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Witness:	Mitchell Lansford
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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. EA-2022-0244

DIRECT TESTIMONY

OF

MITCHELL LANSFORD

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

*****<u>DENOTES HIGHLY CONFIDENTIAL INFORMATION</u>*****

St. Louis, Missouri
July 2022

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OF

MITCHELL LANSFORD

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Mitchell Lansford. My business address is One Ameren Plaza, 1901 Chouteau Ave., St. Louis, Missouri.

Q. By whom are you employed and what is your position?

A. I am employed by Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company") as Director, Regulatory Accounting.

Q. Please describe your educational background and employment experience.

A. I received Bachelor of Science and Master's degrees in Accountancy from the University of Missouri at Columbia in 2008. I am a licensed Certified Public Accountant in the State of Missouri and a member of the American Institute of Certified Public Accountants. From 2008 to 2017, I worked for PricewaterhouseCoopers LLP, most recently as a Senior Manager in its assurance practice. In that capacity, I provided auditing and accounting services to clients, primarily in the utility industry. From 2017 to 2019, I worked for Ameren Services Company as the Manager of Accounting Research, Policy, and Internal Controls. My primary duties and responsibilities included accounting analysis for non-standard transactions, overseeing the implementation of new accounting guidance, implementation of new accounting policies, and assessments of the internal control environment. From 2019 to present, I have been working for Ameren Missouri in multiple regulatory accounting roles, including my current role as Director, Regulatory Accounting effective in 2020.

Q. What are your responsibilities in your current position?

A. In my current position, my primary duties and responsibilities include preparation of the revenue requirement for Ameren Missouri rate filings, preparing written testimony for rate, regulatory, and audit proceedings, and testifying before the Missouri Public Service Commission.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. As explained in the testimony of Ameren Missouri witness Scott Wibbenmeyer, Ameren Missouri is seeking a Certificate of Convenience and Necessity ("CCN") for a solar generation project, the Huck Finn Project ("Project"), to comply with the renewable energy portfolio requirements contained in the Missouri Renewable Energy Standard. The purpose of my direct testimony is to describe the tax equity structure the Company intends to utilize to finance the construction of the Project, and describe the related accounting considerations appropriate for regulatory purposes in Missouri.

III. TAX EQUITY STRUCTURE

Q. Why does Ameren Missouri propose to utilize tax equity financing to finance construction of the Project?

A. Under current tax law and given the current market for partners which can optimize the tax attributes (e.g., tax credits and accelerated depreciation) associated with the renewable energy project ("Tax Equity Partner")[1], there are clear benefits of using the tax equity structure for investment in the proposed Project. The key feature of this structure is that it allows the Investment Tax Credit ("ITC") associated with a solar facility to more optimally reduce the cost to customers by realizing its full value in the first year of Project operation. Without the use of a tax equity structure, applicable tax rules would require Ameren Missouri to normalize the benefits of the ITC over the life of the related solar facility. Providing the normalized ITC benefits to customers over 30 years, as compared to in the first year via the tax equity structure, would substantially lower the customer benefit of the ITC on a net present value basis. In addition, Ameren Missouri would not be able to efficiently monetize other tax attributes, including accelerated depreciation, without this structure. These benefits more than outweigh any incremental costs arising from using a tax equity structure for this particular Project.

Q. Has the Company identified a specific Tax Equity Partner?

A. No. The identification of a specific Tax Equity Partner is expected to occur six to 18 months before the Project is fully constructed.

Q. Have you compared the expected Project costs, using tax equity financing, to a scenario where tax equity financing is not utilized?

A. Yes. Acquiring and developing the solar facility through more traditional methods, as opposed to tax equity financing, would increase the base case costs on a net present value basis by approximately $44 million.

[1] Large, taxpaying corporations (e.g., global banks or insurance companies).

Q. Please describe the tax equity structure.

Under the tax equity structure, Ameren Missouri would sponsor a renewable energy project and partner with one or more large, taxpaying corporations (e.g., global banks or insurance companies) that can optimize the tax attributes (e.g., tax credits and accelerated depreciation) associated with the renewable energy project. In exchange for providing a significant portion of the capital investment necessary for the construction of the renewable project, the Tax Equity Partner initially receives substantially all of the tax attributes and a minor portion of the cash distributions from the partnership as its return on and recovery of the capital it invested.

The allocations of all partnership benefits and costs to be distributed to the partners will be defined in the partnership agreement (i.e., the limited liability company agreement). The allocations available to the Tax Equity Partner reduce or "flip" once its after-tax internal rate of return achieves its target yield, which is also specified in the partnership agreement. After the "flip", Ameren Missouri (in this case, through a subsidiary, as discussed below) would have the option to purchase the Tax Equity Partner's remaining interest in the partnership at fair market value. Upon exercise of the purchase option and the subsequent related transactions discussed in detail below, Ameren Missouri itself would acquire ownership of 100% of the facility just as it owns 100% of all of its other generation facilities.

Q. What is the typical initial investment made by each investor in a tax equity partnership?

A. Typically, the Tax Equity Partner will invest between 33% and 40% of the cost of a solar project. Ameren Missouri (through its wholly owned subsidiary Ameren

Missouri Renewables Holdco, LLC ("Holdco")) would invest the remaining 60% to 67% required to complete the project. Further and specific to the Project, Holdco and the Tax Equity Partner will invest in HFREC Holding Company, LLC ("HFREC"), which will purchase and own 100% of the project company (Huck Finn Solar, LLC or "Huck Finn Solar").

Q. What is the typical return expected of a Tax Equity Partner on a solar project such as the one in this case?

A. The Tax Equity Partner would expect a return between 6.5% and 8.0%. The creditworthiness of a Tax Equity Partner seeking this return should be Baa1/BBB+ or better.

Q. How would Ameren Missouri account for its initial investment in the tax equity partnership?

A. Ameren Missouri would account for its investment in the partnership as plant-in-service, include its investment in rate base, and amortize its investment over the useful life of the Project. This is the same regulatory accounting approved by the Commission for three renewable energy centers owned by The Empire District Electric Company, which were also financed using a tax equity partnership.[2] The Commission further ordered the depreciation rate applicable to this plant-in-service be based on the expected life of the Empire projects.

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[2] Report and Order, EFIS Item 228, page 12, File No. EO-2018-0092 (Empire "…is authorized to record its capital investment to acquire the Wind Projects as utility plant in service…").

Q. Will this initial investment be included in the calculation of any Plant In-Service Accounting ("PISA") deferral?

A. Yes, as required by the PISA statute (Section 393.1400, RSMo.). The statute defines Qualifying Electric Plant as "all rate base additions, except rate base additions for new coal-fired generating units, new nuclear generating units, new natural gas units, or rate base additions that increase revenues by allowing service to new customer premises." A plant-in-service investment in a renewable energy project meets the definition of Qualifying Electric Plant and must be included in the PISA deferrals.

Q. Should the 15% of the initial investment not eligible under PISA be included in the calculation of deferrals under the Renewable Energy Standard Rate Adjustment Mechanism ("RESRAM")?

A. Yes. The purpose of purchasing and operating this Project is to comply with the Missouri Renewable Energy Standard ("RES"). This is clearly a capital cost directly related to RES compliance. As such, the Commission has previously ruled (with its ruling having been affirmed by the Missouri Court of Appeals) that the remaining 15% is properly included in the RESRAM.[3]

Q. Who would operate and maintain the facility?

A. On behalf of the partnership, Ameren Missouri would operate the facility, manage the sales of its energy and capacity into the market, perform maintenance, and otherwise manage the Project just as it does all of its other generation.

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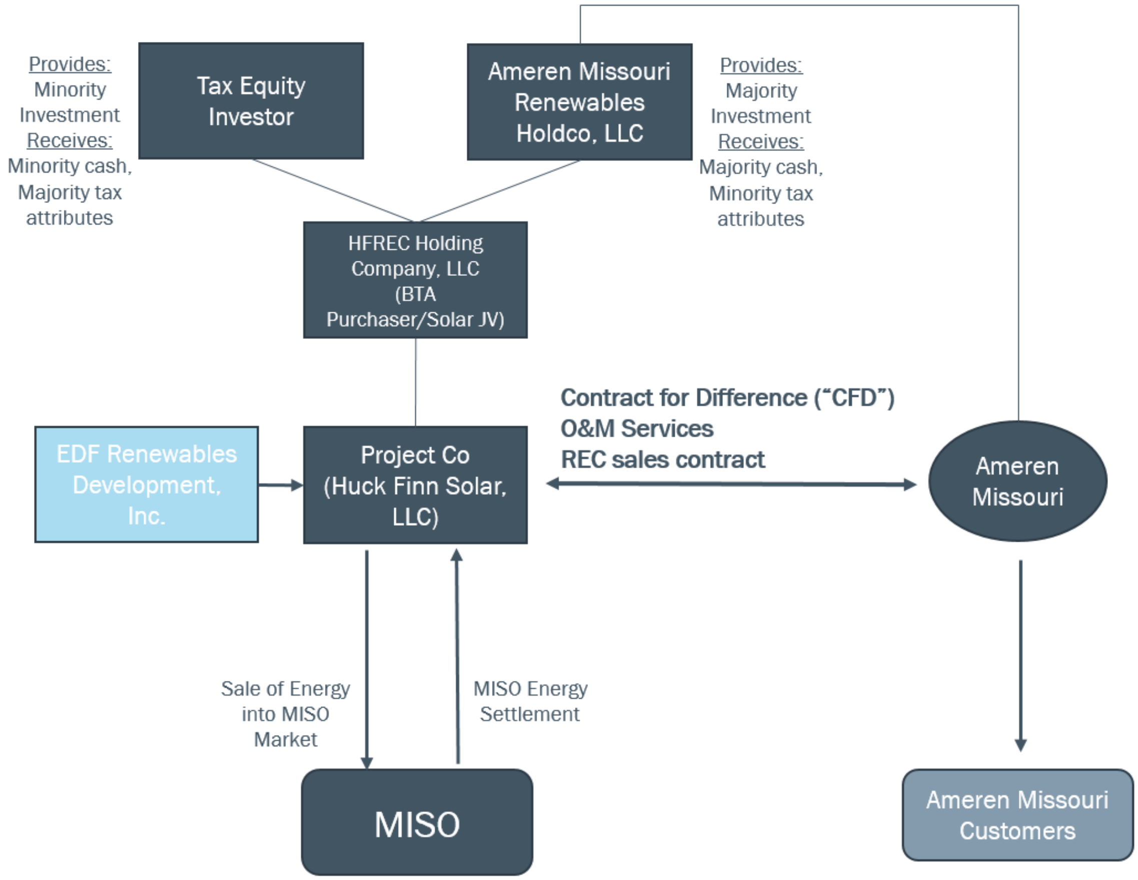
[3] *Report and Order*, File No. EA-2018-0202 (Dec. 12, 2018), affirmed by, *In the Matter of Union Electric Company . . . Office of the Public Counsel, Appellant v. Pub. Serv. Comm'n,* 591 S.W.3d 478 (Mo. App. W.D. 2019).

Q. Describe the financial transactions of the partnership during operations.

A. The partnership will sell all of its output from the Project into the Midcontinent Independent System Operator ("MISO") market at prices established in the MISO market, and will receive all revenues for such sales. In addition and separate from the partnership agreement, Ameren Missouri and the partnership will enter into a Contract for Differences pursuant to which (1) Ameren Missouri would be obligated to pay the partnership the difference in price if the fixed price set forth in the Contract for Differences exceeds the MISO price and (2) the partnership would be obligated to pay Ameren Missouri the difference in price if the MISO price exceeds the fixed price set forth in the Contract for Differences. The fixed price set forth in the Contract for Differences represents levelized market pricing. The partnership will provide to Ameren Missouri all Renewable Energy Credits from the Project, which will then be retired by Ameren Missouri in order to comply with the Missouri RES.

The above sales to MISO and settlements with Ameren Missouri under the Contract for Differences will make up the total revenues of the partnership. The partnership agreement between Holdco and the Tax Equity Partner will require these revenues to be utilized to pay partnership expenses, primarily facility operations and maintenance expenses ("O&M"). Partnership revenues received less partnership expenses paid represent the net cash available for distribution. Figure 1 displays the proposed structure and flow of transactions among the legal entities:

FIGURE 1 –Tax Equity Structure Diagram



Net cash, taxable income or loss, and ITCs received by the partnership will ultimately be distributed to Ameren Missouri and the Tax Equity Partner based on the allocation percentages set out in the partnership agreement. These allocation percentages change at the time of the "flip" described previously and cease once Ameren Missouri, through Holdco, exercises its option to buy out the Tax Equity Partner, which is typically between years 7 and 10 of the useful life of a solar energy project. Table 1 outlines the expected allocations of the tax equity partnership agreement prior to the exercise of a buyout option[4]:

TABLE 1 - Partnership Allocations

	Sponsor (Ameren Missouri)	**Tax Equity Partner(s)**
Partnership cash distributions Years 1 to 7 (pre-flip) Thereafter	 60%+ 95%	 up to 40% 5%
Partnership taxable income (loss) Years 1 to 7 (pre-flip) Thereafter	 1% 90% -95%	 99% 5% - 10%
ITC allocation	1%	99%

Q. Are any partnership transactions expected to be services provided by Ameren Missouri or an affiliate of Ameren Missouri?

A. Yes. Certain services that will generate O&M costs for the partnership will be provided by Ameren Missouri or an affiliate of Ameren Missouri. Examples of these costs are those relating to market participant services, accounting, and other administrative costs.

Q. Given the provision of these services, is the Company requesting waiver of any Affiliate Transaction Rules ("Rules")?

A. Yes, in order to eliminate what otherwise could be confusion or disagreement about how the literal terms of the Rules apply to the Tax Equity Partnership. Any services provided to the partnership (by Ameren Missouri or Ameren Services Company ("AMS")) will be provided at cost – not a penny more or less. Given

[4] Upon exercise of a buyout provision, the TEP will no longer own any interest in the partnership or its assets. Therefore, the TEP will be allocated no further amounts.

that the inputs (labor, supplies, benefits) used to provide those services are acquired in the market, it is Ameren Missouri's viewpoint that cost and market are the same and that a variance might literally not be required. However, the Rules contain a number of technical requirements that arguably might not be satisfied by the arrangement. Thus, Ameren Missouri seeks relief from the pricing, financial advantage, and "evidentiary standards" provisions of the Rules to the extent needed so that the partnership can receive the services it needs. As for services from Ameren Missouri, practically speaking the operation of the facility owned by the partnership until after the "flip" will be no different than if Ameren Missouri owned the facility itself. And as for services provided by AMS, the services will be provided to the partnership in the same manner as provided to all other Ameren affiliates, including Ameren Missouri. For the foregoing reasons, good cause for granting the variance exists.

Ameren Missouri therefore requests that the Commission approve the following variance:

> Transactions between the tax equity partnership, Ameren Missouri, and AMS where the tax equity partnership obtains or provides goods, services, information, or assets from or to Ameren Missouri or AMS may be completed at FDC and:
>
> a. Shall not be subject to the pricing standards in 20 CSR 4240- 20.015(2)(A);
>
> b. Shall be deemed to comply with 20 CSR 4240-20.015(2)(B); and
>
> c. In lieu of following the evidentiary standards in 20 CSR 4 240-20.015(3)(A) – (C) for such transactions, AMS and Ameren Missouri will continue to monitor costs using periodic benchmarking, which may include the benchmarking provided in the Company's direct testimonies in File Nos. ER-2019-0335 and ER-2021-0240 and use of market wage and benefit studies and surveys of the type described in the direct testimony of Ameren Missouri witness Kelly Hasenfratz submitted in File No. ER-2016-0179. Any such benchmarking will be made available for Staff's review at Ameren Missouri's headquarters at mutually agreeable times upon request. Ameren Missouri and AMS shall also adhere to current sourcing policies and

procedures when acquiring goods, assets, or services for itself or as agent for the tax equity partnership.[5]

Q. In what FERC Accounts will the operating transactions of the partnership and at Ameren Missouri be recorded?

A. Table 2 summarizes the appropriate FERC Accounts expected to be utilized for transactions at the partnership and Ameren Missouri:

TABLE 2 – Transactions by FERC Account

Transaction Category	Transaction Type	Partnership FERC Account	Ameren Missouri FERC Account
Revenue	Energy Revenue	447 – Sales for Resale	
Revenue	Capacity Revenue	447 – Sales for Resale	
Revenue	Contract for Differences Settlement	447 – Sales for Resale	447 – Sales for Resale or 555 – Purchased Power
Expense	Operations and Maintenance	548-554 – Other Power Operations and Maintenance	548-554 – Other Power Operations and Maintenance[6]
Expense	Administrative and General	920-935 – Administrative and General Operations and Maintenance	920-935 – Administrative and General Operations and Maintenance[7]
Distributions	Partnership Distributions to Ameren Missouri	201-219 – Proprietary Capital	123 – Investment in Associated Companies

[5] The foregoing variance is consistent with a variance agreed upon among Ameren Missouri and the Staff in the Company's pending Cost Allocation Manual docket, File No. EO-2017-0176.
[6] To the extent partnership expense activities are provided by Ameren Missouri, a reduction in expense equal to the cost of service provided will be recorded at Ameren Missouri.
[7] To the extent partnership expense activities are provided by Ameren Missouri, a reduction in expense equal to the cost of service provided will be recorded at Ameren Missouri.

Q. How should the operating transactions of the partnership ultimately allocated to Ameren Missouri be treated for Missouri regulatory purposes?

A. Although I will further describe details of the proper regulatory accounting for the Project below, the Company's intent is that the regulatory accounting applicable for Missouri regulatory and ratemaking purposes will be exactly the same as if Ameren Missouri owned its share of the Project directly.

Q. Should any of the previously described operating transactions be included in Ameren Missouri's RESRAM?

A. Yes. Each operating transaction directly related to RES compliance should be included in the RESRAM. Specifically, activity at the partnership is summarized through the distributions ultimately provided to Ameren Missouri. These partner distributions represent the net revenues from operations of the renewable generating facility and these benefits must be included in Ameren Missouri's RESRAM. Similarly, any revenues or costs associated with the Contract for Differences necessary to secure a tax equity partner is a benefit or cost directly related to the renewable facility and RES compliance. These amounts must also be included in the Company's RESRAM. Operations and maintenance and administrative and general expenses are provided by Ameren Missouri to the partnership and included as a component of net partnership distributions.

Q. Will any of the previously described operating transactions be included in Ameren Missouri's Fuel Adjustment Clause?

A. No. The subject benefits, costs, and revenues, like the benefits, costs, and revenues for the Company's other RES compliance generation facilities (including energy related costs and revenues), are included in the RESRAM because the facility is owned and operated to comply with the RES.

Q. Please explain the significance of the "flip" in the tax equity structure.

A. As I mentioned previously, the flip occurs when the tax equity partner's after-tax internal rate of return achieves its target yield specified in the partnership agreement and results in the reallocations of partnership benefits identified in Table 1. From this point forward, the tax equity partner will be allocated considerably less benefits arising from partnership operations, and it is in the best interest of Ameren Missouri and the tax equity partner to consider the purchase options available under the agreement.

Q. Please explain the purchase options expected to be available to Ameren Missouri under the partnership agreement.

A. Purchase options will be included in the partnership agreement that allow Ameren Missouri, through its subsidiary Holdco, to purchase the Tax Equity Partner's remaining 5% interest (post flip) at fair market value. The Company expects to be able to exercise its buyout option in year 10 at a price of approximately *** ________ ***[8]. Upon exercising this option, making the corresponding payment and completing certain legal steps,[9] Ameren Missouri would own 100% of the renewable energy facility and would no longer have any obligation to the Tax Equity Partner. The partnership, Contract for Differences, and any affiliate arrangements involving the partnership would

[8] The purchase option price is expected to be fair market value, as determined by an appraiser at the time of option exercise.
[9] After Holdco exercises its purchase option, Huck Finn Solar will be merged into HFREC, and then HFREC will be merged into Holdco. Following those mergers, neither Huck Finn Solar nor HFREC will exist, and Holdco will then transfer the Project assets to Ameren Missouri, resulting in direct Ameren Missouri ownership just as Ameren Missouri owns its other generation facilities. These mergers and the asset transfer will occur in sequence essentially at the same time.

then cease to exist, and legal title to the facility would be held directly by Ameren Missouri as is the case with its other facilities.

Q. How should Ameren Missouri account for the amount paid under the purchase option when exercised?

A. The amount paid should be included in plant-in-service in the same manner as the Company's initial investment. This amount should be amortized over the remaining life of the renewable energy facility.

Q. Please summarize your testimony regarding the tax equity structure.

A. Under current tax law and given current market conditions for Tax Equity Partners, the tax equity structure optimizes the customer benefits of the Project. This structure has been utilized for other renewable projects in the State of Missouri and should be utilized for this Project.

Q. How would changes in tax law impact the proposed tax equity financing described above?

A. The implications of tax law changes that may or may not occur in the future are unknown. However, the Company is closely monitoring federal legislative proposals and will continue to monitor throughout planning, design, and construction of the Project. If a change in tax law were to occur prior to a binding agreement with a Tax Equity Partner that allows the Company to own the Project under traditional financing methods while providing greater benefits to customers, the Company would move forward without tax equity financing at that time.

Q. Does this conclude your direct testimony?

A. Yes, it does.