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| 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**

| | | |
|---|---|---|
| **In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service.** | **)<br>)<br>)<br>)<br>)** | **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** | **)<br>)<br>)<br>)<br>)** | **Case No. ER-2018-0146** |

Direct Testimony and Schedules of

**Michael L. Brosch**

**Revenue Requirement**

On behalf of

**Midwest Energy Consumers' Group**

**PUBLIC VERSION**

June 19, 2018

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

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**STATE OF MISSOURI** )
) **SS**
**COUNTY OF JACKSON** )

**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
Michael L. Brosch

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

Tyler Gray
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**
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**<u>Direct Testimony of Michael L. Brosch</u>**

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

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

**Q WHAT IS YOUR PRESENT OCCUPATION?**

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

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

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

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

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

1 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**

## EDUCATION AND EXPERIENCE

**Q WHAT IS YOUR EDUCATIONAL BACKGROUND?**

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

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

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

## EXECUTIVE SUMMARY

**Q PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

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

## TAX ACT BACKGROUND INFORMATION

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

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

[2] 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.

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

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

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

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[3] 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.

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

**Q WHAT ARE DEFERRED TAXES?**

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

Charging ratepayers for deferred income tax expense contributes to an Accumulated Deferred Income Tax liability balance representing higher income taxes that will be payable in the future when book expenses may be larger than tax deductions. Eventually, the deferred tax balance for any individual asset will be reduced to zero as regulatory depreciation catches up with the accelerated tax depreciation. In the referenced example, the deferred tax balance will be slowly reduced in years 6-20 as the federal accelerated depreciation results in a fully depreciated asset in year 5.

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

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

A Yes. KCPL, GMO and other electric utilities have been recording on their books and collecting from their customers significant amounts of deferred Federal income tax expenses at the previously effective 35 percent tax rate, applying “normalization” accounting procedures for the tax deferral benefits associated with tax deductions for accelerated and bonus depreciation and for other book/tax deduction timing differences. These prior accounting normalization provisions for deferred income tax expense assumed that in future years, when tax depreciation and the other book/tax timing differences "reverse" on the books, the taxes that were previously deferred would then become payable at the 35 percent tax rate. However, the FIT rate reduction within the Tax Act created the need to immediately re-value each electric utility's recorded Accumulated Deferred Income Tax ("ADIT") balances, to reflect the new, lower 21 percent FIT rate. This revaluation created significant amounts of "excess" ADIT (i.e., the difference between the previous valuation at a 35% tax rate and the valuation at a 21% tax rate) that have been reclassified by KCPL and GMO as regulatory liabilities as of December 31, 2017, for eventual return to ratepayers.

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

A Regulators need to specify amortization periods to be used for the utilities' "excess" ADIT regulatory liability balances, where discretion is involved in selecting amortization periods.[4] Importantly, regulators also need to synchronize the amortization of excess ADIT with rate adjustments to ensure that utility customers participate in the negative expense benefits of the recorded amortization entries.

[4] 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.

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

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

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

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

[5] 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.

[6] 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.

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

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

## EXCESS DEFERRED TAX AMORTIZATION

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

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

[7] See RB-125 and CS-125 workpapers of KCPL and GMO.

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

| DEFERRED TAX CATEGORIZATION | | Amounts $ Millions[8] KCPL | | GMO |
|---|---|---|---|---|
| Code Restricted- Accelerated Tax Depreciation[9] | $ | **_____** | $ | **_____** |
| Non-Restricted Plant Related Differences | $ | **_____** | $ | **____** |
| Other Book/Tax Differences | $ | **____** | $ | **___** |
| Net Operating Loss Deferred Tax Asset | $ | **_____** | $ | **_____** |
| TOTAL EXCESS ADIT BALANCES | $ | 471.8 | $ | 173.7 |

The amounts set forth in this table were provided by the Companies in response to data request MECG 3-5, which I have included without confidential attachments within Schedule MLB-1.[10]

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

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

8 Response to MECG Data Request 3-5. Somewhat different amounts were included in the Companies' rate case workpapers.

9 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.

10 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.

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

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

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

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

13 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.

14 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.

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

**Q ARE THESE REASONABLE PROPOSALS?**

A No. While an extremely long amortization period is required under the Tax Act for only the first and largest category of Internal Revenue Code restricted excess deferred taxes associated with liberalized tax depreciation in the table above, there is no such restriction for the other plant-related ADIT amounts ("Non Restricted Plant Related Differences"). These other plant-related excess deferred taxes relate primarily to differences in the basis of depreciable property for tax purposes, as compared to the book accounting for investments in plant. In the absence of any tax code restriction, there is no need to delay the return of these excess ADIT balances to the ratepayers who have paid deferred taxes on plant basis differences. Similarly, the Companies' proposed 10-year amortization of non-plant related excess ADIT balances is unreasonably long, as again there is no IRC restriction involved and these timing differences do not relate to any long-lived assets. In contrast, the Companies' proposed very rapid amortization for the NOL deferred tax asset deficiency is remarkably aggressive to the disadvantage of ratepayers and should be rejected. When viewed collectively, the Companies' proposed excess deferred tax amortization periods are incredibly one-sided, seeking to delay the return to ratepayers of their past funding of deferred tax credit reserves through utility rates that are now excessive, while seeking to accelerate the amortization <u>charges</u> to customers to quickly recover a deficiency in the only category of debit ADIT that is a deferred tax asset with a deficiency caused by lower future FIT rates.

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

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

[15] 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

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

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

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

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).

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

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

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

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

**Q YOU INDICATED THAT KCPL AND GMO HAVE PROPOSED A 10-YEAR AMORTIZATION PERIOD FOR THEIR MISCELLANEOUS EXCESS ADIT BALANCES THAT ARE <u>NOT</u> PLANT-RELATED. SHOULD THIS AMORTIZATION PERIOD BE ADOPTED BY THE COMMISSION?**

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

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

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

[17] See, for example, KCPL workpaper RB-125 Balance Sheet Review – Deferred Income Taxes 283 listing.

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

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

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

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

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

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

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

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

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[19] KCPL response to data request MECG3-5(f) contained in Schedule MLB-1.

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

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

## STUB PERIOD TAX ACT SAVINGS IN 2018

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

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

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

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

A At page 12 of his Direct Testimony, Mr. Ives states, "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." Unfortunately, in testimony and the Companies' compilation of its asserted revenue requirement, only prospective recognition of Tax Act impacts is addressed. The Companies have not proposed any accounting for the cumulative tax expense savings that are

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20 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.

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

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

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

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

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

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

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

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

- Hawaii Public Utilities Commission Order No. 35241 <u>Opening a Proceeding to Investigate the Impacts of the Tax Cuts and Jobs Act of 2017</u> issued January 26, 2018 in Docket No. 2018-0012 required that, "Each utility shall use deferred regulatory accounting practices, such as the use of regulatory assets and liabilities, to record the differences resulting from the 2017 Tax Act and what would have been recorded if the Act did not go into effect."[22]

- Iowa Utilities Board Order Initiating Investigation issued January 18, 2018 in Docket No. INU-2018-0001 required responsive filings and workshops and, "… finds it appropriate and in the public interest for the rate-regulated utilities to track all calculated differences resulting from the Act since January 1, 2018, and what would have been recorded if the Act had not gone into effect, such that any overpayments can be refunded at a future date, if appropriate."[23]
- Tennessee Public Utility Commission Order Opening Investigation and Requiring Deferred Accounting Treatment issued February 6, 2018 in Docket No. 18-00001.[24]
- Texas Railroad Commission Gas Utilities Accounting Order effective January 1, 2018 requires the recording of, "…regulatory liabilities to reflect the impact of the decrease to the federal corporate income tax rate under the Act" in Gas Utilities Docket No. 10695.[25]

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

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22 Available at: https://dms.puc.hawaii.gov/dms/DocumentViewer?pid=A1001001A18A26B20316E00577
23 Available at: https://efs.iowa.gov/cs/groups/external/documents/docket/mdax/njy1/~edisp/1665543.pdf
24 Available at: http://ipu.msu.edu/wp-content/uploads/2018/01/18-00001-TPUC-Order-opening-Investigation-2018-02-07.pdf
25 Available at: http://www.rrc.state.tx.us/media/44158/gud-10695-accounting-order-01-01-18.pdf

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

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

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

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

27 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

**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?**

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

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

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

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

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

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

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

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[28] 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.

[29] 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.

cases for Hawaiian Electric Company and Hawaii Electric Light Company in Docket Nos. 2016-0328 and 2015-0170.[30]

**Q IN ITS RESPONSE TO DATA REQUEST MECG 1-1, THE COMPANIES STATE, "THE NET IMPACT OF THE 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."[31] DO YOU AGREE?**

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

30 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

31 See Schedule MLB-4 at part (d).

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

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

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

A Yes. In response to Staff data request 304, the Companies went back to the KCPL and GMO Revenue Requirement Models that were developed in support of the final ordered revenue requirements in Case Numbers ER-2016-0156 and ER-2016-0285 to calculate the annual value of the change in the federal income tax rate from 35% to 21%. Generally lower Tax Act annual savings estimates than I have calculated were produced under this approach, at $33.3 million for KCPL and a range of $26.7 to $27.4 for GMO. I have included a copy of this response and the summary of results page within Schedule MLB-5.

In this response to Staff, the Companies recommend translation of the annual Tax Act savings into a "Per Day" pro-rated value based upon the number of days from January 1, 2018 to the assumed date of new effective base rates that incorporate Tax Act savings. This is the same approach I described above. The response also states, "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 revenue requirements in the current rate cases. A bill credit would be a one-time event and a faster flow back to the customer."

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

A No. The previous rate case amounts are not reflective of current levels of taxable income and contain no information about current revenues and costs to provide service. Instead, the more current financial information from the pending rate cases should be relied upon, after Commission review and approval, to determine each utility's taxable income and Tax Act savings from the lower 21 percent FIT rate effective in 2018. Through reliance upon the most current available revenue and cost data, any concerns that may be raised by the Companies about offsetting higher costs or other changes that are diluting Tax Act savings can be fully considered and addressed in the Commission's Order based upon overall revenue requirement inputs and calculations. Additionally, any utilization of prior rate case data from Staff Data Request 304 would be incomplete because that data completely ignores the amortization of excess ADIT balances that KCPL and GMO are recording in 2018, in amounts that are additive to Tax Act savings that must be returned to ratepayers.

**Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

A I recommend the Commission take the following actions:

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

4. For the “Other Book Tax Differences” category of accumulated deferred income taxes, the Commission should utilize a five-year amortization period instead of the 10 years recommended by KCPL / GMO.

5. For the “Net Operating Loss Deferred Tax Asset”, the Commission should utilize the same ARAM based amortization period as used for restricted accumulated deferred income taxes.

6. The Commission should quantify the benefits associated with the TCJA for the period of January 1, 2018 through the date that rates are changed in this case, using rate-case approved test year revenues, expenses, taxable income and excess ADIT amortization periods as calculation inputs and then amortize that benefit into rates in this case over a three year period.

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

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<br>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 | 9981-E1051-81-406 | 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<br>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 | I.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<br>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 Washingon 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 Remeasurement to Forecast 2018 Amortization Estimate

(In Thousands)

| Line No. | Account / Item - Debit / (Credit) Balance | Deferred Type | Gross ADIT 2017 Balance | Net Federal ADIT | Net State ADIT | Net ADIT 2017 Balance | Rate Change on 2017 Deferred taxes | Allocator | Percentage | Related to Rate Change | Amortization Period (Years) | Forecasted Annual Amortization Expense |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | (J) | (K) | (L) |
| | **Summary (rounded to nearest million)** | | | | | | | | | | | |
| 1 | Total Excess Deferred Taxes | | | | | | | | | $ 1,559 | | |
| 2 | Annual Amortization of Excess Deferred Taxes (grossed-up) | | | | | | | | | $ 81 | | |
| 3 | Account 190 - (EPS Accts: 283150 & 283250 & 283350 & 283450) -- | | | | | | | | | | | |
| 4 | Accrued Holiday | Non-protected Non-Prop | (2,218) | (703) | (211) | (913) | 281 | Wages & Salaries | 85.94% | 242 | 5 | 48 |
| 5 | Accrued Vacation | Non-protected Non-Prop | 31,823 | 10,080 | 3,023 | 13,103 | (4,032) | Wages & Salaries | 85.94% | (3,465) | 5 | (693) |
| 6 | Accrued Legal | Non-protected Non-Prop | 50 | 16 | 5 | 21 | (6) | Wages & Salaries | 85.94% | (5) | 5 | (1.080) |
| 7 | Charitable Contributions | Not in Rate Base | 15,589 | 4,938 | 1,481 | 6,419 | (1,975) | Non DST | 0.00% | - | - | - |
| 8 | Obsolete Materials | Non-protected Non-Prop | 5,833 | 1,848 | 554 | 2,402 | (739) | Net Plant | 75.67% | (559) | 5 | (112) |
| 9 | Provision for Bad Debt | Non-protected Non-Prop | 69,892 | 22,138 | 6,640 | 28,778 | (8,855) | Revenue | 58.20% | (5,154) | 5 | (1,031) |
| 10 | Damage to Company Property | Non-protected Non-Prop | 3,046 | 965 | 289 | 1,254 | (386) | Net Plant | 75.67% | (292) | 5 | (58) |
| 11 | Taxes Other than Income Taxes | Non-protected Non-Prop | 210 | 67 | 20 | 87 | (27) | Net Plant | 75.67% | (20) | 5 | (4) |
| 12 | Incentive Compensation Plan | Non-protected Non-Prop | 108,403 | 34,337 | 10,298 | 44,635 | (13,735) | Wages & Salaries | 85.94% | (11,804) | 5 | (2,361) |
| 13 | Liability for Severance Plans | Non-protected Non-Prop | 2,262 | 717 | 215 | 931 | (287) | Wages & Salaries | 85.94% | (246) | 5 | (49) |
| 14 | CPS Energy Efficiency Fund | Not in Rate Base | 2,781 | 881 | 264 | 1,145 | (352) | Non DST | 0.00% | - | - | - |
| 15 | Other Accrued Expenses | Not in Rate Base | 622 | 197 | 59 | 256 | (79) | Non DST | 0.00% | - | - | - |
| 16 | Other Current | Non-protected Non-Prop | 14,691 | 4,653 | 1,396 | 6,049 | (1,861) | Wages & Salaries | 85.94% | (1,600) | 5 | (320) |
| 17 | Partnerships | Not in Rate Base | 2,537 | 804 | 241 | 1,045 | (321) | Non DST | 0.00% | - | - | - |
| 18 | Deferred Rental Expense | Non-protected Non-Prop | 1,734 | 549 | 165 | 714 | (220) | Wages & Salaries | 85.94% | (189) | 5 | (38) |
| 19 | Environmental Cleanup Costs - Non-MGP (Mfg Gas Plants) | Non-protected Non-Prop | 1,542 | 488 | 146 | 635 | (195) | DST | 100.00% | (195) | 5 | (39) |
| 20 | Executive Unisured Death Benefits after Retirement | Non-protected Non-Prop | 2,533 | 802 | 241 | 1,043 | (321) | Wages & Salaries | 85.94% | (276) | 5 | (55) |
| 21 | Deferred on Unamoritzed ITC | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 22 | Federal NOL DTA-Exclusion | Protected Property | 30,558 | 10,695 | - | 10,695 | (4,278) | Non DST | 0.00% | - | - | - |
| 23 | Incentive Compensation Deferred Stock Bonus Plan | Non-protected Non-Prop | 981 | 311 | 93 | 404 | (124) | Non DST | 0.00% | - | - | - |
| 24 | Stock Options; Other Equity Based Compensation | Non-protected Non-Prop | 19,138 | 6,062 | 1,818 | 7,880 | (2,425) | Non DST | 0.00% | - | - | - |
| 25 | Workers Compensation and Public Claims Reserve | Non-protected Non-Prop | 61,954 | 19,624 | 5,886 | 25,510 | (7,850) | Wages & Salaries | 85.94% | (6,746) | 5 | (1,349) |
| 26 | Long-Term Debt - Revaluation of Discount | Not in Rate Base | (402) | (127) | (38) | (166) | 51 | Non DST | 0.00% | - | - | - |
| 27 | Management Deferred Compensation Plan | Non-protected Non-Prop | 33,948 | 10,753 | 3,225 | 13,978 | (4,301) | Wages & Salaries | 85.94% | (3,696) | 5 | (739) |
| 28 | Manufactured Gas Plants - Provision | Non-protected Non-Prop | 283,155 | 89,689 | 26,900 | 116,589 | (35,876) | Non DST | 0.00% | - | - | - |
| 29 | Merger Costs | Not in Rate Base | (2,095) | (663) | (199) | (862) | 265 | Non DST | 0.00% | - | - | - |
| 30 | Post Retirement Health Care Liability | Non-protected Non-Prop | 221,691 | 70,221 | 21,061 | 91,281 | (28,088) | Wages & Salaries | 85.94% | (24,139) | 5 | (4,828) |
| 31 | Public Utility Fund Contribution | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 32 | Revenue Subject to Refund | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 33 | Supplemental Employee Retirement Plan | Non-protected Non-Prop | 7,421 | 2,351 | 705 | 3,056 | (940) | Wages & Salaries | 85.94% | (808) | 5 | (162) |
| 34 | Long-Term Incentive - Cash | Non-protected Non-Prop | (8,167) | (2,587) | (776) | (3,363) | 1,035 | Wages & Salaries | 85.94% | 889 | 5 | 178 |
| 35 | Interest on Projected Tax Settlements | Not in Rate Base | (3,760) | (1,191) | (357) | (1,548) | 476 | Non DST | 0.00% | - | - | - |
| 36 | Use Tax Adjustment | Non-protected Non-Prop | (360) | (114) | (34) | (148) | 46 | Net Plant | 75.67% | 35 | 5 | 7 |
| 37 | Midwest Generation Settlement Asset | Not in Rate Base | (11,040) | (3,497) | (1,049) | (4,546) | 1,399 | Non DST | 0.00% | - | - | - |
| 38 | Regulatory (Asset)/Liab: Docket No 07-0566 | Non-protected Non-Prop | - | - | - | - | - | DST | 100.00% | - | - | - |
| 39 | Regulatory (Asset)/ Liab: Transmission | Not in Rate Base | (5,989) | (1,897) | (569) | (2,466) | 759 | Non DST | 0.00% | - | - | - |
| 40 | Regulatory (Asset)/Liab: 2011 IL State Tax Rate Change | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 41 | Federal NOL-Depreciation | Non-protected Non-Prop | 125,188 | 43,816 | - | 43,816 | (17,526) | Net Plant | 75.67% | (13,262) | 39.47 | (336) |
| 42 | Long-Term Incentive - Cash (TAX REFORM 162(M) WRITEOFFS) | Non-protected Non-Prop | (4,005) | (1,269) | (380) | (1,649) | 507 | Non DST | 0.00% | - | - | - |
| **43** | **Total Account 190** | | **$ 1,009,546** | **$ 324,952** | **$ 81,111** | **$ 406,063** | **$ (129,981)** | | | **$ (71,292)** | | **$ (11,942)** |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 44 | Account 282 - Liberalized Deprec. - Plant & Equip. | | | | | | | | | | | |
| 45 | (EPS Accts. 282000 & 282200) -- | | | | | | | | | | | |
| 46 | Total Account 282 - Liberalized Depreciation | Protected Property | (11,051,749) | (3,563,715) | (869,707) | (4,433,421) | 1,425,486 | Net Plant | 75.67% | 1,078,665 | 39.47 | $ 27,329 |
| | | | | - | | | - | | | | | |
| 47 | Account 282 - Other Property (EPS Accts. 282100 & 282300) -- | | | - | | | - | | | | | |
| 48 | Competitive Transition Charge (CTC) | Not in Rate Base | 103,710 | 32,046 | 12,151 | 44,197 | (12,818) | Non DST | 0.00% | - | - | - |
| 49 | AFUDC Plant & Equip Borrowed | Non-protected prop | (83,617) | (26,486) | (7,944) | (34,429) | 10,594 | Net Plant | 75.67% | 8,017 | 39.47 | 203 |
| 50 | AFUDC Plant & Equip Equity | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 51 | Deferred Gain - Like Kind Exchange | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 52 | FIN 47 | Non-protected prop | 861 | 273 | 82 | 355 | (109) | Net Plant | 75.67% | (83) | 39.47 | (2) |
| 53 | Section 263A - Capitalized Interest | Non-protected prop | 251,086 | 79,532 | 23,853 | 103,385 | (31,813) | Net Plant | 75.67% | (24,073) | 39.47 | (610) |
| 54 | Software Costs Capitalized - Rev Bk | Non-protected prop | (227,954) | (72,204) | (21,656) | (93,860) | 28,882 | Net Plant | 75.67% | 21,855 | 39.47 | 554 |
| 55 | Capitalized Interest / Overhead Capitalized | Non-protected prop | (781,929) | (273,119) | (1,587) | (274,707) | 109,248 | Net Plant | 75.67% | 82,668 | 39.47 | 2,094 |
| 56 | Pension Cost Capitalized on Books | Non-protected prop | 329,154 | 104,260 | 31,270 | 135,529 | (41,704) | Net Plant | 75.67% | (31,557) | 39.47 | (800) |
| 57 | CIAC | Non-protected prop | 568,118 | 179,951 | 53,971 | 233,923 | (71,981) | Net Plant | 75.67% | (54,468) | 39.47 | (1,380) |
| 58 | CIAC with Tax Gross Up | Not in Rate Base | 41,788 | 13,236 | 3,970 | 17,206 | (5,295) | Non DST | 0.00% | - | - | - |
| 59 | Revaluation of Property | Not in Rate Base | 14,621 | 4,631 | 1,389 | 6,020 | (1,852) | Non DST | 0.00% | - | - | - |
| 60 | Real Estate Taxes Capitalized | Non-protected prop | 25 | 8 | 2 | 10 | (3) | Net Plant | 75.67% | (2) | 39.47 | (0) |
| 61 | Repair Allowance | Non-protected prop | (160,203) | (50,744) | (15,219) | (65,963) | 20,298 | Net Plant | 75.67% | 15,359 | 39.47 | 389 |
| 62 | Repairs - Distribution | Non-protected prop | (2,912,691) | (926,038) | (266,868) | (1,192,906) | 370,415 | DST | 100.00% | 370,415 | 39.47 | 9,385 |
| 63 | Repairs - Transmission | Non-protected prop | (282,396) | (89,555) | (26,525) | (116,080) | 35,822 | Non DST | 0.00% | - | - | - |
| 64 | Transmission Upgrade - East/West | Not in Rate Base | 55,899 | 17,706 | 5,310 | 23,016 | (7,082) | Non DST | 0.00% | - | - | - |
| 65 | AFUDC - Equity | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 66 | Regulatory (Asset)/Liab: ASC 740 - Tax Rate Changes | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 67 | Regulatory (Asset)/Liab: FAS109 Transmission Reg Asset Write-Up | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 68 | Total Account 282 - Other Property | | $ (3,083,526) | $ (1,006,504) | $ (207,799) | $ (1,214,304) | $ 402,602 | | | $ 388,131 | | $ 9,834 |
| **69** | **Total Account 282** | | **$ (14,135,275)** | **$ (4,570,219)** | **$ (1,077,506)** | **$ (5,647,725)** | **$ 1,828,088** | | | **$ 1,466,796** | | **$ 37,162** |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Account 283 | | | | | | | | | | | |
| 70 | - Other - (EPS Accts. 283100 & 283200 & 283300 & 283400) -- | | | | | | | | | | | |
| 71 | Chicago Arbitration Settlement | Not in Rate Base | (10,345) | (3,277) | (983) | (4,259) | 1,311 | Non DST | 0.00% | - | - | - |
| 72 | Accrued Benefits | Non-protected Non-Prop | 5,621 | 1,781 | 534 | 2,315 | (712) | Wages & Salaries | 85.94% | (612) | 5 | (122) |
| 73 | Deferred Gain - Sale of Easement | Non-protected Non-Prop | (12,012) | (3,805) | (1,141) | (4,946) | 1,522 | Net Plant | 75.67% | 1,152 | 5 | 230 |
| 74 | Incentive Compensation Capitalized (Global Settlement) | Non-protected Non-Prop | (6,690) | (2,119) | (636) | (2,755) | 848 | DST | 100.00% | 848 | 5 | 170 |
| 75 | Loss on Reacquired Debt | Non-protected Non-Prop | (27,765) | (8,794) | (2,638) | (11,432) | 3,518 | Net Plant | 75.67% | 2,662 | 5 | 532 |
| 76 | Midwest Generation Settlement Liab | Not in Rate Base | 5,364 | 1,699 | 510 | 2,209 | (680) | Non DST | 0.00% | - | - | - |
| 38 | Other Comprehensive Income (EPS 284000 & 284100) | Non-protected Non-Prop | - | - | - | - | - | Net Plant | 75.67% | - | - | - |
| 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 | 85.94% | 35,797 | 5 | 7,159 |
| 40 | Prepaid Pension contribution (shareholder-funded) | Non-protected Non-Prop | (902,445) | (285,849) | (85,732) | (371,582) | 114,340 | Wages & Salaries | 85.94% | 98,264 | 5 | 19,653 |
| 41 | PJM Start-up Costs | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 42 | Swap and Hedging Transactions | Non-protected Non-Prop | (7,836) | (2,482) | (744) | (3,226) | 993 | Net Plant | 75.67% | 751 | 5 | 150 |
| 43 | State Income Taxes - Temporary | Not in Rate Base | 42,212 | 14,774 | - | 14,774 | (5,910) | Non DST | 0.00% | - | - | - |
| 44 | Regulatory (Asset)/Liab: MGP-Environmental Remediation | Non-protected Non-Prop | (272,678) | (86,371) | (25,904) | (112,275) | 34,548 | Non DST | 0.00% | - | - | - |
| 45 | Regulatory (Asset)/Liab: Severance Cost (FAS 112) | Non-protected Non-Prop | - | - | - | - | - | Wages & Salaries | 85.94% | - | - | - |
| 46 | Regulatory (Asset)/Liab: Rider UF | Non-protected Non-Prop | (61,207) | (19,387) | (5,815) | (25,202) | 7,755 | Non DST | 0.00% | - | - | - |
| 47 | Regulatory (Asset)/Liab: Distribution Rate Case Matters | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 48 | Regulatory (Asset)/Liab: AMP - retired meters and AMI costs | Non-protected Non-Prop | (1,236) | (391) | (117) | (509) | 157 | DST | 100.00% | 157 | 5 | 31 |
| 49 | Regulatory (Asset)/Liab: AMP - other costs | Not in Rate Base | (22) | (7) | (2) | (9) | 3 | Non DST | 0.00% | - | - | - |
| 50 | Regulatory (Asset)/Liab: Distribution Formula Rate | Non-protected Non-Prop | (194,933) | (61,745) | (18,519) | (80,264) | 24,698 | Non DST | 0.00% | - | 5 | - |
| 51 | Regulatory (Asset)/Liab: Distribution: Other Deferred (Merger) | Non-protected Non-Prop | (8,612) | (2,728) | (818) | (3,546) | 1,091 | DST | 100.00% | 1,091 | 5 | 218 |
| 52 | Regulatory (Asset)/Liab: Distribution: Other Deferred (Storm) | Non-protected Non-Prop | (5,570) | (1,764) | (529) | (2,294) | 706 | DST | 100.00% | 706 | 5 | 141 |
| 53 | Regulatory (Asset)/Liab: Distribution: Other Deferred (A-Base) | Non-protected Non-Prop | (34,738) | (11,003) | (3,300) | (14,303) | 4,401 | DST | 100.00% | 4,401 | 5 | 880 |
| 54 | Regulatory (Asset)/Liab: Energy Efficiency | Non-protected Non-Prop | (165,748) | (52,501) | (15,746) | (68,247) | 21,000 | Non DST | 0.00% | - | - | - |
| 55 | Regulatory (Asset)/Liab: Solar Rebate | Non-protected Non-Prop | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 56 | Regulatory (Asset)/Liab: ASC 740_2011 IL State Tax Rate Change | Not in Rate Base | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 57 | Accelerated Depr AMI - Related to Reg Assets | Non-protected Non-Prop | (153,485) | (48,616) | (14,581) | (63,197) | 19,447 | DST | 100.00% | 19,447 | 5 | 3,889 |
| 58 | Deferred Revenue - Fiber Optics Lease | Non-protected Non-Prop | 8,346 | 2,644 | 793 | 3,436 | (1,057) | Comm Equip | 63.79% | (675) | 5 | (135) |
| 59 | Regulatory (Asset)/Liab: PORCB | Non-protected Non-Prop | - | - | - | - | - | Non DST | 0.00% | - | - | - |
| 60 | Reg Asset - Capital Leases | Not in Rate Base | (833) | (264) | (79) | (343) | 106 | Non DST | 0.00% | - | - | - |
| 61 | 2017 IL Rate Change - 2016 Remeasurement Impact | Non-protected Non-Prop | - | - | - | - | - | DST | 0.00% | - | - | - |
| 62 | Equity Earnings in Uncon Sub | Non-protected Non-Prop | 393 | 124 | 37 | 162 | (50) | Non DST | 0.00% | - | - | - |
| 63 | Change in gross-up rate change - B/S adj to the gross up deferred | Not in Rate Base | (324,694) | (102,847) | (30,846) | (133,693) | 41,139 | Non DST | 0.00% | - | - | - |
| 64 | **Total Account 283** | | **$ (2,457,672)** | **$ (777,064)** | **$ (237,489)** | **$ (1,014,553)** | **$ 310,826** | | | **$ 163,988** | | **$ 32,798** |
| 65 | **Total ADIT/Excess Deferred Taxes** | | **$ (15,583,400)** | **$ (5,022,331)** | **$ (1,233,884)** | **$ (6,256,215)** | **$ 2,008,932** | | | **$ 1,559,493** | | **$ 58,018** |
| 66 | **Total Excess Deferred Taxes** | | | | | | | | | **$ 1,559,493** | | |
| 67 | **Annual Amortization of Excess Deferred Taxes** | | | | | | | | | | | **$ 58,018** |
| 68 | **Gross-up rate (1/(1-28.51%))** | | | | | | | | | | | **1.3987** |
| 69 | **After Gross-up Annual Amortization of Excess Deferred Taxes** | | | | | | | | | | | **$ 81,150** |
| | **After Gross-up Annual Amortization of Excess Deferred Taxes (rounded to nearest million)** | | | | | | | | | | | **$ 81** |

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) |
| **Gross Revenue Requirment Change - TAX Reform** | | | **(38,418,546)** | |

(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) |
| | | | | |
| **Gross Revenue Requirment Change - TAX Reform** | | | **(29,128,119)** | |

(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)

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) |
| **Gross Revenue Requirment Change - TAX Reform** | | | **(26,706,904)** | |
| **Total Stub Period Jan 1, 2018 - Dec 28, 2018** | | | **(26,414,226)** | |
| 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% | 6,033,662 | 6,516,579 | | |
| 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: | (76,398) | (76,398) | | |
| 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% | 19,151,714 | 11,425,042 | | |
| 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 | | | (20,031,528) | |
| | | | | |
| Total Rate Base (chg in ADIT) | 1,888,557,900 | 1,888,557,900 | | |
| Rate of Return | 7.46% | 7.46% | | |
| Return On | 140,969,516 | 140,969,516 | 0 | (4) |
| | | | | |
| Additional NOIBT Needed | | | (20,031,528) | |
| | | | | |
| Tax Gross-Up | 1,151,696 | (6,207,389) | (7,359,085) | (5) |
| | | | | |
| **Gross Revenue Requirment Change - TAX Reform** | | | **(27,390,613)** | |
| | | **Total Stub Period Jan 1, 2018 - Dec 28, 2018** | **(27,090,442)** | |
| | | 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 NOIBT Needed | | | (20,647,988) | |
| | | | | |
| Tax Gross-Up | 12,487,701 | (206,876) | (12,694,577) | (5) |
| | | | | |
| **Gross Revenue Requirment Change - TAX Reform** | | | **(33,342,565)** | |
| | | **Total Stub Period Jan 1, 2018 - Dec 28, 2018** | **(32,977,167)** | |
| | | 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