

Exhibit No.:  
Issue: Income Taxes  
Witness: Michael L. Brosch  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Midwest Energy Consumer's Group  
Case Nos.: ER-2018-0145 / ER-2018-0146  
Date Testimony Prepared: June 19, 2018

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

FILED  
October 24, 2018  
Data Center  
Missouri Public  
Service Commission

In the Matter of Kansas City Power & Light  
Company's Request for Authority to  
Implement a General Rate Increase for  
Electric Service. )  
)  
)  
)  
)

Case No. ER-2018-0145

In the Matter of KCP&L Greater Missouri  
Operations Company's Request for  
Authority to Implement a General Rate  
Increase for Electric Service )  
)  
)  
)  
)

Case No. ER-2018-0146

Direct Testimony and Schedules of

**Michael L. Brosch**

**Revenue Requirement**

MECG Exhibit No. 508  
Date 9-25-18 Reporter TT  
File No. ER-2018-0145  
ER-2018-0146

On behalf of

**Midwest Energy Consumers' Group**

**PUBLIC VERSION**

June 19, 2018

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light  
Company's Request for Authority to  
Implement a General Rate Increase for  
Electric Service.

Case No. ER-2018-0145

In the Matter of KCP&L Greater Missouri  
Operations Company's Request for  
Authority to Implement a General Rate  
Increase for Electric Service

Case No. ER-2018-0146

STATE OF MISSOURI )  
COUNTY OF JACKSON ) SS

Affidavit of Michael L. Brosch

Michael L. Brosch, being first duly sworn, on his oath states:

1. My name is Michael L. Brosch. I am President of Utilitech, Inc., having its principal place of business at PO Box 481934, Kansas City, Missouri 64148. We have been retained by the Midwest Energy Consumer's Group in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case Nos. ER-2018-0145 and ER-2018-0146.
3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

  
Michael L. Brosch

Subscribed and sworn to before me this 19th day of June 2018.

  
Notary Public

TYLER GRAY  
Notary Public - Notary Seal  
STATE OF MISSOURI  
Jackson County  
My Commission Expires Oct. 17, 2020  
Commission # 16521026

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

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<b>In the Matter of Kansas City Power &amp; Light Company's Request for Authority to Implement a General Rate Increase for Electric Service.</b>	)	<b>Case No. ER-2018-0145</b>
	)	
	)	

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<b>In the Matter of KCP&amp;L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service</b>	)	<b>Case No. ER-2018-0146</b>
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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power & Light )  
Company's Request for Authority to ) **Case No. ER-2018-0145**  
Implement a General Rate Increase for )  
Electric Service. )  
)

In the Matter of KCP&L Greater Missouri )  
Operations Company's Request for ) **Case No. ER-2018-0146**  
Authority to Implement a General Rate )  
Increase for Electric Service )  
)

**Direct Testimony of Michael L. Brosch**

1   **Q     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   **A     My name is Michael L. Brosch. My business address is PO Box 481934,**  
3       **Kansas City, Missouri 64148.**

4   **Q     WHAT IS YOUR PRESENT OCCUPATION?**

5   **A     I am the President of the firm Utilitech, Inc., a consulting firm engaged primarily**  
6       **in utility rate and regulation work. The firm's business and my responsibilities**  
7       **are related to special services work for utility regulatory clients. These services**  
8       **include rate case reviews, cost of service analyses, jurisdictional and class cost**  
9       **allocations, financial studies, rate design analyses, utility merger and business**  
10      **combination studies and other focused investigations related to utility operations**  
11      **and ratemaking issues.**

1 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

2 A I am appearing on behalf of the Midwest Energy Consumer's Group ("MECG").  
3 Utilitech, Inc. was engaged by MECG to review and address certain income tax  
4 and ratemaking policy issues raised within the rate case filed testimony,  
5 exhibits, workpapers and supporting documentation of Kansas City Power &  
6 Light Company ("KCPL") and KCP&L Greater Missouri Operations Company  
7 ("GMO") (collectively referred to herein as "Applicants") in their filed general rate  
8 cases, Case Nos. ER-2018-0145/0146.

9 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A My testimony addresses income tax expenses and certain deferred income tax  
11 accounting issues arising from the Tax Cuts and Jobs Act ("TCJA" or "Tax Act")  
12 that became law in December of 2017.<sup>1</sup> I recommend specific accounting and  
13 ratemaking procedures to address: (1) the lower federal income tax rates  
14 effective in tax years after 2017 and (2) the treatment of "excess" Accumulated  
15 Deferred Income Taxes ("ADIT") that result from the same federal income tax  
16 rate reductions. My testimony quantifies and then explains how the substantial  
17 income tax savings that have been realized by Applicants since the beginning of  
18 2018, but not credited to ratepayers, should be treated.

19

20

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<sup>1</sup> The Tax Cuts and Jobs Act is formally referred to as "H.R.1 - An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" and is available in text and summary form at:

[www.congress.gov/bill/115th-congress/house-bill/1](http://www.congress.gov/bill/115th-congress/house-bill/1)

1 **EDUCATION AND EXPERIENCE**

2 **Q WHAT IS YOUR EDUCATIONAL BACKGROUND?**

3 A Appendix A to this testimony is a summary of my education and professional  
4 qualifications that also contains a listing of my previous testimonies in regulatory  
5 proceedings in Missouri and other states.

6 **Q PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE IN THE FIELD**  
7 **OF UTILITY REGULATION.**

8 A My professional career began in 1978, when I was employed by the Missouri  
9 Public Service Commission as part of the accounting department audit staff.  
10 While with the Staff from 1978 to 1981, I participated in rate cases involving  
11 Kansas City Power & Light Company, Missouri Public Service Company,  
12 Southwestern Bell and several smaller Missouri utilities. Since leaving the  
13 Commission Staff, I have worked as an independent consultant and have  
14 testified before utility regulatory agencies in Arizona, Arkansas, California,  
15 Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, New Mexico,  
16 Ohio, Oklahoma, Texas, Utah, Washington, and Wisconsin in regulatory  
17 proceedings involving electric, gas, telephone, water, sewer, transit, water  
18 carrier and steam utilities. I have participated in many electric, gas and  
19 telephone utility regulatory proceedings, as listed and described in Appendix A.  
20 I testified for MCEG in the recent KCPL Missouri rate cases, Case Numbers ER-  
21 2014-0370 and ER-2016-0285 and more recently in the Great Plains Energy /  
22 Westar merger proceeding, Case Number EM-2018-0012.

1 **EXECUTIVE SUMMARY**

2 **Q PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

3 A After describing the general provisions of the Tax Cuts and Jobs Act (“Tax Act”)  
4 of importance to regulated electric utilities and how these provisions have been  
5 interpreted and applied by Applicants, my testimony concludes that Applicants  
6 have applied most of the Tax Act provisions in a reasonable manner, except for  
7 the Companies’ proposed amortization periods for the significant “excess”  
8 deferred income tax balances created by the reduction in federal income tax  
9 rates. Additionally, I quantify and then explain how the cumulative savings  
10 being realized and retained by Applicants’ shareholders, for the period from  
11 January 1, 2018 until new rates are made effective in this case, should be  
12 accumulated within a Regulatory Liability account for return to ratepayers in this  
13 rate proceeding.<sup>2</sup>

14  
15 **TAX ACT BACKGROUND INFORMATION**

16 **Q HOW DOES THE TAX ACT IMPACT THE LEVEL OF FEDERAL**  
17 **CORPORATE INCOME TAX EXPENSE RECOGNIZED BY ELECTRIC**  
18 **UTILITIES SUCH AS KCPL AND GMO?**

19 A For KCPL, GMO and most other electric utilities that are organized as for-profit  
20 corporations, there are three aspects of significant impact under the Tax Act.  
21 First, the Tax Act reduces the Federal business income tax (“FIT”) rate from a

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<sup>2</sup> For example, if the Commission determines that the revenue requirement “value” of Tax Act savings since January 1, 2017 should be amortized over three years in the determination of utility revenue requirements for KCPL and GMO, that amortization expense should be booked over the 36-month period starting when new rates are effective.

1 maximum of 35 percent to 21 percent, effective after December 31, 2017.<sup>3</sup>  
2 Because electric utility revenue requirement amounts approved by the  
3 regulators have generally included Federal corporate income tax expense  
4 calculated at the higher 35 percent FIT rate effective under prior law, a  
5 significant reduction in electric utility revenue requirement is caused by the new,  
6 lower 21 percent FIT rate. A second impact results from the restatement of  
7 Accumulated Deferred Income Tax ("ADIT") balances that were historically  
8 collected from ratepayers at the higher 35 percent FIT rate that are now  
9 "excess" ADIT balances to be returned to ratepayers, via amortization credits to  
10 expense. A third aspect to be considered is the cumulative savings from both of  
11 these impacts, lower FIT rates and amortization of excess ADIT balances,  
12 starting in January of 2017 until utility rates can be adjusted in this case as  
13 needed to fully reflect these Tax Act benefits.

14  
15 **Q DID PASSAGE OF THE TAX ACT CREATE THE NEED FOR IMMEDIATE**  
16 **ACTION BY REGULATORS TO ENSURE THAT THE REDUCED FEDERAL**  
17 **INCOME TAX RATE CREATED BENEFITS FOR UTILITY CUSTOMERS AND**  
18 **NOT ONLY UTILITY SHAREHOLDERS?**

19 **A** Yes. Because the FIT rate reduction was effective on January 1, 2018, utilities  
20 experienced an immediate and highly favorable reduction in recorded income  
21 tax expense that should be attributed to customers as rapidly as possible, or at

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<sup>3</sup> Sec. 13001 of the Tax Act reduces the corporate tax rate from a maximum of 35% under the existing graduated rate structure to a flat 21% rate for tax years beginning after 2017. The Tax Act also specifies requirements for taxpayers that are subject to the normalization method of accounting, which includes KCPL, GMO and other electric utilities.



1 least preserved as a regulatory liability for future consideration and rate  
2 reductions once such amounts are accurately determined. Regulatory  
3 commissions in many states have initiated proceedings and imposed regulatory  
4 liability accounting upon utilities to accelerate the reduction in utility rates  
5 caused by the Tax Act and/or to adopt accounting provisions to preserve these  
6 benefits for future rate adjustments.

7  
8 **Q WHAT ARE DEFERRED TAXES?**

9 **A** Deferred taxes are expenses recorded on the utility's books to recognize the  
10 liability to pay higher income taxes in the future, because timing differences  
11 occur today between the recognition of revenues and expenses for book  
12 accounting, as compared to income tax accounting. One large component of  
13 deferred tax accounting is attributable to accelerated depreciation deductions  
14 that are allowed under the tax code, compared to much lower straight-line book  
15 depreciation expenses approved by the regulator. As a simplified example, a  
16 utility may book and recover depreciation for a particular asset over a straight  
17 20-year timeframe, while the tax code may allow for accelerated depreciation for  
18 that asset over 5 years. Since depreciation is a deductible expense that  
19 reduces the utility's tax liability, the utility will pay less federal income tax than  
20 the amount that is actually collected from ratepayers as deferred income tax  
21 expenses.

22 Charging ratepayers for deferred income tax expense contributes to an  
23 Accumulated Deferred Income Tax liability balance representing higher income

1 taxes that will be payable in the future when book expenses may be larger than  
2 tax deductions. Eventually, the deferred tax balance for any individual asset will  
3 be reduced to zero as regulatory depreciation catches up with the accelerated  
4 tax depreciation. In the referenced example, the deferred tax balance will be  
5 slowly reduced in years 6-20 as the federal accelerated depreciation results in a  
6 fully depreciated asset in year 5.

7 Traditionally, Accumulated Deferred Income Tax ("ADIT") balances are  
8 treated as an offset to rate base for ratemaking purposes in order to recognize  
9 that the utility has collected deferred income taxes from ratepayers that it has  
10 not paid to the government. In this sense, ADIT balances represent zero cost  
11 capital to the utility that is available to help finance utility plant and other rate  
12 base assets.

13  
14 **Q DID THE REDUCED CORPORATE INCOME TAX RATE EFFECTIVE IN TAX**  
15 **YEARS AFTER 2017 CAUSE UTILITIES AND OTHER CORPORATE**  
16 **TAXPAYERS TO ADJUST THE RECORDED BALANCES WITHIN**  
17 **ACCUMULATED DEFERRED INCOME TAX ACCOUNTS AT DECEMBER 31,**  
18 **2017?**

19 **A** Yes. KCPL, GMO and other electric utilities have been recording on their books  
20 and collecting from their customers significant amounts of deferred Federal  
21 income tax expenses at the previously effective 35 percent tax rate, applying  
22 "normalization" accounting procedures for the tax deferral benefits associated  
23 with tax deductions for accelerated and bonus depreciation and for other

1 book/tax deduction timing differences. These prior accounting normalization  
2 provisions for deferred income tax expense assumed that in future years, when  
3 tax depreciation and the other book/tax timing differences “reverse” on the  
4 books, the taxes that were previously deferred would then become payable at  
5 the 35 percent tax rate. However, the FIT rate reduction within the Tax Act  
6 created the need to immediately re-value each electric utility’s recorded  
7 Accumulated Deferred Income Tax (“ADIT”) balances, to reflect the new, lower  
8 21 percent FIT rate. This revaluation created significant amounts of “excess”  
9 ADIT (i.e., the difference between the previous valuation at a 35% tax rate and  
10 the valuation at a 21% tax rate) that have been reclassified by KCPL and GMO  
11 as regulatory liabilities as of December 31, 2017, for eventual return to  
12 ratepayers.

13  
14 **Q WHAT ACTION IS REQUIRED OF REGULATORS AS A RESULT OF THE**  
15 **REVALUATION OF ADIT BALANCES IN DECEMBER OF 2017?**

16 **A** Regulators need to specify amortization periods to be used for the utilities’  
17 “excess” ADIT regulatory liability balances, where discretion is involved in  
18 selecting amortization periods.<sup>4</sup> Importantly, regulators also need to  
19 synchronize the amortization of excess ADIT with rate adjustments to ensure  
20 that utility customers participate in the negative expense benefits of the  
21 recorded amortization entries.

---

<sup>4</sup> For accelerated and bonus depreciation method and life differences, the Tax Act requires the gradual return of public utility “excess” ADIT balances over the remaining lives of asset vintages where book depreciation exceeds tax depreciation, adopting an Average Rate Assumption Method (“ARAM”) methodology. Excess ADIT amortization periods for all other book/tax timing differences are discretionary.

1 **Q DOES THE TAX ACT ALSO IMPACT ELECTRIC UTILITY RATE BASE?**

2 A Eventually, but not immediately. The Tax Act eliminates the deduction of  
3 “bonus” tax depreciation for electric utilities as of September 27, 2017.<sup>5</sup> Bonus  
4 depreciation was available under prior federal tax law and has been deducted  
5 by electric utilities, causing persistent growth in Accumulated Deferred Income  
6 Tax (“ADIT”) balances that serve to reduce rate base. The elimination of bonus  
7 depreciation will reduce future accruals of depreciation-related deferred income  
8 taxes, causing rate base to grow more rapidly in the future than has occurred  
9 recently, all else held constant. In addition to reduced future provisions for  
10 deferred taxes with the elimination of bonus depreciation, the prospective  
11 amortization of existing ADIT balances that are now “excess” at the new lower  
12 FIT rates will contribute to gradual growth in future rate base, as such excess  
13 ADIT balances are returned to ratepayers.

14  
15 **Q HAVE KCPL AND GMO FULLY RECOGNIZED THE IMPACTS OF THE TAX**  
16 **ACT IN CALCULATING THE ASSERTED REVENUE REQUIREMENT FOR**  
17 **KCPL AND GMO?**

18 A Not completely. KCPL and GMO have calculated test year income tax expense  
19 using the lower 21 percent corporate FIT rate that is effective in 2018.<sup>6</sup> As a  
20 result, the asserted revenue requirements that will be the basis for new electric  
21 base rates late in 2018 will begin to pass Tax Act savings from the FIT rate

---

<sup>5</sup> It is important to recognize that “bonus” depreciation is additive to accelerated tax depreciation. While “bonus” depreciation has been terminated, accelerated depreciation remains in effect.  
<sup>6</sup> KCPL and GMO Income Tax calculations on Schedule 11 reflect utilization of the 21 percent FIT rate. See also the Direct Testimony of Ronald Klote at pages 44-49.

1 reduction at the end of this year. The elimination of bonus tax depreciation  
2 under the Tax Act has also been recognized within the Companies' projected  
3 2018 annualized tax depreciation.<sup>7</sup> Additionally, both utilities have quantified  
4 their "excess" ADIT balances caused by the reduction in the FIT rate and have  
5 proposed an amortization of the pretax equivalent amount of these regulatory  
6 liabilities. However, the discretionary amortization periods for these excess  
7 ADIT balances that are proposed by KCPL and GMO are unreasonable and  
8 should be modified by the Commission in its rate orders, as more fully described  
9 in the following testimony.

10 With respect to the income tax expense savings already experienced by  
11 KCPL and GMO, from January of 2018 until new base rates can be  
12 implemented in these proceedings, the utilities have proposed no ratemaking  
13 adjustments or procedures to quantify or return such amounts to customers.  
14 This omission is also addressed in my testimony that follows.

15  
16 **EXCESS DEFERRED TAX AMORTIZATION**

17 **Q HAVE KCPL AND GMO QUANTIFIED THE AMOUNTS BY WHICH THE**  
18 **ACCUMULATED DEFERRED INCOME TAX BALANCES ON THE BOOKS**  
19 **BECAME EXCESSIVE AS A RESULT OF THE LOWER CORPORATE**  
20 **FEDERAL INCOME TAX RATE IN THE TAX ACT?**

21 **A** Yes. Studies were performed by KCPL and GMO to revalue the recorded ADIT  
22 reserves at December 31, 2017, reflecting the lower tax rate and thus identifying  
23 excess deferred taxes totaling \$471.8 million for KCPL and \$173 million for

---

<sup>7</sup> See RB-125 and CS-125 workpapers of KCPL and GMO.

1 GMO, prior to jurisdictional allocations. These amounts for each utility can be  
 2 broken down into four discrete categories as follows:

<u>DEFERRED TAX CATEGORIZATION</u>	<u>Amounts \$ Millions<sup>8</sup></u>			
		<u>KCPL</u>		<u>GMO</u>
Code Restricted- Accelerated Tax Depreciation <sup>9</sup>	\$	** _____ **	\$	** _____ **
Non-Restricted Plant Related Differences	\$	** _____ **	\$	** _____ **
Other Book/Tax Differences	\$	** _____ **	\$	** _____ **
Net Operating Loss Deferred Tax Asset	\$	** _____ **	\$	** _____ **
<b>TOTAL EXCESS ADIT BALANCES</b>	<b>\$</b>	<b>471.8</b>	<b>\$</b>	<b>173.7</b>

3  
 4 The amounts set forth in this table were provided by the Companies in response  
 5 to data request MEGC 3-5, which I have included without confidential  
 6 attachments within Schedule MLB-1.<sup>10</sup>

7  
 8 **Q WHAT AMORTIZATION PERIODS ARE PROPOSED BY KCPL AND GMO**  
 9 **FOR THE ESTIMATED EXCESS ADIT BALANCES AS OF DECEMBER 31,**  
 10 **2017?**

11 **A** For the first two Plant-related categories, that represent more than 100 percent  
 12 of the balances to be returned to ratepayers, the utilities have proposed  
 13 extremely long amortization periods employing an average rate assumption  
 14 method driven by the life of the Companies' plant assets. Use of this extended

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<sup>8</sup> Response to MEGC Data Request 3-5. Somewhat different amounts were included in the Companies' rate case workpapers.  
<sup>9</sup> I use the term "restricted" when referring to those categories of accumulated deferred income taxes for which an amortization period (ARAM) is dictated by the Tax Code. Others use the term "protected" to refer to this same category of accumulated deferred income taxes. Both restricted and protected can be used interchangeably.  
<sup>10</sup> Somewhat different excess ADIT amounts were provided for each Company in each category at December 31, 2017 in the Companies' response to Staff Data Request No. 239.

1 amortization period is understandable for the “Code Restricted – Accelerated  
2 Tax Depreciation” excess ADIT category in the table above, because such an  
3 approach is required under Internal Revenue Code restrictions. However,  
4 KCPL and GMO have inexplicably proposed the same extended amortization  
5 periods for the “Non-Restricted Plant Related Differences” even though no IRC  
6 restriction applies, as more fully explained below. The Companies proposed  
7 slow and gradual amortization approach for all plant-related excess ADIT  
8 balances results in about \$16.9 million<sup>11</sup> per year of negative tax expense for  
9 KCPL ratepayers and \$7.4 million<sup>12</sup> per year of negative tax expense for GMO  
10 ratepayers, reflecting an effective amortization period of approximately 31 years  
11 and 28 years for each utility, respectively.<sup>13</sup>

12 For excess ADIT associated with the Other Book/Tax Differences that are  
13 not plant-related, Applicants claim to be proposing a 10-year amortization period  
14 to return the excess amounts to ratepayers. However, the related income tax  
15 expense credits of about \$1.6 million for KCPL and \$1.6 million for GMO  
16 ratepayers are inexplicably not one tenth of the amounts provided by the  
17 Companies and included within the table above.<sup>14</sup>

---

<sup>11</sup> Workpaper KCPL RB-125 ADIT CS-125 Income Tax Expense; Schedule 11 Input Sum A-2, page 8, before jurisdictional allocation.

<sup>12</sup> Workpaper GMO CS-125 Income Tax Expense – GMO Direct at line 45, before jurisdictional allocation.

<sup>13</sup> For KCPL, the sum of “restricted” and “non-restricted” excess ADIT is \$404.3 plus \$118.5 million, or \$522.8 million. Dividing this amount by annual amortization credits of \$16.9 million per year implies an effective amortization period of 30.9 years. For GMO, the same calculations yield  $\$(155+54.3)/\$7.4=28.3$  years.

<sup>14</sup> These amounts are associated with the Companies’ prefiled evidence and have apparently changed within the Companies’ response to data request MECG 3-5. The most current estimated values for the estimated amortization of excess deferred income taxes from the Companies supplemental response to MECG 3-5 are used as inputs to the MECG calculated values in Schedule MLB-3.

1           The Companies' fourth category of deferred taxes, reflect the Companies'  
2           Net Operating Loss ("NOL") carryforward balances as deferred tax assets, that  
3           are actually deficient, rather than excessive, because the ability to utilize  
4           carryforward income tax losses on future tax returns will "save" tax at only a 21  
5           percent rate, rather than a 35 percent FIT rate. For these NOL-related ADIT  
6           deficiencies, that ratepayers are being asked to fund through higher rates, the  
7           Companies propose a very rapid amortization period of only five years, resulting  
8           in much higher rates for customers than has been justified.

9  
10   **Q    ARE THESE REASONABLE PROPOSALS?**

11   **A**No. While an extremely long amortization period is required under the Tax Act  
12           for only the first and largest category of Internal Revenue Code restricted  
13           excess deferred taxes associated with liberalized tax depreciation in the table  
14           above, there is no such restriction for the other plant-related ADIT amounts  
15           ("Non Restricted Plant Related Differences"). These other plant-related excess  
16           deferred taxes relate primarily to differences in the basis of depreciable property  
17           for tax purposes, as compared to the book accounting for investments in plant.  
18           In the absence of any tax code restriction, there is no need to delay the return of  
19           these excess ADIT balances to the ratepayers who have paid deferred taxes on  
20           plant basis differences. Similarly, the Companies' proposed 10-year  
21           amortization of non-plant related excess ADIT balances is unreasonably long,  
22           as again there is no IRC restriction involved and these timing differences do not  
23           relate to any long-lived assets. In contrast, the Companies' proposed very rapid



1 amortization for the NOL deferred tax asset deficiency is remarkably aggressive  
2 to the disadvantage of ratepayers and should be rejected. When viewed  
3 collectively, the Companies' proposed excess deferred tax amortization periods  
4 are incredibly one-sided, seeking to delay the return to ratepayers of their past  
5 funding of deferred tax credit reserves through utility rates that are now  
6 excessive, while seeking to accelerate the amortization charges to customers to  
7 quickly recover a deficiency in the only category of debit ADIT that is a deferred  
8 tax asset with a deficiency caused by lower future FIT rates.

9  
10 **Q WHAT INTERNAL REVENUE CODE RESTRICTION APPLIES TO THE**  
11 **TREATMENT OF THE COMPANIES' LARGEST CATEGORY OF EXCESS**  
12 **ADIT BALANCES?**

13 **A** As indicated above, the single largest book/tax timing differences arise from  
14 accelerated and bonus tax depreciation methods and lives, often referred to as  
15 "liberalized" tax depreciation, where federal tax deductions permit much more  
16 depreciation expense than is recorded for book accounting purposes. To  
17 prevent regulators from flowing through the tax savings benefits of liberalized  
18 depreciation tax deductions in setting utility rates, certain normalization  
19 accounting requirements have long been imposed upon utility taxpayers,  
20 requiring a provision of deferred tax expense rather than immediate flow-  
21 through of the benefits from liberalized depreciation tax deductions.<sup>15</sup> The

---

<sup>15</sup> Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting. Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a "normalization

1 December 2017 Tax Act reiterated these restrictions, so as to limit the pace at  
2 which the large "excess" ADIT balances for liberalized tax depreciation method  
3 and life differences, arising from the significant reduction in the FIT rate from 35  
4 to 21 percent, can be returned to ratepayers. Excess ADIT amounts associated  
5 with tax depreciation method and life differences (compared to book  
6 depreciation) must comply with prescribed Average Rate Assumption Method  
7 ("ARAM") accounting that returns such excess ADIT balances to customers only  
8 gradually.<sup>16</sup>

9  
10 **Q IS ARAM ACCOUNTING REQUIRED FOR ALL OF THE COMPANIES'**  
11 **PLANT-RELATED EXCESS DEFERRED TAX BALANCES?**

12 **A** No. However, the Companies have proposed using the same very restrictive  
13 ARAM accounting approach for other Plant-related ADIT amounts that are not  
14 associated with liberalized tax depreciation methods and lives. There are many  
15 other book/tax "basis" differences caused when certain types of costs are  
16 capitalized and depreciated differently for book purposes than for tax accounting  
17 purposes. For example, electric utilities are allowed to claim an immediate tax  
18 deduction for certain defined "repairs" costs on tax returns, where the same  
19 costs must be capitalized as part of the installed cost of utility Plant in Service  
20 on the books. There is no ARAM restriction upon the return of excess ADIT  
21 balances arising from the Companies' cumulative "repairs" deductions that have

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method of accounting." A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A).

<sup>16</sup> TCJA Section 13001(d) describes Normalization Requirements for public utility property for purposes of section 167 or 168 of the Internal Revenue Code..

1           been collected from ratepayers. However, the Companies seek to delay the  
2           return to ratepayers of Plant-related excess ADIT balances as if an ARAM  
3           restriction is applicable, even though it is not.

4  
5   **Q    WHAT DO YOU RECOMMEND AS AN AMORTIZATION PERIOD FOR THE**  
6           **COMPANIES' UNRESTRICTED PLANT-RELATED EXCESS ADIT**  
7           **BALANCES?**

8   **A**I recommend as a compromise using a 10-year amortization of the KCPL and  
9           GMO Plant-related excess ADIT balances. The utilization of a shorter  
10          amortization period is generally more equitable to ratepayers, by more quickly  
11          returning these excess ADIT amounts to the customers who previously paid  
12          these deferred taxes through their utility rates. Since no ARAM restriction  
13          applies to these plant-related excess ADIT balances, there is no need to delay  
14          the timing of the return of these amounts to ratepayers, based upon any  
15          estimate of remaining plant lives. A ten-year amortization period is a  
16          reasonable compromise to the Companies' much longer proposed amortization  
17          and matches the 10-year period that KCPL and GMO have proposed for excess  
18          ADIT amounts that are not Plant-related.

19  
20   **Q    YOU INDICATED THAT KCPL AND GMO HAVE PROPOSED A 10-YEAR**  
21          **AMORTIZATION PERIOD FOR THEIR MISCELLANEOUS EXCESS ADIT**  
22          **BALANCES THAT ARE NOT PLANT-RELATED. SHOULD THIS**  
23          **AMORTIZATION PERIOD BE ADOPTED BY THE COMMISSION?**

1 A No. Here again the utilities are seeking to unreasonably delay the return of  
2 excess ADIT balances previously funded by ratepayers. The ADIT balances  
3 that are not plant-related represent shorter-term differences between book and  
4 tax recognition of income that change from year to year. For example,  
5 differences in the book versus tax recognition of Wolf Creek outage costs,  
6 Missouri demand response costs, emission credit sales, solar rebates and  
7 various accrual basis reserves for vacations, bad debts and injuries and  
8 damages are included in this category of excess ADIT.<sup>17</sup> I recommend a 5-year  
9 amortization for these unrestricted and non-plant-related excess ADIT balances,  
10 to rapidly return such amounts to ratepayers, so as to recognize the shorter  
11 term nature of these book/tax timing differences and the absence of any tax  
12 code restrictions upon the amortization period.

13  
14 **Q THE LAST COMPONENT OF ADIT BALANCES RELATE TO NET**  
15 **OPERATING LOSS CARRYFORWARD AMOUNTS THAT ARE DEFICIENT,**  
16 **RATHER THAN EXCESSIVE, AS A RESULT OF THE FEDERAL INCOME**  
17 **TAX RATE CHANGE. DO YOU AGREE WITH THE KCPL AND GMO**  
18 **PROPOSED 5-YEAR AMORTIZATION PERIOD TO RECOVER NOL**  
19 **CARRYFORWARD DEFICIENCIES FROM RATEPAYERS?**

20 A No. The Company's NOL carryforward deferred tax assets represent the  
21 cumulative impact of the Company's large deductions of bonus and accelerated  
22 tax depreciation in previous tax years. Without these deductions, KCPL and  
23 GMO would not have experienced tax losses. Therefore, the same extended

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<sup>17</sup> See, for example, KCPL workpaper RB-125 Balance Sheet Review – Deferred Income Taxes 283 listing.

1 ARAM amortization period should apply to each utility's NOL deferred tax  
2 deficiencies that must be applied, under applicable tax code restrictions, to the  
3 corresponding bonus and accelerated method/life excess deferred tax balances.  
4

5 **Q ARE YOU AWARE OF ANOTHER ELECTRIC UTILITY THAT IS PROPOSING**  
6 **AMORTIZATION OF ITS NOL DEFERRED TAX ASSET BALANCES OVER**  
7 **THE SAME ARAM PERIOD AS THE CORRESPONDING LIBERALIZED**  
8 **DEPRECIATION EXCESS ADIT BALANCES?**

9 A Yes. In the annual formula rate update proceeding involving Commonwealth  
10 Edison Company ("ComEd") that is now pending in Illinois, ComEd is proposing  
11 an ARAM-based amortization period for both its liberalized tax depreciation  
12 excess ADIT balances and the same extended ARAM-based period for its NOL-  
13 related deficient ADIT balances, so as to comply with ARAM restrictions on the  
14 former while recognizing that NOL carryforwards would not exist but for prior  
15 years' deductions of liberalized tax depreciation. I have included as Schedule  
16 MLB-2 a copy of ComEd Exhibit 2.02 at pages 151 through 154 depicting that  
17 utility's proposed excess/deficient ADIT amortization periods.<sup>18</sup>  
18

19 **Q IS KCPL RECORDING ANY EXCESS ADIT AMORTIZATION ON ITS BOOKS**  
20 **IN 2018 TO ACCOUNT FOR THE TAX ACT IMPACTS YOU HAVE BEEN**  
21 **DISCUSSING IN TESTIMONY?**

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<sup>18</sup> Illinois Commerce Commission Docket No. 18-0808 filed materials are publicly available at:  
<https://www.icc.illinois.gov/docket/Documents.aspx?no=18-0808>

1 A Yes. The Companies began amortization of plant related excess deferred  
2 income taxes in accordance with the IRS normalization rules and expect that the  
3 appropriate treatment of this amortization would be addressed in this case. The  
4 appropriate amount will be adjusted as needed on the financial statements in  
5 accordance with the outcome of the excess ADIT amortization issue in the  
6 pending rate cases. Notably, the Companies began amortization of deficient  
7 ADIT balances related to NOL's in 2018 using the extended period ARAM  
8 approach, rather than using the accelerated 5-year period being proposed for  
9 ratemaking purposes.<sup>19</sup> Thus, on the KCPL and GMO books, the Companies  
10 are applying the same ARAM approach to liberalized depreciation excess ADIT  
11 and NOL deficient ADIT balances as I have recommended in my testimony.

12  
13 **Q HOW IS THE MONTHLY 2018 INCOME TAX EXPENSE OF KCPL AND GMO**  
14 **IMPACTED BY APPLYING THE VERY GRADUAL ARAM METHOD TO NOL**  
15 **ADIT DEFICIENCIES, RATHER THAN THE COMPANIES' RATE-CASE**  
16 **PROPOSED 5-YEAR AMORTIZATION PERIOD?**

17 A The Companies are able to avoid higher income tax expenses on the books by  
18 delaying the recording of rapid amortization over 5 years of the NOL  
19 deficiencies. However, only when and if the Commission is convinced to burden  
20 ratepayers with these excessive costs, the Companies would commence  
21 booking the larger amortization expenses with no negative impact upon reported  
22 earnings.

23

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<sup>19</sup> KCPL response to data request MECG3-5(f) contained in Schedule MLB-1.

1 Q HAVE YOU PREPARED AN EXHIBIT COMPARING THE KCPL AND GMO-  
2 PROPOSED EXCESS ADIT AMORTIZATION PERIODS AND AMOUNTS TO  
3 THE RESULTS APPLYING YOUR ALTERNATIVE PROPOSED  
4 AMORTIZATION PERIODS?

5 A Yes. Schedule MLB-3 sets forth the income tax expense impact of the  
6 Companies' ADIT amortization proposals for KCPL, on page 1, and for GMO, on  
7 page 2; with comparisons to the alternative proposed amortization periods I  
8 have described. The difference on line 10 of each page is the approximate  
9 revenue requirement impact of these differences, recognizing the needed factor-  
10 up of income tax expense amounts to pretax revenue requirement dollars using  
11 the multiplier on line 9. It should be noted that these amounts remain subject to  
12 revision in the Companies' true-up filings, where the MCEG-recommended  
13 amortization periods should again be applied.

14

15 **STUB PERIOD TAX ACT SAVINGS IN 2018**

16 Q THE FEDERAL INCOME TAX RATE REDUCTION UNDER THE TAX ACT  
17 WAS EFFECTIVE STARTING IN JANUARY OF 2018 AND YOU HAVE  
18 ALREADY DESCRIBED THE COMPANIES' EXCESS ADIT BENEFITS. HAVE  
19 RATEPAYERS RECEIVED ANY RATE REDUCTIONS OR OTHER BENEFITS  
20 FROM THESE TAX ACT EXPENSE SAVINGS?

21 A No. The Companies have been recording much lower monthly income tax  
22 expenses starting in January of 2018, as a direct result of the lower 21 percent

1 FIT rate.<sup>20</sup> Additionally, the Companies have been recording millions in  
2 additional monthly income tax expense savings by amortizing net excess ADIT  
3 balances in every month of 2018, even though no Commission order has  
4 authorized such amortizations and no rate change has occurred to allow  
5 ratepayers to participate in such amortization benefits.<sup>21</sup> In the absence of any  
6 rate reductions or credits to customers, all of these benefits would be retained  
7 for the sole benefit of Great Plains shareholders.

8  
9 **Q DOES THE COMPANIES' DIRECT TESTIMONY DESCRIBE ANY**  
10 **PROPOSED RATEMAKING TREATMENT FOR THE ACCUMULATING 2018**  
11 **EXPENSE SAVINGS THAT ARE BEING RETAINED FOR SHAREHOLDERS**  
12 **IN THE ABSENCE OF RATE ADJUSTMENTS THAT WOULD CREDIT SUCH**  
13 **SAVINGS TO RATEPAYERS?**

14 **A** At page 12 of his Direct Testimony, Mr. Ives states, "KCP&L believes that its  
15 customers should benefit from the reduction in corporate federal income tax  
16 rates. The Company expects to work with the parties to this case and fully  
17 reflect the impacts of this new law in rates set in this rate case proceeding. In  
18 early January 2018, KCP&L provided assurance that customers would  
19 experience the full benefits of this new tax law." Unfortunately, in testimony and  
20 the Companies' compilation of its asserted revenue requirement, only  
21 prospective recognition of Tax Act impacts is addressed. The Companies have  
22 not proposed any accounting for the cumulative tax expense savings that are

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<sup>20</sup> This benefit was quantified in KCPL and GMO's response to MECG 1-2 in confidential attachments, based upon estimates of taxable income in each available month of 2018.

<sup>21</sup> See KCPL and GMO response to MECG 3-5(c) and (d), as contained in Schedule MLB-1.



1 being realized now and are being retained for the sole benefit of shareholders  
2 since January 1, 2018.

3  
4 **Q IF THE KCPL AND GMO RATE CASES MUST BE COMPLETED AND RATE**  
5 **ORDERS ISSUED BEFORE CUSTOMERS BEGIN TO PROSPECTIVELY**  
6 **RECEIVE BENEFITS FROM THE TAX ACT, WILL CUSTOMERS RECEIVE**  
7 **THE “FULL BENEFITS OF THE NEW TAX LAW” THAT ARE REFERENCED**  
8 **BY MR. IVES?**

9 **A** No. Rate orders in the pending rate cases are not expected to be issued until  
10 late in calendar 2018. By then, nearly a full year’s worth of Tax Act benefits will  
11 have been retained for the sole benefit of Great Plains Energy shareholders and  
12 only prospective recognition of Tax Act benefits would ever flow to ratepayers.  
13 It is unreasonable to ignore Tax Act savings during the pendency of these rate  
14 cases and then make no provision to capture and return the cumulative value of  
15 Tax Act savings that will have been captured and retained for shareholders  
16 during this interval.

17  
18 **Q HAS THE MISSOURI LEGISLATURE RECENTLY TAKEN ACTION TO**  
19 **SECURE THE FINANCIAL BENEFITS FROM THE TAX ACT FOR ELECTRIC**  
20 **UTILITY CUSTOMERS FOR THE PERIOD STARTING JANUARY 1, 2018,**  
21 **THROUGH THE DATE ELECTRIC RATES ARE ADJUSTED TO REFLECT**  
22 **SUCH BENEFITS?**

1 A Yes. New Section 393.137 enacted in SB 564 directs the Commission to  
2 exercise one-time authority to adjust rates on a single-issue basis to recognize  
3 the full value of Tax Act savings without considering any other factors and also  
4 requires electric utilities, "...to defer to a regulatory asset the financial impact of  
5 such federal act on the electrical corporation for the period of January 1, 2018,  
6 through the date the electrical corporation's rates are adjusted" so as to fully  
7 capture Tax Act benefits for customers back to that date. The clear intent of this  
8 provision is that the full benefits from the Tax Act be credited to ratepayers. I  
9 understand that, because KCPL and GMO had rate cases pending on February  
10 1 of 2018, SB 564 does not apply directly to these utilities, but the principles  
11 underlying the legislation should guide the Commission to the same result for  
12 Tax Act benefits within the pending rate cases.

13  
14 **Q HAVE OTHER STATE REGULATORY COMMISSIONS ADOPTED**  
15 **PROVISIONS TO CAPTURE FOR RATEPAYERS THE BENEFITS OF TAX**  
16 **ACT SAVINGS STARTING EARLY IN 2018?**

17 A Yes. Other state commissions have acted quickly to institute Tax Act regulatory  
18 mechanisms to ensure that federal income tax expense savings flow fully to  
19 ratepayers. Examples of these actions include:

- 20 • Hawaii Public Utilities Commission Order No. 35241 Opening a  
21 Proceeding to Investigate the Impacts of the Tax Cuts and Jobs Act of  
22 2017 issued January 26, 2018 in Docket No. 2018-0012 required that,  
23 "Each utility shall use deferred regulatory accounting practices, such as

1 the use of regulatory assets and liabilities, to record the differences  
2 resulting from the 2017 Tax Act and what would have been recorded if  
3 the Act did not go into effect.”<sup>22</sup>

- 4 • Iowa Utilities Board Order Initiating Investigation issued January 18, 2018  
5 in Docket No. INU-2018-0001 required responsive filings and workshops  
6 and, “... finds it appropriate and in the public interest for the rate-  
7 regulated utilities to track all calculated differences resulting from the Act  
8 since January 1, 2018, and what would have been recorded if the Act  
9 had not gone into effect, such that any overpayments can be refunded at  
10 a future date, if appropriate.”<sup>23</sup>

- 11 • Tennessee Public Utility Commission Order Opening Investigation and  
12 Requiring Deferred Accounting Treatment issued February 6, 2018 in  
13 Docket No. 18-00001.<sup>24</sup>

- 14 • Texas Railroad Commission Gas Utilities Accounting Order effective  
15 January 1, 2018 requires the recording of, “...regulatory liabilities to  
16 reflect the impact of the decrease to the federal corporate income tax rate  
17 under the Act” in Gas Utilities Docket No. 10695.<sup>25</sup>

18  
19 **Q HAS KCPL COMMENCED REGULATORY ACCOUNTING FOR TAX ACT**  
20 **BENEFITS IN ITS KANSAS JURISDICTION, TO TRACK AND RETURN**  
21 **SUCH BENEFITS TO CUSTOMERS?**

<sup>22</sup> Available at: <https://dms.puc.hawaii.gov/dms/DocumentViewer?pid=A1001001A18A26B20316E00577>

<sup>23</sup> Available at: <https://efs.iowa.gov/cs/groups/external/documents/docket/mdax/njy1/~edisp/1665543.pdf>

<sup>24</sup> Available at: <http://ipu.msu.edu/wp-content/uploads/2018/01/18-00001-TPUC-Order-opening-Investigation-2018-02-07.pdf>

<sup>25</sup> Available at: <http://www.rrc.state.tx.us/media/44158/gud-10695-accounting-order-01-01-18.pdf>

1 A Yes. In accordance with the Kansas Corporation Commission Order "Opening  
2 General Investigation and Issuing Accounting Authority Order Regarding  
3 Federal Income Tax Reform", KCPL started accruing a liability in Kansas for the  
4 Federal Income Tax Rate Change from 35% to 21%.<sup>26</sup> However, no  
5 comparable regulatory liability accounting has been implemented for KCPL in  
6 Missouri or for GMO to capture 2018 Tax Act savings for the benefit of Missouri  
7 ratepayers.

8

9 **Q EARLIER IN THIS TESTIMONY, YOU MENTIONED COMMONWEALTH  
10 EDISON COMPANY IN ILLINOIS AND THE EXCESS ADIT AMORTIZATION  
11 PROPOSALS BEING ADVANCED BY COMED. ARE COMED'S TAX ACT  
12 SAVINGS ALREADY BEING FLOWED THROUGH TO CUSTOMERS, WHILE  
13 ELECTRIC RATE CASES ARE PENDING IN THAT STATE?**

14 A Yes. Commonwealth Edison filed its tariff captioned "Rider ATRB – Advancing  
15 2018 Tax Reform Benefits" that were approved by that Commission. Through  
16 Rider ATRB, ComEd expects to pass through to customers this year  
17 approximately \$201 million in estimated tax cost savings from the recently  
18 enacted federal Tax Cuts and Jobs Act of 2017 ("TCJA"), Public Law 115-97."  
19 A comparable Rider ATRB was also filed and approved for Ameren Illinois  
20 Company.<sup>27</sup>

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<sup>26</sup> KCPL response to data request MECG 1-1(f) included in Schedule MLB-4.

<sup>27</sup> See Verified Petition of Commonwealth Edison Company filed January 5, 2018 in Docket No. 18-0034, at page 1. Rider ATRB was approved on January 18, 2018. Documents are publicly available at: <https://www.icc.illinois.gov/docket/Documents.aspx?no=18-0034>  
The comparable Rider ATRB filing by Ameren Illinois Company and ICC approval is publicly available at: <https://www.icc.illinois.gov/docket/Documents.aspx?no=18-0210>

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**Q WHAT IS YOUR RECOMMENDATION REGARDING THE QUANTIFICATION AND TREATMENT OF TAX ACT SAVINGS BEING REALIZED IN 2018, WHILE THE KCPL AND GMO RATE CASES ARE PENDING?**

A I recommend that an annual level of Tax Act expense savings be quantified for KCPL and for GMO, based upon each utility's Commission-approved test year income statement and resulting amounts of Net Taxable Income at currently effective rate levels (before any rate change). These calculations would be finalized at the completion of the pending rate case, when any disputed issues involving test year adjusted revenues, expenses, taxable income and excess ADIT amortizations have been resolved by the Commission. The resulting annual revenue requirement impact of the Tax Act for each utility would then be translated into an average daily amount that should be multiplied by the number of elapsed days starting from January 1, 2018 to the effective date of new base rates for KCPL and GMO. The resulting pro-rated annual amounts would then be recorded as a regulatory liability and amortized as an offset to the approved revenue requirements for KCPL and GMO over a period during which new base rates are expected to remain in effect.

**Q HAVE THE COMPANIES PREPARED CALCULATIONS ON THIS BASIS, USING THEIR FILED POSITIONS REGARDING TEST YEAR REVENUES, EXPENSES, TAXABLE INCOME AND EXCESS ADIT AMORTIZATION PERIODS?**

1 A Yes. In response to data request MECG 1-1, the Companies calculated test  
2 year Tax Act "Gross Revenue Requirement Change – TAX Reform" impacts of  
3 \$38.4 million and \$29.1 million for KCPL and GMO, respectively. A copy of this  
4 response with the relevant attachments is included in Schedule MLB-4. These  
5 calculations should serve as a template for the updating calculations to be  
6 performed when all rate case issues impacting the input values used in these  
7 calculations have been resolved in the Commission's final rate orders for KCPL  
8 and GMO.

9

10 **Q WHY SHOULD THE COMMISSION NOT RELY UPON THE RESULTS OF**  
11 **THESE CALCULATIONS, BUT INSTEAD UPDATE AND MODIFY THE**  
12 **INPUTS TO "MATCH" THE FINAL RATE ORDERS IN THE PENDING RATE**  
13 **CASES?**

14 A The Companies' calculations in Schedule MLB-4 are based upon the utilities'  
15 prefilled rate case evidence, including only the KCPL and GMO-proposed  
16 ratemaking methods and adjustments. Modifications should be applied to these  
17 calculations to recognize every ratemaking adjustment that is approved by the  
18 Commission and that revises the taxable income calculated by the Companies  
19 in the Schedule MLB-4 calculations. For example, adoption of the modified  
20 excess ADIT and NOL amortization periods described and proposed above  
21 would dramatically impact these calculations. Every other adjustment to the  
22 Companies' proposed test year sales volumes, expenses or rate base would  
23 impact taxable income and the resulting "value" of the Tax Act in 2018.

1 Q PLEASE EXPLAIN HOW THE RESULT OF UPDATED STUB PERIOD TAX  
2 ACT SAVINGS SHOULD BE TREATED IN THE COMMISSION'S FINAL  
3 ORDERS.

4 A The Companies' stub period calculations in Schedule MLB-4, even though  
5 subject to revisions to conform to the Commission's ultimate order, can be used  
6 to illustrate my recommendation for how calendar 2018 Tax Act savings should  
7 be credited to customers in the Commission's final rate orders. If we assume  
8 new approved base rates reflective of Tax Act savings are effective on  
9 December 1, 2018, a daily prorate factor of 335/365 days would be applied to  
10 the \$38.4 KCPL value and the \$29.1 million GMO value in the Companies'  
11 calculated Tax Act valuation, resulting in regulatory liabilities of \$35.2 million  
12 and \$26.7 million for KCPL and GMO respectively.<sup>28</sup> Then, if we further assume  
13 that new base rates will remain in effect for 36 months, 1/3 of these pro-rated  
14 amounts would be taken as a bottom-line reduction to the otherwise approved  
15 base rate increase.<sup>29</sup> Alternatively, a one-time bill credit could be employed to  
16 more quickly return Tax Act savings in 2018 to customers.

17

18 Q HAVE YOU SEEN THIS APPROACH EMPLOYED IN OTHER REGULATORY  
19 PROCEEDINGS?

20 A Yes. A similar daily pro-rate of the accumulated Tax Act savings was applied as  
21 a reduction to the revenue requirements approved in settlement of recent rate

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<sup>28</sup> KCPL's calculated value in MECG 1-1 of \$38.4 million, times 335 days / 365 days = \$35.2 million.  
GMO's calculated value in MECG 1-1 of \$29.1 million, times 335 days / 365 days = \$26.7 million.

<sup>29</sup> A three-year amortization would seem to be reasonable in that recently enacted SB564 requires, in the event a utility opts into plant-in-service accounting, a three-year moratorium from the completion of the most recent rate case.

1 cases for Hawaiian Electric Company and Hawaii Electric Light Company in  
2 Docket Nos. 2016-0328 and 2015-0170.<sup>30</sup>

3  
4 **Q IN ITS RESPONSE TO DATA REQUEST MECG 1-1, THE COMPANIES**  
5 **STATE, "THE NET IMPACT OF THE TCJA ON STUB PERIOD (THE TIME**  
6 **BETWEEN EFFECTIVENESS OF TCJA AND THE EFFECTIVE DATE OF**  
7 **RATES FROM THIS BASE RATE REVIEW PROCEEDING) REVENUE**  
8 **REQUIREMENT IS UNCERTAIN."<sup>31</sup> DO YOU AGREE?**

9 **A** No. When FIT rates change, the primary input to determine the "value" of the  
10 tax rate change is the level of taxable income for the time period in question.  
11 When a rate case is pending, the Commission will need to determine this value  
12 for the test year by reviewing and approving test year revenues, expenses and  
13 income after deciding how to resolve any disputed issues in determining such  
14 amounts. Once taxable income is determined, the revenue requirement value  
15 of the tax rate change is easily determined using the template calculation in the  
16 Companies' Attachment to MECG 1-1, applying the change in the federal  
17 income tax rate. The only other significant variable in this calculation is the  
18 amortization period to be applied to excess ADIT balances, which should also  
19 be determined by the Commission in these pending rate cases.

20  

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<sup>30</sup> See Hawaii Public Utilities Commission Docket No. 2016-0328, Order No. 35335, March 9, 2018, at 9.  
<https://dms.puc.hawaii.gov/dms/DocumentViewer?pid=A1001001A18C09B21406E00149>  
See Hawaii Public Utilities Commission Docket No. 2015-0170, Order No. 35419, April 24, 2018, at 5.  
<https://dms.puc.hawaii.gov/dms/DocumentViewer?pid=A1001001A18D25A84926B00443>

<sup>31</sup> See Schedule MLB-4 at part (d).



1 **Q SHOULD THE COMMISSION BE DISCOURAGED FROM ACCOUNTING FOR**  
2 **THE DISCRETE VALUE OF THE TAX ACT AS A REDUCTION TO REVENUE**  
3 **REQUIREMENTS BECAUSE OTHER ELEMENTS OF THE COMPANY'S**  
4 **COSTS MAY HAVE INCREASED, OFFSETTING TAX ACT SAVINGS?**

5 A No. The Tax Act is an extraordinary change resulting from congressional action  
6 that creates a windfall of tax expense savings to utilities starting on January 1,  
7 2018. These savings should be captured and credited to ratepayers as directly  
8 and quickly as possible. There is no reason to dilute these benefits by  
9 assuming that other unproven and potentially offsetting utility cost increases  
10 exist and should be recognized. Additionally, by using Commission-approved  
11 test year taxable income values at present revenue levels as the input to  
12 quantify the stub period adjustment, the most current available data presented  
13 in rate case evidence will already reflect current cost levels, including any higher  
14 costs that might arguably offset Tax Act savings.

15  
16 **Q HAVE KCPL AND GMO PROPOSED ANY ALTERNATIVE ACCOUNTING**  
17 **FOR TAX ACT SAVINGS IN THE SO-CALLED "STUB PERIOD" FROM**  
18 **JANUARY 1, 2012 TO THE EFFECTIVE DATE OF NEW RATES?**

19 A Yes. In response to Staff data request 304, the Companies went back to the  
20 KCPL and GMO Revenue Requirement Models that were developed in support  
21 of the final ordered revenue requirements in Case Numbers ER-2016-0156 and  
22 ER-2016-0285 to calculate the annual value of the change in the federal income  
23 tax rate from 35% to 21%. Generally lower Tax Act annual savings estimates

1 than I have calculated were produced under this approach, at \$33.3 million for  
2 KCPL and a range of \$26.7 to \$27.4 for GMO. I have included a copy of this  
3 response and the summary of results page within Schedule MLB-5.

4 In this response to Staff, the Companies recommend translation of the  
5 annual Tax Act savings into a "Per Day" pro-rated value based upon the number  
6 of days from January 1, 2018 to the assumed date of new effective base rates  
7 that incorporate Tax Act savings. This is the same approach I described above.  
8 The response also states, "The options for flow back to the customer that the  
9 company considered was to net any result from the 2018 rate cases with the  
10 calculated stub period amount through a one-time bill credit or an amortization  
11 that would be included in revenue requirements in the current rate cases. A bill  
12 credit would be a one-time event and a faster flow back to the customer."  
13

14 **Q SHOULD THE ALTERNATIVE TAX ACT SAVINGS CALCULATIONS**  
15 **DERIVED FROM PRIOR RATE CASE ORDERS, AS PRESENTED IN THE**  
16 **RESPONSE TO STAFF DATA REQUEST 304, BE EMPLOYED FOR THIS**  
17 **PURPOSE?**

18 **A** No. The previous rate case amounts are not reflective of current levels of  
19 taxable income and contain no information about current revenues and costs to  
20 provide service. Instead, the more current financial information from the pending  
21 rate cases should be relied upon, after Commission review and approval, to  
22 determine each utility's taxable income and Tax Act savings from the lower 21  
23 percent FIT rate effective in 2018. Through reliance upon the most current

1 available revenue and cost data, any concerns that may be raised by the  
2 Companies about offsetting higher costs or other changes that are diluting Tax  
3 Act savings can be fully considered and addressed in the Commission's Order  
4 based upon overall revenue requirement inputs and calculations. Additionally,  
5 any utilization of prior rate case data from Staff Data Request 304 would be  
6 incomplete because that data completely ignores the amortization of excess  
7 ADIT balances that KCPL and GMO are recording in 2018, in amounts that are  
8 additive to Tax Act savings that must be returned to ratepayers.

9  
10 **Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

11 **A** I recommend the Commission take the following actions:

- 12 1. Consistent with KCPL / GMO's workpapers, the Commission should  
13 utilize a 21% federal income tax rate for calculating a prospective  
14 revenue requirement.
- 15 2. As recommended by KCPL / GMO, the Commission should utilize the  
16 ARAM based amortization period for the "Code Restricted – Accelerated  
17 Tax Depreciation" category of excess accumulated deferred income  
18 taxes.
- 19 3. For the "Non-Restricted Plant Related Differences" category of excess  
20 accumulated deferred income taxes, the Commission should reject the  
21 Companies' extended amortization period and return the benefits to  
22 ratepayers over a ten-year amortization period.

- 1           4.     For the “Other Book Tax Differences” category of accumulated deferred  
2                   income taxes, the Commission should utilize a five-year amortization  
3                   period instead of the 10 years recommended by KCPL / GMO.
- 4           5.     For the “Net Operating Loss Deferred Tax Asset”, the Commission  
5                   should utilize the same ARAM based amortization period as used for  
6                   restricted accumulated deferred income taxes.
- 7           6.     The Commission should quantify the benefits associated with the TCJA  
8                   for the period of January 1, 2018 through the date that rates are changed  
9                   in this case, using rate-case approved test year revenues, expenses,  
10                  taxable income and excess ADIT amortization periods as calculation  
11                  inputs and then amortize that benefit into rates in this case over a three  
12                  year period.

13

14   **Q     DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15   **A     Yes.**

# Appendix A

**Michael L. Brosch**

Utilitech, Inc. – President  
Bachelor of Business Administration (Accounting)  
University of Missouri-Kansas City (1978)  
Certified Public Accountant Examination (1979)

**GENERAL**

Mr. Brosch serves as the director of regulatory projects for the firm and is responsible for the planning, supervision and conduct of firm engagements. His academic background is in business administration and accounting and he holds CPA certificates in Kansas and Missouri. Expertise is concentrated within regulatory policy, financial and accounting areas with an emphasis in public utility revenue requirements, cost allocations, rate design, business reorganization and alternative regulation.

**EXPERIENCE**

Mr. Brosch has supervised and conducted the preparation of rate case exhibits and testimony in support of revenue requirements and regulatory policy issues involving more than 100 electric, gas, telephone, water, and sewer proceeding across the United States. Responsible for virtually all facets of revenue requirement determination, cost of service allocations and tariff implementation in addition to involvement in numerous utility merger, alternative regulation, utility merger proceedings and other special project investigations.

Industry restructuring analysis for gas utility rate unbundling, electric deregulation, competitive bidding and strategic planning, with testimony on regulatory processes, asset identification and classification, revenue requirement and unbundled rate designs and class cost of service studies.

Analyzed and presented testimony regarding income tax related issues within ratemaking proceedings involving interpretation of relevant Internal Revenue Code provisions, accounting for income taxes and applicable regulatory restrictions.

Conducted extensive review of the economic impact upon regulated utility companies of various transactions involving affiliated companies. Reviewed the parent-subsidiary relationships of integrated electric and telephone utility holding companies to determine appropriate treatment of consolidated tax benefits and capital costs. Sponsored testimony on affiliated interests in numerous Bell and major independent telephone company rate proceedings.

Has substantial experience in the application of lead-lag study concepts and methodologies in determination of working capital investment to be included in rate base.

Conducted alternative regulation analyses for clients in Arizona, California, Hawaii, Oklahoma and Texas, focused upon challenges introduced by cost-based regulation, incentive effects available through alternative regulation and balancing of risks, opportunities and benefits among stakeholders.

Mr. Brosch managed the detailed regulatory review of utility mergers and acquisitions, diversification studies and holding company formation issues in energy and telecommunications transactions in multiple states. Sponsored testimony regarding merger synergies, merger accounting and tax implications, regulatory planning and price path strategies. Traditional horizontal utility mergers as well as leveraged buyouts of utility properties by private equity investors were addressed in several states.

Analyzed the utilization of alternative forms of regulation for energy and telecommunications utilities, including formula ratemaking, deferral/amortization accounting, rate adjustment riders and revenue decoupling methodologies. Mr. Brosch has been involved in the design of alternative regulation structures and tariffs and has addressed the attrition considerations and

management efficiency incentive impacts arising from alternative regulation. Has been responsible for administration of alternative regulation filings in multiple jurisdictions.

### **WORK HISTORY**

- 1985 - Present      **Principal** - Utilitech, Inc.
- 1983 - 1985:      **Project manager** - Lubow McKay Stevens and Lewis.  
Responsible for supervision and conduct of utility regulatory projects on behalf of industry and regulatory agency clients.
- 1982 - 1983:      **Regulatory consultant** - Troupe Kehoe Whiteaker and Kent.  
Responsible for management of rate case activities involving analysis of utility operations and results, preparation of expert testimony and exhibits, and issue development including research and legal briefs. Also involved in numerous special projects including financial analysis and utility systems planning. Taught firm's professional education course on "utility income taxation - ratemaking and accounting considerations" in 1982.
- 1978 - 1982:      **Senior Regulatory Accountant** - Missouri Public Service Commission.  
Supervised and conducted rate case investigations of utilities subject to PSC jurisdiction in response to applications for tariff changes. Responsibilities included development of staff policy on ratemaking issues, planning and evaluating work of outside consultants, and the production of comprehensive testimony and exhibits in support of rate case positions taken.

### **OTHER QUALIFICATIONS**

- Bachelor of Business Administration - Accounting, 1978  
University of Missouri - Kansas City "with distinction"
- Member      American Institute of Certified Public Accountants  
Missouri Society of Certified Public Accountants  
Kansas Society of Certified Public Accountants
- Attended      Iowa State Regulatory Conference 1981, 1985  
Regulated Industries Symposium 1979, 1980  
Michigan State Regulatory Conference 1981  
United States Telephone Association Round Table 1984  
NARUC/NASUCA Annual Meeting 1988, Speaker  
NARUC/NASUCA Annual Meeting 2000, Speaker  
NASUCA Regional Consumer Protection Meeting 2007, Speaker
- Instructor      INFOCAST Ratemaking Courses  
Arizona Staff Training  
Hawaii Staff Training

Utility Company	State	Tribunal	Case Number	Client	Year	Issues Addressed
Green Hills Telephone Company	Missouri	PSC	TR-78-282	Staff	1978	Rate Base, Operating Income
Kansas City Power and Light Co.	Missouri	PSC	ER-78-252	Staff	1978	Rate Base, Operating Income
Missouri Public Service Company	Missouri	PSC	ER-79-59	Staff	1979	Rate Base, Operating Income
Nodaway Valley Telephone Company	Missouri	PSC	16,567	Staff	1979	Rate Base, Operating Income
Gas Service Company	Missouri	PSC	GR-79-114	Staff	1979	Rate Base, Operating Income
United Telephone Company	Missouri	PSC	TO-79-227	Staff	1979	Rate Base, Operating Income
Southwestern Bell Telephone Co.	Missouri	PSC	TR-79-213	Staff	1979	Rate Base, Operating Income
Missouri Public Service Company	Missouri	PSC	ER-80-118 GR-80-117	Staff	1980	Rate Base, Operating Income
Southwestern Bell Telephone Co.	Missouri	PSC	TR-80-256	Staff	1980	Affiliate Transactions
United Telephone Company	Missouri	PSC	TR-80-235	Staff	1980	Affiliate Transactions, Cost Allocations
Kansas City Power and Light Co.	Missouri	PSC	ER-81-42	Staff	1981	Rate Base, Operating Income
Southwestern Bell Telephone	Missouri	PSC	TR-81-208	Staff	1981	Rate Base, Operating Income, Affiliated Interest
Northern Indiana Public Service	Indiana	PSC	36689	Consumers Counsel	1982	Rate Base, Operating Income
Northern Indiana Public Service	Indiana	URC	37023	Consumers Counsel	1983	Rate Base, Operating Income, Cost Allocations
Mountain Bell Telephone	Arizona	ACC	7781-EL-01-106	Staff	1982	Affiliated Interest
Sun City Water	Arizona	ACC	U-1656-81-332	Staff	1982	Rate Base, Operating Income
Sun City Sewer	Arizona	ACC	U-1656-81-331	Staff	1982	Rate Base, Operating Income
El Paso Water	Kansas	City Counsel	Unknown	Company	1982	Rate Base, Operating Income, Rate of Return
Ohio Power Company	Ohio	PUCO	83-98-EL-AIR	Consumer Counsel	1983	Operating Income, Rate Design, Cost Allocations
Dayton Power & Light Company	Ohio	PUCO	83-777-GA-AIR	Consumer Counsel	1983	Rate Base
Walnut Hill Telephone	Arkansas	PSC	83-010-U	Company	1983	Operating Income, Rate Base
Cleveland Electric Illum.	Ohio	PUCO	84-188-EL-AIR	Consumer Counsel	1984	Rate Base, Operating Income, Cost Allocations
Cincinnati Gas & Electric	Ohio	PUCO	84-13-EL-EFC	Consumer Counsel	1984	Fuel Clause
Cincinnati Gas & Electric	Ohio	PUCO	84-13-EL-EFC (Subfile A)	Consumer Counsel	1984	Fuel Clause
General Telephone - Ohio	Ohio	PUCO	84-1026-TP-AIR	Consumer Counsel	1984	Rate Base
Cincinnati Bell Telephone	Ohio	PUCO	84-1272-TP-AIR	Consumer Counsel	1985	Rate Base
Ohio Bell Telephone	Ohio	PUCO	84-1535-TP-AIR	Consumer Counsel	1985	Rate Base
United Telephone - Missouri	Missouri	PSC	TR-85-179	Staff	1985	Rate Base, Operating Income
Wisconsin Gas	Wisconsin	PSC	05-UI-18	Staff	1985	Diversification-Restructuring
United Telephone - Indiana	Indiana	URC	37927	Consumer Counsel	1986	Rate Base, Affiliated Interest



Utility Company	State	Tribunal	Case Number	Client	Year	Issues Addressed
Indianapolis Power & Light	Indiana	URC	37837	Consumer Counsel	1986	Rate Base
Northern Indiana Public Service	Indiana	URC	37972	Consumer Counsel	1986	Plant Cancellation Costs
Northern Indiana Public Service	Indiana	URC	38045	Consumer Counsel	1986	Rate Base, Operating Income, Cost Allocations, Capital Costs
Arizona Public Service	Arizona	ACC	U-1435-85-367	Staff	1987	Rate Base, Operating Income, Cost Allocations
Kansas City, KS Board of Public Utilities	Kansas	BPU	87-1	Municipal Utility	1987	Operating Income, Capital Costs
Detroit Edison	Michigan	PSC	U-8683	Industrial Customers	1987	Income Taxes
Consumers Power	Michigan	PSC	U-8681	Industrial Customers	1987	Income Taxes
Consumers Power	Michigan	PSC	U-8680	Industrial Customers	1987	Income Taxes
Northern Indiana Public Service	Indiana	URC	38365	Consumer Counsel	1987	Rate Design
Indiana Gas	Indiana	URC	38080	Consumer Counsel	1987	Rate Base
Northern Indiana Public Service	Indiana	URC	38380	Consumers Counsel	1988	Rate Base, Operating Income, Rate Design, Capital Costs
Terre Haute Gas	Indiana	URC	38515	Consumers Counsel	1988	Rate Base, Operating Income, Capital Costs
United Telephone -Kansas	Kansas	KCC	162,044-U	Consumers Counsel	1989	Rate Base, Capital Costs, Affiliated Interest
US West Communications	Arizona	ACC	E-1051-88-146	Staff	1989	Rate Base, Operating Income, Affiliate Interest
All Kansas Electrics	Kansas	KCC	140,718-U	Consumers Counsel	1989	Generic Fuel Adjustment Hearing
Southwest Gas	Arizona	ACC	E-1551-89-102 E-1551-89-103	Staff	1989	Rate Base, Operating Income, Affiliated Interest
American Telephone and Telegraph	Kansas	KCC	167,493-U	Consumers Counsel	1990	Price/Flexible Regulation, Competition, Revenue Requirements
Indiana Michigan Power	Indiana	URC	38728	Consumer Counsel	1989	Rate Base, Operating Income, Rate Design
People Gas, Light and Coke Company	Illinois	ICC	90-0007	Public Counsel	1990	Rate Base, Operating Income
United Telephone Company	Florida	PSC	891239-TL	Public Counsel	1990	Affiliated Interest
Southwestern Bell Telephone Company	Oklahoma	OCC	PUD-000662	Attorney General	1990	Rate Base, Operating Income (Testimony not admitted)
Arizona Public Service Company	Arizona	ACC	U-1345-90-007	Staff	1991	Rate Base, Operating Income
Indiana Bell Telephone Company	Indiana	URC	39017	Consumer Counsel	1991	Test Year, Discovery, Schedule
Southwestern Bell Telephone Company	Oklahoma	OCC	39321	Attorney General	1991	Remand Issues
UtiliCorp United/ Centel	Kansas	KCC	175,476-U	Consumer Counsel	1991	Merger/Acquisition

Utility Company	State	Tribunal	Case Number	Client	Year	Issues Addressed
Southwestern Bell Telephone Company	Oklahoma	OCC	PUD-000662	Attorney General	1991	Rate Base, Operating Income
United Telephone - Florida	Florida	PSC	910980-TL	Public Counsel	1992	Affiliated Interest
Hawaii Electric Light Company	Hawaii	PUC	6999	Consumer Advocate	1992	Rate Base, Operating Income, Budgets/Forecasts
Maui Electric Company	Hawaii	PUC	7000	Consumer Advocate	1992	Rate Base, Operating Income, Budgets/Forecasts
Southern Bell Telephone Company	Florida	PSC	920260-TL	Public Counsel	1992	Affiliated Interest
US West Communications	Washington	WUTC	U-89-3245-P	Attorney General	1992	Alternative Regulation
UtiliCorp United/ MPS	Missouri	PSC	ER-93-37	Staff	1993	Affiliated Interest
Oklahoma Natural Gas Company	Oklahoma	OCC	PUD-1151, 1144, 1190	Attorney General	1993	Rate Base, Operating Income, Take or Pay, Rate Design
Public Service Company of Oklahoma	Oklahoma	OCC	PUD-1342	Staff	1993	Rate Base, Operating Income, Affiliated Interest
Illinois Bell Telephone	Illinois	ICC	92-0448 92-0239	Citizens Board	1993	Rate Base, Operating Income, Alt. Regulation, Forecasts, Affiliated Interest
Hawaii Electric Company	Hawaii	PUC	7700	Consumer Advocate	1993	Rate Base, Operating Income
US West Communications	Arizona	ACC	E-1051-93-183	Staff	1994	Rate Base, Operating Income
PSI Energy, Inc.	Indiana	URC	39584	Consumer Counselor	1994	Rate Base, Operating Income, Alt. Regulation, Forecasts, Affiliated Interest
Arkla, a Division of NORAM Energy	Oklahoma	OCC	PUD-940000354	Attorney General	1994	Cost Allocations, Rate Design
PSI Energy, Inc.	Indiana	URC	39584-S2	Consumer Counselor	1994	Merger Costs and Cost Savings, Non-Traditional Ratemaking
Transok, Inc.	Oklahoma	OCC	PUD-1342	Staff	1994	Rate Base, Operating Income, Affiliated Interest, Allocations
Oklahoma Natural Gas Company	Oklahoma	OCC	PUD-940000477	Attorney General	1995	Rate Base, Operating Income, Cost of Service, Rate Design
US West Communications	Washington	WUTC	UT-950200	Attorney General/ TRACER	1995	Operating Income, Affiliate Interest, Service Quality
PSI Energy, Inc.	Indiana	URC	40003	Consumer Counselor	1995	Rate Base, Operating Income
Oklahoma Natural Gas Company	Oklahoma	OCC	PUD-880000598	Attorney General	1995	Stand-by Tariff
GTE Hawaiian Telephone Co., Inc.	Hawaii	PUC	PUC 94-0298	Consumer Advocate	1996	Rate Base, Operating Income, Affiliate Interest, Cost Allocations

Utility Company	State	Tribunal	Case Number	Client	Year	Issues Addressed
Mid-American Energy Company	Iowa	ICC	APP-96-1	Consumer Advocate	1996	Non-Traditional Ratemaking
Oklahoma Gas and Electric Company	Oklahoma	OCC	PUD-960000116	Attorney General	1996	Rate Base, Operating Income, Rate Design, Non-Traditional Ratemaking
Southwest Gas Corporation	Arizona	ACC	U-1551-96-596	Staff	1997	Operating Income, Affiliated Interest, Gas Supply
Utilicorp United - Missouri Public Service Division	Missouri	PSC	EO-97-144	Staff	1997	Operating Income
US West Communications	Utah	PSC	97-049-08	Consumer Advocate	1997	Rate Base, Operating Income, Affiliate Interest, Cost Allocations
US West Communications	Washington	WUTC	UT-970766	Attorney General	1997	Rate Base, Operating Income
Missouri Gas Energy	Missouri	PSC	GR 98-140	Public Counsel	1998	Affiliated Interest
ONEOK	Oklahoma	OCC	PUD980000177	Attorney General	1998	Gas Restructuring, rate Design, Unbundling
Nevada Power/Sierra Pacific Power Merger	Nevada	PSC	98-7023	Consumer Advocate	1998	Merger Savings, Rate Plan and Accounting
PacifiCorp / Utah Power	Utah	PSC	97-035-1	Consumer Advocate	1998	Affiliated Interest
MidAmerican Energy / CalEnergy Merger	Iowa	PUB	SPU-98-8	Consumer Advocate	1998	Merger Savings, Rate Plan and Accounting
American Electric Power / Central and South West Merger	Oklahoma	OCC	980000444	Attorney General	1998	Merger Savings, Rate Plan and Accounting
ONEOK Gas Transportation	Oklahoma	OCC	970000088	Attorney General	1998	Cost of Service, Rate Design, Special Contract
U S West Communications	Washington	WUTC	UT-98048	Attorney General	1999	Directory Imputation and Business Valuation
U S West / Qwest Merger	Iowa	PUB	SPU 99-27	Consumer Advocate	1999	Merger Impacts, Service Quality and Accounting
U S West / Qwest Merger	Washington	WUTC	UT-991358	Attorney General	2000	Merger Impacts, Service Quality and Accounting
U S West / Qwest Merger	Utah	PSC	99-049-41	Consumer Advocate	2000	Merger Impacts, Service Quality and Accounting
PacifiCorp / Utah Power	Utah	PSC	99-035-10	Consumer Advocate	2000	Affiliated Interest
Oklahoma Natural Gas, ONEOK Gas Transportation	Oklahoma	OCC	980000683, 980000570, 990000166	Attorney General	2000	Operating Income, Rate Base, Cost of Service, Rate Design, Special Contract
U S West Communications	New Mexico	PRC	3008	Staff	2000	Operating Income, Directory Imputation
U S West Communications	Arizona	ACC	T-0105B-99-0105	Staff	2000	Operating Income, Rate Base, Directory Imputation
Northern Indiana Public Service Company	Indiana	IURC	41746	Consumer Counsel	2001	Operating Income, Rate Base, Affiliate Transactions
Nevada Power Company	Nevada	PUCN	01-10001	Attorney General-BCP	2001	Operating Income, Rate Base, Merger Costs, Affiliates
Sierra Pacific Power Company	Nevada	PUCN	01-11030	Attorney General-BCP	2002	Operating Income, Rate Base, Merger Costs, Affiliates

Utility Company	State	Tribunal	Case Number	Client	Year	Issues Addressed
The Gas Company, Division of Citizens Communications	Hawaii	PUC	00-0309	Consumer Advocate	2001	Operating Income, Rate Base, Cost of Service, Rate Design
SBC Pacific Bell	California	PUC	1.01-09-002 R.01-09-001	Office of Ratepayer Advocate	2002	Depreciation, Income Taxes and Affiliates
Midwest Energy, Inc.	Kansas	KCC	02-MDWG-922- RTS	Agriculture Customers	2002	Rate Design, Cost of Capital
Qwest Communications – Dex Sale	Utah	PSC	02-049-76	Consumer Advocate	2003	Directory Publishing
Qwest Communications – Dex Sale	Washington	WUTC	UT-021120	Attorney General	2003	Directory Publishing
Qwest Communications – Dex Sale	Arizona	ACC	T-0105B-02-0666	Staff	2003	Directory Publishing
PSI Energy, Inc.	Indiana	IURC	42359	Consumer Counsel	2003	Operating Income, Rate Trackers, Cost of Service, Rate Design
Qwest Communications – Price Cap Review	Arizona	ACC	T-0105B-03-0454	Staff	2004	Operating Income, Rate Base, Fair Value, Alternative Regulation
Verizon Northwest Corp	Washington	WUTC	UT-040788	Public Counsel	2004	Directory Publishing, Rate Base, Operating Income
Citizens Gas & Coke Utility	Indiana	IURC	42767	Consumer Counsel	2005	Operating Income, Debt Service, Working Capital, Affiliate Transactions, Alternative Regulation
Hawaiian Electric Company	Hawaii	HPUC	04-0113	Consumer Advocate	2005	Operating Income, Rate Base, Cost of Service, Rate Design
Sprint/Nextel Corporation	Washington	WUTC	UT-051291	Public Counsel	2006	Directory Publishing, Corporate Reorganization
Puget Sound Energy, Inc.	Washington	WUTC	UE-060266 and UG-060267	Public Counsel	2006	Alternative Regulation
Hawaiian Electric Company	Hawaii	HPUC	05-0146	Consumer Advocate	2006	Community Benefits / Rate Discounts
Cascade Natural Gas Company	Washington	WUTC	UG-060259	Public Counsel	2006	Alternative Regulation
Arizona Public Service Company	Arizona	ACC	E-01345A-05- 0816	Staff	2006	Cost of Service Allocations
Hawaiian Electric Company	Hawaii	HPUC	05-0146	Consumer Advocate	2006	Capital Improvements and Discounted Rates
Hawaii Electric Light Company	Hawaii	HPUC	05-0315	Consumer Advocate	2006	Operating Income, Rate Base, Cost of Service, Rate Design
Union Electric Company d/b/a AmerenUE	Missouri	PSC	2007-0002	Attorney General	2007	Operating Income, Rate Base, Fuel Adjustment Clause
Hawaiian Electric Company	Hawaii	PUC	2006-0386	Consumer Advocate	2007	Operating Income, Cost of Service, Rate Design
Maui Electric Company	Hawaii	PUC	2006-0387	Consumer Advocate	2007	Operating Income, Cost of Service, Rate Design

Utility Company	State	Tribunal	Case Number	Client	Year	Issues Addressed
The Peoples Gas Light & Coke Company / North Shore Gas Company	Illinois	ICC	07-0241 07-0242	Attorney General	2007	Rate Adjustment Clauses
Commonwealth Edison	Illinois	ICC	07-0566	Attorney General, City	2008	Ratemaking Policy, Rate Trackers
Illinois Power Company, Illinois Public Service Co., Central Illinois Public Service Co.	Illinois	ICC	07-0585 cons.	Attorney General/CUB	2008	Rate Adjustment Clauses
Southwestern Public Service Company	Texas	PUCT	35763	Municipalities	2008	Operating Income, Rate Base, Affiliate Transactions
The Gas Company	Hawaii	PUC	2008-0081	Consumer Advocate	2009	Operating Income, Rate Base, Affiliate Transactions, Cost of Service, Rate Design
Hawaiian Electric Company	Hawaii	PUC	2008-0083	Consumer Advocate	2009	Operating Income, Rate Base, Affiliate Transactions, Cost of Service, Rate Design
Commonwealth Edison Company	Illinois	ICC	09-0263	Attorney General	2009	Rate Adjustment Clauses
Avista Corporation Washington WUTC	Washington	WUTC	UG-060518	Attorney General	2009	Rate Adjustment Clauses
Kauai Island Utility Cooperative	Hawaii	PUC	2009-0050	Consumer Advocate	2009	Operating Income, Cooperative Ratemaking Policies, Cost of Service
Maui Electric Company	Hawaii	PUC	2009-0163	Consumer Advocate	2010	Operating Income, Rate Base, Cost of Service, Rate Design
Hawaii Electric Light Company	Hawaii	PUC	2009-0164	Consumer Advocate	2010	Operating Income, Rate Base, Cost of Service, Rate Design
Commonwealth Edison Company	Illinois	ICC	10-0467	AG / CUB	2010	Operating Income, Rate Base
Commonwealth Edison Company	Illinois	ICC	10-0527	Attorney General	2010	Alternative Regulation
Atmos Pipeline - Texas	Texas	RCT	GUD 10000	ATM Cities	2010	Operating Income, Rate Base, Cost of Service, Rate Adjustment Clause
Ameren Missouri	Missouri	PSC	2011-0028	Industrial Customers	2011	Operating Income, Rate Base
Hawaiian Electric Company	Hawaii	PUC	2010-0080	Consumer Advocate	2011	Operating Income, Rate Base, Affiliate Transactions, Cost of Service, Rate Design
Utilities, Inc.	Illinois	ICC	11-0561..0566	Attorney General	2011	Operating Income, Rate Base, Rate Design
Commonwealth Edison Company	Illinois	ICC	11-0721	AG / CUB	2011	Alternative Regulation

Utility Company	State	Tribunal	Case Number	Client	Year	Issues Addressed
Utilities, Inc.	Illinois	ICC	11-0059 RH	AG	2012	Rate Design
Maui Electric, Ltd.	Hawaii	PUC	2011-0092	Consumer Advocate	2012	Operating Income, Rate Base, Cost of Service, Rate Design
Ameren Illinois Company	Illinois	ICC	12-0001	AG/AARP	2012	Alternative Regulation
Commonwealth Edison Company	Illinois	ICC	12-0321	AG	2012	Alternative Regulation
Ameren Illinois Company	Illinois	ICC	12-0293	AG	2012	Alternative Regulation
Ameren Missouri	Missouri	PSC	ER2012-0166	Industrials	2012	Income Taxes, Alternative Reg
Atmos Energy	Texas	RCT	10170	Municipals	2012	Operating Income, Rate Base
The Peoples Gas Light & Coke Company / North Shore Gas Company	Illinois	ICC	12-0511/0512	AG	2012	Operating Income, Rate Base
Ameren Illinois Company	Illinois	ICC	13-0192	AG	2013	Operating Income, Rate Base
Ameren Illinois Company	Illinois	ICC	13-0301	AG	2013	Alternative Regulation
Commonwealth Edison Company	Illinois	ICC	13-0318	AG	2013	Alternative Regulation
Commonwealth Edison Company	Illinois	ICC	13-0553	AG	2013	Alternative Regulation
Commonwealth Edison Company	Illinois	ICC	13-0589	AG	2014	Refund of Rider Revenues
Commonwealth Edison Company	Illinois	ICC	14-0312	AG	2014	Alternative Regulation
Ameren Illinois Company	Illinois	ICC	14-0317	AG	2014	Alternative Regulation
Southwestern Public Service Company	Texas	PUCT	43695	Municipals	2015	Operating Income, Rate Base
Ameren Missouri	Missouri	PSC	2014-0258	Industrials	2015	Income Taxes
Kansas City Power & Light Company	Missouri	PSC	2014-0370	Industrials	2015	Alternative Regulation, Taxes
Commonwealth Edison Company	Illinois	ICC	15-0287	AG	2015	Alternative Regulation
Ameren Illinois Company	Illinois	ICC	15-0305	AG	2015	Alternative Regulation
Hawaiian Electric Companies and NextEra Energy Inc.	Hawaii	PUC	2015-0022	Consumer Advocate	2015	Merger Issues
Florida Power & Light Company	Florida	FPSC	160021-EI	AARP	2016	Regulatory Policy, Rate of Return, Forecast Test Years
Southwestern Public Service Company	Texas	PUCT	45524	Municipals	2016	Operating Income, Rate Base
Commonwealth Edison Company	Illinois	ICC	16-0259	AG	2016	Alternative Regulation
Ameren Illinois Company	Illinois	ICC	16-0262	AG	2016	Alternative Regulation
Texas-Kansas-Oklahoma Gas, LLC.	Kansas	KCC	15-TKOG-236-COM	Farmers	2016	Billing Dispute

Utility Company	State	Tribunal	Case Number	Client	Year	Issues Addressed
Young Brothers, Ltd.	Hawaii	PUC	2016-0014	Consumer Advocate	2016	Revenue Requirement, Jurisdictional Allocations
Kansas City Power & Light Company	Missouri	PSC	2016-0285	Industrials	2016	Alternative Regulation
Hawaii Electric Light Company	Hawaii	PUC	2015-0170	Consumer Advocate	2017	Revenue Requirement, Class Allocations, Rate Design
Commonwealth Edison Company	Illinois	ICC	17-0196	AG	2017	Alternative Regulation
Puget Sound Energy	Washington	WUTC	UE-170022/UG-170034	AG	2017	Alternative Regulation
Hawaiian Electric Company	Hawaii	PUC	2016-0328	Consumer Advocate	2017	Revenue Requirement, Class Allocations, Rate Design
Southwestern Public Service Company	Texas	PUCT	46936	Municipals	2017	Regulatory Policy, Resource Plans
Great Plains Energy	Missouri	PSC	EM-2018-0012	Industrials	2018	Merger Issues
Dayton Power & Light	Ohio	PUCO	15-1830	Consumer Advocate	2018	Revenue Requirement
Maui Electric Co.	Hawaii	PUC	2017-0150	Consumer Advocate	2018	Revenue Requirement, Class Allocations, Rate Design

**Schedule MLB-1  
Has Been Deemed  
Confidential**



# Schedule MLB-2

**Commonwealth Edison Company**  
 Excess Deferred Taxes  
 12/31/17 Balance Remeasured to Forecast 2018 Amortization Estimate  
 (In Thousands)

Line No.	Account / Item - Debit / (Credit) Balance (A)	Deferred Type (B)	Gross ADIT 2017 Balance (C)	Net Federal ADIT (D)	Net State ADIT (E)	Net ADIT 2017 Balance (F)	Rate Change on 2017 Deferred Taxes (G)	Allocator (H)
<b>Summary (rounded to nearest million)</b>								
1	Total Excess Deferred Taxes							
2	Annual Amortization of Excess Deferred Taxes (grossed-up)							
3	<hr/>							
4	Accrued Holiday	Non-protected Non-Prop	(2,218)	(703)	(211)	(913)	281	Wages & Salaries
5	Accrued Vacation	Non-protected Non-Prop	31,823	10,060	3,023	13,103	(4,032)	Wages & Salaries
6	Accrued Legal	Non-protected Non-Prop	50	16	5	21	(6)	Wages & Salaries
7	Charitable Contributions	Not in Rate Base	15,589	4,938	1,481	6,419	(1,975)	Non DST
8	Obsolete Materials	Non-protected Non-Prop	5,833	1,848	554	2,402	(739)	Net Plant
9	Provision for Bad Debt	Non-protected Non-Prop	69,892	22,138	6,640	28,778	(8,855)	Revenue
10	Damage to Company Property	Non-protected Non-Prop	3,046	965	289	1,254	(386)	Net Plant
11	Taxes Other than Income Taxes	Non-protected Non-Prop	210	67	20	87	(27)	Net Plant
12	Incentive Compensation Plan	Non-protected Non-Prop	108,403	34,337	10,298	44,635	(13,735)	Wages & Salaries
13	Liability for Severance Plans	Non-protected Non-Prop	2,262	717	215	931	(287)	Wages & Salaries
14	CPS Energy Efficiency Fund	Not in Rate Base	2,781	881	264	1,145	(352)	Non DST
15	Other Accrued Expenses	Not in Rate Base	622	197	59	256	(79)	Non DST
16	Other Current	Non-protected Non-Prop	14,691	4,653	1,396	6,049	(1,861)	Wages & Salaries
17	Partnerships	Not in Rate Base	2,537	804	241	1,045	(321)	Non DST
18	Deferred Rental Expense	Non-protected Non-Prop	1,734	549	165	714	(220)	Wages & Salaries
19	Environmental Cleanup Costs - Non-MGP (Mfg Gas Plants)	Non-protected Non-Prop	1,542	488	146	635	(195)	DST
20	Executive Uninsured Death Benefits after Retirement	Non-protected Non-Prop	2,533	802	241	1,043	(321)	Wages & Salaries
21	Deferred on Unamortized ITC	Not in Rate Base	-	-	-	-	-	Non DST
22	Federal NOL DTA-Eclusion	Protected Property	30,558	10,695	-	10,695	(4,278)	Non DST
23	Incentive Compensation Deferred Stock Bonus Plan	Non-protected Non-Prop	981	311	93	404	(124)	Non DST
24	Stock Options; Other Equity Based Compensation	Non-protected Non-Prop	19,138	6,062	1,818	7,880	(2,425)	Non DST
25	Workers Compensation and Public Claims Reserve	Non-protected Non-Prop	61,954	19,624	5,886	25,510	(7,850)	Wages & Salaries
26	Long-Term Debt - Revaluation of Discount	Not in Rate Base	(402)	(127)	(38)	(166)	51	Non DST
27	Management Deferred Compensation Plan	Non-protected Non-Prop	33,948	10,753	3,225	13,978	(4,301)	Wages & Salaries
28	Manufactured Gas Plants - Provision	Non-protected Non-Prop	283,155	89,689	26,900	116,589	(35,876)	Non DST
29	Merger Costs	Not in Rate Base	(2,095)	(663)	(199)	(862)	265	Non DST
30	Post Retirement Health Care Liability	Non-protected Non-Prop	221,691	70,221	21,061	91,281	(28,088)	Wages & Salaries
31	Public Utility Fund Contribution	Not in Rate Base	-	-	-	-	-	Non DST
32	Reverse Subject to Refund	Not in Rate Base	-	-	-	-	-	Non DST
33	Supplemental Employee Retirement Plan	Non-protected Non-Prop	7,421	2,351	705	3,056	(940)	Wages & Salaries
34	Long-Term Incentive - Cash	Non-protected Non-Prop	(8,167)	(2,587)	(776)	(3,363)	1,035	Wages & Salaries
35	Interest on Projected Tax Settlements	Not in Rate Base	(3,760)	(1,191)	(357)	(1,548)	476	Non DST
36	Use Tax Adjustment	Non-protected Non-Prop	(360)	(114)	(34)	(148)	46	Net Plant
37	Midwest Generation Settlement Asset	Not in Rate Base	(11,040)	(3,497)	(1,049)	(4,546)	1,359	Non DST
38	Regulatory (Asset) Liab: Docket No 07-0566	Non-protected Non-Prop	-	-	-	-	-	DST
39	Regulatory (Asset) Liab: Transmission	Not in Rate Base	(5,989)	(1,897)	(569)	(2,466)	759	Non DST
40	Regulatory (Asset) Liab: 2011 IL State Tax Rate Change	Not in Rate Base	-	-	-	-	-	Non DST
41	Federal NOL-Depreciation	Non-protected Non-Prop	125,188	43,816	-	43,816	(17,526)	Net Plant
42	Long-Term Incentive - Cash (TAX REFORM 162(M) WRITEOFFS)	Non-protected Non-Prop	(4,005)	(1,269)	(380)	(1,649)	507	Non DST
43	<b>Total Account 190</b>		<b>\$ 1,699,516</b>	<b>\$ 324,952</b>	<b>\$ 81,111</b>	<b>\$ 406,063</b>	<b>\$ (129,981)</b>	

44	<u>Account 282 - Liberalized Deprec. - Plant &amp; Equip.</u>							
45	<u>(EPS Accts. 28200 &amp; 28200) --</u>							
46	Total Account 282 - Liberalized Depreciation	Protected Property	(11,051,749)	(3,563,715)	(869,707)	(4,433,421)	1,425,486	Net Plant
47	<u>Account 282 - Other Property (EPS Accts. 282100 &amp; 282300) --</u>							
48	Competitive Transition Charge (CTC)	Not in Rate Base	103,730	32,046	12,151	44,397	(12,818)	Non DST
49	AFUDC Plant & Equip Borrowed	Non-protected prop	(83,617)	(26,486)	(7,944)	(34,429)	10,594	Net Plant
50	AFUDC Plant & Equip Equity	Not in Rate Base	-	-	-	-	-	Non DST
51	Deferred Gain - Like Kind Exchange	Not in Rate Base	-	-	-	-	-	Non DST
52	FIN 47	Non-protected prop	861	273	82	355	(109)	Net Plant
53	Section 263A - Capitalized Interest	Non-protected prop	251,086	79,532	23,853	103,385	(31,813)	Net Plant
54	Software Costs Capitalized - Rev Bk	Non-protected prop	(227,954)	(72,204)	(21,656)	(93,860)	28,882	Net Plant
55	Capitalized Interest / Overhead Capitalized	Non-protected prop	(781,929)	(273,119)	(1,587)	(274,707)	109,248	Net Plant
56	Pension Cost Capitalized on Books	Non-protected prop	329,154	104,260	31,270	135,529	(41,704)	Net Plant
57	CIAC	Non-protected prop	568,118	179,951	53,971	233,923	(71,981)	Net Plant
58	CIAC with Tax Gross Up	Not in Rate Base	41,788	13,236	3,970	17,206	(5,295)	Non DST
59	Revaluation of Property	Not in Rate Base	14,621	4,631	1,389	6,020	(1,852)	Non DST
60	Real Estate Taxes Capitalized	Non-protected prop	25	8	2	10	(3)	Net Plant
61	Repair Allowance	Non-protected prop	(160,203)	(50,744)	(15,219)	(65,963)	20,298	Net Plant
62	Repairs - Distribution	Non-protected prop	(2,912,691)	(926,038)	(266,868)	(1,192,906)	370,415	DST
63	Repairs - Transmission	Non-protected prop	(282,396)	(89,555)	(26,525)	(116,680)	35,822	Non DST
64	Transmission Upgrade - East/West	Not in Rate Base	55,899	17,706	5,310	23,016	(7,682)	Non DST
65	AFUDC - Equity	Not in Rate Base	-	-	-	-	-	Non DST
66	Regulatory (Asset) Lib: ASC 740 - Tax Rate Changes	Not in Rate Base	-	-	-	-	-	Non DST
67	Regulatory (Asset) Lib: FAS109 Transmission Reg Asset Write-Up	Not in Rate Base	-	-	-	-	-	Non DST
68	Total Account 282 - Other Property		\$ (3,083,526)	\$ (1,006,504)	\$ (207,799)	\$ (1,214,304)	\$ 402,602	
69	<b>Total Account 282</b>		<b>\$ (14,135,275)</b>	<b>\$ (4,570,219)</b>	<b>\$ (1,077,506)</b>	<b>\$ (5,647,725)</b>	<b>\$ 1,828,088</b>	

Account 283								
- Other - (EPS Accts. 283100 & 283200 & 283300 & 283400) --								
70	Chicago Arbitration Settlement	Net in Rate Base	(10,345)	(3,277)	(983)	(4,259)	1,311	Non DST
72	Accrued Benefits	Non-protected Non-Prop	5,621	1,781	534	2,315	(712)	Wages & Salaries
73	Deferred Gain - Sale of Essement	Non-protected Non-Prop	(12,012)	(3,895)	(1,143)	(4,946)	1,522	Net Plant
74	Incentive Compensation Capitalized (Global Settlement)	Non-protected Non-Prop	(6,690)	(2,119)	(636)	(2,755)	848	DST
75	Loss on Reacquired Debt	Non-protected Non-Prop	(27,765)	(8,794)	(2,638)	(11,432)	3,518	Net Plant
76	Midwest Generation Settlement Liab	Net in Rate Base	5,364	1,699	510	2,269	(680)	Non DST
38	Other Comprehensive Income (EPS 284000 & 284100)	Non-protected Non-Prop	-	-	-	-	-	Net Plant
39	Pension Contribution - Net of Book Provision 9.5%	Non-protected Non-Prop	(328,758)	(104,134)	(31,232)	(135,366)	41,654	Wages & Salaries
40	Prepaid Pension contribution (shareholder-funded)	Non-protected Non-Prop	(902,445)	(285,849)	(85,732)	(371,582)	114,340	Wages & Salaries
41	PJM Start-up Costs	Net in Rate Base	-	-	-	-	-	Non DST
42	Swap and Hedging Transactions	Non-protected Non-Prop	(7,836)	(2,482)	(744)	(3,226)	933	Net Plant
43	State Income Taxes - Temporary	Net in Rate Base	42,212	14,774	-	14,774	(5,910)	Non DST
44	Regulatory (Asset) Liab: MGP-Environmental Remediation	Non-protected Non-Prop	(272,678)	(86,371)	(15,904)	(112,275)	34,548	Non DST
45	Regulatory (Asset) Liab: Sevrance Cost (FAS 112)	Non-protected Non-Prop	-	-	-	-	-	Wages & Salaries
46	Regulatory (Asset) Liab: Rider UF	Non-protected Non-Prop	(61,207)	(19,357)	(5,815)	(25,202)	7,755	Non DST
47	Regulatory (Asset) Liab: Distribution Rate Case Matters	Net in Rate Base	-	-	-	-	-	Non DST
48	Regulatory (Asset) Liab: AMP - retired meters and AMI costs	Non-protected Non-Prop	(1,236)	(391)	(117)	(509)	157	DST
49	Regulatory (Asset) Liab: AMP - other costs	Net in Rate Base	(22)	(7)	(2)	(9)	3	Non DST
50	Regulatory (Asset) Liab: Distribution Formula Rate	Non-protected Non-Prop	(194,933)	(61,745)	(18,519)	(80,264)	24,698	Non DST
51	Regulatory (Asset) Liab: Distribution: Other Deferred (Merger)	Non-protected Non-Prop	(8,612)	(2,728)	(818)	(3,546)	1,091	DST
52	Regulatory (Asset) Liab: Distribution: Other Deferred (Storm)	Non-protected Non-Prop	(5,570)	(1,764)	(529)	(2,294)	706	DST
53	Regulatory (Asset) Liab: Distribution: Other Deferred (A-Base)	Non-protected Non-Prop	(34,738)	(11,003)	(3,300)	(14,303)	4,401	DST
54	Regulatory (Asset) Liab: Energy Efficiency	Non-protected Non-Prop	(165,748)	(52,501)	(15,746)	(68,247)	21,000	Non DST
55	Regulatory (Asset) Liab: Solar Rebate	Non-protected Non-Prop	-	-	-	-	-	Non DST
56	Regulatory (Asset) Liab: ASC 740_2011 II, State Tax Rate Change	Net in Rate Base	-	-	-	-	-	Non DST
57	Accelerated Depr AMI - Related to Reg Assets	Non-protected Non-Prop	(153,485)	(48,616)	(14,581)	(63,197)	19,447	DST
58	Deferred Revenue - Fiber Optics Lease	Non-protected Non-Prop	8,346	2,644	793	3,436	(1,057)	Comm Equip
59	Regulatory (Asset) Liab: PORCB	Non-protected Non-Prop	-	-	-	-	-	Non DST
60	Reg Asset - Capital Leases	Net in Rate Base	(833)	(264)	(79)	(343)	106	Non DST
61	2017 IL Rate Change - 2016 Remeasurement Impact	Non-protected Non-Prop	-	-	-	-	-	DST
62	Equity Earnings in Uncon Sub	Non-protected Non-Prop	393	124	37	162	(50)	Non DST
63	Change in gross-up rate change - B/S adj to the gross up deferred	Net in Rate Base	(324,694)	(102,847)	(30,846)	(133,693)	41,139	Non DST
64	<b>Total Account 283</b>		<b>\$ (2,457,672)</b>	<b>\$ (777,064)</b>	<b>\$ (237,489)</b>	<b>\$ (1,014,553)</b>	<b>\$ 310,826</b>	
65	<b>Total ADIT/Excess Deferred Taxes</b>		<b>\$ (15,583,400)</b>	<b>\$ (5,022,331)</b>	<b>\$ (1,233,884)</b>	<b>\$ (6,256,215)</b>	<b>\$ 2,908,932</b>	
66	<b>Total Excess Deferred Taxes</b>							
67	<b>Annual Amortization of Excess Deferred Taxes</b>							
68	<b>Gross-up rate (1/(1-28.51%))</b>							
69	<b>After Gross-up Annual Amortization of Excess Deferred Taxes</b>							

After Gross-up Annual Amortization of Excess Deferred Taxes (rounded to nearest million)

	Gross-up rate calculation	
	Non-Prop Def	Property Def
Federal Rate	21.00%	21.00%
Fed Ben State	-2.00%	-2.00%
IL Rate	9.50%	9.50%
Deferred Rate	28.51%	28.51%

Gross up rate

1.39870

Schedule MLB-3  
Has Been Deemed  
Confidential

# Schedule MLB-4

KCPL  
Case Name: 2018 KCPL Rate Case  
Case Number: ER-2018-0145

Response to Woodsmall David Interrogatories - MECG\_20180309  
Date of Response: 3/29/2018

Question:1/1/2018

**[Income Taxes] Ref: Direct Testimony of Mr. Ives, page 12.** According to Mr. Ives, "KCP&L believes that its customers should benefit from the reduction in corporate federal income tax rates. The Company expects to work with the parties to this case and fully reflect the impacts of this new law in rates set in this rate case proceeding. In early January 2018, KCP&L provided assurance that customers would experience the full benefits of this new tax law." Please provide the following additional information:

- a. Define and quantify what is meant by "the full benefits of this new tax law."
- b. Has KCP&L or GMO recorded any regulatory liability amounts in 2018, to date, to reflect an expectation of returning any of the "impacts of this new law" to customers in Missouri?
- c. If your response to part (b) is affirmative, please provide the monthly amounts of all regulatory liability entries recorded by the Company for KCPL or GMO to date, along with supporting calculations and workpapers for such amounts in each month.
- d. If your response to part (b) is negative, please explain why the Company has not made accounting provision for the expectation that new tax law changes would result in any benefits owed to ratepayers.
- e. Has KCP&L recorded any regulatory liability in Kansas to reflect an expectation of returning to Kansas ratepayers the benefits of the new tax law in any month since January 1, 2018?
- f. Please explain your response top part (e), providing the amounts and supporting calculations and workpapers for all Kansas accruals recorded to date in 2018.

Response:

- a. "The full benefits of this new tax law" means that revenue requirement incorporates the impact of the 2017 Tax Cut and Jobs Act ("TCJA"). See attached file "MECG Q1-1\_Tax Reform KCPL MO and GMO\_2018 Rate Case".
- b. No.
- c. N/a.



- d. The net impact of TCJA on stub period (the time between effectiveness of TCJA and the effective date of rates from this base rate review proceeding) revenue requirement is uncertain.
- e. Per the KS Order “Opening General Investigation and Issuing Accounting Authority Order Regarding Federal Tax Reform”, KCPL started accruing a liability in Kansas for the Federal Income Tax Rate Change from 35% to 21%.
- f. See attached file “MECG Q1-1\_Tax Reform KCPL KS\_In Rates” for the estimated annual 2018 Kansas amount and supporting calculations for the liability referenced in question (e) above.

Attachments:

Q1-1\_Tax Reform KCPL MO and GMO\_2018 Rate Case

Q1-1\_Tax Reform KCPL KS\_In Rates

Q1-1\_Verification.pdf

## Revenue Requirements - TAX REFORM Impact Summary for KCPL-MO

ER-2018-0145

	Before Tax Reform	After Tax Reform	Tax Reform Impact	
Net Taxable Income	137,706,034	137,437,705		
Deduct State Income Tax @ 100.0%	7,266,991	7,826,323		
Federal Taxable Income	130,439,043	129,611,382		
Federal Tax Rate	35%	21%		
Federal Tax Before Tax Credits	45,653,665	27,218,390		
Less Tax Credits:	(2,785,306)	(2,785,306)		
Total Federal Tax	42,868,359	24,433,084	(18,435,275)	(1)
Net Taxable Income	137,706,034	137,437,705		
Deduct Federal Income Tax @ 50.0%	21,434,180	12,216,542		
State Jurisdictional Taxable Income	116,271,854	125,221,163		
State Tax Rate	6.25%	6.25%		
Total State Tax	7,266,991	7,826,323	559,332	(2)
Deferred Income Tax Expense	7,242,986	2,449,517	(4,793,469)	(3)
Net Income Available Change			(22,669,413)	
Total Rate Base (chg in ADIT)	2,611,134,251	2,626,773,107		
Rate of Return	7.45%	7.45%		
Return On	194,639,169	195,804,921	1,165,752	(4)
Additional NOIBT Needed			(21,503,661)	
Tax Gross-Up	21,079,345	4,164,460	(16,914,885)	(5)
<b>Gross Revenue Requirement Change - TAX Reform</b>			<b>(38,418,546)</b>	

(1) Federal Tax Chg due to Federal Rate Chg from 35% to 21%

(2) State Tax Chg due to change in the amount of Federal Tax Deducted from the Federal Rate Chg

(3) Deferred Tax Exp Chg due to Effective Tax Rate Chg from 38.39% to 25.45% and Amortiz of Excess Deferred Taxes:

Deferred Tax Exp - Eff Tax Rate Change			(2,594,235)
ARAM	(231,554)	(9,099,962)	(8,868,408)
NOL (5 Yr Amortiz)	0	7,512,946	7,512,946
MISC (10 Yr Amortiz)	0	(843,773)	(843,773)
			(2,199,235)
		Total	(4,793,469)

(4) Rate Base increased due to the decrease in property related ADIT and CWC Chg

(5) Tax Gross-Up needed decreased due to changes 1 through 4

## Revenue Requirements - TAX REFORM Impact Summary GMO

ER-2018-0146

	Before Tax Reform	After Tax Reform	Tax Reform Impact	
Net Taxable Income	115,960,918	116,026,399		
Deduct State Income Tax @ 100.0%	6,049,494	6,537,220		
Federal Taxable Income	109,911,424	109,489,179		
Federal Tax Rate	35%	21%		
Federal Tax Before Tax Credits	38,468,998	22,992,728		
Less Tax Credits:	(130,978)	(130,978)		
Total Federal Tax	38,338,020	22,861,750	(15,476,271)	(1)
Net Taxable Income	115,960,918	116,026,399		
Deduct Federal Income Tax @ 50.0%	19,169,010	11,430,875		
State Jurisdictional Taxable Income	96,791,908	104,595,525		
State Tax Rate	6.25%	6.25%		
Total State Tax	6,049,494	6,537,220	487,726	(2)
Deferred Income Tax Expense	1,683,109	1,184,313	(498,796)	(3)
Net Income Available Change			(15,487,341)	
Total Rate Base (chg in ADIT)	1,906,923,356	1,907,881,169		
Rate of Return	7.66%	7.66%		
Return On	146,156,141	146,229,552	73,412	(4)
Additional NOIBT Needed			(15,413,929)	
Tax Gross-Up	18,627,804	4,913,614	(13,714,190)	(5)
<b>Gross Revenue Requirement Change - TAX Reform</b>			<b>(29,128,119)</b>	

(1) Federal Tax Chg due to Federal Rate Chg from 35% to 21%

(2) State Tax Chg due to change in the amount of Federal Tax Deducted from the Federal Rate Chg

(3) Deferred Tax Exp Chg due to Effective Tax Rate Chg from 38.39% to 25.45% and Amortiz of Excess Deferred Taxes:

Deferred Tax Exp - Eff Tax Rate Change			(683,817)
ARAM	(104,094)	(7,312,312)	(7,208,218)
NOL (5 Yr Amortiz)	0	8,963,789	8,963,789
MISC (10 Yr Amortiz)	0	(1,570,550)	(1,570,550)
			185,021
		Total	(498,796)

(4) Rate Base increased due to the CWC Chg. Immaterial property related ADIT chg was not included

(5) Tax Gross-Up needed decreased due to changes 1 through 4

# Schedule MLB-5

KCPL  
Case Name: 2018 KCPL Rate Case  
Case Number: ER-2018-0145

Response to Lyons Karen Interrogatories - MPSC\_20180411  
Date of Response: 4/27/2018

Question:0304

With reference to the meeting on March 29, 2018 concerning federal income tax reform, please provide the following: 1) A) The Kansas City Power & Light (KCPL) and KCPL Greater Missouri Operations (GMO) revenue requirement models referenced in this meeting that were based on the final ordered revenue requirements in Case Nos. ER-2016-0156 and ER-2016-0285, that were used to determine the value of the change in the federal tax rate from 35% to 21% and the stub period of January 1, 2018 to the effective date of rates in the related rate cases for KCPL and GMO. B) Please provide any additional supporting documentation detailing the calculations and resulting amounts that were used to determine the value of the change in the federal tax rates and the stub period used expected to be used in the KCPL and GMO revenue requirement calculations. C) Please provide any additional models for the GMO valuation based on the return on equity range per the stipulation in that case. 2) For the revenue requirement impacts for KCPL and GMO rate cases, identify and describe each option considered for the 2017 Tax Reform for A) changes in federal income tax rates, and B) for the Stub period. Identify the advantages and disadvantages of each of the options considered by KCPL and GMO for the 2017 Tax Reform for A) changes in federal income tax rates B) for the Stub period. Requested by Karen Lyons ([Karen.lyons@psc.mo.gov](mailto:Karen.lyons@psc.mo.gov))

Response:

See attached files for the KCP&L and GMO Revenue Requirement Models that were based on the final ordered revenue requirements in Case Numbers ER-2016-0156 and ER-2016-0285 that were used in calculating the annual value of the change in the federal income tax rate from 35% to 21%.

Two versions of the GMO Model are being provided to reflect the return on equity range of 9.5% to 9.75% per the stipulation in ER-2016-0285.

Also, attached is a summary of the tax change impact for KCP&L and both ROE ranges for GMO with a calculated Stub period amount for January 1, 2018 to the effective day of new rates in the current 2018 rate cases.

The options for flow back to the customer that the company considered was to net any result from the 2018 rate cases with the calculated stub period amount through a one-time bill credit or an amortization that would be included in the revenue requirements in the current rate cases. A bill credit would be a one-time event and a faster flow back to the customer.

Information provided by: Aron Branson, Regulatory Affairs

Attachment:

Q0304 2016 GMO Rate Case Model - FINAL MODEL - Settled 3M using 9.5 ROE before Tax Reform 35.xlsm

Q0304 2016 GMO Rate Case Model - FINAL MODEL - Settled 3M using 9.5 ROE w Tax Reform 21.xlsm

Q0304 2016 GMO Rate Case Model - FINAL MODEL - Settled 3M using 9.75 ROE before Tax Reform 35.xlsm

Q0304 2016 GMO Rate Case Model - FINAL MODEL - Settled 3M using 9.75 ROE w Tax Reform 21.xlsm

Q0304 2016 KCPL-MO Rate Model - ORDER Adj CWC before Tax Reform 35.xlsm

Q0304 2016 KCPL-MO Rate Model - ORDER Adj CWC w Tax Reform 21.xlsm

Q0304 Summary Change in RR for Tax Reform Calc - KCPL MO and GMO In Rates.xlsx

Q0304\_Verification.pdf

**Revenue Requirements - TAX REFORM Impact  
Summary GMO**

Applied to Order ER-2016-0156 using Staff's 9.5 ROE

	Before Tax Reform	After Tax Reform	Tax Reform Impact	
Net Taxable Income	111,751,424	111,751,424		
Deduct State Income Tax @ 100.0%	5,828,317	6,294,792		
Federal Taxable Income	105,923,107	105,456,632		
Federal Tax Rate	35%	21%		
Federal Tax Before Tax Credits	37,073,088	22,145,893		
Less Tax Credits:	(76,398)	(76,398)		
Total Federal Tax	36,996,690	22,069,495	(14,927,195)	(1)
Net Taxable Income	111,751,424	111,751,424		
Deduct Federal Income Tax @ 50.0%	18,498,345	11,034,747		
State Jurisdictional Taxable Income	93,253,080	100,716,677		
State Tax Rate	6.25%	6.25%		
Total State Tax	5,828,317	6,294,792	466,475	(2)
Deferred Income Tax Expense	14,479,374	9,418,272	(5,061,102)	(3)
Net Income Available Change			(19,521,822)	
Total Rate Base (chg in ADIT)	1,888,557,900	1,888,557,900		
Rate of Return	7.36%	7.36%		
Return On	139,028,078	139,028,078	0	(4)
Additional NOIBT Needed			(19,521,822)	
Tax Gross-Up	1,151,696	(6,033,386)	(7,185,082)	(5)
<b>Gross Revenue Requirement Change - TAX Reform</b>			<b>(26,706,904)</b>	
<b>Total Stub Period Jan 1, 2018 - Dec 28, 2018</b>			<b>(26,414,226)</b>	
		Per Day	(73,170)	

- (1) Federal Tax Chg due to Federal Rate Chg from 35% to 21%
- (2) State Tax Chg due to change in the amount of Federal Tax Deducted from the Federal Rate Chg
- (3) Deferred Tax Exp Chg due to Effective Tax Rate Chg from 38.39% to 25.45%
- (4) Rate Base per the last EMS True-Up.
- (5) Tax Gross-Up needed decreased due to changes 1 through 4

**Revenue Requirements - TAX REFORM Impact  
Summary GMO**

Applied to Order ER-2016-0156 using Company's 9.75 ROE

	Before Tax Reform	After Tax Reform	Tax Reform Impact	
Net Taxable Income	115,690,305	115,690,305		
Deduct State Income Tax @ 100.0%	<u>6,033,662</u>	<u>6,516,579</u>		
Federal Taxable Income	109,656,643	109,173,726		
Federal Tax Rate	35%	21%		
Federal Tax Before Tax Credits	38,379,825	22,926,482		
Less Tax Credits:	<u>(76,398)</u>	<u>(76,398)</u>		
Total Federal Tax	38,303,427	22,850,084	(15,453,343)	(1)
Net Taxable Income	115,690,305	115,690,305		
Deduct Federal Income Tax @ 50.0%	<u>19,151,714</u>	<u>11,425,042</u>		
State Jurisdictional Taxable Income	96,538,591	104,265,263		
State Tax Rate	6.25%	6.25%		
Total State Tax	6,033,662	6,516,579	482,917	(2)
Deferred Income Tax Expense	14,479,374	9,418,272	(5,061,102)	(3)
Net Income Available Change			<u>(20,031,528)</u>	
Total Rate Base (chg in ADIT)	1,888,557,900	1,888,557,900		
Rate of Return	<u>7.46%</u>	<u>7.46%</u>		
Return On	140,969,516	140,969,516	<u>0</u>	(4)
Additional NOIBT Needed			(20,031,528)	
Tax Gross-Up	1,151,696	(6,207,389)	(7,359,085)	(5)
Gross Revenue Requirement Change - TAX Reform			<u>(27,390,613)</u>	
Total Stub Period Jan 1, 2018 - Dec 28, 2018			<u>(27,090,442)</u>	
		Per Day	(75,043)	

- (1) Federal Tax Chg due to Federal Rate Chg from 35% to 21%
- (2) State Tax Chg due to change in the amount of Federal Tax Deducted from the Federal Rate Chg
- (3) Deferred Tax Exp Chg due to Effective Tax Rate Chg from 38.39% to 25.45%
- (4) Rate Base per the last EMS True-Up.
- (5) Tax Gross-Up needed decreased due to changes 1 through 4



**Revenue Requirements - TAX REFORM Impact  
Summary for KCPL-MO**

Applied to Order ER-2016-0285

	Before Tax Reform	After Tax Reform	Tax Reform Impact	
Net Taxable Income	121,409,018	121,389,004		
Deduct State Income Tax @ 100.0%	6,413,168	6,918,472		
Federal Taxable Income	114,995,850	114,470,532		
Federal Tax Rate	35%	21%		
Federal Tax Before Tax Credits	40,248,547	24,038,812		
Less Tax Credits:	(2,651,894)	(2,651,894)		
Total Federal Tax	37,596,653	21,386,918	(16,209,736)	(1)
Net Taxable Income	121,409,018	121,389,004		
Deduct Federal Income Tax @ 50.0%	18,798,327	10,693,459		
State Jurisdictional Taxable Income	102,610,691	110,695,545		
State Tax Rate	6.25%	6.25%		
Total State Tax	6,413,168	6,918,472	505,303	(2)
Deferred Income Tax Expense	14,253,849	9,256,301	(4,997,548)	(3)
Net Income Available Change			(20,701,980)	
Total Rate Base (chg in ADIT)	2,525,954,965	2,526,681,940		
Rate of Return	7.43%	7.43%		
Return On	187,602,675	187,656,668	53,992	(4)
Additional NOI BT Needed			(20,647,988)	
Tax Gross-Up	12,487,701	(206,876)	(12,694,577)	(5)
<b>Gross Revenue Requirement Change - TAX Reform</b>			<b>(33,342,565)</b>	
<b>Total Stub Period Jan 1, 2018 - Dec 28, 2018</b>			<b>(32,977,167)</b>	
		Per Day	(91,349)	

- (1) Federal Tax Chg due to Federal Rate Chg from 35% to 21%
- (2) State Tax Chg due to change in the amount of Federal Tax Deducted from the Federal Rate Chg
- (3) Deferred Tax Exp Chg due to Effective Tax Rate Chg from 38.39% to 25.45%
- (4) Rate Base increased due to the decrease in property related ADIT and CWC Chg
- (5) Tax Gross-Up needed decreased due to changes 1 through 4