

FILED

JUL 25 2018

Missouri Public Service Commission



Liberty Utilities[®]
EMPIRE DISTRICT

The Empire District Electric Company
- A Liberty Utilities Company

Case No. ER-2018-0366
OPC Data Request – 1301

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Data Request Received: 06/15/18
Request No. 1301

Date of Response: 07/05/2018
Respondent: Charlotte North

REQUEST:

Please provide all supporting documentation for the Company's position on the financial adjustments for the tax rate change.

OBJECTION:

The Company objects on the basis that the request is vague (Company's position on the financial adjustments for the tax rate change). Depending on the intent of this request, the request may be overbroad and unduly burdensome and may seek irrelevant information. Empire also objects to this request to the extent it seeks production of attorney-client communications and/or attorney work product. Subject to these objections, a response will be provided within the time allotted.

RESPONSE:

The below listed documents serve as the supporting documentation for the Company's position on the financial adjustments as it pertains to the tax rate change due to the recent passage of the Tax Cuts and Jobs Act of 2017.

File Name	Description
MO Empire Excess ADIT.xlsx	Calculation of the estimated Excess ADIT by jurisdiction based on a federal tax rate of 21% versus 35%. Calculation as of December 31, 2017
MO Annual Base Rate Revenue Impact.xlsx	Calculation of the estimated impact on the annual base rate revenue requirement. Estimation based on the blackbox settlement reached in Docket No. ER-2016-0023

opc Exhibit No. 7
Date 7-26-18 Reporter TM
File No. ER-2018-0366

The Empire District Electric Company
 -A Liberty Utilities Company
 OPC Data Request - 1301
 Estimated Annual Missouri Tax Reform Revenue Requirement Impact
 Page 1 of 1

CONFIDENTIAL 4 CSR 240-2.135(2)(A)(5)

Line No.	Description	The Empire District Electric Company	
		21% Federal Income Tax Rate	35% Federal Income Tax Rate ⁽¹⁾
	(a)	(b)	(c)
1	OpEx	352,263,768	352,263,768
2	Rate Base	1,345,483,910	1,345,483,910
3	ROR	7.33%	7.33%
4	Return on Rate Base	98,664,126	98,664,126
5	Interest Sync:		
6	Rate Base	1,345,483,910	1,345,483,910
7	Weighted Cost of Debt	2.72%	2.72%
8	Interest Deduct	36,650,982	36,650,982
9	Return on Rate Base	98,664,126	98,664,126
10	Interest Deduct	(36,650,982)	(36,650,982)
11	Net Income (Equity Portion of Return)	62,013,145	62,013,145
12	Composite Tax Rate	25.12%	38.39%
13	Equity x Tax Rate	15,576,772	23,805,978
14	GRCF	1.3354	1.6231
15	Taxes	20,801,896	38,638,918
16	Total Rev Req (MO model)	471,729,790	489,566,812
17	Total Rev Req (Per Stipulation)	489,566,812	489,566,812
18	Difference	(17,837,022)	0

Footnotes:

(1) Information derived from Docket No. ER-2016-0023

Jurisdictional Revenue

489,566,812

CONFIDENTIAL 4 CSR 240-2.135(2)(A)(5)

		35% Federal Tax	21% Federal Tax
Line No.	Description	The Empire District Electric Company	The Empire District Electric Company
	(a)	(b)	(c)
1	Rate Base	1,345,483,910	1,345,483,910
2	Revenues	489,566,812	489,566,812
3	Expenses	352,263,768	352,263,768
4	Net Operating (Loss) Before Taxes	137,303,044	137,303,044
5	State Income Tax	5,247,294	5,247,294
6	Federal Income tax	33,391,624	20,034,994
7	Net Operating Income (Loss) After Taxes	98,664,126	112,020,756
8	Current Rate of Return	7.33%	8.33%
9	Rate of Return Requested	7.33%	7.33%
10	Required Net Operating Income	98,664,126	98,664,126
11	Income Deficiency	0	(13,356,629)
12	Gross Revenue Conversion factor	1.6231	1.335443
13	Revenue Deficiency	0	(17,837,022)
14	Revenue Deficiency %	0.00%	-3.64%
15	Revenue Requirement	489,566,812	471,729,790

CONFIDENTIAL 4 CSR 240-2.135(2)(A)(5)

Line No.	Description	Rate	Factor
	(a)	(b)	(c)
The Empire District Electric Company			
1	State Income Tax	5.21%	5.21%
2	Federal Taxable Income		94.79%
3	Federal Income Tax	35.00%	33.18%
4	Operating Income		61.61%
5	Gross Revenue Conversion Factor		1.6231

CONFIDENTIAL 4 CSR 240-2.135(2)(A)(5)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
The Empire District Electric Company			
1	Rate Base	\$ 1,345,483,910	LU Central Rate Base
2	Weighted Cost of Debt	2.72%	LU Central Rate of Return
3	Synchronized Interest Expense	36,650,982	Line 1 x Line 2
4	Change in State Income Tax Expense	(1,910,726)	Line 3 x GRCF 35% Federal Column (c), Line 1
5	Change in Federal Income Tax Expense	(12,159,073)	Line 3 x GRCF 35% Federal Column (c), Line 3

CONFIDENTIAL 4 CSR 240-2.135(2)(A)(5)

Line No.	Description (a)	Reference (b)	Adjusted Federal (c)	Adjusted State (d)	Total Taxes (e) = (c) + (d)
The Empire District Electric Company					
1	Net Operating Income Before Tax	Check Revenue Requirement Line 4	\$ 137,303,044	\$ 137,303,044	
2	Effective Tax Rates	GRCF 35% Federal	33.18%	5.21%	
3	Tax - Subtotal	Line 1 x Line 2	45,550,697	7,158,020	
4	Interest Synchronization - Tax Impact	Interest Sync 35% Federal	(12,159,073)	(1,910,726)	
5	Taxes - Total	Line 3 + Line 4	\$ 33,391,624	\$ 5,247,294	\$ 38,638,918
6	Estimated Deferred Taxes	Estimated 12/31/2017 Balance	312,162,583	-	312,162,583
7	Current Taxes	Line 5 - Line 6	(278,770,959)	5,247,294	(273,523,665)
8	Taxes - Total	Line 6 + Line 7	\$ 33,391,624	\$ 5,247,294	\$ 38,638,918

CONFIDENTIAL 4 CSR 240-2.135(2)(A)(5)

Line No.	Description	Rate	Factor
	(a)	(b)	(c)
The Empire District Electric Company			
1	State Income Tax	5.21%	5.21%
2	Federal Taxable Income		94.79%
3	Federal Income Tax	21.00%	19.91%
4	Operating Income		74.88%
5	Gross Revenue Conversion Factor		1.3354

CONFIDENTIAL 4 CSR 240-2.135(2)(A)(5)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
The Empire District Electric Company			
1	Rate Base	\$ 1,345,483,910	Check Revenue Requirement Line 1
2	Weighted Cost of Debt	2.72%	LU Central Rate of Return
3	Synchronized Interest Expense	36,650,982	Line 1 x Line 2
4	Change in State Income Tax Expense	(1,910,726)	Line 3 x GRCF 21% Federal Column (c), Line 1
5	Change in Federal Income Tax Expense	(7,295,451)	Line 3 x GRCF 21% Federal Column (c), Line 3

CONFIDENTIAL 4 CSR 240-2.135(2)(A)(5)

Line No.	Description (a)	Reference (b)	Adjusted Federal (c)	Adjusted State (d)	Total Taxes (e) = (c) + (d)
The Empire District Electric Company					
1	Net Operating Income Before Tax	Check Revenue Requirement Line 4	\$ 137,303,044	\$ 137,303,044	
2	Effective Tax Rates	GRCF 21% Federal	19.91%	5.21%	
3	Tax - Subtotal	Line 1 x Line 2	27,330,446	7,158,020	
4	Interest Synchronization - Tax Impact	Interest Sync 21% Federal	(7,295,451)	(1,910,726)	
5	Taxes - Total	Line 3 + Line 4	\$ 20,034,994	\$ 5,247,294	\$ 25,282,288
6	Deferred Taxes		312,162,583	-	312,162,583
7	Current Taxes	Line 5 - Line 6	(292,127,589)	5,247,294	(286,880,295)
8	Taxes - Total	Line 6 + Line 7	\$ 20,034,994	\$ 5,247,294	\$ 25,282,288

Line No.	Description	Account	Balance	Non-Cash	Non-Electric	Net NOI Against Plant	Disallowed Plant	Exclude as Already Tax Effected	Excluded in MO Last Case Per Staff EMS	Include In Rate Base	Wholesale		Retail			Protected Unprotected (2)	
											Missouri	Kansas	Missouri	Kansas	Oklahoma		Arkansas
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	
1	Acc Df Tx-Ozark Beach Loss Gen	190112	(5,245,691)							(5,245,691)	(182,442)	(6,833)	(4,494,556)	(267,194)	(141,813)	(152,853)	Possibly partially protected
2	Def Fd Inc Tx-Acr Rate Ref-Ark	190122	3,652							3,652	127	5	3,129	186	99	106	Possibly partially protected
3	Def Inc Tx - Disallow Plant	190211	1,540,695				(1,540,695)			-	-	-	-	-	-	-	Possibly partially protected
4	Def Tx Net Operating Loss	190230	5,380,769			(5,380,769)				-	-	-	-	-	-	-	This may be possibly protected if generated by bonus depreciation
5	Accum Def Fed Inc Tx-Ld Elect	282100	(434,316,360)			5,380,769	1,540,695			(427,394,897)	(14,864,543)	(556,747)	(366,195,869)	(21,769,720)	(21,554,264)	(12,453,754)	Possibly partially protected
6	Accum Def Fed Inc Tx-Ld Ks Jur	282120	(646,629)							(646,629)	(22,489)	(842)	(554,038)	(32,937)	(17,481)	(18,842)	Possibly partially protected
7	Acc Def Fed Inc Tx-LD NonUt DR	282130	60,000		(60,000)					-	-	-	-	-	-	-	Possibly partially protected
8	Acc Def Fed Inc Tx-LD NonUT CR	282135	48,055		(48,055)					-	-	-	-	-	-	-	Possibly partially protected
9	Accum Def Fed Inc Tx-Ld Ok Jur	282140	(147,755)							(147,755)	(5,139)	(192)	(125,598)	(7,526)	(3,994)	(4,305)	Possibly partially protected
10	Accum Def Fed Inc Tx-Ld Ferc Jr	282150	(339,226)							(339,226)	(11,798)	(442)	(290,652)	(17,279)	(9,171)	(9,885)	Possibly partially protected
11	Total Accumulated Deferred Income Taxes:		(433,662,491)	-	(108,055)	-	-	-	-	(433,770,546)	(15,086,284)	(565,053)	(371,658,583)	(22,094,469)	(11,726,624)	(12,630,532)	
12	Current Composite Tax Rate:									38.09%	38.09%	38.09%	38.09%	38.09%	38.09%	38.09%	
13	Line 42 / Line 43									(1,138,879,017)	(39,609,541)	(1,483,565)	(975,801,991)	(58,009,765)	(30,788,642)	(33,185,513)	
14	Proposed Composite Tax Rate:									25.64%	25.64%	25.64%	25.64%	25.64%	25.64%	25.64%	
15	Estimated Balance of ADIT after Reform:									(292,014,758)	(10,156,101)	(380,394)	(250,200,924)	(14,874,018)	(7,894,375)	(8,508,946)	
16	Estimated Excess ADIT (Regulatory Liability):	254430								(141,755,787)	(4,930,183)	(184,659)	(121,457,659)	(7,220,451)	(3,832,249)	(4,130,587)	
17	Composite Gross Up Conversion Factor									1.3448	1.3448	1.3448	1.3448	1.3448	1.3448	1.3448	
18	Estimated Excess ADIT (Gross-Up)									(190,635,746)	(6,630,199)	(248,332)	(163,338,456)	(9,710,193)	(5,153,678)	(5,554,888)	
19	Gross Up Regulatory Portion:	254100								(48,879,958)	(1,700,016)	(63,674)	(41,880,797)	(2,489,742)	(1,321,429)	(1,424,301)	

ADIT Allocator:			
Missouri		85.68%	W/P PIS
Kansas		5.09%	W/P PIS
Arkansas		2.91%	W/P PIS
Oklahoma		2.70%	W/P PIS
MO - Resale		3.48%	W/P PIS
KS - Resale		0.13%	W/P PIS
Total:		100.00%	W/P PIS
MO - Resale		96.39%	W/P PIS
KS - Resale		3.61%	W/P PIS

Based on total percentage allocation of jurisdictional portion of Total Plant

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Line No.	Description (a)	Rate (b)	Factor (c)
Total Company Composite			
1	State Income Tax	5.87%	5.87414%
2	Federal Taxable Income		94.13%