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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. EA-2023-0286

SURREBUTTAL TESTIMONY

OF

MITCHELL LANSFORD

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

**St. Louis, Missouri
December, 2023**

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SURREBUTTAL TESTIMONY

OF

MITCHELL LANSFORD

FILE NO. EA-2023-0286

1

I. INTRODUCTION

2

Q. Please state your name and business address.

3

A. My name is Mitchell Lansford. My business address is One Ameren Plaza,
4 1901 Chouteau Ave., St. Louis, Missouri.

5

Q. By whom are you employed and what is your position?

6

A. I am employed by Ameren Services Company as Director of Financial
7 Reporting and Regulatory Accounting. Ameren Services Company provides various
8 support services to Ameren Missouri and its affiliates, including finance, treasury,
9 environmental, health and safety, accounting, and legal.

10

**Q. Please describe your educational background and employment
11 experience.**

12

A. I received Bachelor of Science and master's degree in accountancy from the
13 University of Missouri at Columbia in 2008. I am a licensed Certified Public Accountant
14 in the State of Missouri and a member of the American Institute of Certified Public
15 Accountants. From 2008 to 2017, I worked for PricewaterhouseCoopers LLP, most
16 recently as a Senior Manager in its assurance practice. In that capacity, I provided auditing
17 and accounting services to clients, primarily in the utility industry. From 2017 to 2019, I
18 worked for Ameren Services Company as the Manager of Accounting Research, Policy,

1 and Internal Controls. My primary duties and responsibilities included accounting analysis
2 for non-standard transactions, overseeing the implementation of new accounting guidance,
3 implementation of new accounting policies, and assessments of the internal control
4 environment. From 2019 to October 2023, I worked for Ameren Missouri in multiple
5 regulatory accounting roles, including as Director of Regulatory Accounting effective in
6 April 2020. In November 2023, I became the Director of Financial Reporting and
7 Regulatory Accounting.

8 **Q. What are your responsibilities in your current position?**

9 A. In my current position, my primary duties and responsibilities include
10 preparation of the revenue requirement for Ameren Missouri rate filings, preparing written
11 testimony for rate, regulatory, and audit proceedings, and testifying before the Missouri
12 Public Service Commission. As of November 2023, my responsibilities were expanded to
13 include oversight of financial reporting for Ameren Corporation and its subsidiaries.

14 **II. PURPOSE OF TESTIMONY**

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

16 A. My surrebuttal testimony will identify, explain, and demonstrate that Staff's
17 "threshold analysis," which is tied into Staff's theory that if the projects at issue in this
18 docket don't pay for themselves they should not be approved (Company witness Steve
19 Wills addresses the flaws in that theory in his surrebuttal testimony), contains serious flaws
20 that render its modeled results completely inaccurate, irrespective of whether this threshold
21 analysis has any relevance in this case in the first place. Specifically, the workpapers of

1 Staff witness Sarah Lange, whose testimony sponsors and reports on the results of Staff's
2 threshold analysis, demonstrate that the analysis contains at least three (and likely more)
3 significant and fundamental flaws:

4 1. The threshold analysis fails to reflect the reduction in rate base
5 that occurs via accumulated depreciation and the effect of that
6 reduction in reducing the deferred return component of Plant In-
7 Service Accounting ("PISA") (over the life of the project), and thus
8 overstates the cost to customers of PISA, which artificially inflates
9 Staff's claimed cost of the projects to customers;

10 2. The threshold analysis fails to reflect one of the most fundamental
11 requirements of estimating the cost of projects to customers, that is,
12 reducing rate base by Accumulated Deferred Income Taxes
13 ("ADIT") produced by the projects, which in turn lowers the cost of
14 the projects to customers – a mistake that overstates that cost to
15 customers across the four projects by approximately \$251 million;
16 and

17 3. The threshold analysis overstates income tax costs arising from
18 the projects because Staff's modeling reduces energy and capacity
19 sales revenues the projects are estimated to produce by "phantom"
20 income taxes that will not exist because energy and capacity
21 revenues do not increase the Company's net income and generate no
22 income taxes. Instead, they are passed back to customers as a
23 reduction to rates – this mistake overstates the combined cost of the
24 projects by approximately \$768 million.

25 The latter two mistakes, which are easily quantified, total approximately \$1 billion
26 and if one were to use Staff's threshold analysis after correcting those mistakes, Staff's
27 analysis gives exactly the opposite conclusion to that conclusion drawn by Staff, that is,
28 instead of the projects adding to customer revenue requirements they in fact would lower
29 customer revenue requirements under Staff's assumptions.

30 **Q. Are you sponsoring any schedules?**

31 A. Yes, I am sponsoring Schedules ML-S1 through ML-S8.

1 **Q. Will you please briefly summarize the information provided on each of**
2 **the schedules you are presenting?**

3 A. The schedules represent the following:

- 4 • Schedule ML-S1 - Staff Witness Sarah Lange's workpaper underlying
5 her threshold analysis included in rebuttal testimony in this case.
- 6 • Schedule ML-S2 - Staff workpaper (EMS run¹) reflecting its revenue
7 requirement recommendation at true-up from File No. ER-2022-0337.
8 File No. ER-2022-00337 was the Company's most recent rate case.
- 9 • Schedule ML-S3 - Staff Witness Sarah Lange's workpaper underlying
10 her threshold analysis included in rebuttal testimony in this case (the
11 same as Schedule ML-S1), with two corrections made by the Company
12 for errors I will discuss later in my testimony.
- 13 • Schedule ML-S4 - Staff workpaper (EMS run) reflecting its revenue
14 requirement recommendation at true-up from File No. ER-2022-0337
15 (the same as ML-S2), with one edit to off-system sales revenue made
16 by the Company for illustrative purposes that I will discuss later in my
17 testimony.
- 18 • Schedule ML-S5 – The Company's project model workpaper supporting
19 the results included in the direct testimony of Company witness Matt
20 Michels for the Bowling Green project, assuming election of the
21 Investment Tax Credit ("ITC").

¹ Staff's EMS run establishes Staff's recommended revenue requirement in rate cases.

- 1 • Schedule ML-S6 – The Company's project model workpaper supporting
2 the results included in the direct testimony of Company witness Matt
3 Michels for the Cass County project, assuming election of the ITC.
- 4 • Schedule ML-S7 – The Company's project model workpaper supporting
5 the results included in the direct testimony of Company witness Matt
6 Michels for the Vandalia project, assuming election of the ITC.
- 7 • Schedule ML-S8 – The Company's project model workpaper supporting
8 the results included in the direct testimony of Company witness Matt
9 Michels for the Split Rail project, assuming election of the ITC.

10 **Q. What is the source of Schedules ML-S1 and ML-S2?**

11 A. The file that comprises Ms. Lange's threshold analysis (Schedule ML-S1)
12 was downloaded directly from EFIS using the link provided by Staff Department Diana
13 Vaught on October 13, 2023. The file that comprises Schedule ML-S2 was received via
14 email from Staff member Karen Lyons on March 16, 2023. The files that comprise those
15 schedules have not been modified or altered in any way and all data and formulas contained
16 in them remain exactly as we received them from Staff.

1 **III. STAFF'S ATTEMPT AT ECONOMIC MODELING CONTAINS**
2 **SIGNIFICANT ERRORS**

3 **Q. After criticizing the Company's economic modeling, Staff witness**
4 **Lange presents modeling which she has performed, which she calls Staff's "threshold**
5 **analysis," to support Staff's assessment of the Solar Projects.² What observations do**
6 **you have related to Staff's "threshold analysis"?**

7 A. Company witness Steve Wills' surrebuttal testimony addresses why Staff's
8 threshold analysis modeling is irrelevant, that is, he discusses why it is predicated on a
9 faulty premise that the market revenues created by the Solar Projects must pay for the entire
10 cost of the resource, and why acceptance of such a premise would reflect poor regulatory
11 policy. Putting aside those points, however, it is critical for the Commission to understand
12 the *foundational errors* that Staff has made in its threshold analysis modeling, which
13 irrespective of the appropriateness of Staff's premise (or inappropriateness), render the
14 results produced by Staff's modeling *wildly inaccurate*. In fact, I will demonstrate that
15 when these errors are corrected, Staff's conclusions about the proposed Solar Projects
16 reverse and even if a "threshold analysis" of some kind were appropriate, with those
17 corrections Staff's modeling supports continued evaluation of the Solar Projects, rather than
18 rejection of any of them.

19 **Q. Please elaborate on the errors in Staff's threshold analysis modeling**
20 **related to PISA.**

21 A. Staff's threshold analysis models are poorly executed and contain multiple
22 mechanical flaws associated with PISA that significantly overstate the overall cost to

² Cass County, Split Rail, Bowling Green, and Vandalia.

1 customers of the projects. The first sign that Staff's modeling of PISA is inaccurate and is
2 readily observable in Ms. Lange's workpaper, when examining the details of the first
3 assumed rate case after a project is placed in service. To illustrate this, see Figure 1 below,
4 which is a screenshot of Ms. Lange's threshold analysis workpaper (Schedule ML-S1)
5 related to Staff's modeling of the Cass County project. The figure demonstrates the
6 recognition of approximately \$7.2 million in depreciation expense (column "2024")³ as a
7 part of the PISA regulatory asset – and yet, in the very next column (2025) there is zero
8 accumulated depreciation reflected in the net plant calculation and thus Staff has failed to
9 reduce the rate base to recognize the effect of the depreciation that occurred in 2024.⁴ This
10 is an obvious error because for every dollar of depreciation expense incurred, accumulated
11 depreciation must increase⁵ (which reduces rate base dollar for dollar), yet Staff's modeling
12 completely overlooked this fundamental reality. If there truly had been approximately \$7.2
13 million of depreciation expense already accumulated for PISA purposes in 2024, that
14 depreciation expense must cause the line labeled "Net Plant" to have a lower value than the
15 line labeled "Original Depreciable Plant" in the next period. ** _____

16 _____
17 _____
18 _____ 6 _____
19 _____

³ The recognition of \$7.2 million of depreciation expense in 2024 in it of itself is illogical given the project is expected to be placed in-service on December 31, 2024. Staff's calculation of this amount approximates a full year of depreciation when the project will only be in service for one day of that year.

⁴ The workpaper uses the term "reserve" which is synonymous with "accumulated depreciation."

⁵ That is to say without violating the requirements of the Federal Energy Regulatory Commission's Uniform System of Accounts with which, under the Commission's rules, the Company must comply.

⁶ \$301,989,833 Non-Land Capital Costs per Schedule ML-S1, tab Cass Illinois, cell H86 divided by 30 years per cell K86 equals \$10,066,328, which is 100% of depreciation expense recorded in a year for this project.

1
2
3
4
5

** The result is Staff's modeling reflects greater rate base levels and therefore greater costs to customers each year throughout the 30-year life of the project. This same error has been repeated for each of the other projects in this case as well.

Figure 1 – Staff's Flawed Modeling of PISA **

**

6 Additionally, in her scenarios described as 1-year and 4-year rate case frequencies,
7 Staff has entirely ignored the effects of PISA that occur *after* the first assumed rate case
8 post-the in-service date of the project (2025). The deferred return component of PISA
9 requires that changes in accumulated depreciation (less retirements) and accumulated
10 deferred income taxes be tracked between all cases. What this means is that, while customer
11 base rates do not go down between rate cases to reflect the lower return (resulting from
12 incremental accumulated depreciation over time) the Company would get if base rates were

1 reset continuously, under the PISA mechanism we are required to track and defer this
2 decrease in return which is then credited to customers in the next rate case. Ms. Lange
3 captures the regulatory lag in her rate case scenarios that causes *increased* costs to
4 customers (deferring 85% of the depreciation and return on new qualifying plant placed in
5 service that occurs before a project is included in base rates) but fails to capture the *benefit*
6 of PISA that customers experience as accumulated depreciation accrues throughout the rest
7 of the life of the project.

8 **Q. Have you identified any other errors in Staff's threshold analysis**
9 **modeling unrelated to its handling of PISA?**

10 A. Yes. Quite frankly, there are numerous other errors in Staff's threshold
11 analysis modeling and Ms. Lange's underlying workpapers that I have identified, and I
12 suspect there are probably more that I have yet to identify as of this date. In my attempt to
13 decipher Staff's modeling it became clear that there were significant errors in addition to
14 the errors in the modeling of PISA I just described, including related to ADIT and the
15 calculation of income taxes, which I will address below.

16 **Q. What error have you identified related to Staff's threshold analysis**
17 **modeling of ADIT?**

18 A. Staff's modeling completely ignores the customer benefits that result from
19 ADIT – this significant source of reduction to rate base and therefore to the revenue
20 requirement is literally absent from the calculations in Ms. Lange's workpapers. How or
21 why this benefit is absent I cannot say, but I am sure Staff as a whole understands how
22 ADIT impacts the revenue requirement and understands the fact that it reduces the revenue

1 requirement to the benefit of customers, as evidenced by Staff's own treatment of ADIT in
2 the ratemaking process on numerous occasions.

3 In fact, during the Company's recent electric rate review (File No. ER-2022-0337),
4 Staff witness and accountant Matthew Young testified,

5 The net balance in the deferred tax reserve represents a
6 source of cost-free funds to Ameren Missouri. Therefore,
7 Ameren Missouri's rate base is reduced by the ADIT balance
8 to avoid customers paying a return on investments that are
9 ratepayer funded.⁷

10 In File No. WO-2018-0373, Staff witness and accountant Lisa Ferguson similarly
11 testified,

12 The net credit balance in the deferred tax reserve represents
13 a source of cost-free funds; therefore, rate base is reduced by
14 the deferred tax reserve balance to avoid having customer
15 pay a return on funds that are provided cost-free to the
16 company.⁸

17 And aside from the Staff personnel responsible for developing revenue
18 requirements own words, it is my own understanding, from working with Staff auditors for
19 many years, that they clearly understand how ADIT should not be ignored, as Ms. Lange
20 did here, and that if it is ignored when determining the revenue requirement generally or
21 of a project specifically, the result will artificially overstate the revenue requirement and
22 ultimately the costs to be paid by customers through rates.

23 Ms. Lange herself, at least in the Company's last rate review, appeared to
24 understand this as well yet she failed to apply that understanding in Staff's modeling in this
25 case. That she apparently understood it in the prior rate review is shown by Ms. Lange's
26 workpapers from the Company's recent rate review, as seen in Figure 2 below, which

⁷ File No. ER-2022-0337, Matthew Young Direct Testimony p. 22, ll. 19-21.

⁸File No. WO-2018-0373, Lisa Ferguson Direct Testimony p. 4, ll. 3-6.

1 reflect that ADIT (i.e., "deferred taxes") is a reduction to a utility's rate base – and a
2 substantial one at that – *nearly \$3 billion* in her workpaper from that rate review.⁹

3 **Figure 2 – Screenshot of Sarah Lange Workpaper from ER-2022-0337**
4 **Showing ADIT as a Rate Base Offset¹⁰**

2								
3			Plant In Service	\$	21,382,784,095			
4				\$	-			
5			Less Accumulated Depreciation Res	\$	8,683,990,601			
6				\$	-			
7			Net Plant In Service	\$	12,698,793,494			
8				\$	-			
9			ADD TO NET PLANT IN SERVICE	\$	-			
10	Add	.	Payroll and Withholdings - from CWC	\$	23,199,311			
11	Add	.	Other Employee Benefits - from CWC	\$	2,464,342			
12	Add	.	Pensions and OPEBs - from CWC	\$	(2,865,603)			
13	Add	.	Fuel - Nuclear - from CWC	\$	3,660,104	1		
14	Add	.	Fuel - Coal - from CWC	\$	25,590,714	1		
15	Add	.	Fuel - Gas - from CWC	\$	(246,060)	1		
16	Add	.	Fuel - Oil - from CWC	\$	242,355	1		
17	Add	.	Purchased Power - from CWC	\$	4,136,089		1	
18	Add	.	Incentive Compensation - from CWC	\$	(15,585,255)			

⁹ Ms. Lange's workpaper referred to ADIT as "deferred taxes." I would also note that Ms. Lange has testified for Staff in many Missouri utility rate reviews where she often cites the National Association of Regulatory Utility Commission ("NARUC") Manual as support for her positions and underlying workpapers on Class Cost of Service. The NARUC Manual also reflects ADIT as a reduction to a utility's rate base. See Figure 3.

¹⁰ This workpaper was provided by Staff assistant Diana Vaught via an email containing a link to EFIS received by the Company on March 17, 2023. The workpaper is titled "4 functionalized CCoS updates" and the relevant tab is titled "Other Rate Base."

Subtract .	Pension Tracker Liability ER-2019-0335	\$	27,321,432				
Subtract .	Pension Tracker ER-2021-0240	\$	(9,801,675)				
Subtract .	Pension Tracker Liability-Current Pension	\$	11,547,466				
Subtract .	OPEB Tracker ER-2012-0166	\$	(63,940)				
Subtract .	OPEB Tracker Liability ER-2014-0258	\$	205,483				
Subtract .	OPEB Tracker Liability ER-2016-0179	\$	47,346				
Subtract .	OPEB Tracker Liability ER-2019-0335	\$	4,897,773				
Subtract .	OPEB Tracker Liability ER-2021-0240	\$	436,332				
Subtract .	OPEB Tracker Liability-Current OPEB	\$	4,559,466				
Subtract .	Deferred Taxes	\$	2,961,689,001				
	TOTAL SUBTRACT FROM NET PLANT	\$	3,052,204,868				
		\$					
	TOTAL RATE BASE	\$	10,459,995,033				

1 **Figure 3 – Screenshot of NARUC Cost Allocation Manual Defining ADIT as**
2 **Offset to Ratebase**

This subsection discusses the elements that are generally included in rate base, where rate base is based on net original investment costs. The development of such rate base is as follows:

RATE BASE

Original Cost of Electric Plant in Service

- Less: Accumulated depreciation reserves
- : Accumulated provision for deferred income taxes (Accounts 281 283)
- : Operating reserves
- Plus: Electric plant held for future use
- : Construction work in progress (if allowed)
- : Working capital
- : Accumulated provision for deferred income taxes (Account 190)

Equals: Rate Base

3 Despite this fundamental ratemaking principle, which when properly accounted for
4 lowers the modeled revenue requirement associated with the projects, Ms. Lange's
5 modeling and underlying workpapers in *this case* do not include rate base reductions for
6 ADIT. This means that Staff's threshold analysis modeling failed to calculate and include
7 the third largest (in terms of absolute value and as reflected in figure 2 above) component
8 of the Company's existing rate base.

1 **Q. Will the Solar Projects create deferred taxes that ultimately will**
2 **generate customer benefits resulting from ADIT, reducing rate base in future rate**
3 **proceedings?**

4 A. Yes. The Solar Projects are eligible for accelerated depreciation, which will
5 result in customer benefits early in the life of the Solar Projects that will manifest as an
6 ADIT reduction to rate base.

7 **Q. What are the rate base components for the Projects in Staff's threshold**
8 **analysis?**

9 A. The entirety of the components of rate base reflected in Staff's modeling
10 include items that are labelled in Ms. Lange's workpapers as Net Plant, Land, PISA tranche
11 1 RB, PISA tranche 2 RB, and PISA tranche 3 RB. Notably absent is anything related to
12 deferred taxes or ADIT. Below is a screenshot of the workpaper containing Ms. Lange's
13 calculation of rate base for her modeling of the Cass County Solar Project's revenue
14 requirement. This can also be found in the tab labeled "Cass Illinois," rows 99 through 114
15 in Schedule ML-S1. This error of excluding ADIT as an offset to rate base occurred for all
16 years and is repeated in Schedule MJL-S1 for all of the Solar Projects proposed in this case.

- 1 **Figure 4 – Screenshot of Sarah Lange Workpaper Calculating Rate Base for Cass**
2 **County Solar Project without Consideration of ADIT (Schedule ML-S1) ****

**

3 **Q. Did the Company's modeling reflect the appropriate treatment for**
4 **ADIT?**

5 A. Yes, ADIT was quantified and appropriately included as an offset to rate
6 base in the Company's modeling of each of the projects. The ADIT balances by year are
7 displayed in the tabs labeled "Financial Statements," row 122 in Schedules ML-S5 through
8 ML-S8. In determining the Company's return on rate base and specifically the equity
9 component of return on rate base (labeled "incremental equity" on the Financial Statements
10 tab, row 107 of those same schedules) for the Solar Projects, the Company's modeling
11 appropriately reflects a reduction to rate base for the ADIT balance before multiplying by
12 the equity component of the Company's WACC.

1 **Q. What impact would the inclusion of ADIT as an offset to rate base in**
2 **Staff’s model have on Staff’s modeled costs of the Solar Projects?**

3 A. I varied Schedule ML-S1 to include ADIT as an offset to rate base and
4 attached the result as Schedule ML-S3. The Vandalia, Bowling Green, Split Rail, and Cass
5 Illinois tabs of Schedule ML-S3 now include ADIT balances as an offset to rate base in
6 inserted rows 101 and 251 (Staff’s modeling of rate cases every one and four years,
7 respectively).¹¹ The reflected ADIT balances are those calculated by the Company in
8 Schedules ML-S5 through ML-S8 and the amounts are negative in order to result in a rate
9 base reduction without modification of any of Staff’s formulas. The result is a reduction of
10 \$251 million in the combined costs to customers resulting from the projects found on row
11 31 of the summary tab in Schedule ML-S3 (as compared to Staff’s original workpaper that
12 ignores ADIT, Schedule ML-S1).

13 **Q. So far you have identified Ms. Lange's failure to model PISA correctly,**
14 **and her failure to offset rate base for ADIT. You mentioned a third significant**
15 **modeling error. Is that third error related to Staff's threshold analysis modeling of**
16 **income tax costs?**

17 A. Yes. For two of the projects, Cass County and Split Rail, the modeling more
18 than double counts income tax costs, which radically misstates Staff’s comparison of the
19 costs and revenues of these projects.¹²

¹¹ Column D of rows 101 and 251 must contain “RB” in order for Staff’s existing formulas to identify these rows as a component of rate base.

¹² This mistake was not made for the Bowling Green and Vandalia Projects, presumably since those projects do not generate off-system sales revenues but instead offset the Company’s load.

1 **Q. Please explain the mistake that was made regarding income tax**
2 **expense.**

3 A. Staff's modeled revenue requirement for each project reflects income tax
4 costs relating to the Company's expected earned return on equity – this is the customary
5 treatment of income tax expense in a model of a project's revenue requirement - as shown
6 in the screenshot from Ms. Lange's threshold analysis workpaper (Figure 5) below for Cass
7 County.

8 **Figure 5 – Screenshot of Sarah Lange Workpaper Incorporating Income Tax**
9 **Expense in Cass County Project Revenue Requirement (Schedule ML-S1)**

**

**

10 However, Ms. Lange doesn't stop there with respect to attributing income tax costs
11 to the Cass County and Split Rail projects. Instead, Ms. Lange also *reduces all energy and*
12 *capacity revenues* (i.e., off-system sales) from the Cass County and Split Rail projects by
13 the same income tax factor noted in figure 5 above (tick-mark A). See the Value tab of
14 Staff's threshold analysis workpaper (Schedule ML-S1), where Staff has reduced all
15 energy and capacity revenues from the project as if income taxes were separately owed on

1 those revenues for the lifetime of the projects.¹³ However, off-system sales revenues *do*
2 *not produce income tax expense*. To the contrary, the off-system sales revenues generated
3 by these projects (and all other Company-owned generation facilities) are passed back
4 directly to customers on a dollar-for-dollar basis,¹⁴ by means of base rates each time base
5 rates are reset and via the Company's Fuel Adjustment Clause mechanism between rate
6 cases. The pass-through of these off-system sales revenues reduce customer rates rather
7 than adding to the Company's net income, yet Ms. Lange has increased the net revenue
8 requirement impact of the Cass County and Split Rail Projects by adding income tax costs
9 that the projects do not produce.

10 **Q. How impactful is this mistake?**

11 A. It has caused Ms. Lange to understate revenues associated with the Cass
12 County and Split Rail projects (and therefore overstate net costs to customers of the
13 projects) by approximately **\$679** million for "phantom" taxes that will not be generated,
14 owed, or reflected in customer rates. In the tab labeled "Value" in Ms. Lange's workpaper,
15 Schedule ML-S1, this total is the result of adding up the values in rows 69,70,72, and 73
16 (titled "Tax Gross-up for Energy Sales" and "Tax Gross-Up for Capacity Sales"). These
17 rows of phantom taxes on off-system sales underlie Staff's revenue modeling for the Cass
18 County and Split Rail projects, and therefore reduce Staff's quantification of revenues
19 associated with those projects. Deleting the values in these rows increases revenues for the
20 Split Rail and Cass County projects found in row 33 of the Summary tab in Ms. Lange's

¹³ Specifically rows 2 and 3 are Staff's summations of 'value' by year for the Cass County and Split Rail Projects. The Formulas contained in these rows reflect the summation of several other rows but notably includes reductions for income taxes calculated in rows 69, 70, 72, and 73.

¹⁴ The only exception of the dollar for dollar pass through of off-system energy and capacity sales revenue is associated with the 95%/5% FAC sharing mechanism, which only applies to variations from base amounts established in rate cases in between rate cases.

1 workpapers, Schedule ML-S1. Schedule ML-S3 reflects the correction of this error as I
2 have just described.

3 **Q. You say this is an obvious flaw. Is there any evidence you can provide**
4 **that Staff understands the mechanics of off-system sales in a revenue requirement,**
5 **which should have caused it to identify this tax treatment as an error?**

6 A. Yes. Again, it should go without saying that Staff knows how to model a
7 revenue requirement. In this case, the existence of the Solar Projects, and therefore their
8 inclusion in rate base, result in earnings for the Company. Those earnings will result in
9 income tax expense for the Company, which is properly reflected in Staff's threshold
10 analysis through the income tax calculation reflected in Figure 4 above. This is analogous
11 to the income tax calculation in a rate review that is based on the application of a combined
12 federal/state income tax rate to the equity return on rate base.¹⁵ Revenues, like off-system
13 sales, that are provided back to customers do not increase the Company's taxable income
14 and do not result in tax expense; this is obvious since the Company does not keep those
15 revenues – customers receive them instead. As a result, a dollar of off-system sales
16 revenues is a one-for-one tradeoff in the calculation of a retail revenue requirement. An
17 incremental dollar of *off-system sales revenue* will always result in a dollar less of *retail*
18 *revenue requirement*, and a dollar less in off-system sales revenue will always result in a
19 dollar more of retail revenue requirement. In no revenue requirement calculation scenario
20 do the incremental off-system sales dollars result in incremental net income that generates
21 a new income tax liability. Instead, those incremental off-system sales revenues simply
22 offset the need for retail revenues.

¹⁵ Generally, all revenues other than those relating to the Company's return on equity have a corresponding cost such that the Company's taxable income (revenues minus expenses) is equal to its return on equity.

1 **Q. Is there a way to demonstrate that this is true?**

2 A. Yes, Staff's own workpapers from the Company's last rate case (File No.
3 ER-2022-0337) demonstrate that incremental off-system sales revenues do not increase
4 income tax expense reflected in a revenue requirement used to set rates. Figures 6 and 7
5 below are screenshots of Staff's workpapers from that case, exactly as Staff produced them.
6 I have attached Staff's original workpaper as Schedule ML-S2. Figure 6 shows the total
7 revenue increase of \$111,953,204 (at the midpoint of Staff's recommended rate of return)
8 determined by Staff in Schedule ML-S2. Figure 7 (from the same schedule) shows
9 \$223,763,608 as the total dollars of off-system sales (labelled "Sales for Resale Energy")
10 that Staff determined were appropriate to reflect in that model, and which therefore offset
11 required retail revenues.

1 **Figure 6 – Staff’s Recommended Revenue Increase in its True-Up EMS Run**
2 **from File No. ER-2022-0337 (Schedule ML-S2)**

EMS Run Ameren ER-2022-0337--POST TRUE-UP DIRECT RUN - Read-Only - Excel

Ameren Missouri
Case No. ER-2022-0337
Staff Post-True-Up Direct Accounting Schedules
Updated through December 31, 2022
Revenue Requirement

Line Number	Description	6.74% Return	6.87% Return	7.00% Return
1	Net Orig Cost Rate Base	\$11,259,945,271	\$11,259,945,271	\$11,259,945,271
2	Rate of Return	6.74%	6.87%	7.00%
3	Net Operating Income Requirement	\$758,357,314	\$772,995,243	\$787,633,172
4	Net Income Available	\$687,808,473	\$687,808,473	\$687,808,473
5	Additional Net Income Required	\$70,548,841	\$85,186,770	\$99,824,699
6	Income Tax Requirement			
7	Required Current Income Tax	\$84,199,609	\$88,798,975	\$93,398,341
8	Current Income Tax Available	\$62,032,541	\$62,032,541	\$62,032,541
9	Additional Current Tax Required	\$22,167,068	\$26,766,434	\$31,365,800
10	Revenue Requirement	\$92,715,909	\$111,953,204	\$131,190,499
11	Allowance for Known and Measureable Changes/True-Up Estimate	\$0	\$0	\$0
12	Miscellaneous (e.g. MEEIA)	\$0	\$0	\$0
13	Gross Revenue Requirement	\$92,715,909	\$111,953,204	\$131,190,499

Help

Menu Schedule_Sponsors CoverSheet RevenueRequirement Capital Structure Rate Base Plant P

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Figure 7 – Off-System Sales Revenue Input in Staff's True-Up EMS Run from File No. ER-2022-0337 (Schedule ML-S2)

The screenshot shows an Excel spreadsheet titled "EMS Run Ameren ER-2022-0337--POST TRUE-UP DIRECT RUN - Read-Only - Excel". The spreadsheet displays an income statement detail for Ameren Missouri, Case No. ER-2022-0337, updated through December 31, 2022. The table below summarizes the data shown in the spreadsheet.

Line Number	Account Number	Income Description	Test Year Total (D+E)	Test Lab
Rev-1		RETAIL RATE REVENUE		
Rev-2	440.000	Residential, Commercial, Industrial	\$2,896,271,495	
Rev-3	442.000	Blank1	\$0	
Rev-4	442.000	Blank2	\$0	
Rev-5		TOTAL RETAIL RATE REVENUE	\$2,896,271,495	
Rev-6		OTHER OPERATING REVENUES		
Rev-7	441.000	Disposition of Allowances	\$40	
Rev-8	444.000	Street Lighting	\$17,062,718	
Rev-9	445.000	Public Authorities	\$83,317	
Rev-10	447.000	Sales for Resale Capacity	\$18,824,264	
Rev-11	447.000	Sales for Resale Energy	\$223,763,608	
Rev-12	449.000	Provision for Rate Refunds	-\$4,074,185	
Rev-13	449.000	Federal Income Tax Rate Change - Stub Period	-\$19,691,369	
Rev-14	450.000	Forfeited Discounts	\$7,191,994	
Rev-15	451.000	Miscellaneous Service Revenues	\$3,249,520	
Rev-16	454.000	Rent From Electric Property	\$33,219,693	
Rev-17	456.000	Transmission Revenue - MISO	\$40,537,107	
Rev-18	456.000	Transmission Revenue - NITS	\$212,551	
Rev-19	456.000	Transmission Revenue - Other	\$92,571,711	
Rev-20	457.000	Other Revenues - Intercompany	\$182,490	
Rev-21		TOTAL OTHER OPERATING REVENUES	\$412,633,559	
Rev-22		TOTAL OPERATING REVENUES	\$3,308,905,054	

3 To confirm that indeed every incremental dollar of off-system sales revenue (e.g.,
4 incremental revenues from the projects at issue in this case) will reduce the retail revenue
5 requirement, I varied the Sales for Resale Energy (off-system sales revenue) in Staff's

1 workpaper by adding one million dollars to cell G25 of the "IncomeStatementDetail" tab
2 (reflected in Schedule ML-S4) - while changing nothing else at all within the file - and
3 recorded the impact on the revenue requirement increase that would occur based on the
4 existing formulas and logic that Staff has programmed into its EMS model. Figure 8 below
5 is a screenshot of the result of varying the value in that one cell by one million dollars and
6 shows that doing so produces a retail revenue requirement increase of \$110,953,204 (at the
7 midpoint of Staff's recommended rate of return) – precisely \$1 million less than the original
8 revenue requirement increase reflected in Figure 5 above, based on the addition of precisely
9 \$1 million of off-system sales revenue. Shown in Figure 9 below where I replaced
10 \$223,763,608 with an off-system sales revenue value of \$224,763,608. Taken together,
11 Figures 8 and 9 show that using Staff's own revenue requirement model, the \$1 million of
12 incremental off-system sales revenue perfectly offsets the retail revenue requirement, but
13 the income tax expense reflected in the revenue requirement does not change because the
14 off-system sales have no impact on income tax expense. But as earlier discussed, Ms.
15 Lange's workpaper, attached as Schedule ML1-Staff's threshold analysis, in fact did reduce
16 the off-system sales revenues by taxes that will never be generated, which incorrectly
17 understates the revenues and overstates the cost of the projects. The Company's own
18 modeling in this case and prior rate cases produce the same result if varied in the same
19 way.

1 **Figure 8 - Revenue Increase in Staff's True-Up EMS Run from File No. ER-2022-**
 2 **0337 After Addition of \$1 Million of Incremental Off-System Sales Revenue**
 3 **(Schedule ML-S4)**

EMS Run Ameren ER-2022-0337--POST TRUE-UP DIRECT RUN - Read-Only - Excel

File Home Page Layout View EMS System Tab

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4 Ameren Missouri
5 Case No. ER-2022-0337
6 Staff Post-True-Up Direct Accounting Schedules
7 Updated through December 31, 2022
8 Revenue Requirement

Line Number	Description	B 6.74% Return	C 6.87% Return	D 7.00% Return
1	Net Orig Cost Rate Base	\$11,259,945,271	\$11,259,945,271	\$11,259,945,271
2	Rate of Return	6.74%	6.87%	7.00%
3	Net Operating Income Requirement	\$758,357,314	\$772,995,243	\$787,633,172
4	Net Income Available	\$688,569,387	\$688,569,387	\$688,569,387
5	Additional Net Income Required	\$69,787,927	\$84,425,856	\$99,063,785
6	Income Tax Requirement			
7	Required Current Income Tax	\$84,199,609	\$88,798,975	\$93,398,341
8	Current Income Tax Available	\$62,271,627	\$62,271,627	\$62,271,627
9	Additional Current Tax Required	\$21,927,982	\$26,527,348	\$31,126,714
10	Revenue Requirement	\$91,715,909	\$110,953,204	\$130,190,499
11	Allowance for Known and Measureable Changes/True-Up Estimate	\$0	\$0	\$0
12	Miscellaneous (e.g. MEEIA)	\$0	\$0	\$0
13	Gross Revenue Requirement	\$91,715,909	\$110,953,204	\$130,190,499

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1 **Figure 9 – Addition of \$1 Million of Off-System Sales Revenue to Staff's True-Up**
2 **EMS Model from File No. ER-2022-0337 (Schedule ML-S4)**

EMS Run Ameren ER-2022-0337--POST TRUE-UP DIRECT RUN - Read-Only - Excel

File Home Page Layout View EMS System Tab

Analyze Data Sensitivity Find Calculate Now Calculate Sheet Insert Sheet

G25 =223763608+1000000

Ameren Missouri
Case No. ER-2022-0337
Staff Post-True-Up Direct Accounting Schedules
Updated through December 31, 2022
Income Statement Detail

Line Number	Account Number	Income Description	Test Year Total (D+E)	Test Year Labor
Rev-1		RETAIL RATE REVENUE		
Rev-2	440.000	Residential, Commercial, Industrial	\$2,896,271,495	
Rev-3	442.000	Blank1	\$0	
Rev-4	442.000	Blank2	\$0	
Rev-5		TOTAL RETAIL RATE REVENUE	\$2,896,271,495	
Rev-6		OTHER OPERATING REVENUES		
Rev-7	441.000	Disposition of Allowances	\$40	
Rev-8	444.000	Street Lighting	\$17,062,718	
Rev-9	445.000	Public Authorities	\$83,317	
Rev-10	447.000	Sales for Resale Capacity	\$18,324,304	
Rev-11	447.000	Sales for Resale Energy	\$224,763,608	
Rev-12	449.000	Provision for Rate Refunds	-\$4,074,185	
Rev-13	449.000	Federal Income Tax Rate Change - Stub Period	-\$19,691,369	
Rev-14	450.000	Forfeited Discounts	\$7,191,994	
Rev-15	451.000	Miscellaneous Service Revenues	\$3,249,520	
Rev-16	454.000	Rent From Electric Property	\$33,219,693	
Rev-17	456.000	Transmission Revenue - MISO	\$40,537,107	
Rev-18	456.000	Transmission Revenue - NITS	\$212,551	
Rev-19	456.000	Transmission Revenue - Other	\$92,571,711	
Rev-20	457.000	Other Revenues - Intercompany	\$182,490	
Rev-21		TOTAL OTHER OPERATING REVENUES	\$413,633,559	
Rev-22		TOTAL OPERATING REVENUES	\$3,309,905,054	

CashWorkCapital IncomeStatement IncomeStatementDetail IncomeStatementDetailAdj Inco

3 While adding the \$1 million of incremental off-system sales in Staff's File No. ER-
4 2022-0337 workpaper is a simple exercise, *that's exactly the point*. What happens to a

1 revenue requirement when incremental off-system sales revenues are realized by a utility
2 is not difficult to figure out: retail revenue requirements change on precisely a dollar-for-
3 dollar basis with those off-system sales revenues. The bottom line is that it is completely
4 inexplicable why Staff would invent an unnecessary and inappropriate tax "gross up"
5 calculation in its "threshold analysis" in this case, which "burdens" the projects in this case
6 with \$679 million of non-existent income taxes given that doing so is completely at odds
7 with Staff's own understanding of revenue requirements based on irrefutable evidence from
8 its own EMS model. Clearly, Staff's threshold analysis should be completely ignored given
9 a mistake of this magnitude -- in addition to the other mistakes I discussed earlier.

10 **Q. What is the combined impact of the errors in Staff's threshold analysis**
11 **and Ms. Lange's testimony related to ADIT and income tax expense?**

12 A. Correcting these two errors would in fact be sufficient to completely reverse
13 the conclusions one could reasonably draw from Staff's threshold analysis evaluated under
14 the assumption that the Company will employ ITCs (as we currently expect to do). These
15 two serious modeling mistakes alone (failing to account for the ADIT reduction to rate
16 base and drastically overstating income tax expense) cause Staff's total net revenue
17 requirement (costs less revenues generated by the projects) estimates in its threshold
18 analysis for the projects to be too high by more than \$929 million across the four projects
19 (\$251 million for failing to offset rate base for ADIT and \$679 million for the erroneous
20 application of income taxes to all Split Rail and Cass County project revenues). I have
21 reproduced below as Figure 10 the table from page 58 of Ms. Lange's rebuttal testimony,
22 illustrating that *all four* Solar Projects would have benefits exceeding costs in the ITC
23 scenarios under Ms. Lange's modeling framework when her own modeling is corrected for

1 just these significant and obvious errors. I have also attached Schedule ML-S4 where I
2 corrected Staff's modeling for these two errors.

3 **Figure 10 – ADIT and Income Tax Corrected Result of Staff's "Threshold**
4 **Analysis" Demonstrating that *Revenues Exceed Costs for All Four Solar Projects* ****

5 **

6 **Q. Please walk the Commission through how Figure 10 shows this?**

7 A. The value of 1.00 on the x-axis means the market-based revenues for the
8 project equals its costs, so any bar reaching a height at or below 1.00 is either cost neutral

1 or will lower revenue requirements. If the ITC is used, every single project would be
2 expected to lower revenue requirements using Ms. Lange's own modeling, that is, once the
3 ADIT and income tax mistakes are corrected. If the PTC were used (which we do not
4 currently expect), there would be some cost associated with two of the projects while two
5 of them would be expected to lower costs for customers.

6 **Q. Please summarize the conclusions from your testimony.**

7 A. No reliance can or should reasonably be placed on Staff's modeling (its
8 "threshold analysis") in this case. Ms. Lange's modeling that produces the results of this
9 threshold analysis unreasonably inflates the costs of the Solar Projects through erroneous
10 and incomplete modeling of PISA, unreasonably inflates the costs of the Solar Projects by
11 \$251 million by ignoring the customary treatment of ADIT as an offset to rate base, and
12 incorrectly understates energy and capacity revenues from the projects by reducing those
13 revenues by \$679 million for income taxes that do not exist. As I stated earlier, I believe
14 there are additional errors in Staff's modeling that I have not yet identified, but the
15 magnitude of the errors I have identified make Staff's modeling so flawed that it simply
16 cannot be relied upon.

17 **Q. Does this conclude your surrebuttal testimony?**

18 A. Yes, it does.

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

In the Matter of the Application of Union Electric)
Company d/b/a Ameren Missouri for a Certificate of) EA-2023-0286
Convenience and Necessity for Solar Facilities)

AFFIDAVIT OF MITCHELL LANSFORD

STATE OF MISSOURI)
) **ss**
CITY OF ST. LOUIS)

Mitchell Lansford being first duly sworn on his oath, states:

My name is Mitchell Lansford, and hereby declare on oath that I am of sound mind and lawful age; that I have prepared the foregoing *Surrebuttal Testimony*; and further, under the penalty of perjury, that the same is true and correct to the best of my knowledge and belief.

/s/ Mitchell Lansford
Mitchell Lansford

Sworn to me this 14th day of December, 2023.