EXHIBIT

**Exhibit No.:**
**Issue(s):** Tax Cut Impact
**Witness/Type of Exhibit:** Riley/Direct
**Sponsoring Party:** Public Counsel
**Case No.:** ER-2018-0366

***CORRECTED***

**DIRECT TESTIMONY**

**OF**

**JOHN S. RILEY**

FILED
JUL 25 2018
Missouri Public Service Commission

Submitted on Behalf of the Office of the Public Counsel

**EMPIRE DISTRICT ELECTRIC COMPANY**

CASE NO. ER-2018-0366

July 17, 2018

OPC Exhibit No. 5
Date 7-26-18 Reporter TLC
File No. ER-2018-0366

**BEFORE THE PUBLIC SERVICE COMMISSION**
**OF THE STATE OF MISSOURI**

| | | |
|---|---|---|
| In the Matter of a Proceeding Under<br>Section 393.137 (SB 564) to Adjust<br>the Electric Rates of The Empire<br>District Electric Company | )<br>)<br>)<br>) | File No. ER-2018-0366 |

**<u>AFFIDAVIT OF JOHN S. RILEY</u>**

**STATE OF MISSOURI** )
) **ss**
**COUNTY OF COLE** )

John S. Riley, of lawful age and being first duly sworn, deposes and states:

1. My name is John S. Riley. I am a Public Utility Accountant III for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my direct testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

John S. Riley, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 11th day of July 2018.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

**CORRECTED**
**DIRECT TESTIMONY**
**OF**

**JOHN S. RILEY**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2018-0366**

**Q. What is your name and what is your business address?**

A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102.

**Q. By whom are you employed and in what capacity?**

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Public Utility Accountant III.

**Q. What is your educational background?**

A. I earned a B.S. in Business Administration with a major in Accounting from Missouri State University.

**Q. What is your professional work experience?**

A. I was employed by the OPC from 1987 to 1990 as a Public Utility Accountant. In this capacity I participated in rate cases and other regulatory proceedings before the Public Service Commission ("Commission"). From 1994 to 2000 I was employed as an auditor with the Missouri Department of Revenue. I was employed as an Accounting Specialist with the Office of the State Court Administrator until 2013. In 2013, I accepted a position as the Court Administrator for the 19th Judicial Circuit until April, 2016 when I joined the OPC.

**Q. Are you a Certified Public Accountant ("CPA") licensed in the State of Missouri?**

A. Yes. I am also a member of the Institute of Internal Auditors ("IIA").

**Q. Have you previously filed testimony before the Missouri Public Service Commission ("Commission" or "PSC")?**

A. Yes I have. A listing of my Case filings is attached as Schedule JSR-D-1.

**Q. What is the purpose of your testimony?**

A. I provide to the Commission the Office of the Public Counsel's ("OPC") positions regarding the adjustments that should be made to change the electric rates of The Empire District Electric Company ("Empire") in this case due to § 393.137, RSMo.[1]. It is OPC's position that the purpose of Senate Bill 564 and this case is to flow to Empire's Missouri customers the full impacts of the federal Tax Cut and Jobs Act of 2017 ("TCJA") which went into effect on January 1, 2018.

**Q. What are OPC's positions?**

A. OPC's positions are that four adjustments to Empire's annual Missouri electric revenue requirement used for setting its current rates are required to reduce Empire's electric rates to flow to Empire's Missouri customers the full impacts of the TCJA.

- The first adjustment is to reflect going forward the change in the federal corporate income tax rate from 35% to 21%. OPC has quantified this adjustment to be a revenue requirement reduction of $17,469,270.

- The second adjustment (protected excess Accumulated Deferred Income Taxes) is to reflect the differences between the amounts for federal income taxes that Empire has collected from its customers through rates and what it paid attributable to depreciation which federal tax law requires flow to customers over remaining plant life. OPC has quantified the appropriate reduction to Empire's Missouri electric revenue requirement to be $8,729,631. This $8,729,631 is based on OPC's quantification of Empire's current protected excess ADIT to be $130,161,870, a tax gross-up factor of 1.34135, and the same

[1] Section 393.137 creates a ninety day period to adjust rates for electrical corporations to reflect the changes in the income tax component of the revenue requirement.

20-year amortization period the Commission used for Spire Inc.'s protected excess ADIT, with a tracker.

- The third adjustment (unprotected excess Accumulated Deferred Income Taxes) is to reflect the differences between the amounts for federal income taxes that Empire has collected from its customers through rates other than those amounts that are protected, and included in the second adjustment. OPC has quantified the appropriate reduction to Empire's Missouri electric revenue requirement to be $2,288,455. This $2,288,455 is based on OPC's quantification of Empire's current unprotected excess ADIT to be $17,016,835, a tax gross-up factor of 1.34135, and using the same 10-year amortization period Union Electric Company agreed to for unprotected excess ADIT.

- The fourth adjustment is to reflect Empire's recovery from its Missouri electric customers of its federal income tax from January 1, 2018, until new rates take effect that is based on a federal corporate income tax rate of 35% when the actual rate is 21%. Assuming the new rates take effect August 30, 2018, OPC has quantified that accumulated amount to be $11,582,365 (242/365*$17,469,270).

**Q. What adjustments should be made to address the impacts of the TCJA?**

A. To fully address the impacts of the TCJA on electric utility rates, four (4) separate adjustments are required. The first adjustment is to reflect in Empire's current electric rates the change in the federal corporate income tax rate from 35% to 21%, which reduces Empire's federal income tax component of the cost of service. The second and third adjustments are to reflect in Empire's current electric rates the amounts its customers were charged in their rates for federal income tax expense that Empire has yet to pay to the Internal Revenue Service ("IRS"). These adjustments both are commonly referred to as excess accumulated deferred income tax ("ADIT"), one being "protected" and the other "unprotected." "Protected" is ADIT where federal law effectively limits how quickly the accumulated deferred income tax amounts are flowed to Empire's customers in the rates they pay. "Unprotected" is ADIT where the deferral is caused by something else, e.g., capitalizing an expense for ratemaking purposes that is treated as an expense for federal income tax purposes. OPC's second adjustment is for "protected" excess ADIT and its third adjustment is for "unprotected" excess ADIT. The fourth adjustment is to recognize that when the Commission established Empire's current electric rates Empire's federal income tax rate was 35%, but that tax rate changed to 21% on January 1, 2018. Therefore, the fourth adjustment is to recognize the impacts of that 40% difference in federal income tax rates from January 1, 2018, to the date new rates set in this case take effect.

**Q. Has OPC quantified each of these four adjustments?**

A. Yes.

**Q. How did OPC quantify the first adjustment, i.e., to reflect in Empire's current rates the change in the federal corporate income tax rate from 35% to 21%, which reduces Empire's federal income tax expense?**

A. OPC used one of the spreadsheet developed by Empire to answer OPC data request 1301. Empire used a composite (state and federal) tax rate of 25.12% where Staff, OPC and other utilities have used a rate of 25.45% for tax changes in other cases. I inserted a new column in the spreadsheet and used the 25.45% and the gross up factor of 1.34135. This is attached as Schedule JSR-D-2.

**Q. What is OPC's quantification of the first adjustment?**

A. OPC estimates that Empire's annual Missouri electric revenue requirement is overstated by $17,469,270 due to the reduction in the federal corporate income tax rate from 35% to 21%.

**Q. What is OPC's quantification of its second and third adjustments— "protected" and "unprotected" excess ADIT, respectively?**

A. I calculated that, for its Missouri electric operations, Empire has a total excess ADIT of $197,477,172 (factored up by a tax gross-up factor of 1.34135), of which $174,592,625 is protected and $22,884,547 is unprotected. Schedule JSR-D-4 page 2 of 3 and 3 of 3.

**Q. What steps did you take to calculate these estimates?**

A. OPC issued data requests for business records and communications, primarily to determine the amount of protected and unprotected ADIT. Empire provided answers to OPC data requests for information about Empire's ADIT on the afternoon of July 5. OPC also deposed Mr. Steve Williams, a CPA with Empire, on Friday, July 6 in an effort to clarify Empire's position on ADIT. Not until it provided its response to OPC data request 1303 on the afternoon of July 5 did Empire inform OPC that it would make its 2015 and 2016 consolidated federal income tax returns available for viewing at its "regional headquarters located at 602 S. Joplin, Ave., Joplin, MO," and that "arrangements can be made to view the materials at the Company's outside legal counsel office located in Jefferson City." I reviewed Empire's 2016 consolidated federal income tax return the afternoon of July 6.

After listening to Mr. Williams' answers to OPC deposition questions and reviewing the documentation that Empire provided, as well as reviewing Empire's 2016 consolidated tax return, I made adjustments to Empire spreadsheets and calculated the excess ADIT and identified the protected and unprotected components. Although Empire personnel have stated that Empire believes the excess ADIT is mostly protected, and should be flowed back to ratepayers over 30 to 40 years, internal communications between Empire and Liberty personnel provided to OPC in its responses to OPC data request nos. 1001, 1301, 1302, and 1303 indicate that Empire has categorized a significant portion of its excess ADIT as being unprotected.[2]

[2] Company personnel have stated in emails that they believe that account 282100 is an unprotected amount.

**Q. What is OPC's recommendation to the Commission regarding the amount of Empire's protected excess ADIT (second adjustment)?**

A. In the most recent Spire Inc. rate case, the Commission decided a 20 year amortization with a tracker was an appropriate timeframe. This would be OPC's recommendation due to Empire's lack of information to develop accurate flow back timeframes.

The IRS requires that the Average Rate Assumption Method (ARAM) be used to flow back the excess ADIT, however, emails obtained from the Company indicate that it cannot sufficiently identify the asset lives to follow the ARAM method. The IRS will allow utilities to amortize the excess using what is known as the Reverse South Georgia Method. In short, the method uses an average composite depreciation rate to calculate the amortization amount. Preliminary calculations indicate that the composite rate is about 2.96% however, I have not seen any information from the Company regarding this method either. Until the Company can identify the proper amortization rate, the OPC recommends what the Commission established in the Spire Inc. rate case.

Using a 20 year amortization to apply to the $174,592,625 ($130,161,870*1.34135), balance allows a reduction in Empire's revenue requirement by **$8,729,631**.

**Q. What is OPC's recommendation to the Commission regarding the amount of Empire's ADIT that is unprotected?**

A. OPC believes the amount of unprotected excess ADIT (factored up by a tax gross-up factor of 1.34135) is $22,884,547 (Missouri electric operations). Unlike protected ADIT, the Commission may flow unprotected ADIT to ratepayers over time periods set by the

Commission, or as Empire employee Steve Williams artfully articulated the standard, at the "whim of the PSC"[3].

**Q. What is OPC's recommendation to the Commission regarding the time over which this $22,884,547 should be flowed to Empire's Missouri electric ratepayers?**

A. In this case, as it has recommended in prior TCJA cases, OPC recommends that the Commission use a 10-year amortization period, Applying a 10 year period to the flow back of the $22,884,547 would reduce Empire's revenue requirement by $2,288,455 ($22,884,547/10).

**Q. What is OPC's quantification of the fourth adjustment, i.e., the impacts of that 40% difference in federal income tax rates from January 1, 2018, to the date new rates set in this case take effect?**

A. Because of the 90 day timeframe established in SB 564, new rates must be in place by August 30 of this year. Based on the assumption that the new rates take effect August 30, 2018, OPC has quantified the accumulated amount to be $11,582,365 (242/365*$17,469,270). Statute requires this amount to be deferred to the Company's next general rate case.[4]

**Q. How is OPC recommending this amount be flowed to Empire's Missouri customers?**

A. Within the next rate case, OPC recommends treating the sum of the fourth adjustment as a reduction to the cost of service amortized over the expected period rates are in effect. i.e.

[3] Email included in Schedule JSR-D-3
[4] SB 564, section 393.137 "...to defer to a regulatory asset the financial impact of such federal act on the electrical corporation for the period of January 1, 2018, through the date the electrical corporation's rates are adjusted on a one-time basis...... to set the electrical corporation's rates in its subsequent general rate proceeding

If Empire is expected to file a rate case every four years, the $11,582,365 will flow back to the customer at $2,895,591 annually. (11,582,365/4).

**Q. What is the full impact of the tax changes when considering OPC's recommendations?**

A. The change in rates will reduce Empire's revenue requirement by $17,469,270 annually. The 20 year amortization of the protected portion of the excess ADIT will reduce rates by $8,729,631 a year. The 10 year amortization of the unprotected portion will reduce rates by $2,288,455. The total reduction that OPC seeks by August 30, 2018 is $28,487,356 on an annualized basis with an additional reduction of $2,895,591 in the next general rate case.

**Q. How does OPC's recommend the Commission change Empire's rates to implement the rate reductions from the new tax law?**

A. OPC recommends that the full impact of the new tax law be reflected by reductions in Empire's customer charges. Reducing customer charges best will ensure that Empire's customers will realize the benefits of the TCJA as the Missouri Legislature contemplated in Senate Bill 564. Customer charges are finite, and have a greater degree of predictability to insure that bills are not be reduced in an amount any more or less than the Commission intends. Changes to volumetric rate elements may vary based on consumption, which may be influenced by factors such as weather. The point is that this money has been, in fact, collected from ratepayers, and the customer charges are the more accurate mechanism to return ratepayers' monies, short of a direct refund. Because the statute authorizes rate adjustments to realize the benefits of the TCJA, OPC recommends adjustments to the customer charge.

**Q. Are you aware that the Commission has been reviewing the impact of the TCJA on regulated utilities?**

A. Yes, the Commission first ordered Missouri electrical corporations, gas corporations, and Missouri-American Water Company to provide estimates of the tax changes and how their rates would be affected in a working docket, File No. AW-2018-0174, on January 3, 2018.

**Q. Did Empire respond to the Commission order?**

A. Yes. With its *Response to Order* cover pleading Empire filed on January 31, 2018, a confidential Exhibit A in which it indicated that the tax rate change would cause excess earnings of approximately $17,837,022[5] for its electrical utility operations in Missouri. Empire did not file any estimate of the excess ADIT.

**Q. When did you obtain information from Empire that would allow you to calculate an estimated total for excess ADIT?**

A. The morning of Friday, July 6, 2018. Empire provided OPC with answers to OPC data requests late in the afternoon the day before. Emails that OPC obtained from Empire in discovery that are attached as Schedule JSR-D-3 indicate that Empire had been working on calculating excess ADIT since as far back as *October of 2017*. As far as I can tell, none of these estimates of excess ADIT were ever provided to the Commission in response to the order from AW-2018-0174 or the Commission's order to show cause in ER-2018-0228.

**Q. Empire has filed testimony that argues that this case should be dismissed due to a dismissed case No. ER-2018-0228, filed by the Commission Staff. How do you respond?**

A. ER-2018-0228 was dismissed by the Commission on May 17, 2018, prior to the effective date of the statute, and therefore Empire's argument is misplaced. Empire has not voluntarily provided information to the Commission concerning excess ADIT or made any offers to settle its overearning. Contrary to its responses filed in ER-2018-0228 that

[5] The response was marked confidential but income taxes are cost of service item within the Staff accounting schedules.

indicated an inability to determine any protected or unprotected ADIT until the procurement of software, the attached emails indicate that the Company was working on these excess ADIT calculation even before the Commission made any directives. Empire would like for the provisions of SB 564 to be nullified so the overearnings from January 1 till the new rate go into effect can be dismissed.

It would appear that the Company is dragging its feet to cling to every dollar of excess earnings that it can. Maybe the Commission should consider a carrying charge to include in Empire's cost of service when a reduction is established.

**Q. does this conclude your testimony?**

A. Yes.

# John S. Riley, CPA
## Summary of Case Participation

| | |
|---|---|
| ST LOUIS COUNTY WATER COMPANY | CASE NO. WR-88-5 |
| SOUTHWESTERN BELL TELEP9ONE COMPANY | CASE NO. TC-89-21 |
| EMPIRE DISTRICT ELECTRIC COMAPANY | CASE NO. ER-2016-0023 |
| KCP&L GREATER MISSOURI OPERATIONS COMPANY | CASE NO. ER-2016-0156 |
| KANSAS CITY POWER & LIGHT COMPANY | CASE NO. ER-2016-0285 |
| AMEREN MISSOURI | CASE NO. ER-2016-0179 |
| EMPIRE DISTRICT ELECTRIC PRUDENCE REVIEW | CASE NO. EO-2017-0065 |
| LACLEDE GAS COMPANY | CASE NO. GR-2017-0215 |
| MISSOURI AMERICAN WATER COMPANY | CASE NO. WU-2017-0351 |
| EMPIRE DISTRICT ELECTRIC COMPANY | CASE NO. EO-2018-0092 |
| LIBERTY (MIDSTATE NATURAL GAS) | CASE NO. GR-2018-0013 |
| KANSAS CITY POWER & LIGHT COMPANY | CASE NO. ER-2018-0145 |
| KCP&L GREATER MISSOURI OPERATIONS COMPANY | CASE NO. ER-2018-0146 |

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


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

| Line No. | Description<br>Revenue Requirement Component | The Empire District Electric Company<br>21% Federal Income Tax Rate | Corrected Composit Rate | 35% Federal Income Tax Rate(1) |
|---|---|---|---|---|
| | (a) | (b) | | (c) |
| 1 | OpEx | 352,263,768 | **352,263,768** | 352,263,768 |
| 2 | Rate Base | 1,345,483,910 | **1,345,483,910** | 1,345,483,910 |
| 3 | ROR | 7.33% | **7.33%** | 7.33% |
| 4 | Return on Rate Base | 98,664,126 | **98,664,126** | 98,664,126 |
| 5 | Interest Sync: | | | |
| 6 | Rate Base | 1,345,483,910 | **1,345,483,910** | 1,345,483,910 |
| 7 | Weighted Cost of Debt | 2.72% | **2.72%** | 2.72% |
| 8 | Interest Deduct | 36,650,982 | **36,650,982** | 36,650,982 |
| 9 | Return on Rate Base | 98,664,126 | **98,664,126** | 98,664,126 |
| 10 | Interest Deduct | (36,650,982) | **(36,650,982)** | (36,650,982) |
| 11 | Net Income (Equity Portion of Return) | 62,013,145 | **62,013,145** | 62,013,145 |
| 12 | Composite Tax Rate | 25.12% | **25.45%** | 38.39% |
| 13 | Equity x Tax Rate | 15,576,772 | **15,782,345** | 23,805,978 |
| 14 | GRCF | 1.3354 | **1.3414** | 1.6231 |
| 15 | Taxes | 20,801,896 | **21,169,649** | 38,638,918 |
| 16 | Total Rev Req (MO model) | 471,729,790 | **472,097,543** | 489,566,812 |
| 17 | Total Rev Req (Per Stipulation) | 489,566,812 | **489,566,812** | 489,566,812 |
| 18 | Difference | (17,837,022) | **(17,469,269)** | 0 |

**Footnotes:**

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

Jurisdictional Revenue
489,566,812

## Charlotte North, CPA

**From:** Steve Williams
**Sent:** Wednesday, December 06, 2017 5:13 PM
**To:** Charlotte North
**Subject:** FW: Tax Reform Impact
**Attachments:** Tax Reform ADIT Impact.xlsm

Looks okay, with a couple of notes:

- The current DIT rate is 38.0875%, in case you'd like to use that. It's a composite federal and state rate for the whole company, and we use it for all operating segments.
- The captions on lines 46 & 47 should be reversed. Line 46 is the new estimated DIT balance, and line 47 should be the effect of the change (what we'll have to refund to customers over the next 40 years or so.)

**Steve Williams, CPA | Empire District – Liberty Utilities Central | Manager of Tax Planning**
P: (417) 625-6556 | F: (417) 625-5173 | E: swilliams@empiredistrict.com
PO Box 127| 602 S. Joplin Ave | Joplin, MO 64802-0127

---

**From:** Charlotte North
**Sent:** Wednesday, December 06, 2017 4:52 PM
**To:** Steve Williams
**Subject:** RE: Tax Reform Impact

Thank you Steve for taking time to discuss a quick approach in determining a high level impact calculation on the potential tax reform changes being proposed. I pulled together what I think represents the impact based off of discussions, but I was hoping you could review it quickly and let me know if my approach matches your thoughts. Thanks!

**Charlotte T. North, CPA | Empire District – Liberty Utilities Central** | Supervisor, Rates and Regulatory Affairs
P: 417-626-5979 | E: Charlotte.North@libertyutilities.com
602 S. Joplin Avenue, Joplin, Missouri 64802

---

**From:** Steve Williams
**Sent:** Wednesday, December 06, 2017 3:29 PM
**To:** Charlotte North
**Subject:** RE: Tax Reform Impact

No. Haven't had the time.

**Steve Williams, CPA |Empire District – Liberty Utilities Central | Manager of Tax Planning**
P: (417) 625-6556 | F: (417) 625-5173 | E: swilliams@empiredistrict.com
PO Box 127| 602 S. Joplin Ave | Joplin, MO 64802-0127

---

**From:** Charlotte North
**Sent:** Wednesday, December 06, 2017 3:29 PM
**To:** Steve Williams
**Subject:** RE: Tax Reform Impact

Thank you Steve, appreciate the guidance. Have you by chance had an opportunity to look at the impact the proposed changes may have on Empire's currently recorded Accumulated Deferred Income Taxes?

**Charlotte T. North, CPA | Empire District – Liberty Utilities Central** | Supervisor, Rates and Regulatory Affairs
P: 417-626-5979 | E: Charlotte.North@libertyutilities.com
602 S. Joplin Avenue, Joplin, Missouri 64802

---

**From:** Steve Williams
**Sent:** Wednesday, December 06, 2017 2:27 PM
**To:** Charlotte North
**Subject:** RE: Tax Reform Impact

Charlotte:
Tax reform is pretty much up in the air. The House and Senate have both passed different bills that will now go to Conference Committee to be worked into something the conferees hope will pass both Houses. Congress's goal is to have legislation to the president for signature by December 22. However, the Republicans have slim majorities in each House, especially in the Senate. The Senate had a lot of trouble getting their bill passed due to objections from a several Republican members over specific provisions in the bill. Whether the Conferees will be able to pull something together is anybody's guess. However, the big accounting firms are fairly sure some kind of tax reform legislation will be enacted in 2017 or early 2018.

Here's are a couple of pages from a Deloitte webcast dealing with the business provisions in both bills. I've made some notes on how they affect regulated utilities. I hope their helpful.

Other than that, I'm not sure that I can tell you much about what's going to happen. Oakville has been in a fluster about the legislation primarily due to a few issues affecting international taxpayers.

**Steve Williams, CPA |Empire District – Liberty Utilities Central | Manager of Tax Planning**
P: (417) 625-6556 | F: (417) 625-5173 | E: swilliams@empiredistrict.com
PO Box 127| 602 S. Joplin Ave | Joplin, MO 64802-0127

**From:** Charlotte North
**Sent:** Wednesday, December 06, 2017 8:30 AM
**To:** Steve Williams
**Subject:** Tax Reform Impact

Good Morning Steve-

I hope your week is going well. Could I please get a few minutes of your time to discuss the tax reform impact on the Empire entities? If my understanding was correct from our discussions the other day I believe you may have been doing some high level calculations for Oakville. Please let me know when you have a few minutes of availability. Chris and Jill would like a general idea of the impact by December 8, not for sure if that is a reasonable turnaround, but let me know your thoughts. Thanks!

**Charlotte T. North, CPA | Empire District – Liberty Utilities Central** | Supervisor, Rates and Regulatory Affairs
P: 417-626-5979 | E: Charlotte.North@libertyutilities.com
602 S. Joplin Avenue, Joplin, Missouri 64802

## Charlotte North, CPA

**From:** Steve Williams
**Sent:** Wednesday, January 17, 2018 2:34 PM
**To:** Rob Sager; Jeff Lee; Charlotte North; Travis Gray
**Subject:** Excess deferred income tax workbook
**Attachments:** Excess Deferred Tax Estimate - 12-31-17.xlsx

I roughed out a workbook for excess DIT last night based on the one Charlotte prepared as of 10/31/17 and a copy is attached. It's also available at \\SRV-EMPIRE10\Dept Shares\Finance\Tax\Income Tax\2017\Special Projects\Tax Reform Impact\Excess Deferred Tax Estimate - 12-31-17.xlsx for those with access to the Tax folder on the Finance share drive. If you'd like, we can use this in our meeting this afternoon.

Let me know if you have questions.

**Steve Williams, CPA |Empire District – Liberty Utilities Central | Manager of Tax Planning**
P: (417) 625-6556 | F: (417) 625-5173 | E: swilliams@empiredistrict.com
PO Box 127| 602 S. Joplin Ave | Joplin, MO 64802-0127

## Charlotte North, CPA

**From:** Charlotte North
**Sent:** Wednesday, January 17, 2018 4:54 PM
**To:** Rob Sager
**Subject:** Tax Reform Revenue Requirement Impact - Draft
**Attachments:** Tax Reform Revenue Requirement Impact.xlsx

Rob-

As discussed please find attached the draft calculation for the annual impact on the Retail Revenue Requirement. Please let me know if you see any issues with our approach. Thanks!

**Charlotte T. North, CPA | Empire District – Liberty Utilities Central** | Supervisor, Rates and Regulatory Affairs
P: 417-626-5979 | E: Charlotte.North@libertyutilities.com
602 S. Joplin Avenue, Joplin, Missouri 64802

## Charlotte North, CPA

| | |
|---|---|
| **From:** | Steve Williams |
| **Sent:** | Friday, January 19, 2018 8:48 AM |
| **To:** | Johnson, Jeff (US - Kansas City); Tiwald, Richard J (US - Omaha) (rtiwald@deloitte.com) |
| **Cc:** | Rob Sager; Charlotte North |
| **Subject:** | Empire District - Excess ADIT preliminary calculation |
| **Attachments:** | Excess Deferred Tax Estimate - 12-31-17.xlsx |

Jeff & Rick:
I'm attaching a copy of our preliminary excess ADIT calculation. Could you please give it a quick look over and let us know if we're in the ball park with our rationale.

Sorry if this will derail your plans for Friday afternoon snow-golf.

Thanks.

**Steve Williams, CPA |Empire District – Liberty Utilities Central | Manager of Tax Planning**
P: (417) 625-6556 | F: (417) 625-5173 | E: swilliams@empiredistrict.com
PO Box 127| 602 S. Joplin Ave | Joplin, MO 64802-0127

## Charlotte North, CPA

**From:** Steve Williams
**Sent:** Tuesday, January 23, 2018 2:39 PM
**To:** Charlotte North; Chris Krygier
**Cc:** Rob Sager
**Subject:** RE: Tax reform impact workbook

The protected piece will be amortized as timing differences reverse, which could be 40-50 years. The unprotected piece will amortize at the whim of the PSCs of the various states, so negotiate something good for us, please.

We will move out the protected piece when we can determine how much it is. The biggest complicating factor is the fixed asset DIT liability. Part of it is due to different depreciable lives and methods for book and tax (this is the protected portion) and the rest is due to differences between the basis depreciated (the unprotected portion.) Our depreciation software, PowerTax, will eventually be able to separate the two, but it will be an arduous process to get everything configured correctly. Deloitte will be helping us with this.

Sorry I don't have better answers at this point.

**Steve Williams, CPA | Empire District – Liberty Utilities Central | Manager of Tax Planning**
P: (417) 625-6556 | F: (417) 625-5173 | E: swilliams@empiredistrict.com
PO Box 127| 602 S. Joplin Ave | Joplin, MO 64802-0127

---

**From:** Charlotte North
**Sent:** Tuesday, January 23, 2018 1:58 PM
**To:** Steve Williams; Chris Krygier
**Cc:** Rob Sager
**Subject:** RE: Tax reform impact workbook

Thanks Steve...appreciate you sharing this information. Upon a quick review and hearing some chatter in the regulatory world I was hoping to get Accounting's thoughts surrounding the anticipated annual amortization of this Excess ADIT Regulatory Liability balance (i.e., the amount deemed protected versus unprotected; the expected amortization period of these two buckets and when the amortization may start).

I understand we are very early in this process, but thought you guys might have some preliminary numbers. In addition, I noted that on this spreadsheet the ADIT balance for GL Account 282100 is all deemed unprotected...do you anticipate an amount being moved to protected at some juncture?

**Charlotte T. North, CPA | Empire District – Liberty Utilities Central** | Supervisor, Rates and Regulatory Affairs
P: 417-626-5979 | E: Charlotte.North@libertyutilities.com
602 S. Joplin Avenue, Joplin, Missouri 64802

**From:** Steve Williams
**Sent:** Tuesday, January 23, 2018 9:18 AM
**To:** Charlotte North; Chris Krygier
**Cc:** Rob Sager
**Subject:** Tax reform impact workbook

Charlotte & Chris:
For your reference, I'm attaching a copy of the workbook we've used to estimate excess ADIT resulting from TCJA (Tax Cuts & Jobs Act of 2017). We're booking journal entries today to set up the regulatory liability and revalue the deferred income tax accounts. For the time being, we've put the entire regulatory liability in the Missouri ledger account, but we'll reclassify it to other jurisdictions as more information becomes available.

Please let me know if you have questions or comments.

**Steve Williams, CPA** |**Empire District – Liberty Utilities Central** | **Manager of Tax Planning**
P: (417) 625-6556 | F: (417) 625-5173 | E: swilliams@empiredistrict.com
PO Box 127| 602 S. Joplin Ave | Joplin, MO 64802-0127

## Charlotte North, CPA

**From:** Julie Maus
**Sent:** Thursday, January 25, 2018 11:46 AM
**To:** David Swain; Blake Mertens; Rob Sager; Brent Baker; Chris Krygier; Peter Eichler
**Cc:** Jillian Campbell; Charlotte North; Jill Schwartz; Elizabeth Dumm
**Subject:** Tax Reform Talking Points
**Attachments:** Tax Rate Change Q&A 01-25-18.docx

Attached is an updated version of draft talking points based upon on our meeting this morning. Please reply with any recommended edits.

For those not on the email yesterday, we've had a couple of media inquiries on this topic, including local talk radio, where there has been a fair amount of chatter on the subject, including other utilities voluntarily filings. It will be good PR to have a response when asked.

Thank you,

**Julie Maus** | Empire District - Liberty Utilities Central | Director of Corporate Communications
P: 417-625-5101 | C: 417-850-7930 | E: jmaus@empiredistrict.com
602 S. Joplin Avenue, Joplin, MO 64801

## Charlotte North, CPA

**From:** Charlotte North, CPA
**Sent:** Monday, February 26, 2018 5:27 PM
**To:** David Swain; Blake Mertens; Mike Beatty
**Cc:** Jill Schwartz (Jill.Schwartz@libertyutilities.com); Chris Krygier
**Subject:** Tax Reform Regulatory Tracker
**Attachments:** Tax Reform active dockets..xlsx

David/Blake/Mike-

We wanted to provide an update to the regulatory activity surrounding the various Tax Reform Dockets in the Central Region. Therefore, for a more detailed analysis of the various jurisdictions I would direct you to the attached document, which tracks each jurisdiction and its specific guidance as it relates to tax reform. However, below I attempted to provide a high level overview of the most recent updates:

- [redacted]
- Missouri: Outside legal counsel is in the process of drafting responses for the show cause cases (EDE and EDG only). Currently our approach is to echo our initial 01/31/18 filing in the docket which reiterates that rates can only be changed in a general rate case proceeding or through a complaint case. It is our understanding that Ameren also intends to file a similar response as well.

We will continue to provide updates as the information becomes available. However, if we can answer any questions or if you have any additional comments, please let us know. Thanks!

**Charlotte North**, CPA | Liberty Utilities (Missouri) | Supervisor of Planning and Regulatory Affairs
P: 417-626-5979 E: Charlotte.North@libertyutilities.com
602 S Joplin Ave, Joplin, MO 64801

| Line No. | Description | Account | Balance | Non-Cash | Non-Electric | Net NOL Against Plant | Disallowed Plant | Included as Already Tax Effected | Excluded in MO Last Case Per Staff EMS | Include in Rate Base | Wholesale Missouri | Wholesale Kansas | Retail Missouri | Retail Kansas | Retail Oklahoma | Retail Arkansas | Protected/ Unprotected (2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (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 ITC Cr-Adv Coal | 190113 | 1,808,482 | (1,808,482) | | | | | | - | - | - | - | - | - | - | Unprotected |
| 3 | Def Tax Asset - Reg Plan Amort | 190114 | 7,928,326 | | | | | | | 7,928,326 | 275,742 | 10,328 | 6,793,002 | 403,836 | 214,336 | 231,022 | Unprotected |
| 4 | Def Fd Inc Tx-Acr Rate Ref-Ark | 190122 | 3,652 | | | | | | | 3,652 | 117 | 5 | 3,129 | 186 | 99 | 106 | Possibly partially protected |
| 5 | Def Inc Tax - Hedge Trans Gain | 190123 | 1,065,910 | | | | | | | 1,065,910 | 37,072 | 1,349 | 913,282 | 54,293 | 28,816 | 31,059 | Unprotected |
| 6 | Def Fd Tax Asset - Misc | 190124 | (6,839,765) | | | | | | | (6,839,765) | (237,883) | (8,920) | (5,860,373) | (348,389) | (184,907) | (199,302) | Unprotected |
| 7 | FAS123 Deferred Tax Asset | 190125 | 1,050,395 | | | | | | (1,050,395) | - | - | - | - | - | - | - | Unprotected |
| 8 | Def Inc Tx - Disallow Plant | 190211 | 1,540,695 | | | | (1,540,695) | | | - | - | - | - | - | - | - | Possibly partially protected |
| 9 | Def Tx Net Operating Loss | 190230 | 5,380,769 | | | (5,380,769) | | | | - | - | - | - | - | - | - | This mat be possibly protected if generated by bonus |
| 10 | Def Fd Inc Tx-Of & Dir Def Com | 190260 | 183,750 | | | | | | | 183,750 | 6,391 | 239 | 157,439 | 9,359 | 4,968 | 5,354 | Unprotected |
| 11 | Def Fd Inc Tx-Contrb-Aid Const | 190310 | 10,524,787 | | | | | | | 10,524,787 | 366,046 | 13,710 | 9,017,734 | 536,089 | 284,529 | 306,679 | Unprotected |
| 12 | Def Inc Tx-Def Tx Asset Fas109 | 190320 | 12,647,861 | (12,647,861) | | | | | | - | - | - | - | - | - | - | Unprotected |
| 13 | Def Inc Tx-Pbop Costs | 190330 | (623,455) | | | | | | | (623,455) | (21,683) | (812) | (534,182) | (31,756) | (16,855) | (18,167) | Unprotected |
| 14 | Def Inc Tx-Postret Ben-Pension | 190331 | (7,353,448) | | | | | | | (7,353,448) | (255,749) | (9,579) | (6,300,502) | (374,554) | (198,794) | (214,270) | Unprotected |
| 15 | Acm Def Inc Tx-Int Capitalized | 190340 | 17,596,138 | | | | | | | 17,596,138 | 611,983 | 22,922 | 15,076,533 | 896,274 | 475,697 | 512,730 | Unprotected |
| 16 | Acm Def Inc Tx - Alt Minmn Tax | 190350 | 637,414 | | | | | (637,414) | | - | - | - | - | - | - | - | Unprotected |
| 17 | Deferred Tax - FAS 158 | 190356 | 22,969,188 | (22,969,188) | - | | | | | - | - | - | - | - | - | - | Unprotected |
| 18 | SWPA Oz Beach Def Tx -AR | 190410 | 242,761 | | | | | | | 242,761 | 8,443 | 316 | 208,000 | 12,365 | 6,563 | 7,074 | Unprotected |
| 19 | SWPA Oz Beach Def Tx - KS | 190420 | 194,943 | | | | | | | 194,943 | 6,780 | 254 | 167,029 | 9,930 | 5,270 | 5,680 | Unprotected |
| 20 | SWPA Oz Beach Def Tx -MO | 190430 | 2,371,851 | | | | | | | 2,371,851 | 82,492 | 3,090 | 2,032,224 | 120,812 | 64,121 | 69,113 | Unprotected |
| 21 | SWPA Oz Beach Def Tx -OK | 190440 | 107,353 | | | | | | | 107,353 | 3,734 | 140 | 91,981 | 5,468 | 2,902 | 3,128 | Unprotected |
| 22 | SWPA Oz Beach Def Tx -FERC | 190450 | 662,449 | | | | | | | 662,449 | 23,040 | 863 | 567,593 | 33,742 | 17,909 | 19,303 | Unprotected |
| 23 | 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) | (11,554,264) | (12,453,754) | Possibly partially protected |
| 24 | 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 |
| 25 | Acc Def Fed Inc Tx-LD NonUt DR | 282130 | 60,000 | | (60,000) | | | | | - | - | - | - | - | - | - | Possibly partially protected |
| 26 | Acc Def Fed Inc Tx-LD NonUT CR | 282135 | 48,055 | | (48,055) | | | | | - | - | - | - | - | - | - | Possibly partially protected |
| 27 | Accum Def Fed Inc Tx-Ld Ok Jur | 282140 | (147,755) | | | | | | | (147,755) | (5,139) | (192) | (126,598) | (7,526) | (3,994) | (4,305) | Possibly partially protected |
| 28 | Accm 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 |
| 29 | Accm Def Fed Inc Tx-2Nd 5Yr Mn | 283100 | (47,159) | | | | | | | (47,159) | (1,640) | (61) | (40,406) | (2,402) | (1,275) | (1,374) | Unprotected |
| 30 | Acc Def Tax-Repair Allowance | 283103 | (4,057,281) | | | | | | | (4,057,281) | (141,110) | (5,285) | (3,476,315) | (206,661) | (109,685) | (118,224) | Unprotected |
| 31 | Def Tax Liab-Iatan Def Charges | 283116 | (5,395,854) | | | | | | | (5,395,854) | (187,665) | (7,020) | (4,623,217) | (274,842) | (145,872) | (157,228) | Unprotected |
| 32 | Def Inc Tax - Hedge Trans Loss | 283123 | (2,293,711) | | | | | | 1,946,242 | (347,469) | (12,085) | (453) | (297,715) | (17,699) | (9,394) | (10,125) | Unprotected |
| 33 | Deferred Tax Liab Fuel Costs | 283139 | (4,783,673) | | | | | | | (4,783,673) | (166,373) | (6,231) | (4,098,695) | (243,660) | (129,323) | (139,390) | Unprotected |
| 34 | Def Tx-ITC Tx Basis Red-Iatan | 283366 | (9,310,443) | 9,310,443 | | | | | | - | - | - | - | - | - | - | Unprotected |
| 35 | Accm Def Fed Inc Tx-Lic Softwr | 283400 | (3,635,426) | | | | | | | (3,635,426) | (126,438) | (4,736) | (3,114,866) | (185,174) | (98,281) | (105,932) | Unprotected |
| 36 | Acc Def Tx-Loss Reacq Debt | 283900 | (3,059,033) | | | | | | | (3,059,033) | (106,391) | (3,985) | (2,621,008) | (155,814) | (82,698) | (89,136) | Unprotected |
| 37 | Def Inc Tax - FAS158 | 283914 | (22,969,188) | 22,969,188 | - | | | | | - | - | - | - | - | - | - | Unprotected |
| 38 | Def Inc Tax-Deftx Liab Fas 109 | 283915 | (13,333,421) | 13,333,421 | | | | | | - | - | - | - | - | - | - | Unprotected |
| 39 | Def Tx Liab-Equity AFUDC | 283917 | (24,196,411) | 24,195,572 | 839 | | | | | (0) | (0) | (0) | (0) | (0) | (0) | (0) | Unprotected |
| 40 | Def Inc Tx Ice Storm Exp | 283921 | (139,517) | | | | | | | (139,517) | (4,852) | (182) | (119,540) | (7,106) | (3,772) | (4,065) | Unprotected |
| 41 | Total Accumulated Deferred Income Taxes: | | (461,708,660) | 32,383,093 | (107,216) | - | - | (637,414) | 895,847 | (429,174,156) | (14,926,431) | (559,065) | (367,720,526) | (21,860,358) | (11,602,170) | (12,505,605) | |
| 42 | Current Composite Tax Rate: | | | | | | | | | 38.09% | 38.09% | 38.09% | 38.09% | 38.09% | 38.09% | 38.09% | |
| 43 | Line 42 / Line 43 | | | | | | | | | (1,126,811,567) | (39,189,843) | (1,467,845) | (965,462,489) | (57,395,099) | (30,462,409) | (32,833,883) | |
| 44 | Proposed Composite Tax Rate: | | | | | | | | | 25.64% | 25.64% | 25.64% | 25.64% | 25.64% | 25.64% | 25.64% | |
| 45 | Estimated Balance of ADIT after Reform: | | | | | | | | | (288,920,599) | (10,048,488) | (376,363) | (247,549,820) | (14,716,415) | (7,810,727) | (8,418,786) | |
| 46 | Estimated Excess ADIT (Regulatory Liability): | 254430 | | | | | | | | (140,253,757) | (4,877,943) | (182,702) | (120,170,706) | (7,143,944) | (3,791,643) | (4,086,819) | |
| 47 | Composite Gross Up Conversion Factor | | | | | | | | | 1.3448 | 1.3448 | 1.3448 | 1.3448 | 1.3448 | 1.3448 | 1.3448 | |
| 48 | Estimated Excess ADIT (Gross-Up) | | | | | | | | | (188,615,788) | (6,559,946) | (245,701) | (161,607,738) | (9,607,305) | (5,099,070) | (5,496,029) | |
| 49 | Gross Up Regulatory Portion: | 254100 | | | | | | | | (48,362,031) | (1,682,003) | (62,999) | (41,437,032) | (2,463,361) | (1,307,427) | (1,409,209) | |

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

Based on total percentage allocation of jurisdictional portion of Total Plant

| Line No. | Description | Account | Balance | Non-Cash | Non-Electric | Net NOL Against Plant | Disallowed Plant | Exclude as Already Tax Effected | Excluded in O Last Case Per taff E | Include in ata Base | holesale | | etail | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | issouri | ansas | issouri | ansas | O laho a | Ar ansas | Protected nprotected |

ADIT Allocator