditures happen to  
9 exceed accrual basis amounts (see Year 50 of Schedule MLB-13). Instead of collecting  
10 \$1.62 for every COR dollar and making customers pay the income taxes currently,  
11 normalization accounting recognizes that the Company and its shareholders are receiving  
12 the cash flow benefit of COR advance collection and should temporarily bear the income  
13 tax expenses that arise from this benefit.

14  
15 Q. Does AmerenUE practice normalization accounting for other book/tax timing differences  
16 that are experienced?

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

22

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

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

7  
8 Q. Is income tax normalization accounting required for all book/tax timing differences under  
9 the Uniform System of Accounts ("USOA") that is prescribed by the Federal Energy  
10 Regulatory Commission ("FERC") and followed by AmerenUE in keeping its books?

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

13 18. Comprehensive Interperiod Income Tax Allocation.

14 A. Where there are timing differences between the periods in which  
15 transactions affect taxable income and the periods in which they enter into  
16 the determination of pretax accounting income, the income tax effects of  
17 such transactions are to be recognized in the periods in which the  
18 differences between book accounting income and taxable income arise and  
19 in the periods in which the differences reverse using the deferred tax  
20 method. In general, comprehensive interperiod tax allocation should be  
21 followed whenever transactions enter into the determination of pretax  
22 accounting income for the period even though some transactions may

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<sup>1</sup> 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. No 11 provisions that also required comprehensive interperiod tax normalization for temporary book/tax timing differences.

<sup>2</sup> 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.

1 affect the determination of taxes payable in a different period, as further  
2 qualified below.  
3

4 B. Utilities are not required to utilize comprehensive interperiod income  
5 tax allocation until the deferred income taxes are included as an expense in  
6 the rate level by the regulatory authority having rate jurisdiction over the  
7 utility. Where comprehensive interperiod tax allocation accounting is not  
8 practiced the utility shall include as a note to each financial statement,  
9 prepared for public use, a footnote explanation setting forth the utility's  
10 accounting policies with respect to interperiod tax allocation and  
11 describing the treatment for ratemaking purposes of the tax timing  
12 differences by regulatory authorities having rate jurisdiction.  
13

14 As in the case of GAAP, state regulators can order ratemaking actions that depart from  
15 the USOA, for instance by not recognizing deferred income taxes as an expense in the  
16 rate levels they establish, but the FERC default accounting provides for full  
17 normalization of book/tax timing differences and for footnote disclosure of any  
18 departures from this policy.  
19

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

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

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<sup>3</sup> Mannix Surrebuttal, page 3, line 18.

1 COR collections from ratepayers by charging them for income taxes that would be  
2 payable on such collections.  
3

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

6 A. Yes, and it is essential that any ambiguity regarding flow-through versus normalization  
7 be remedied. The authority that may have been relied upon by AmerenUE to use flow-  
8 through accounting for COR in the past is unclear. However, there is no reason why this  
9 flawed method of accounting should be continued today. With much larger amounts of  
10 COR now proposed for inclusion in book depreciation accrual rates, it is essential that  
11 related income tax timing differences be normalized as a matter of equity to ratepayers.  
12 Normalization income tax accounting is needed to levelize effective income tax rates, as  
13 shown in my Schedule MLB-13, while mitigating the cost impact of COR recoveries and  
14 ensuring that ratepayers are not ultimately denied the tax benefits that correspond to the  
15 COR amounts they are asked to pay in their utility rates.  
16

17 Q. Does this conclude your Supplemental Surrebuttal Testimony?

18 A. Yes.

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

| Year | Annual<br>Revenue | Beginning<br>Book Value | Book<br>Depreciation | Tax<br>Depreciation | COR Paid | Book<br>Income | Taxable<br>Income | Timing<br>Difference | Flow Through<br>Tax Expense | Deferred Tax<br>Expense | Normalized<br>Tax Expense | Effective Income Tax % |            |
|------|-------------------|-------------------------|----------------------|---------------------|----------|----------------|-------------------|----------------------|-----------------------------|-------------------------|---------------------------|------------------------|------------|
|      |                   |                         |                      |                     |          |                |                   |                      |                             |                         |                           | Flow<br>Through        | 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%        |

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

| Year   | Annual<br>Revenue | Beginning<br>Book Value | Book<br>Depreciation | Tax<br>Depreciation | COR Paid | Book<br>Income | Taxable<br>Income | Timing<br>Difference | Flow Through<br>Tax Expense | Deferred Tax<br>Expense | Normalized<br>Tax Expense | Effective Income Tax % |            |
|--------|-------------------|-------------------------|----------------------|---------------------|----------|----------------|-------------------|----------------------|-----------------------------|-------------------------|---------------------------|------------------------|------------|
|        |                   |                         |                      |                     |          |                |                   |                      |                             |                         |                           | Flow<br>Through        | 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.