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Amounts, NPV Customer Benefits
Witness: Charlotte T. Emery
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Sponsoring Party: The Empire District
Electric Company
Case Nos.: EO-2022-0040; EO-2022-0193
Date Testimony Prepared: May 2022

**Before the Public Service Commission
of the State of Missouri**

Surrebuttal Testimony

of

Charlotte T. Emery

on behalf of

The Empire District Electric Company d/b/a Liberty

May 2022



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 THE EMPIRE DISTRICT ELECTRIC COMPANY
 BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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SURREBUTTAL TESTIMONY OF CHARLOTTE T. EMERY
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. EO-2022-0040; EO-2022-0193

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Charlotte T. Emery, and my business address is 602 South Joplin Avenue,
4 in Joplin, Missouri.

5 **Q. Are you the same Charlotte T. Emery who provided Direct Testimony in Case No.**
6 **ER-2022-0193 on behalf of The Empire District Electric Company d/b/a Liberty**
7 **(“Liberty” or the “Company”)?**

8 A. Yes.

9 **Q. What is the purpose of your Surrebuttal Testimony in these now consolidated**
10 **securitization proceedings (Storm Uri and Asbury)?**

11 A. My Surrebuttal Testimony supports and substantiates Liberty’s requests to securitize
12 the costs for Winter Storm Uri and the retirement of the Asbury power plant under
13 Missouri’s Securitization Statute, RSMo. 393.1700. My testimony, along with the
14 testimony of Liberty’s other witnesses, demonstrates that the costs for Winter Storm
15 Uri and Asbury were reasonable and prudent, that securitization of those costs will
16 provide quantifiable net present value benefits to customers, and Liberty has
17 demonstrated all requirements necessary for securitization under the Missouri
18 Securitization Statute. For these reasons, the Missouri Public Service Commission
19 (the “Commission”) should issue a financing order approving the Company’s request
20 to securitize \$221,645,532 in costs for Winter Storm Uri and \$140,774,376 in costs for
21 Asbury, with quantifiable net present value benefits of \$42,276,691 for Winter Storm

1 Uri and \$31,096,447 for Asbury. The calculations of these amounts are discussed in
2 further detail below.

3 **Q. What topics do you address in your Surrebuttal Testimony?**

4 A. First, I adopt the Direct Testimony prepared and filed by Karen S. Hall in Case No.
5 EO-2022-0040¹. Second, I address various issues relating to our securitization
6 requests, including updating account balances, correcting certain figures, and similar
7 topics. Finally, I demonstrate and show in my testimony here that certain positions
8 taken by the Staff of the Commission (“Staff”) and the Office of the Public Counsel
9 (“OPC”) are not supported or well founded. Below is an itemized listing of the topics
10 and issues addressed in my testimony.

- 11 • I explain necessary corrections to the balances for the securitized
12 amounts for the Energy Transition Costs relating to Asbury and the
13 Qualified Extraordinary Costs relating to Storm Uri. I also update the
14 balances for both Storm Uri and Asbury with the most current
15 information available.
- 16 • I provide an update on the calculation of the Net Present Value (“NPV”)
17 benefits provided to our customers by securitizing the costs for Asbury
18 and Storm Uri.
- 19 • I discuss and respond to the following issues raised by Staff testimonies:
 - 20 ○ Asbury items:
 - 21 ■ Staff witness Ms. Kimberly K. Bolin related to the
22 exclusion of Asset Retirement Costs,

¹ Karen S. Hall resigned from the Company after filing her Direct Testimony in EO-2022-0040.

- 1 ▪ Ms. Bolin’s recommendation related to the balance
2 associated with the decommissioning costs,
3 ▪ Ms. Bolin’s discussion of the appropriate balance to
4 include for NPV associated with the Company’s
5 Accumulated Deferred Income Taxes,
6 ▪ Staff witness Ms. Amanda C. McMellen’s
7 recommendation associated with the appropriate
8 carrying costs and the date used to begin calculating
9 those costs;
- 10 ○ Storm Uri items:
- 11 ▪ Staff witness Ms. Brooke Mastrogiannis’s
12 recommendation related to the “sharing” amount to be
13 excluded from the Qualified Extraordinary Costs for
14 Winter Storm Uri,
- 15 ▪ Ms. McMellen’s recommendation related to including
16 “Excess Revenues” as Qualified Extraordinary Costs.
- 17 • I discuss and respond to the following issues raised by OPC
18 testimonies:
- 19 ○ Asbury items:
- 20 ▪ OPC witness Mr. John S. Riley regarding his
21 recommendation for the amount to securitize for Asbury;
- 22 ○ Storm Uri:
- 23 ▪ Mr. Riley’s recommendation related to Accumulated
24 Deferred Income Tax (“ADIT”).

1 • Finally, I also make recommendations related to designing the
2 appropriate tariff(s) to collect the securitized utility tariff charges for
3 Storm Uri and Asbury.

4 **Q. Are you sponsoring any schedules with your Surrebuttal Testimony in this**
5 **proceeding?**

6 A. Yes. I am sponsoring the following schedules:

Schedule Number	Schedule Name
Surrebuttal Schedule CTE-1 Asbury	Estimated Upfront and Ongoing Costs
Surrebuttal Schedule CTE-2 Asbury	Total Retail Revenue Requirement for Securitized Energy Transition Charge
Surrebuttal Schedule CTE-3 Asbury	Benefits Comparison
Surrebuttal Schedule CTE-1 Storm Uri	Estimated Upfront and Ongoing Costs
Surrebuttal Schedule CTE-2 Storm Uri	Total Retail Revenue Requirement for Securitization Utility Tariff Charge
Surrebuttal Schedule CTE-3 Storm Uri	Benefits Comparison

7 **II. CORRECTIONS TO THE SECURITIZATION AMOUNTS FOR ASBURY**
8 **AND STORM URI.**

9 **Q. Let's start with the Company's proposed securitizations amounts for Asbury and**
10 **Storm Uri from direct testimony. Do you have any corrections or updates to the**
11 **Energy Transition Costs for Asbury and the Qualified Extraordinary Costs for**
12 **Storm Uri?**

1 A. Yes. I have updated and corrected the ADIT balances to be securitized in association
2 with the retirement of the Asbury generating unit. I have updated the balance of phase
3 3 decommissioning costs associated with Asbury proposed by the Company. I have
4 also updated the balances Liberty proposes to be securitized related to Qualified
5 Extraordinary Costs associated with Storm Uri.

6 **Q. Please describe the correction related to the ADIT balance Liberty included in its**
7 **revenue requirement calculation associated with Asbury.**

8 A. During the discovery process, Liberty learned that it had inadvertently utilized 2.90%
9 for a coupon rate in its ADIT calculation. The correct coupon rate, however, as outlined
10 in Company witness Katrina Niehaus's Direct Testimony is 2.47%. As a result of that
11 correction, the updated Total Company ADIT balance is \$4,728,671, this amount has
12 been included in the revenue requirement calculation to determine the total costs to be
13 securitized.

14 **Q. Please describe the correction related to the additional phase 3 decommissioning**
15 **costs Liberty included in its revenue requirement calculation associated with**
16 **Asbury.**

17 A. After reviewing the testimony of OPC Witness Riley, Liberty concurs the \$8.4M of
18 phase 3 decommissioning costs proposed by the Company did include \$2M of costs
19 related to the removal of asbestos at Asbury. The Company also had included an
20 additional balance for the asset retirement obligation related to the removal of asbestos.
21 The Company removed the \$2M from phase 3 decommissioning costs. This topic is
22 discussed in detail in the Surrebuttal Testimony of Liberty witness Drew W. Landoll.

23 **Q. Has the Company updated the balances it proposes to be securitized related to**
24 **Asbury's Energy Transition Costs?**

1 A. Yes. The Company has updated all of the respective balances it seeks to securitize
2 related to the retirement of the Asbury plant. Originally, the proposed balances for
3 securitization of the Asbury costs were described in my Direct Testimony in Case No.
4 EO-2022-0193. For this filing, the Company brought forward all of the components of
5 Asbury's cost of service that it removed from its rate case (Case No. ER-2021-0312),
6 pursuant to Commission order. In addition, the Company has updated its
7 dismantlement/decommissioning costs for the Asbury plant and the environmental
8 compliance costs. The Company seeks inclusion of all these costs in the securitization
9 amounts for Asbury.

10 **Q. Please describe the updates made by the Company for these Asbury balances.**

11 A. The updated balances are based on actual information through April 2022 and a
12 projected amount for May 2022, an approach that was discussed recently among the
13 parties to this proceeding. The Company has also updated its anticipated carrying costs
14 through the anticipated bond issuance date of December 2022.

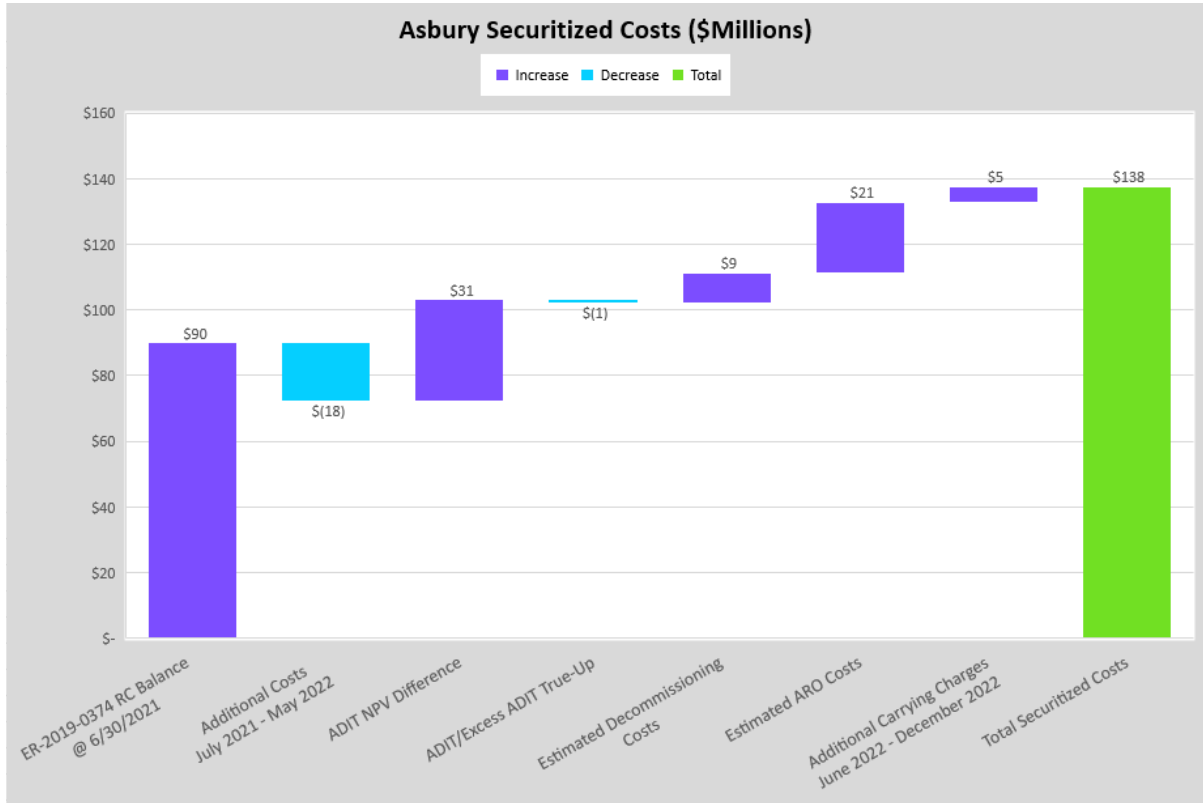
15 **Q. Why is the Company projecting its AAO balances through May 2022?**

16 A. New rates take effect on June 1, 2022, as a result of the Commission's recent order in
17 Case No. ER-2021-0312, Liberty's general rate case. As of June 1, 2022, the rates
18 customers are paying no longer will include costs and/or balances associated with the
19 Asbury plant. Therefore, the balances being tracked in the Accounting Authority Order
20 associated with Asbury will be reset to zero. As such, projecting the AAO balances
21 through May 2022 captures the majority of the components associated with retirement
22 of the Asbury plant.

23 **Q. What is the updated balance the Company seeks to securitize related to the**
24 **retirement of Asbury (excluding upfront financing fees)?**

1 A. Approximately \$138 million. Components of that balance are indicated in Figure CTE-
2 1 below.

3 **Figure CTE-1**



4
5 **Q. When the updated balances are accounted for, what is the NPV of the benefit that**
6 **customers would receive from securitizing the costs associated with the Asbury**
7 **retirement?**

8 A. The total updated net present value of benefits to customers from securitization of the
9 Asbury costs is \$31,096,447. The table below provides a summary of those net
10 benefits utilizing the updated balances.

1

Table CTE-1 Summary of Securitization Benefits - Updated

	Securitization	Amortization 13 Years
Total Payments	\$106,412,968	\$137,509,415
Securitization Benefits	-----	\$31,096,447

2

3 **Q. Has the Company updated the balances related to Qualified Extraordinary Costs**
4 **associated with Storm Uri?**

5 A. Yes. The Company has updated all of the respective balances for securitization of the
6 Storm Uri costs.

7 **Q. Please describe the updates made by the Company to these respective balances.**

8 A. The Company has updated the balances for actual information through April 2022 and
9 has projected its respective carrying costs through the anticipated bond issuance date
10 of December 2022.

11 **Q. Has the proposed carrying cost rate for Storm Uri been revised?**

12 A. Yes. The Company updated the carrying costs for the Storm Uri costs to be consistent
13 with the weighted average cost of capital (“WACC”) Ordered by the Commission in
14 Case No. ER-2019-0374. The Company made this update because at the time of its
15 direct filing a decision had not yet been issued related to the Company’s proposed
16 carrying costs in Case No. ER-2021-0312. Since the filing, the Commission has issued
17 its Order approving the various Stipulations and Agreements, which do not indicate a
18 new carrying rate. The carrying rate for Storm Uri is now consistent with the carrying
19 rate associated with Asbury securitization costs. For further discussion on the
20 appropriateness of WACC for the carrying costs, please refer to the Surrebuttal
21 Testimony of Company witness John J. Reed.

1 **Q. Does Staff witness Mr. Mark Davis discuss servicing fees for Storm Uri²?**

2 A. Yes. Mr. Davis notes Liberty did not include servicing fees in Schedule KSH-3, which
3 appears to be an error. He further explains it is inconsistent with what is in the proposed
4 financing order, which includes a request for servicer fees.

5 **Q. Do you agree with Mr. Davis on this point?**

6 A. Yes. Upon review of Schedule KSH-3, Liberty inadvertently did not include an amount
7 for servicing fees. This correction has now been made. The correction added an
8 additional \$110,823 in ongoing costs per year. The servicing fee is calculated by taking
9 the total estimated bond issuance amount and multiplying it by .05%, which I
10 understand is based on industry standard.

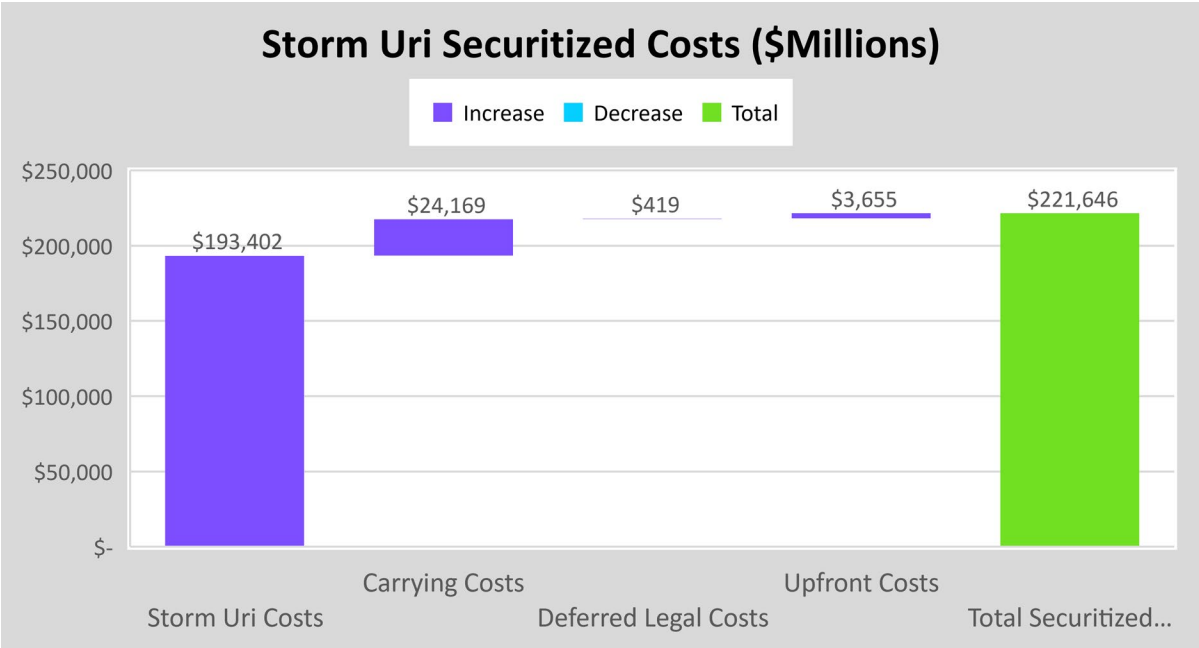
11 **Q. What is the updated balance the Company seeks to securitize related to Storm**
12 **Uri?**

13 A. Liberty seeks approval to securitize \$221,645,532 for the Storm Uri Costs. The
14 following table itemizes the Storm Uri costs to be securitized.

² Page 6, line 19-21.

1

Figure CTE-2 Storm Uri Bond Issuance Amounts Updated



2

3 **Q. Given these updated balances, what is the NPV of the benefit to customers**
 4 **associated with securitizing Storm Uri’s costs?**

5 **A.** The total updated net NPV benefits to customers from securitization of the Storm Uri
 6 costs is \$42,276,691. The table below provides a summary of the net NPV benefits
 7 utilizing the updated Storm Uri balances.

8

Table CTE-2 Summary of Securitization Benefits - Updated

	Securitization	Amortization 13 Years
Total Payments	\$175,713,544	\$217,990,235
Securitization Benefits	-----	\$42,276,691

9

1 **III. RESPONSE TO STAFF’S REBUTTAL TESTIMONY**

2 **a. Asbury**

3 **Q. Please summarize this subsection of your testimony.**

4 A. In this section of my testimony, I respond to Staff witness Kimberly Bolin’s
5 recommendations that certain Asset Retirement Obligations (“AROs”) and demolition
6 balances be deferred, her assertions regarding the calculation of Accumulated Deferred
7 Income Taxes (“ADIT”), and her recommendations regarding the appropriate rates for
8 use in calculating carrying charges.

9 **i. *ARO and Demolition Costs***

10 **Q. Please describe what Staff witness Ms. Bolin recommends regarding the**
11 **Company’s proposal to include AROs.**

12 A. In her rebuttal testimony, Ms. Bolin indicates that Staff has not included the AROs in
13 Staff’s Asbury securitized balance. *See* Rebuttal Testimony of Kimberly K. Bolin
14 (“Bolin Rebuttal”), pages 9–10.

15 **Q. What explanation does Ms. Bolin provide for her recommendation not to include**
16 **the Company’s proposed ARO balances?**

17 A. Ms. Bolin argues that the amounts provided by Liberty for AROs are estimated and
18 that the Company has not provided any documentation that supports those ARO
19 estimates.

20 **Q. Has the Company provided any other detail that supports the balances it proposes**
21 **to include in the AROs?**

22 A. Yes. In his Surrebuttal Testimony, Company witness Drew W. Landoll provides
23 details, documentation and empirical support for the ARO costs and estimates. Mr.
24 Landoll’s testimony provides adequate documentation and back up for the ARO costs.

1 I have incorporated this additional cost information into the updated ARO balances the
2 Company seeks to securitize.

3 **Q. Does Ms. Bolin indicate anything further in her Rebuttal Testimony related to**
4 **AROs?**

5 A. Yes, Ms. Bolin states that Liberty would have an opportunity to recover balances that
6 it actually incurred that are deferred via an ARO in a future ratemaking process. (Bolin
7 Rebuttal at 10.)

8 **Q. Do you agree with Ms. Bolin?**

9 A. While Ms. Bolin is technically correct, her proposal would unnecessarily increase costs
10 to Liberty's customers. If the Company recovered these balances through traditional
11 means, it would also recover the carrying costs it incurred between now and the time
12 of the recovery, which would be calculated at its authorized WACC. The avoidance of
13 carrying costs charged at a utility's WACC, along with the opportunity to extend
14 repayment periods, is why securitization exists. Ms. Bolin's proposal would instead
15 require customers to bear those extra costs and pay the ARO balances over a shorter
16 period of time.

17 **Q. Does Ms. Bolin indicate that her approach would give benefits to customers that**
18 **could offset the higher cost?**

19 A. No. Her argument appears to be that because the Company *can* recover certain costs
20 via an ARO that it *should* do so.

21 **Q. Does securitizing estimated balances before they are actually incurred create**
22 **additional risks for customers?**

23 A. No, because any variances will be reconciled. The Company proposes to track
24 differences between the balances it securitizes and its actual costs incurred. Any

1 balances in this tracking account (positive or negative) would be included in a future
2 rate proceeding. If the Company's estimates of the costs that it included in the
3 securitization turned out to be overstated, the difference would be held in a regulatory
4 liability and returned to customers at Liberty's next rate case.

5 **Q. What does Ms. Bolin recommend regarding Phase 3 demolition costs?**

6 A. Ms. Bolin states that the phase 3 costs should reflect the salvage value that Liberty will
7 receive, which offsets the cost of demolition. (Bolin Rebuttal at 8.)

8 **Q. What is the Company's response to Ms. Bolin's recommendation?**

9 A. The Company does not necessarily disagree with Ms. Bolin on this issue, but it bears
10 emphasis that the salvage amounts included in the study are estimates. Similar to the
11 above discussion related to the inclusion of ARO balances in the Company's
12 securitization bond total, any differences in these estimates would be recovered from
13 or returned to customers via traditional ratemaking (i.e., rate case). If the amount
14 estimated for salvage is higher than estimated, the Company would be entitled to
15 recovery of a regulatory asset to be included in a future proceeding via an addition to
16 rate base, which would earn carrying costs at the Company's WACC; therefore, it may
17 be more beneficial for customers to not include salvage value in the securitization bond
18 amount, where the bond rate is lower than the Company's WACC.

19 *ii. ADIT*

20 **Q. What does Ms. Bolin say about the Company's NPV calculation for ADIT?**

21 A. Ms. Bolin argues that Liberty incorrectly calculated its net present value NPV of ADIT,
22 effectively discounting the ADIT balance twice. (Bolin Rebuttal at 11.)

23 **Q. Did the Company effectively discount the ADIT balance twice?**

24 A. No.

1 **Q. Can you please explain the concept of NPV?**

2 A. NPV is a calculation which generally seeks to quantify the total value of a series of
3 cash flows at a specific point in time. Summarized at a high level, the NPV calculation
4 sums future cash inflows and outflows associated with an investment, discounts the
5 total at an appropriate rate to reflect the fact that the value of a payment depends, in
6 part, on when the payment is made or received, and then adds the discounted net cash
7 flows together. The resulting sum is the NPV of the cash flows, which allows for like-
8 for-like comparison of the current value of net cash flows, even ones that are uneven
9 over time.

10 **Q. How is NPV used to calculate the ADIT balance?**

11 A. The first step is to determine future cash inflows (rates from customers). In order to
12 accomplish this, one calculates the impact on rates associated with ADIT. The impact
13 on rates (cash in-flows) is not the total value of ADIT, rather it is a reduction to rate
14 base. The impact on the annual revenue requirement associated with ADIT is
15 calculated by multiplying the ADIT balance by the Rate of Return (“ROR”). Said
16 another way, the annual cash in-flows are equal to the amounts collected from
17 customers (ADIT x ROR). The next step is to include all of the future cash in-flows
18 (i.e., 13 years). Finally, once you have the annual cash in-flow, one applies the discount
19 rate (i.e., bond coupon rate) to each of the respective cash in-flows.

20 **Q. Why do you think Ms. Bolin believes Liberty’s calculation effectively and**
21 **inappropriately discounts the ADIT twice.**

22 A. It appears that Ms. Bolin believes that Liberty is discounting ADIT twice because the
23 Company removed the ADIT applicable to securitization and multiplied it by the
24 securitization yield and then adjusted it again to obtain the NPV. However, this

1 approach is correct, because it reflects the anticipated cash in-flows associated with the
2 benefits of ADIT. This aligns with the approach taken in calculating an annual revenue
3 requirement where Liberty customers receive the benefit of the requested rate of return
4 and not the full amount of the ADIT, which is the amount paid to the IRS. Furthermore,
5 the Company utilizes the discount rate equal to the expected interest rate of the
6 securitized utility tariff bonds versus the requested rate of return in a general rate case.
7 The NPV is then calculated on this amount as required by RSMo. Section
8 393.1700.2(3)(c)m, which is stated below (emphasis added):

9 In a financing order granting authorization to securitize energy
10 transition costs or in a financing order granting authorization to securitize
11 qualified extraordinary costs that include retired or abandoned facility costs, a
12 procedure for the treatment of accumulated deferred income taxes and excess
13 deferred income taxes in connection with the retired or abandoned or to be
14 retired or abandoned electric generating facility, or in connection with retired
15 or abandoned facilities included in qualified extraordinary costs. The
16 accumulated deferred income taxes, including excess deferred income taxes,
17 shall be excluded from rate base in future general rate cases and the net tax
18 benefits relating to amounts that will be recovered through the issuance of
19 securitized utility tariff bonds shall be credited to retail customers by reducing
20 the amount of such securitized utility tariff bonds that would otherwise be
21 issued. The customer credit shall include the net present value of the tax
22 benefits, calculated using a discount rate equal to the expected interest rate of
23 the securitized utility tariff bonds, for the estimated accumulated and excess
24 deferred income taxes at the time of securitization including timing differences
25 created by the issuance of securitized utility tariff bonds amortized over the
26 period of the bonds multiplied by the expected interest rate on such securitized
27 utility tariff bonds.

28 **Q. Is it correct that Liberty calculated the ADIT applicable to the amounts being**
29 **securitized, applied the securitized yield, which is a similar concept to a general**
30 **rate case, just a different rate, and then applied an NPV to the amount?**

31 A. Yes. That approach is required by the securitization statute³.

32 *iii. Carrying Charges*

³ RSMo. Section 393.1700.2(3)(c)m.

1 **Q. Does Staff witness Ms. Amanda C. McMellen indicate that the WACC the**
2 **Company used to calculate its deferred carrying costs is appropriate?**

3 A. No.

4 **Q. Why?**

5 A. The Company calculated carrying costs using Liberty's Pre-tax WACC, as I describe
6 above. At page 8 of her Rebuttal Testimony, Ms. McMellen asserts that the actual
7 WACC rate of 6.77%, not the Pre-tax rate, is appropriate.

8 **Q. Does she explain why?**

9 A. She claims that doing so will share costs between shareholders and customers.

10 **Q. Do you agree?**

11 A. No. The Company will pay taxes on the proceeds from the issuance of the
12 securitization bonds, so the use of an after-tax WACC rate would effectively prevent
13 the Company from recovering a valid expense incurred in the course of serving
14 customers (taxes). Ms. McMellen's proposal is contradictory to cost-of-service
15 regulation.

16 **Q. Please summarize Ms. McMellen's recommendations regarding Staff's inclusion**
17 **of the "return on" component in its AAO liability balance?**

18 A. As described on page 9 of her Rebuttal Testimony, Ms. McMellen recommends
19 . . . that the return on Asbury component of the regulatory liability be
20 used to offset Liberty's net balance of costs to be securitized. This
21 inclusion appropriately recognizes that Liberty customers have been
22 paying a full return on Asbury in rates since the unit was effectively
23 retired in December 2019, and that this amount should be returned to
24 customers. Omitting this component from the securitized balance

1 would put Liberty in the position of potentially recouping in rates all
2 costs not recovered associated with Asbury since its retirement without
3 crediting customers for the Asbury cost recovery in rates it has received
4 since its retirement.

5 **Q. Would you also summarize the recommendation of Ms. McMellen related to**
6 **customers paying a return on the unrecovered portion of its Asbury plant?**

7 A. Yes, as described on page 10 of her Rebuttal Testimony, Ms. McMellen indicates Staff
8 is not opposed to requiring Liberty customers to pay a return on the unrecovered portion
9 of its Asbury investment in the context of this securitization case.

10 **Q. Do you agree with Ms. McMellen’s recommendation that the Company should**
11 **recover a return on the unrecovered portion of the Asbury plant?**

12 A. Yes. Liberty should be allowed carrying costs related to its committed capital
13 associated with Asbury’s undepreciated asset balances.

14 **Q. What is the rate and date that Ms. McMellen recommends for carrying costs**
15 **associated with the unrecovered portion of the Asbury plant?**

16 A. As described on page 8 of her Rebuttal Testimony, Ms. McMellen proposes using the
17 long-term debt rate as of February 2022. She further proposes applying carrying cost
18 charges from May through December 2022.

19 **Q. Do you agree with Ms. McMellen’s recommendation related to the “return on”**
20 **component being included in the AAO liability balance (thus denying recovery)?**

21 A. No. Please refer to the Surrebuttal Testimony of Company witness John J. Reed for
22 additional details on why the Company should be allowed to earn its return on Asbury.
23 However, even if the Commission were to agree with Ms. McMellen’s
24 recommendation to include the “return on” component in the AAO liability balance, I

1 discuss below why the overall securitized amount being proposed by the Company
2 would still be appropriate.

3 **Q. Do you agree with the carrying rate and the start date Ms. McMellen**
4 **recommends?**

5 A. No. Ms. McMellen recommends the carrying rate to be the long-term debt rate and
6 that the carrying charges apply only from May 2022 through December 2022.

7 **Q. Does Ms. McMellen provide an explanation for her recommendation related to**
8 **the rate and date?**

9 A. Yes. Ms. McMellen indicates that her recommendation is due to the short period of
10 time the carrying costs are to be applied (May – December 2022).

11 **Q. Does Ms. McMellen indicate why she used May – December 2022 for the time**
12 **frame to apply carrying costs?**

13 A. Not that I could find.

14 **Q. Does the Securitization Statute provide for the securitization of carrying charges?**

15 A. As specified by the Securitization Statute, Energy Transition Costs include all of the
16 following: “Pretax costs with respect to a retired or abandoned or to be retired or
17 abandoned electric generating facility that is subject of a petition for a financing order
18 filed under this section where such early retirement or abandonment is deemed
19 reasonable and prudent by the commission through a final order issued by the
20 commission, include, but are not limited to accrued carrying charges.” RSMo.
21 393.1700.1(7)(a) (emphasis added).

22 **Q. Did Staff indicate that the early retirement of Asbury was reasonable and**
23 **prudent?**

1 A. Yes. On page 6 of Ms. McMellen’s Rebuttal Testimony, she states “Staff believes that
2 the prudent costs incurred by Liberty for early retirement of Asbury are just, reasonable
3 and in the public interest. Therefore, these extraordinary costs qualify and should be
4 recovered through the Securitization Statute.”

5 **Q. Does the Securitization Statute define “carrying charges”?**

6 A. No, it does not.

7 **Q. How are carrying charges typically calculated?**

8 A. Using a utility’s WACC. Because a utility is capitalized using a mixture of debt and
9 equity, and because, for ratemaking purposes, it is generally not practical to determine
10 how any particular transaction is financed, the typical approach is to calculate carrying
11 charges using the WACC most recently authorized by a utility’s regulator. That is the
12 approach that the Company has taken to calculate the balances that it proposes to
13 securitize.

14 **Q. Is that to say that the term “carrying charges” in the Securitization Statute implies
15 a calculation using the Company’s WACC?**

16 A. Yes, I believe it does.

17 **Q. Is it possible that the term could mean something else?**

18 A. I believe that is highly unlikely for several reasons. First, if the Missouri legislature
19 intended for a debt-only rate to be applied, or if it had intended for the Commission to
20 impute some estimate of actual costs to finance certain expenses based on the
21 assumption that such financing would be done on a debt-only basis, it certainly would
22 have indicated as much. The Securitization Statute is detailed and highly proscriptive
23 and leaves no basis for the assumption that the legislature would have chosen to diverge
24 from the commonly held understanding of the term “carrying costs” without any

1 explanation. Second, as Company witness John J. Reed explains at p. 23 of his
2 Surrebuttal Testimony, there is clear Commission precedent that the calculation of
3 carrying costs for deferred storm expense balances should be conducted using the
4 WACC, including recently, in Case No. ER-2019-0374, where the Commission
5 approved the Company's recovery of deferred costs associated with the Joplin tornado
6 Third, as Mr. Reed explains at p. 21-22 of his Surrebuttal Testimony, fundamental
7 principles regarding the fair return of capital deployed on behalf of customers that
8 underpin the economic regulation of utilities require the use of WACC in circumstances
9 like this.

10 **Q. Considering the above discussion, why are the Asbury balances proposed by the**
11 **Company in this securitization proceeding appropriate?**

12 A. To start, the underlying evidence and record demonstrate that the costs for Asbury were
13 reasonable and prudent expenses incurred by the Company, securitization of those costs
14 will provide clear benefits to customers, and Liberty has demonstrated all requirements
15 necessary for securitization under the Missouri statute. For these reasons, the
16 Commission should approve the Company's request to securitize \$137,509,415 in costs
17 for Asbury at a carrying cost of 6.77%. As explained above, according to the
18 Securitization Statute the Company is allowed to include accrued carrying charges from
19 the date of the generating unit's retirement. Thus, even if the Commission were to
20 adopt Staff's recommendation related to the "Return On" component in the calculation
21 of the AAO liability balance, the Commission would also need to adjust Staff's
22 proposed balance by including carrying costs at the Company's WACC from the
23 retirement date. That balance is equivalent to not including the "return on" portion of

1 the AAO liability, since it was calculated using the Company's WACC since the plant's
2 retirement date.

3 **Q. Do the Company and Staff have different views on the date on which Asbury**
4 **retired?**

5 A. Yes. The Surrebuttal Testimony of Aaron J. Doll articulates why March 1, 2020, is the
6 appropriate date to use for Asbury's retirement. Staff instead asserts that date should
7 be December 19, 2019.

8 **Q. If the Commission were to decide to utilize Staff's recommended retirement date,**
9 **how much of an impact would that have on the amount the Company proposes to**
10 **securitize?**

11 A. That would change the amount being securitized by \$1,744,238 which represents the
12 carrying charges on the plant for two months (January and February 2020).

13 **b. Storm Uri**

14 **Q. Please summarize this subsection of your testimony.**

15 A. In this section of my testimony I discuss certain adjustments that Staff witnesses
16 recommend related to the balance that the Company proposes to recover for its costs
17 incurred during Storm Uri. Specifically, Staff witnesses Ms. Bolin and Ms. Brooke
18 Mastrogiannis recommend a disallowance of \$9,670,109.89 associated with the
19 "sharing" of the financial impact of Winter Storm Uri. Staff witness Ms. Sarah L.K.
20 Lange recommends an adjustment in the amount of \$2,760,686 for "extraordinary
21 revenues" contributed by customers during Storm Uri.

22 **Q. Do you agree with any of these recommendations?**

23 A. No. My testimony explains below why none of the proposals are allowable under the
24 Securitization Statute, consistent with the standard of prudence in Missouri, or both.

1 *i. “Sharing” Disallowance Proposals*

2 **Q. Please summarize the disallowance being recommended by Ms. Mastrogiannis.**

3 A. She believes that recovery of 5% of the extraordinary costs that the Company incurred
4 on behalf of its customers during Storm Uri should be disallowed.

5 **Q. Does she explain why?**

6 A. She states the Company’s proposal to securitize all of its prudently incurred,
7 extraordinary costs would violate the 95%/5% sharing mechanism embedded in the
8 FAC. Rebuttal Testimony of Ms. Mastrogiannis at page 8.

9 **Q. Is the Company attempting to recover costs through the FAC in this proceeding?**

10 A. No, it is not. This is a fact that even Ms. Mastrogiannis appears to acknowledge in her
11 testimony.

12 **Q. Do Commission Rules provide for the exclusion of extraordinary costs from the
13 FAC?**

14 A. Yes. Commission Rule 20 CSR 4240-20.090(8)(A)2.A.(XI) provides for the exclusion
15 of extraordinary costs from the FAC under certain circumstances. In its Report and
16 Order in Case No. ER-2022-0025, p. 8, the Commission found they had the ability to
17 exclude extraordinary costs from the FAC.

18 **Q. Has this, in fact, already happened?**

19 A. Yes. The Commission has set FAC rates for Liberty on three separate occasions since
20 Storm Uri, approving rates that became effective on June 1, 2021, December 1, 2021,
21 and June 1, 2022.

22 **Q. Does Ms. Mastrogiannis allege imprudence in the Company’s actions or decisions
23 that would support a disallowance of 5% of the Company’s costs?**

24 A. No, she does not.

1 **Q. Does Ms. Mastrogiannis identify some element of the Securitization Statute which**
2 **requires that the same sharing mechanism in use in the FAC be applied to**
3 **securitization?**

4 A. No, she does not.

5 **Q. Does the Securitization Statute even *allow* for the reduction of prudently incurred**
6 **fuel costs by the percentage indicated in the FAC?**

7 A. No, it does not.

8 **Q. Are you aware of any basis for Ms. Mastrogiannis' claims that the FAC provisions**
9 **would apply to this proceeding?**

10 A. No, I am not.

11 *ii. "Excess" revenues*

12 **Q. Please explain the adjustment recommended by Staff witness Ms. McMellen**
13 **related to excess revenues.**

14 A. On page 5 of Ms. McMellen's Rebuttal Testimony, she indicates a proposed adjustment
15 to remove what she deems excess revenues from the Winter Storm Uri securitization
16 balance.

17 **Q. Can you please summarize Ms. McMellen's rationale?**

18 A. Ms. McMellen's Rebuttal Testimony asserts there were excess base rate revenues
19 received by Liberty during Storm Uri and claims that since the Company has already
20 received the benefit of those revenues, the "gain" should offset the securitization costs.

21 **Q. Is Ms. McMellen's proposal allowable under the Securitization Statute?**

22 A. No, it is not.

23 **Q. Why?**

1 A. There is no provision within the Securitization Statute, specifically Section
2 393.1700.1(13), which allows or requires an adjustment for “excess” revenues resulting
3 from colder than normal weather during a given period.

4 **Q. Are you aware of the order the Commission recently issued on March 16, 2022, in**
5 **ER-2022-0025?**

6 A. Yes, I am. That proceeding regards an adjustment to Evergy Missouri Metro’s
7 (“Evergy Metro’s”) FAC. There, Evergy Metro claimed, unsuccessfully, that the
8 revenues it earned from off-system sales during Winter Storm Uri should be excluded
9 from the calculation of the FAC under the relevant Commission rules and thus not be
10 subject to the 95% / 5% sharing provision embedded in the FAC.

11 **Q. What bearing does that determination have on this proceeding?**

12 A. None. The Company is not seeking recovery of costs through the FAC so the rules
13 regarding which costs and revenues should be included, and which should not, are not
14 relevant. As I explain above, the Securitization Statute allows no adjustment for what
15 may be deemed extraordinary or excess costs or revenues.

16 **IV. OPC REBUTTAL TESTIMONY**

17 **a. Asbury**

18 **Q. OPC witness John S. Riley indicates on page 5 of his Rebuttal Testimony that the**
19 **Company provided no evidence for its numbers. Did the Company provide**
20 **support for the balances it has presented in this case and in Cases Nos. EO-2022-**
21 **0193 and ER-2021-0312 related to Asbury?**

22 A. Yes.

23 **Q. Please explain.**

1 A. Although OPC witness Riley states that the Company has provided no evidence for its
2 numbers, the Company has sufficiently supported its proposed balances of the Asbury
3 costs. The genesis of the balances brought forth to the Asbury securitization
4 proceeding is outlined on page 4 of my Direct Testimony filed in Case No. EO-2022-
5 0193. Furthermore, the balances were supported in testimony of Company witness
6 Tisha Sanderson in Case No. ER-2021-0312. The Company also supplied all of its
7 workpapers that provided support for the Company's balances included in my Direct
8 Testimony. Furthermore, I would also point out the contradiction between Mr. Riley's
9 Rebuttal Testimony in this cause compared to his Direct Testimony in Case. No. ER-
10 2021-0312, page 10, where he states that Liberty witness Sanderson "does a fairly good
11 job of explaining what the Commission wanted tracked in the AAO" and that "on page
12 17 of her testimony she has summarized the regulatory assets and liability in a clear
13 and concise format".

14 **Q. Do you agree with the amount OPC witness Riley indicates is the retired plant**
15 **balance for purposes of calculating the AAO and securitization amount?**

16 A. Partially. The \$155,044,297 stated in Mr. Riley's testimony represents the estimated
17 balance of retired plant as of January 2020. However, this balance was the Company's
18 projection of how much of the Asbury generating plant would be retained compared to
19 the actual balance of the January 2020 Asbury generating unit. It is important to note
20 that the Company used this as the baseline for its AAO liability calculation to determine
21 the monthly impact of the retirement in both Case Nos. EO-2022-0193 and ER-2021-
22 0312. However, this is not the balance that is ultimately being requested by the
23 Company for its stranded plant regulatory asset.

24 **Q. Why is that?**

1 A. The Asbury generating plant retired March 1, 2020, and the balance of the plant at its
2 retirement date is the amount included by the Company in its proposed securitization
3 balance. At the time of my Direct Testimony, this amount was \$157,740,873. In
4 addition to the net retired plant balance, the Company included an amount of
5 \$1,673,601, which represents costs that were included in both CWIP and RWIP related
6 to two Asbury environmental capital projects that were abandoned. These projects were
7 undertaken a number of years ago in good faith to comply with upcoming
8 environmental regulations. Refer to the Surrebuttal Testimony of Company witness
9 Drew W. Landoll for further discussion on the environmental regulation requirements
10 the plant would have been required to complete had it stayed in service. In conclusion,
11 the amount the Company is seeking to securitize is the unrecovered plant at its March
12 2020 retirement and the additional costs of the abandoned environmental projects,
13 which sum to \$159,414,474.

14 **Q. Are there any other balances the Company included in the AAO amount that OPC**
15 **witness Riley suggests are inappropriate?**

16 A. Yes, per the Rebuttal Testimony filed in EO-2022-0040 and EO-2022-0193, OPC
17 witness Riley stated the Company included \$1,207,280 related to a tracker amount in
18 ER-2019-0374. On page 7, line 4, of his Rebuttal Testimony, he goes on to state this
19 balance should have been addressed in Case No. ER-2021-0312, yet he found no
20 language addressing this asset or any possible offsetting ash sales and that no Company
21 witness has offered to update this amount nor have they provided proper justification
22 for its inclusion.

23 **Q. Is Mr. Riley correct in his assertion that this amount wasn't addressed in Case**
24 **No. ER-2021-0312 and updated in this proceeding?**

1 A. No. This amount was addressed and updated through June 2021 by Company witness
2 Sanderson in Case No. ER-2021-0312, Direct Testimony of Tisha Sanderson, page 19,
3 lines 1-17, prior to the Company deciding to securitize Asbury. In addition, it was also
4 included in my Direct Testimony in Case No. EO-2022-0193. From reviewing Mr.
5 Riley's Rebuttal Schedules and respective workpapers, it appears he may be confused,
6 as even his own analysis includes this balance in his calculations to support OPC's
7 position related to their recommendations on the appropriate AAO balance.
8 Specifically, refer to his Schedule JSR-R-04.

9 **Q. Please continue.**

10 A. The \$1,207,280 stated in OPC witness Riley's Rebuttal Testimony herein is the amount
11 specified in Appendix B of the Non-Unanimous Global Stipulation and Agreement in
12 Case No. ER-2019-0374. This amount represents the Missouri jurisdictional balance of
13 the environmental costs that had been settled and paid out by the Company for the
14 removal of Asbestos and retirement of the coal ash ponds at the Asbury plant. These
15 environmental costs are those that were identified as part of the legal obligations
16 associated with the retirement of Asbury. This amount was also derived from using the
17 Company's jurisdictional allocations factor of 83.94% and was calculated prior to
18 receiving the Amended Report and Order in that case. On page 53 of the Amended
19 Report and Order in ER-2019-0374, the Commission authorized Staff's jurisdictional
20 allocations. Therefore, the \$1,207,208 was then revised to reflect Staff's Missouri
21 allocator (84.04%) resulting in a revised amount of \$1,208,685. This amount can be
22 seen on line 4 of Schedule JSR-R-04 filed in this case. In that same Schedule (which is
23 a workpaper I supplied to support my Direct Testimony in EO-2022-0193), the
24 Company provided updates to that balance for actuals through January 2022 and

1 projections through April 2022, resulting in a Total Company balance of \$1,761,262 or
2 \$1,494,657 Missouri Jurisdictional as it relates to the Asbury Environmental
3 Regulatory Assets. This balance is also supported by my Direct Schedule CTE-2 filed
4 in EO-2022-0193.

5 **Q. Does OPC witness Riley agree with the \$1,494,657 included for the Asbury**
6 **Environmental Regulatory Asset balance by the Company?**

7 A. While Mr. Riley doesn't have any issues with the balance, he expresses concerns that
8 this amount is not a stand-alone cost and has implied that the Company also included
9 this cost in the balance on line 10 of Direct Schedule CTE-2, in which the Company
10 reflected \$18,473,530 for additional costs for the Asbury Asset Retirement Obligation
11 – CCR Impoundment.

12 **Q. Is the \$1,494,657 included as part of the \$18,473,530 listed in Direct Schedule**
13 **CTE-2 supplied in this case?**

14 A. No. The \$1,494,657 is related to the Asbury environmental regulatory asset costs that
15 have been settled and paid by the Company as of January 2022 for the removal of
16 asbestos and the CCR Impoundment. The \$18,473,530, on the other hand, represents
17 Missouri's portion of the additional costs the Company expects to incur to complete
18 the asset retirement obligation for the Asbury CCR Impoundment.

19 **Q. Did OPC oppose the Company's proposed balance of \$18,473,530 related to**
20 **additional CCR Impoundment costs?**

21 A. Not exactly. Mr. Riley admits to not having a better estimate; his only stated concern
22 is that the \$1,494,657 of settled environmental regulatory asset costs discussed above
23 is also included in this \$18M balance. However, as I explained earlier in my testimony,
24 he is incorrect.

1 **Q. What balance did Mr. Riley include for the additional asset retirement cost as it**
2 **relates to the removal of asbestos at Asbury?**

3 A. In Mr. Riley’s testimony, he explains he included no additional costs for the removal
4 of asbestos as it was already included in the Additional Decommissioning costs
5 proposed by the Company.

6 **Q. Is that accurate?**

7 A. Partially. After further review, the Company determined the Black and Veatch Memo
8 supplied in Schedule DWL-2 to the Direct Testimony of Drew W. Landoll in Case No.
9 EO-2022-0193 does include a \$2M line labeled “Cleanup/Abatement of Hazardous
10 Waste”. This balance was an estimate Black and Veatch made for the Asbestos
11 Removal and is part of the \$8.4M Total Company cost the Company included for
12 Securitization.

13 **Q. Does the \$2M of Cleanup/Abatement of Hazardous Waste represent an**
14 **appropriate balance for the asset retirement obligation?**

15 A. No. The \$3,171,417 (Total Company) included in Direct Schedule CTE-2 to the Direct
16 Testimony of Charlotte T. Emery in Case No. EO-2022-0193 is a more appropriate
17 estimate of the entire costs for the removal of the asbestos. Refer to the Surrebuttal
18 Testimony of Company witness Drew W. Landoll for further discussion. The Company
19 adjusted its ARO balances to remove the \$2M balance from the Phase 3
20 Decommissioning costs in its updated securitization costs for Asbury.

21 **Q. Are you in agreement with Mr. Riley’s calculation of Cash Working Capital**
22 **(“CWC”) for Asbury?**

23 A. No. The baseline approved in Case No. ER-2019-0374 did not establish an amount for
24 cash working capital related to Asbury. However, the Amended Report and Order

1 issued in that case directed the Company to track the monthly impact of Asbury's
2 retirement on the cash working capital component. Since the Company did not have an
3 authorized CWC amount specific to Asbury, the Company made a reasonable estimate
4 by calculating its Asbury CWC balance by taking the respective Asbury baseline
5 revenue requirement amounts and determining what percentage it was of the total base
6 rate revenue requirement amount authorized in that case. The Company then applied
7 that percentage to the total amount of CWC approved in Case No. ER-2019-0374 to
8 determine the amount of CWC in base rates associated with the Asbury generating
9 plant. The calculation by OPC witness Riley is inappropriate as the balance he is
10 proposing fails to consider the CWC customers are currently paying in rates. Instead,
11 it appears his balance is attempting to calculate the total balance of CWC for 30 months
12 for Asbury and not factoring in what customers are actually paying in rates. Said
13 another way, Mr. Riley is not properly following the AAO Order as specified by the
14 Commission Order which utilizes the baseline approach for CWC.

15 **Q. Please describe OPC witness Riley's stance on the coal inventory included by the**
16 **Company for securitization.**

17 A. Mr. Riley believes the Company has confused the amounts of fuel inventory it has
18 included in its securitization balance. He states the Company included a coal
19 adjustment balance from a fuel adjustment clause case, Case No. ER-2020-0311,
20 instead of the 60 days' burn of coal ordered by the Commission in ER-2019-0374.

21 **Q. Did the Company in fact confuse these balances?**

22 A. No. The \$3,947,465, which represents the 60 day's fuel burn for Asbury that was
23 ordered by the Commission in Case No. ER-2019-0374, was used by the Company as
24 its baseline for its calculation of the Asbury AAO liability to reflect the impact of the

1 retirement of Asbury. The \$1,532,832, which is Missouri's portion of the \$1,925,886
2 ordered to be deferred to a regulatory asset in Case No. ER-2020-0311. This amount
3 was included in the Company's test year balance in general rate case, ER-2021-0312
4 and was described in the Direct Testimony of Tisha Sanderson, page 19. The amount
5 was ultimately removed from the case after the Company elected to pursue
6 securitization.

7 **Q. Is it appropriate for the Company to include the \$1.5M as part of its proposed**
8 **securitized costs associated with Asbury?**

9 A. Yes. As described in my Supplemental Direct Testimony in Case No. ER-2020-0311,
10 this balance represents the unrecoverable coal located at the bottom of the Asbury
11 generating facility's coal piles, which over time blends with the coal mat upon which
12 all recoverable coal sits. This mat protects the recoverable coal from degradation that
13 can occur when the coal has extended contact with the ground. The coal mat is
14 necessary to reliably operate the plant. While the mat for the coal is initially constructed
15 using packed rock and/or clay, the coal that rests on this mat will compress into the mat
16 over time as additional coal is piled on top. This cost was incurred while the plant was
17 operational and was necessary, therefore, the Company should be able to include the
18 recovery of this regulatory asset in its securitized balance.

19 **Q. Does Mr. Riley indicate that he disagrees with the Company's proposed balance**
20 **of ADIT and Excess ADIT for Asbury?**

21 A. Yes.

22 **Q. Why?**

23 A. At page 12 of his Rebuttal Testimony, Mr. Riley states that he is unsure why there
24 should be a difference in the balance. Elsewhere, he hypothesizes that perhaps the

1 Securitization Statute requires the use of an NPV calculation of the ADIT component
2 of the Company's proposed balance for securitization

3 **Q. Is Mr. Riley's latter hypothesis correct?**

4 A. Yes, see emphasized text below.

5 In a financing order granting authorization to securitize energy
6 transition costs or in a financing order granting authorization to
7 securitize qualified extraordinary costs that include retired or abandoned
8 facility costs, a procedure for the treatment of accumulated deferred
9 income taxes and excess deferred income taxes in connection with the
10 retired or abandoned or to be retired or abandoned electric generating
11 facility, or in connection with retired or abandoned facilities included in
12 qualified extraordinary costs. The accumulated deferred income taxes,
13 including excess deferred income taxes, shall be excluded from rate
14 base in future general rate cases and the net tax benefits relating to
15 amounts that will be recovered through the issuance of securitized utility
16 tariff bonds shall be credited to retail customers by reducing the amount
17 of such securitized utility tariff bonds that would otherwise be issued.
18 *The customer credit shall include the net present value of the tax*
19 *benefits, calculated using a discount rate equal to the expected interest*
20 *rate of the securitized utility tariff bonds, for the estimated accumulated*
21 *and excess deferred income taxes at the time of securitization including*
22 *timing differences created by the issuance of securitized utility tariff*
23 *bonds amortized over the period of the bonds multiplied by the expected*
24 *interest rate on such securitized utility tariff bonds;*

25 **Q. Is that to say that the Company's ADIT calculations align with the Statute's**
26 **requirements entirely?**

27 A. Yes.

28 **Q. Mr. Riley also indicates that he believes that the Company's ADIT calculations**
29 **are a "confiscatory act." Do you agree?**

30 A. No. As Mr. Riley himself seems to acknowledge, the Company's ADIT calculations
31 meet the requirements of the Securitization Statute.

32 **Q. Mr. Riley also contends that the amount of Excess Accumulated Deferred Income**
33 **Taxes (EADIT) is calculated incorrectly and that Liberty should use the original**

1 **amount from Appendix D of the Global Stipulation and Agreement in Case No.**
2 **ER-2019-0374 of \$16,934,393. Do you agree?**

3 A. No. The amount in Case No. ER-2019-0374 was an estimate as of March 31, 2019. A
4 more precise number was calculated based on the actual tax retirement of the Asbury
5 assets in March 2020. In addition, the amortization of EADIT continued in the general
6 rate case until Liberty received an Order allowing the Company to move these tax
7 benefits to the securitization filing. The difference between the amount computed by
8 OPC witness Riley and the amount that Liberty included in the amount to be securitized
9 has already been refunded to customers.

10 **Q. Did OPC agree with the Company’s \$3,541,054 Missouri jurisdictional balance**
11 **for additional Asbury Decommissioning costs for Phase 2?**

12 A. Yes, Mr. Riley took no issue with that balance.

13 **Q. Did OPC agree with the Company’s additional Asbury Decommissioning costs for**
14 **Phase 3?**

15 A. No. OPC believes the balance should reflect the salvage value Liberty expects to
16 receive to offset the demolition costs.

17 **Q. Does the Company agree with Mr. Riley’s recommendation?**

18 A. Please refer above to my discussion in response to Staff witness Bolin for further
19 details. The Company reduced the balance for \$2M related to the removal of Asbestos,
20 as this amount is reflected in a separate line item within the Company’s proposed total
21 securitization balance.

22 **Q. Does the Company dispute the balances included in Mr. Riley’s calculation of the**
23 **Asbury AAO liability?**

1 A. Yes. I would first like to point out that many of the components included in Mr. Riley's
2 calculation are derived from the balances included in the direct testimony of Company
3 witness Tisha Sanderson in the Case No. ER-2021-0312, which included several
4 months of projections to get to June 2021 balances and then he annualized those
5 balances to get to June of 2022, although the Company included actuals for these
6 balances through January 2022 in its response to MPSC DR 91 under Case No. EO-
7 2022-0040 and including actuals would reflect more appropriate balances in the AAO.
8 In addition, the Company believes OPC inappropriately included the monthly impact
9 of the retirement of Asbury in the AAO calculation through June 2022 instead of
10 calculating it through May 2022. The new base rates from Case No. ER-2021-0312
11 become effective June 1, 2022 and at that point Asbury would no longer be included in
12 the base rates customers are paying and the baseline for the Asbury AAO would be
13 reset to zero.

14 **Q. Is OPC proposing the liability calculation include the monthly impact starting in**
15 **January 2020?**

16 A. Yes.

17 **Q. Is the Company in agreement?**

18 A. No. The Company believes it is inappropriate to include the monthly impact of January
19 and February 2020 in the AAO liability calculation as Asbury was still in service until
20 March 1, 2020. Refer to the Surrebuttal Testimony of Aaron J. Doll for further detail
21 on why March 1, 2020 is the appropriate date to use for Asbury's retirement.

22 **Q. Did OPC include the monthly return on the Asbury rate base components in its**
23 **AAO liability calculation?**

24 A. Yes

1 **Q. Does the Company agree with that approach?**

2 A. No. See discussion above on the same matter when responding to MPSC Staff.

3 **Q. Did OPC take issue with the Company including the Asbury stranded plant**
4 **balance in its proposed balance for securitization?**

5 A. No. It appears Mr. Riley also included the stranded plant balance (although a slightly
6 different balance compared to the Company) as a component of his proposed
7 securitization balance as well. However, for the AAO liability calculation, he included
8 the monthly return on Asbury, which seems contradictory. If OPC believes it
9 appropriate to include the stranded plant balance in securitization, it does not make
10 sense to then turn around and reduce that balance for the monthly return on what's been
11 collected from customers.

12 **Q. Are there any other specific balances that OPC included in its AAO liability**
13 **calculation the Company disagrees with?**

14 A. Yes. The Company disagrees with OPC's liability amount for property tax. To calculate
15 OPC's balance, Mr. Riley brought forward the June 2021 balance of \$2,860,004
16 included in the Company's adjustment filed in ER-2021-0312. This balance
17 represented the monthly impact for 18 months (January 2020 – June 2021). Mr. Riley
18 then took that balance times two to reflect the balance for 36 months (January 2020 –
19 December 2022). Had Mr. Riley calculated this correctly, the balance would have been
20 \$5,720,008. Instead, Mr. Riley took the \$2,860,004 (18 months) plus the \$5,720,008
21 (36 months) to come up with his proposed balance of \$8,580,012. In conclusion, OPC
22 erroneously included 54 months' worth of property tax inside of their AAO liability
23 calculation. Also, even had Mr. Riley calculated it correctly it is inappropriate for him

1 to calculate property tax through December 2022 as it will no longer be included in
2 customers base rates starting June 1, 2022.

3 The next balance the Company is disputing is the labor balance. The Company's AAO
4 liability calculation didn't include a balance for the labor of the Asbury employees
5 because the labor was going to be incurred regardless of whether the plant remained in
6 service or was retired. All Asbury employees were retained and were either transferred
7 to other departments within the Company or they stayed at Asbury to work on the
8 decommissioning; therefore, the labor expense was still incurred.

9 In addition, the Company also disagrees with the depreciation balance used by OPC in
10 their AAO liability calculation. OPC witness Riley stated he took the depreciation
11 expense proposed by Staff and approved in the ER-2019-0374 for Asbury less the
12 depreciation expense for the remaining plant established in the ER-2021-0312 case.
13 The Company is unclear why OPC would use the depreciation expense for the
14 remaining plant established in the 2021 case to determine the monthly impact since
15 those are not the balances embedded in the current rates customers have been paying
16 since Asbury's retirement.

17 **Q. Are there any other balances the Company would like to dispute?**

18 A. Yes. In the Amended Report and Order in Case No. ER-2019-0374, one of the
19 components the Commission ordered to be tracked in the Asbury AAO liability was
20 any costs associated with the retirement of the Asbury plant, including dismantlement
21 and decommissioning – Non-Empire labor excluded. The Company included
22 \$3,959,602 related to incurred decommissioning costs and costs related to obsolete
23 inventory through May 2022. OPC appeared to disregard this language in the Order
24 and did not include a balance for this component within their AAO liability calculation.

1 **Q Mr. Riley believes there is a Tax Avoidance related to the tax deduction of**
2 **approximately \$69M that Liberty took in 2020 related to Asbury and, therefore,**
3 **a \$16.5M tax benefit should be reflected in the AAO liability calculation to return**
4 **to customers. Do you agree?**

5 A. No. Mr. Riley does not realize this is just a normal timing item that is treated the same
6 as any ADIT item in rates. Specifically, Mr. Riley is not taking into account that a
7 regulatory asset was established for the net book value of Asbury. This regulatory asset
8 has deferred taxes associated with it, as evidenced in this securitization filing. As this
9 regulatory asset gets amortized, the amortization expense is added back for taxable
10 income purposes with no corresponding tax deduction because Asbury qualified as an
11 abandonment for tax purposes already. Under Mr. Riley's approach, he would be
12 double dipping on the tax benefit.

13 **Q. Did OPC include a balance for federal and state income tax on profits as a**
14 **component in their AAO liability calculation?**

15 A. Yes, Mr. Riley states that he included a tax amount for the Asbury and coal inventory
16 balance. However, his testimony doesn't fully explain the balance he calculated and
17 his work papers regarding this calculation include a formula with hard-coded numbers.
18 Without being able to fully understand his balance, the Company cannot agree with the
19 balance at its face value, and therefore, does not agree with its inclusion in the AAO.

20 **Q. Are there other balances calculated by OPC witness Riley for the AAO in which**
21 **it disagrees?**

22 A. Yes. The Company does not agree with any of the balances included in the liability
23 proposed by OPC; however, the remaining differences are minimal compared to the
24 items described previously in my testimony. Therefore, I will not go into detail for

1 each of the remaining components. The balances presented within the Company's
2 securitization are supported and are in compliance with the securitization statute.

3 **b. Storm Uri**

4 **Q. Starting on page 21 of OPC witness Riley's Rebuttal testimony, he takes the**
5 **position that the tax benefit Liberty receives for the Storm Uri loss should be**
6 **recognized as a reduction to the amount of the securitization. Do you agree?**

7 A. No. Liberty has not received any cash benefit from the deduction of Storm Uri costs.
8 This deduction will result in a taxable loss for Liberty on its 2021 federal tax return.

9 **Q. OPC witness Riley attempts to explain starting on page 22 of his Rebuttal**
10 **Testimony that Staff has never considered a "loss" and he is only proposing a**
11 **normal tax impact on any proposed revenue or expense item. Do you agree?**

12 A. No. Typically, any significant loss related item is created by a tax timing item. For
13 example, accelerated depreciation or severe weather events that result in regulatory
14 accounting both create a tax timing difference. Liberty customers and general rate
15 making account for this by including the ADIT as an offset to rate base. Mr. Riley tries
16 to not only reduce the securitization amount by the actual tax owed to the IRS but then
17 grosses it up on top of that. Customers do not receive the recorded amount of the ADIT
18 liability; instead, they benefit because ADIT liability reduces rate base and customers
19 are charged a lower revenue requirement reflecting the lower cost of capital.

20 **Q. OPC witness Riley makes the assertion that Liberty gets a deferred tax benefit**
21 **that doesn't reduce rate base and that also never has to be paid back out of its own**
22 **pocket. Does the Company agree?**

1 A. No. Per the Securitization Statute (Section 393.1700.2(3)(c)m), which is cited earlier
2 in my testimony, Storm Uri costs are considered “Qualified extraordinary costs.”
3 Subsection (m) of the statute identifies the proper treatment of ADIT and EADIT for
4 both Energy Transition costs and Qualified extraordinary costs. Only the Energy
5 Transition Costs (retired or abandoned property) are called out for special treatment of
6 ADIT and EADIT. Any ADIT on Qualified extraordinary costs continues to live in the
7 general rate case proceedings. Because the ADIT for Storm Uri costs stay in the general
8 rate case, this directly refutes OPC witness Riley’s assertion.

9 **V. SECURITIZATION TARIFF/RATE DESIGN**

10 **Q. Which stakeholders address the Securitization Tariff and respective rate design?**

11 A. Staff witnesses Ms. Sarah L.K. Lange and Mr. J. Luebbert and OPC witness Geoff
12 Marke discuss this issue.

13 **Q. Do you have concerns with the testimony discussion brought forth by the**
14 **respective witnesses?**

15 A. While I believe the rate design proposal presented by the Company is in alignment with
16 the Securitization Statute, I also recognize the points and concerns outlined in each of
17 their testimonies. I also acknowledge this is the Company’s first securitization
18 proceeding and also the first in Missouri, so it is important the design of rates and the
19 respective tariff be in accordance with the statute. Therefore, I would recommend that
20 prior to a Financing Order being issued, the various parties collaborate to design a tariff
21 that meets the statutory requirements and accomplishes all the respective needs of the

1 Special Purpose Entity and, where applicable, ensuring the securitization bonds receive
2 the highest possible credit rating.

3 **Q. Does this conclude your Surrebuttal Testimony?**

4 **A. Yes.**

VERIFICATION

I, Charlotte T. Emery, under penalty of perjury, on this 27th day of May, 2022, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Charlotte T. Emery