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Issue(s):

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File No.:

AAO

Riley/Direct

Public Counsel

GR-2018-0227

DIRECT TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

**UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI**

FILE NO. GR-2018-0227

November 20, 2018

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

In the Matter of the Propriety of the Rate)
Schedules for Natural Gas Service of)
Union Electric Company, Doing Business)
as Ameren Missouri)

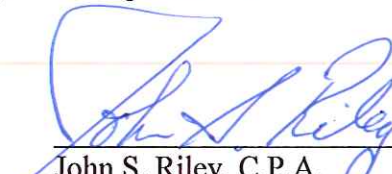
File No. GR-2018-0227

AFFIDAVIT OF JOHN S. RILEY

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 20th day of November 2018.



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



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

DIRECT TESTIMONY
OF
JOHN S. RILEY
UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI
CASE NO. GR-2018-0227

INTRODUCTION

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 a tax 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. Since 2015, I have also prepared individual and small business tax returns for a local accounting and tax preparation service.

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

A. Yes, I have held a license in the State of Missouri for over 20 years and 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 JSR-D-1

COMMISSION APPROVAL FOR AAO TO RECOGNIZE THE AFFECTS OF TCJA

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to express the OPC’s support for an Accounting Authority Order (“AAO”) to capture the financial effects of the Tax Cut and Jobs Act (“TCJA”) that became effective January 1, 2018.

Q. What is the OPC’s typical stance on the use of tracking mechanisms included in rates?

A. The OPC has generally been opposed to expense trackers primarily because they do not recognize all relevant factors at the time the utility incurs the expense, and trackers can cause a Company to be less concerned with cost controls that are associated with a tracker. The vast majority of AAOs serve to protect the utility’s shareholders from an extraordinary expense incurred between rate cases; seldom seen are tracking mechanisms that protect ratepayers from realizing the benefits of extraordinary cost savings. The federal change in corporate tax rates represents an extraordinary and uncontrollable event that would have a significant effect on the utility rates the customers are currently paying. .

Q. Does OPC consider the 40% reduction in the corporate federal tax rate to be consistent with the types of events that would prompt the Commission to grant an AAO?

1 A. Yes. The Commission has traditionally required an event to be extraordinary before it will
2 grant an AAO. The Commission traditionally has used the definition of an Extraordinary Item
3 as found in the Federal Energy Regulatory Commission's ("FERC") and National Association
4 of Regulatory Utility Commissioners' ("NARUC") Uniform System of Accounts ("USOA")
5 General Instruction No. 7 as the basis for its conclusions. The reduction in the federal tax rate
6 significantly reduced the Company's federal tax and qualifies as an extraordinary event under
7 the USOA.

8 **Q. What standard has the Commission applied when considering prior AAO cases?**

9 A. The Commission has generally required a specific cost requested for deferral to meet the
10 FERC's definition of Extraordinary Item in the FERC's USOA. This definition is as
11 follows:

12 Extraordinary Items.

13 It is the intent that net income shall reflect all items of profit and loss
14 during the period with the exception of prior period adjustments as
15 described in paragraph 7.1 and long-term debt as described in
16 paragraph 17 below. **Those items related to the effects of events**
17 **and transactions which have occurred during the current period**
18 **and which are of unusual nature and infrequent occurrence shall**
19 **be considered extraordinary items. Accordingly, they will be**
20 **events and transactions of significant effect which are abnormal**
21 **and significantly different from the ordinary and typical activities**
22 **of the company, and which would not reasonably be expected to**
23 **recur in the foreseeable future.** (In determining significance, items
24 should be considered individually and not in the aggregate. However,
25 the effects of a series of related transactions arising from a single
26 specific and identifiable event or plan of action should be considered
27 in the aggregate. To be considered as extraordinary under the above
28 guidelines, an item should be more than approximately 5 percent of
29 income, computed before extraordinary items. Commission approval
30 must be obtained to treat an item of less than 5 percent, as
31 extraordinary. (See accounts 434 and 435.)

Q. Is this the same definition of Extraordinary Items used in the NARUC USOA?

A. No. The NARUC USOA in General Instruction No. 7 has a much simpler description of extraordinary items. The NARUC USOA only requires that items be “not typical” or “not customary” business activity of that company.

7. Extraordinary Items.

It is the intent that net income shall reflect all items of profit and loss during the period with the sole exception of prior period adjustments as described in General Instruction 8. Those items related to the effects of events and transactions which have occurred during the current period and which are not typical or customary business activities of the company shall be considered extraordinary items. Commission approval must be obtained to treat an item as extraordinary. Such request must be accompanied by complete detailed information. (See accounts 433and 43r).

Q. Does the FERC or NARUC USOA make any association between the definition of an extraordinary item and deferral of such costs as a deferred debit or regulatory asset?

A. No, not that I am aware. The association between an extraordinary item and an expense deferral is only made by this Commission.

Q. How does the Commission define an AAO?

A. In its Report and Order in Case No. EU-2012-0027, the Commission stated:

An AAO is a mechanism to “defer” an item, which means to record an item to a period outside of a test year for consideration in a later rate action. Items eligible for deferral include an “extraordinary item”,

1 an item that pertains to an event that is extraordinary, unusual and
2 infrequent, and not recurring

3 **Q. Does OPC believe this change in the federal tax rate meets the definition applied by the**
4 **Commission in the Report and Order quoted above?**

5 A. Yes, it does. We believe that the reduction also meets the 5% threshold that is typically used
6 by the Commission to measure the change impact.¹

7 **Q. What is the OPC's recommendation regarding the TCJA effect on Ameren Gas Cost of**
8 **Service?**

9 A. The Commission should order an AAO to record the flowback of the excess accumulated
10 deferred income tax as well as the income tax expense difference that began January 1, 2018
11 that is the results of this permanent tax rate change into a regulatory liability account.. The
12 amount accumulated in the regulatory liability account should then be addressed in the
13 Company's next general rate case.

14 **Q. Does this conclude your direct testimony?**

15 A. Yes it does.

¹ OPC's current analysis indicates that the income tax change would have approximately a 5% change on Ameren Missouri's gas revenues indicating the change would have a greater impact on Ameren Missouri's gas income.