

FILED
April 30, 2024
Data Center
Missouri Public
Service Commission

Exhibit No. 2

Ameren – Exhibit 2
Lansford
Surrebuttal
File No. EF-2024-0021

Exhibit No.:
Issue(s): ADIT, Securitization
Revenue Requirement
Witness: Mitchell J. Lansford
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Union Electric Company
File No.: EF-2024-0021
Date Testimony Prepared: March 22, 2024

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. EF-2024-0021

SURREBUTTAL TESTIMONY

OF

MITCHELL J. LANSFORD

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

**St. Louis, Missouri
March 2024**

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	PURPOSE OF TESTIMONY	1
III.	UPDATED SECURITIZATION REVENUE REQUIREMENT	4
IV.	ENERGY TRANSITION COSTS	6
V.	BENEFITS OF SECURITIZATION	9
VI.	DISCOUNT RATE	11
VII.	CARRYING COSTS	15
VIII.	NET PLANT IN SERVICE VALUE	17
IX.	PLANT IN SERVICE-SOFTWARE AND GENERAL PLANT	22
X.	ABANDONED CAPITAL PROJECTS	22
XI.	BASEMAT COAL	23
XII.	INCOME TAXES	26
XIII.	WORKFORCE TRANSITION	33
XI.	ARO-WATER TREATMENT AND MONITORING	34
X.	DEFERRAL REQUEST	35
XI.	CONCLUSION	36

SURREBUTTAL TESTIMONY

OF

MITCHELL J. LANSFORD

FILE NO. EF-2024-0021

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 and in what capacity are you employed?

6

A. I am employed by Union Electric Company d/b/a Ameren Missouri
7 (“Ameren Missouri” or “Company”) as Director, Regulatory Accounting.

8

Q. Are you the same Mitchell J. Lansford who submitted direct testimony

9

in this case?

10

A. Yes, I am.

11

II. PURPOSE OF TESTIMONY

12

Q. To what testimony or issues are you responding?

13

A. My surrebuttal testimony responds to the following issues: (1) Updated
14 Securitization revenue requirement; (2) Energy Transition Costs (witnesses identified in
15 Table-1 below); (3) Benefits of Securitization (Office of Public Counsel ("OPC") witness
16 David Murray); (4) Discount rate (OPC witness Murray); (5) Carrying costs (Staff witness
17 Keith Majors and OPC witness Murray); (6) Net plant in service value (OPC witness John
18 A. Robinett); (7) Plant in service-software and general plant (OPC witness Angela
19 Schaben); (8) Abandoned capital projects (OPC witness Manzell Payne); (9) Base mat coal

1 (OPC witness John S. Riley); (10) Income taxes (OPC witness Riley); (11) Workforce
2 transition (Staff witness Majors); (12) ARO-water treatment and monitoring (Staff witness
3 Majors and OPC witness Schaben); (15) Deferral request (OPC witnesses Robinett and
4 Murray).

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

6 A. Yes. I am sponsoring Schedules MJL-S1 through MJL-S10.

7 **Q. Please briefly summarize the information provided on each of the**
8 **schedules you are sponsoring.**

9 A. Schedules MJL-S1 to Schedule MJL-S4 are the same as Schedules MJL-D1
10 to MJL-D4 submitted with my direct testimony, except Energy Transition Costs and the
11 Weighted Average Cost of Capital ("WACC") have been updated as described later in this
12 testimony.

- 13 • Schedule MJL-S1 summarizes the total retail revenue requirement for the
14 securitized energy transition charge with retirement of the Rush Island Energy
15 Center occurring on September 1, 2024.
- 16 • Schedule MJL-S2 details the pro forma plant in-service costs as of September 1,
17 2024.
- 18 • Schedule MJL-S3 details the estimated upfront and ongoing financing costs of the
19 securitized tariff bonds assuming retirement of the energy center on September 1,
20 2024.
- 21 • Schedule MJL-S4 details the benefits comparison between the issuance of
22 securitized utility tariff bonds and traditional ratemaking, assuming retirement of
23 the energy center on September 1, 2024.

1 Schedules MJL-S5 to Schedule MJL-S8 are the same as Schedules MJL-D1 to
2 MJL-D4 submitted with my direct testimony, except Energy Transition Costs and the
3 WACC have been updated as described later in this testimony based on a retirement date
4 of October 15, 2024.

- 5 • Schedule MJL-S5 summarizes the total retail revenue requirement for the
6 securitized energy transition charge with retirement of the Rush Island Energy
7 Center occurring on October 15, 2024.
- 8 • Schedule MJL-S6 details the pro forma plant in-service costs as of October 15,
9 2024.
- 10 • Schedule MJL-S7 details the estimated upfront and ongoing financing costs of the
11 securitized tariff bonds assuming retirement of the energy center on October 15,
12 2024.
- 13 • Schedule MJL-S8 details the benefits comparison between the issuance of
14 securitized utility tariff bonds and traditional ratemaking, assuming retirement of
15 the energy center on October 15, 2024.

16 The remaining supporting schedules provide the following information:

- 17 • Schedule MJL-S9 is a reconciliation of the net book value of plant in-service from
18 Mr. Robinett's Rebuttal Testimony to the Company's position.
- 19 • Schedule MJL-S10 is the Company's corrected version of Mr. Riley's Schedule
20 JSR-R-02.

1 **III. UPDATED SECURITIZATION REVENUE REQUIREMENT**

2 **Q. Has any new or updated information become available since the**
3 **Company's direct filing that would cause you to update any of your estimates of**
4 **Energy Transition Costs?**

5 A. Yes.

6 **Q. Please describe the updated amounts.**

7 A. The Company has revised its estimates for Asset Retirement Obligation
8 ("ARO") costs for its ash ponds and capital additions expected between June 30, 2023, and
9 the Rush Island retirement date. These revised estimates were provided to the Staff and
10 OPC through data request responses and those parties incorporated the updated costs into
11 their rebuttal testimony to the extent applicable to their positions.

12 **Q. You stated in your direct testimony that the exact retirement date for**
13 **the Rush Island Energy Center has not yet been determined, but provided an**
14 **expectation that it will occur during the 45-day period from September 1, 2024, to**
15 **October 15, 2024. As we stand here today, is the Company able to provide a more**
16 **precise retirement date?**

17 A. No. The facts and circumstances I laid out in my direct testimony remain
18 the same at this time. Clarity on the retirement date could come in June 2024,
19 approximately at the same time the Commission is issuing its order in this case.
20 Accordingly, I am attaching two sets of schedules to this testimony. Schedules MJL-S1
21 through MJL-S4 reflect the Company's securitization request assuming a September 1,
22 2024, retirement, and Schedules MJL-S5 through MJL-S8 reflect the Company's

1 securitization request assuming an October 15, 2024, retirement. Both sets of schedules
2 reflect the revised estimates I detailed above.

3 The Company requests that the Commission's Financing Order issued in this case
4 allow for the Company to issue securitized utility tariff bonds based on either retirement
5 date. If the Commission were to only authorize securitization of an amount that presumes
6 an October 15, 2024, retirement date, the incremental unrecovered plant in service costs
7 would be reconciled in a future rate proceeding in accordance with the reconciliation
8 process described in Mr. Wills' direct testimony. However, this would reduce the net
9 present value of benefits received by customers by use of the securitization statute.
10 Consequently, the best way to maximize those net benefits is to provide flexibility in the
11 Financing Order so that the amount to be securitized will match the plant in service costs
12 as of the actual plant retirement date.

13 **Q. Since rebuttal testimony, has any party to this case notified you of a**
14 **correction to their testimony that impacts the total amount that such party**
15 **recommends be securitized?**

16 A. Yes. Staff has advised the Company that the rebuttal testimony of Staff
17 witness Cedric Cunigan unintentionally omitted safe closure costs of \$4,407,500 that Staff
18 agrees should be included in the amount to be securitized. Once Staff corrects this
19 unintentional omission, the Company and Staff will have no dispute as to the appropriate
20 estimate of safe closure and decommissioning costs to include in the Energy Transition
21 Costs to be securitized as part of this case.

1
2
3
4
5
6
7
8
9

IV. ENERGY TRANSITION COSTS

Q. Staff and OPC witnesses recommended certain costs be excluded from energy transition costs that are to be financed through securitized tariff bonds as part of this case and, instead, argue that they should be considered for recovery in a future rate review. Generally, how do you respond?

A. The following table displays the costs each party and witness recommended should be excluded Energy Transition Costs to be securitized in this case (hereto referred to as "Parties' Excluded Costs"):

Table 1 – Parties' Excluded Costs¹

Party	Witness	Energy Transition Cost Categories	Amount
OPC	Schaben	Plant in Service-Water Treatment and Monitoring	\$1,787,102
OPC	Schaben	Plant in Service-Software and General Plant	\$383,991
OPC	Payne	Abandoned Capital Projects	\$12,968,798
OPC	Riley	Basemat Coal	\$1,923,660
OPC	Payne	Materials and Supplies	\$18,304,442
OPC	Schaben	Safe Closure	\$4,407,500
OPC	Schaben	Decommissioning	\$42,500,000
MPSC	Majors	Workforce Transition	\$740,000
OPC	Schaben	ARO-Water Treatment and Monitoring ²	\$4,615,042
MPSC	Majors	ARO-Water Treatment and Monitoring ²	\$4,615,042

¹ Positions not included in this table include OPC witness Jordan Seaver's imprudence disallowance recommendation, OPC witness Robinett's net book value of plant analyses, Staff witness Majors and OPC witness Riley's community transition cost recommendations, and OPC witness Riley's income tax positions. These positions generally relate to the amount to be included in Energy Transition Costs in this case rather than whether any such costs should be included in Energy Transition Costs.

² After the company filed Direct Testimony, we identified a miscalculation of our ARO estimate. The Company notified the parties of the miscalculation, and the Company is correcting the estimate as part of this testimony and schedules.

1 The securitization statute in Section 393.1700(2)(a) defines energy transition costs as:

2 **Pretax costs with respect to a retired or abandoned or to be retired or**
3 **abandoned electric generating facility** that is the subject of a petition for
4 a financing order filed under this section where such early retirement or
5 abandonment is deemed reasonable and prudent by the commission through
6 a final order issued by the commission, include, but are not limited to, **the**
7 **undepreciated investment** in the retired or abandoned or to be retired or
8 abandoned electric generating facility and any facilities ancillary thereto or
9 used in conjunction therewith, costs of decommissioning and restoring the
10 site of the electric generating facility, **other applicable capital and**
11 **operating costs**, accrued carrying charges, and deferred expenses, with the
12 foregoing to be reduced by applicable tax benefits of accumulated and
13 excess deferred income taxes, insurance, scrap and salvage proceeds, and
14 may include the cost of retiring any existing indebtedness, fees, costs, and
15 expenses to modify existing debt agreements or for waivers or consents
16 related to existing debt agreements; **[Emphasis Added]**

17 No party has disputed the fact that the Parties' Excluded Costs are related to,
18 resulting from, or are "with respect to" (as stated in the statute above) the abandonment and
19 ultimate retirement of the Rush Island Energy Center. On the contrary, there are several
20 instances of witnesses seeking to exclude these costs directly stating these costs do qualify
21 as Energy Transition Costs, such as OPC witness Payne where in relation to the Company's
22 abandoned capital projects he states, "The cancellation is due to the Company retiring their
23 coal plant 15 years early."³ Further, no party has disputed whether any of the Parties'
24 Excluded Costs were reasonably and prudently incurred.⁴ The reason no party has made
25 such claims is because there is no evidence upon which parties could reasonably base such
26 claims. Each of these costs are clearly related to the abandonment and ultimate retirement
27 of the Rush Island Energy Center and were reasonably and prudently incurred. Whether
28 the costs are with respect to the retirement of the Rush Island Energy Center, reasonable,

³ File No. EF-2024-0021, Manzell Payne Rebuttal Testimony, p.6 l.1.

⁴ Staff's illogical and unreasonably narrow interpretation in this case that *only* the decision to early retire or abandon an energy center must be reasonable and prudent suggests that Energy Transition Costs may not need to even be reasonable and prudent to incur.

1 and prudently incurred are the standards set forth in the statute. Only if any such cost fails
2 to meet these standards should the cost be excluded from the Energy Transition Costs to
3 be securitized in this case.

4 Beyond the standards set forth in the statute above, the customer value proposition
5 underlying a securitization transaction is that including such costs in Energy Transition
6 Costs and securitizing them is the cheapest source of financing available for the costs
7 because it allows the utility to take advantage of the highest credit rating available⁵ to the
8 benefit of its customers. Simply put, securitized utility tariff bonds are the lowest cost
9 option and produce savings for customers relative to any other source of financing.⁶ In fact,
10 *any* cost financed at a lower rate than the discount rate (such as the securitized interest rate)
11 will result in net present value benefits to customers, including costs that would otherwise
12 be incurred and recovered contemporaneously. It is in customers' best interest to include
13 the maximum amount of Energy Transition Costs in the securitized tariff bond issuance
14 because any other source of financing in any other case would otherwise be more expensive
15 for customers.⁷ This principle holds true for all Energy Transition Costs, not just those that
16 parties recommend for inclusion in this case.

⁵ File No. EF-2024-0021, Katrina Niehaus Direct Testimony, p. 30, l. 20.

⁶ Including financing under traditional ratemaking as calculated in my direct testimony and as Staff has agreed in its rebuttal testimony.

⁷ To the extent estimated costs are greater than (or less than) actual costs, those differences must be reconciled as part of a future rate review as detailed in the Direct Testimony of Mr. Steven M. Wills, ensuring that ultimately, customer rates reflect neither more nor less than the actual costs incurred.

1 **V. BENEFITS OF SECURTIZATION**

2 **Q. Please summarize Mr. Murray's position as it relates to the comparison**
3 **between the net present value of the costs to customers that are estimated to result**
4 **from the issuance of securitized utility tariff bonds and the costs that would result**
5 **from the application of the traditional method of financing and recovering those same**
6 **costs.**

7 A. Mr. Murray's position is that the Commission would *traditionally* require
8 the Company to recover the approximately \$519 million⁸ the Company seeks to securitize
9 in this case as part of a general rate proceeding over 15 years without providing for any
10 recovery of the Company's carrying costs over that 15-year period. Mr. Murray
11 acknowledges that his view on this matter would mean that no securitization transaction
12 *could ever occur* because it would be *impossible* to show that customers benefit on a net
13 present value basis from a securitization tariff bond issuance when customers would
14 otherwise receive an interest free loan from the utility. Adoption of Mr. Murray's claims
15 would render the General Assembly's passage of the securitization statute useless.

16 **Q. Is it reasonable to assume lawmakers intended to pass a law that would**
17 **have no use or effect?**

18 A. No.

19 **Q. In File No. EO-2022-0193 as it relates to Liberty's securitization of its**
20 **Asbruy Plant, what did the Commission order regarding the traditional method of**
21 **financing and recovery?**

22 A. The Commission ordered the following:

⁸ As updated per Schedule MJL-S1, line 14.

1 The traditional method of ratemaking would occur through a general rate
2 case and would entail amortization of the costs to be recovered over a period
3 of years with the company being **allowed to recover its carrying costs**
4 **during the period of amortization. [Emphasis Added]**⁹

5 **Q. What are the Company's carrying costs?**

6 A. Carrying costs and the cost of financing a utility's assets can generally be
7 thought of as interchangeable. Mr. Murray's own rebuttal testimony in this case states, "The
8 most common types of capital issued to finance a utility's assets are common equity and
9 debt." I agree with Mr. Murray on this. The Company would traditionally finance its
10 remaining unrecovered costs of the Rush Island Energy Center through a mix of common
11 equity and debt, consistent with how the Company finances all of its other assets. This is
12 another way of saying that absent securitization, the Company would traditionally incur
13 carrying costs at its WACC for the Energy Transition Costs at issue in this case.

14 **Q. Mr. Murray emphasizes the phrase "traditional method of financing"**
15 **from Section 393.1700.2.(1)(f), RSMo. How do you understand this phrase?**

16 A. Traditionally, the Company *finances* its assets through a mix of common equity
17 and debt. As I stated previously, Mr. Murray and I agree on this. Where we appear to disagree
18 is it is unreasonable to presume financing would occur without a cost of financing and that the
19 phrase "traditional method of financing" could reasonably mean the Company would provide
20 customers with a zero-interest loan for over \$500 million over a 15-year period, as would be
21 the case if Mr. Murray's traditional ratemaking method were accepted.

⁹ File No. EO-2022-0193, *Report and Order*, pp. 39-40, issued August 18, 2022.

1 **Q. Mr. Murray recommends the embedded cost of debt component of the**
2 **Company's WACC be updated. How do you respond?**

3 A. Generally, I agree. This value should be updated going forward. In making
4 an update like this, all other sub-components of the 6.82% WACC I referenced in my direct
5 testimony should remain constant, such as the capital structure and embedded cost of
6 equity, so as to avoid relitigating those issues.¹⁰ As Mr. Murray notes in his rebuttal
7 testimony, the Company's embedded cost of debt, which is easily observable from the
8 Company's books, has increased from 3.926% as of December 31, 2022 to 4.051% as of
9 December 31, 2023. The calculated result of making this update for the embedded cost of
10 debt is a WACC of 6.88%. Increasing the WACC only increases the benefits customers
11 will experience through securitization, as compared to traditional ratemaking.¹¹

12 **VI. DISCOUNT RATE**

13 **Q. Please summarize Mr. Murray's position on what discount rate is**
14 **appropriate when analyzing the net present value comparison between the**
15 **Company's securitization request versus recovery under traditional ratemaking.**

16 A. Mr. Murray's position is that a combined customer discount rate is not
17 approximated by the Company's WACC, and he would instead calculate a weighted-
18 average of 10-year United States Treasury bonds, the securitized interest rate, and the
19 Company's WACC. He offers no specific calculation or result. He offers no specific
20 weighting but does indicate he would weigh the securitized interest rate most heavily.

¹⁰ Unless updated via a future rate review.

¹¹ Holding all other factors constant, increasing the WACC increases the differential between the WACC and securitized interest rate and results in greater benefits to customers. Both on a nominal and net present value basis. Refer to Schedules MJL-S4 and MJL-S8.

1 **Q. What would be the result of Mr. Murray's discount rate proposal?**

2 A. While it is impossible for me to determine a specific number without
3 making judgments of my own to fill in the blanks left by Mr. Murray, Mr. Murray's
4 proposal would produce a discount rate that is below the Company's WACC.
5 Mathematically, any weighted average of three data points that include the Company's
6 WACC and two data points that are lesser will produce a value that is less than the
7 Company's WACC. Mr. Murray further states the appropriate discount rate is likely higher
8 than the securitized interest rate, but he is unsure how much higher.

9 **Q. Are customers' discount rates collectively greater or less than the**
10 **Company's WACC?**

11 A. In general, they are greater. And it is absurd to conclude otherwise. The first
12 observation I would make is that not all customers served by the Company are residential
13 customers. I am almost certain that the majority of business customers served by the
14 Company have a very real cost of capital, (likely as high or higher than the Company's in
15 most cases)¹² and would prefer the Company to reflect a meaningful discount rate in its
16 analysis that more closely acknowledges their opportunity cost of money. They would
17 almost certainly rather pay lower rates today even if there is a carrying cost that causes
18 financing costs tomorrow, as long as those carrying costs are at an interest rate, like the
19 Company's WACC most likely is, that is less than their opportunity cost of money.
20 However, OPC appeared to ignore both the fact that these customers likely have a cost of

¹² Given that much of the Return on Equity testimony I have read over the years in rate cases indicates that a utility stock's "beta" is less than 1, suggesting that utilities have risk below the market average and therefore a lower required return from investors than riskier stocks (i.e., the cost of capital for businesses like many of the Company's customers), and also given that small businesses likely cannot access capital on as favorable terms as larger enterprises like a utility due to issues of scale.

1 capital at least as high as the Company as well as their likely concerns, inasmuch as the
2 perspective reflected in OPC's testimony considered exclusively a *residential* customer
3 perspective, premised on the (flawed) assumption that residential customers would have a
4 lower discount rate.

5 Over the past few weeks, the average 30-year mortgage rate¹³ has fluctuated
6 roughly between six-plus percent to nearly seven percent. Consumer debt (such as credit
7 card debt) is almost certainly much, much higher than that. Would a residential customer
8 rather pay higher utility costs today to avoid carrying charges at the utility's discount rate
9 of roughly 6-7% when it could use those dollars today to pay down their mortgage or credit
10 card debt at a percentage interest rate in the upper teens to lower twenties – or even to
11 simply make ends meet? Certainly not.

12 All of that said, whatever the Company's customers' discount rates are, they are.
13 But just pausing for a moment to give any level of critical thought to this issue suggests
14 that it would simply be poor regulatory policy for the Commission to allow the Company
15 to finance its investment in *any* capital project if customers' collective discount rate truly
16 was less than the utility's WACC. A customer discount rate less than the Company's
17 WACC would signal a customer preference to pay for all of the Company's capital
18 investments up front, instead of over time, in order to avoid ever paying financing costs
19 that, under OPC's view, are higher than their opportunity cost of money. Taken to the
20 extreme, this would mean it would be palatable for customers to pay for the entirety of the
21 Company's approximately \$11 billion in unrecovered rate base immediately rather than
22 depreciating it over 30 or 40 years for ratemaking purposes and incurring financing costs

¹³ Which requires the pledging of property as collateral (generally the house a homeowner is purchasing) in order to secure a mortgage loan.

1 at the utility's WACC. And in a less extreme case but for conceptually similar reasons, if
2 OPC's view on customer discount rates were correct, it would *always* be in customers'
3 interests to have relatively higher depreciation rates applied to utility investments than
4 lower depreciation rates. Higher depreciation rates increase current period revenue
5 requirements (and rates) but reduce the financing costs that customers would pay over-time
6 at the utility's WACC.

7 Over the past several years I've been part of numerous rate cases and listened to
8 customers' concerns about the burden requested rate increases could have on their lives.
9 Never have I heard a willingness from customers, or really any party to any case – including
10 OPC – to accept greater rate increases in the short run in order to defray the Company's
11 carrying costs, especially of any magnitude that would equate to a meaningful portion of
12 the Company's approximately \$11 billion investment in its rate base.

13 **Q. What discount rate is required by the Commission's Integrated**
14 **Resource Planning rules?**

15 A. The utility's WACC.¹⁴ Taking Mr. Murray's approach would thus conflict
16 with the Commission's clear recognition that it is the utility's WACC that should be used
17 as the discount rate.

18 **Q. What discount rate did the Commission order to be utilized in net**
19 **present value analyses concerning the securitization of the remaining costs of**
20 **Liberty's Asbury Plant?**

21 A. The utility's WACC.¹⁵

¹⁴ 20 CSR 4240-22.010 (2), 20 CSR 4240-22.060 (2)(B), and 20 CSR 4240-22.020 (64).

¹⁵ File No. EO-2022-0193, *Report and Order*, p. 74, issued August 18, 2022.

1 **VII. CARRYING COSTS**

2 **Q. Mr. Majors recommends any carrying costs recovered should be**
3 **calculated at the Company's long-term borrowing rate because the circumstances of**
4 **this case are similar to those of Liberty's Asbury plant and the related Commission**
5 **order in File No. EO-2022-0913. Do you agree the circumstances of this case are**
6 **similar?**

7 A. No. Despite Mr. Majors stating that he believes the circumstances are
8 similar, he also points out a key difference. The time between retirement and securitization
9 is projected to be far less for Rush Island than it was in the case of the retirement of Liberty
10 Utilities Asbury Generating Station.¹⁶ The Company has brought this case forth timely and
11 projects to minimize or eliminate carrying costs, so as to minimize the impact on
12 customers. It would only be through unforeseen circumstances or circumstances outside of
13 the Company's control (such as an appeal of the decision in this case by an intervening
14 party) that would result in the Company incurring significant carrying costs beyond the
15 retirement date of the energy center. The Commission can reasonably and should conclude
16 recovery of prudently incurred costs is generally just and reasonable. Similarly, full
17 recovery of *minimized* carrying costs incurred after the prudent retirement of the Rush
18 Island Energy Center is just and reasonable.

19 **Q. What is the Company's actual carrying cost rate relating to long-term**
20 **investments like its investments in the Rush Island Energy Center that date back to**
21 **1976?**

22 A. The Company's WACC.

¹⁶ File No. EF-2024-0021, Rebuttal Testimony Keith Majors p. 20 ll. 28-29.

1 **Q. Does the Company agree with Mr. Murray's position that no carrying**
2 **costs should be recovered regardless of the timing of a securitization bond issuance?**

3 A. No. The existence of the cost of financing long-term investments is not
4 disputed. Any reasonable investor would require a return on investment until return of
5 investment has occurred. These financing or carrying costs continue to accrue until the
6 Company has recovered its investment and repaid its investors. Recovery of the Company's
7 investment will occur once the securitized utility tariff bond proceeds are received.

8 **Q. Does the Company agree with Mr. Murray's alternate position that**
9 **carrying costs should be limited to those calculated using the securitized interest rate?**

10 A. No. Carrying costs relating to the unrecovered investment *before* the
11 securitized tariff bonds are issued have nothing to do with the securitized interest rate. As
12 I stated previously, the unrecovered investment is financed at the Company's WACC. This
13 is true today and will be true until this investment is recovered via securitized tariff bond
14 proceeds.

15 **Q. Mr. Murray further rationalizes his alternate proposal by suggesting**
16 **regulatory inefficiencies resulting in costs to the Company should not be recovered**
17 **from customers. How do you respond?**

18 A. Mr. Murray has attempted to create a new standard – and one that makes no
19 sense at that. Regulatory inefficiencies, to the extent that they exist, are costs of doing
20 business as an electric utility. There is no reason such costs should be considered imprudent
21 – the utility does not dictate the regulatory process and impose on that process the
22 inefficiencies that may occur. There is no logical reason whatsoever that shareholders
23 should absorb all such costs, or that customers should be entirely insulated from them.

1 But to take this line of thought a step further, OPC's new standard also creates the
2 potential for absurd outcomes and/or deliberate gamesmanship. For example, OPC could
3 frivolously appeal the Commission's order in this case just to delay a securitization bond
4 issuance until an appeal is finally ruled upon. In this hypothetical example, Mr. Murray's
5 proposed new standard would result in the Company failing to recover its prudently
6 incurred financing costs during the appeal, while customers are protected from the
7 regulatory inefficiency caused directly by OPC. I don't support a standard that could result
8 in such an outcome. The standard I am familiar with is the prudence standard, and under
9 that standard, the Company should be allowed to recover its prudently incurred costs,
10 including its financing or carrying costs in this instance.

11 **VIII. NET PLANT IN SERVICE VALUE**

12 **Q. Why does OPC witness John Robinett submit different plant balances**
13 **based on different starting points for his analysis?**

14 A. I don't know, and Mr. Robinett does not state any purpose or basis for doing
15 so. The Commission should not lose sight of the fact that when the plant retires the net
16 plant in service amount will be a known amount with any difference between the estimate
17 in this case and the final amount to be reconciled in a future rate review. Nevertheless, Mr.
18 Robinett has put these data points in front of the Commission, so I will address his position
19 in my testimony.

20 **Q. What prudently incurred costs has Mr. Robinett omitted from each of**
21 **his analyses?**

22 A. Mr. Robinett admits his calculations omit capital additions and retirements
23 that occurred after each of his starting points. Mr. Robinett also omitted removal, salvage,

1 accumulated depreciation costs relating to capital additions occurring after each starting
2 point, and net plant investments in software assets at the plant (FERC account 303) from
3 his calculations of plant in service.

4 **Q. Why does Mr. Robinett omit these costs?**

5 A. I don't know and, again, Mr. Robinett does not state any purpose for doing
6 so. There is no reasonable explanation for omitting these prudently incurred costs. In fact,
7 doing so would only reduce the net present value of benefits customers would receive
8 through securitization, as compared to recovery under traditional ratemaking.¹⁷

9 **Q. Mr. Robinett stated that he had concerns that the ending balances of**
10 **lines 23 and 24 of Schedule MJL-D2 do not equal the beginning balances plus the**
11 **calculated reserve until plant retirement. How do you respond?**

12 A. Line 23 of Schedule MJL-D2 is for account 316.23 which includes the cost
13 of computer equipment at Rush Island. Since the equipment is general plant in nature, the
14 asset records in FERC account 316.23 are amortized to zero and retired. This is a widely
15 accepted method for this type of equipment, the Company has consistently applied it, the
16 method makes sense, and has been supported by Staff most recently in File No. ER-2022-
17 0337.¹⁸ OPC did not oppose this method in that same case. Because of this, I increased the
18 reserve in the 316.23 account only to the amount of the original cost shown in line 10 on
19 Schedule MJL-D2 and thus the Company is requesting recovery of zero dollars for this
20 particular account. I similarly reduced the ending balance on line 24 for Federal Regulatory
21 Energy Commission ("FERC") account 392, which is for plant vehicles, to no more than

¹⁷ File No. EO-2022-0193, *Report & Order*, p. 59, issued August 18, 2022

¹⁸ File No. ER-2022-0337, Cedric E. Cunigan, PE Direct Testimony, p. 5 l. 21 and p. 6, ll. 1-13.

1 the balance of the original cost of plant on line 11 of that schedule. Thus, the Company is
2 also requesting recovery of zero dollars relating to FERC account 392.

3 **Q. If Mr. Robinett were to add these omitted costs and corrections to his**
4 **analyses, what would be the result?**

5 A. Mr. Robinett would arrive at the exact recommendation of the Company
6 and, notably, also Staff's position in this case. Schedule MJL-S9 is an illustration of this
7 fact, where I have modified two of Mr. Robinett's scenarios to include the omitted costs
8 and corrections I mentioned above. The scenarios I selected for these illustrations are Mr.
9 Robinett's scenarios where he produced his lowest net book value of plant amounts. The
10 first scenario I selected for this illustration is Mr. Robinett's analysis that contains the
11 Company's 2021 depreciation study as his starting point and a retirement date of September
12 1, 2024. In the 'Reconciliation' tab of MJL-S9, I have summarized this reconciliation in the
13 section labeled 'Scenario 1 – September 1, 2024 Retirement'. Here, we start with Mr.
14 Robinett's calculated September 1, 2024 net book value of \$447,398,779. From there, I
15 add the omitted additions to plant of \$27,024,992, removal costs of \$389,141, salvage of
16 \$(44,379), depreciation on omitted additions of \$(1,635,471), software assets in FERC
17 account 303 of \$4,767, and excess depreciation in FERC account 316.23 of \$159,596, to
18 arrive at a net book value of \$473,297,424, which is the same as the Company's Net Plant
19 in Service calculated balance in my schedule MJL-S2. In this reconciliation, Mr. Robinett's
20 calculated net book value is taken from tab '21 Depreciation study' which was copied right
21 out of his Rebuttal Schedule JAR-R-3. Plant additions are the summation of those from
22 January 1, 2022 through June 30, 2023 that are in tab 'Additions' via a general ledger query
23 and forecasted additions from July 1, 2023 through September 1, 2024 that are on line 7 of

1 tab 'Schedule MJL-S2'. Removal costs were obtained from a general ledger query in tab
2 'Removals'. The salvage costs were similarly obtained from a general ledger query in tab
3 'Salvage'. I calculated the depreciation on omitted plant additions as Mr. Robinett's
4 calculated depreciation (Robinett's Rebuttal Schedule JAR-R-3, tab '21 Depreciation study'
5 cell D94 minus cell D12), less the depreciation that occurred from the time of the
6 Company's last depreciation study to June 30, 2023 (general ledger query at tab
7 'Depreciation'), less the summation of the increment to reserve column on Schedule MJL-
8 S2 (lines 16 through 23) that includes the calculated pro forma depreciation from June 30,
9 2023 to September 1, 2024, plus the summation of column transfers to other plants column
10 within the same schedule for the same lines since those transfers were also included by Mr.
11 Robinett (and accounted for separately from the increment to reserve I noted previously).
12 The net plant software assets in FERC account 303 that Mr. Robinett omitted is line 1
13 minus line 14 in the pro forma balance column of Schedule MJL-S2. Finally, the excess
14 depreciation in FERC Account 316.23 is calculated as the amount in pro forma balance
15 column (line 10) of Schedule MJL-S2, less the balance as of June 30, 2023 on line 23, less
16 the increment to reserve also on line 23.

17 The second scenario I selected for this illustration is Mr. Robinett's analysis that
18 contains the Company's 2021 depreciation study as his starting point and a retirement date
19 of October 15, 2024. In the 'Reconciliation' tab of MJL-S9, I have summarized this
20 reconciliation in the section labeled 'Scenario 2 – October 15, 2024 Retirement.' Here, we
21 start with Mr. Robinett's calculated October 15, 2024 net book value of \$442,870,805.
22 From there, I add the omitted additions of \$27,024,992, removal costs of \$389,141, salvage
23 of \$(44,379), depreciation on omitted additions of \$(1,511,419), software assets in FERC

1 account 303 of \$4,117 and excess depreciation in FERC account 316.23 of \$192,874, to
2 arrive at a net book value of \$468,926,131, which is the same as the Company's Net Plant
3 in Service calculated balance in my schedule MJL-S5. In this reconciliation, Mr. Robinett's
4 calculated net book value is taken from tab '21 Depreciation study' which was copied right
5 out of his rebuttal schedule JAR-R-3. Plant additions are the summation of those from
6 January 1, 2022 through June 30, 2023 that are in tab 'Additions' via a general ledger query
7 and forecasted additions from July 1, 2023 through October 15, 2024 that are on line 7 of
8 tab 'Schedule MJL-S5'. Removal costs were obtained from a general ledger query in tab
9 'Removals'. The salvage costs were similarly obtained in a general ledger query in tab
10 'Salvage'. I calculated the depreciation on omitted plant additions as Mr. Robinett's
11 calculated depreciation (Robinett's rebuttal schedule JAR-R-3, tab '21 Depreciation study'
12 cell S94 minus cell D12), less the depreciation that occurred from the time of the
13 Company's last depreciation study to June 30, 2023 (general ledger query at tab
14 'Depreciation'), less the summation of the increment to reserve column on Schedule MJL-
15 S5 (lines 16 through 23) that includes the calculated pro forma depreciation from June 30,
16 2023 to October 15, 2024, plus the summation of column transfers to other plants column
17 within the same schedule for the same lines since those transfers were also included by Mr.
18 Robinett (and accounted for separately from the increment to reserve I noted previously).
19 The net plant software assets in FERC account 303 that Mr. Robinett omitted is line 1
20 minus line 14 in the pro forma balance column of Schedule MJL-S5. Finally, the excess
21 depreciation in FERC account 316.23 is calculated as the amount in pro forma balance
22 column (line 10) of Schedule MJL-S5, less the balance as of June 30, 2023 on line 23, less
23 the increment to reserve also on line 23.

1 In summary, once we account for Mr. Robinett's arbitrary omission of several items
2 that in fact do make up the balance of undepreciated plant in service as of the two possible
3 retirement dates, we get exactly the balances calculated in my Schedules MJL-S2 and MJL-
4 S6.

5 **IX. PLANT IN SERVICE-SOFTWARE AND GENERAL PLANT**

6 **Q. OPC witness Schaben recommends recovery of certain capitalized**
7 **software and other capitalized costs in a future rate review instead of in this**
8 **securitization case because these accounts have a remaining useful life less than fifteen**
9 **years (the term of the securitized tariff bonds). How do you respond?**

10 A. Every cost associated with every asset the Company is seeking recovery of
11 in this case will have no expected remaining useful life after the retirement of Rush Island
12 Energy Center. Any prior estimate of the useful life of these assets is no longer relevant
13 upon retirement. Recovery of these types of costs via securitization is the exact purpose
14 and intent of the Missouri securitization statute. These costs squarely fit the definition of
15 Energy Transition Costs in the statute and were prudently incurred. There is no reason to
16 exclude these costs from Energy Transition Costs. Doing so would only reduce the net
17 benefits of using securitization.

18 **X. ABANDONED CAPITAL PROJECTS**

19 **Q. OPC witness Payne recommends recovery of the Company's**
20 **abandoned Construction Work in Process ("CWIP") project costs in a future rate**
21 **review instead of this case in order to avoid financing costs? How do you respond?**

22 A. OPC witness Payne proposes the recovery of the abandoned capital projects
23 should be addressed in a future rate review. In support of his proposal, Mr. Payne claims

1 that customers will have to pay the income taxes (tax gross up) for the interest associated
2 with costs of the abandoned capital projects underlying the total securitized amount.

3 **Q. Does the recovery of interest costs result in incremental income taxes?**

4 A. No. If the Company's only cost was \$1 of interest and it recovered that cost
5 from customers in the form of \$1 of revenue, the Company would owe no federal income
6 tax. This is because interest is a deductible cost for income tax purposes, meaning it can be
7 deducted from taxable income before applying the tax rate to calculate a tax liability. For
8 these same reasons, no tax gross up is applicable either.

9 **XI. BASEMAT COAL**

10 **Q. In his rebuttal testimony, OPC witness John Riley recommends the**
11 **Company's investment in coal that forms the base mat for the coal pile (i.e., base mat**
12 **coal) should not be securitized or recovered. How do you respond?**

13 A. Mr. Riley recommends base mat coal be excluded from the recovery
14 authorized in this case. Mr. Riley has two explanations for his recommended treatment of
15 base mat coal. First, Mr. Riley suggests base mat coal is now incorporated into the land
16 and should neither be securitized nor recovered. I disagree, just as the Commission
17 disagreed in its order in Liberty's securitization case by ordering the following:

18 The basemat coal was acquired by Liberty over the years and was included
19 in the company's rate base along with the rest of its coal pile inventory. It
20 would have recovered the value of that coal as an expense when the coal
21 was burned. But, since the basemat coal was never burned, Liberty never
22 recovered its cost. Consequently, the value of the basemat coal, \$1,532,832,
23 falls within the statutory definition of energy transition costs and may be
24 securitized.¹⁹

¹⁹ File No. EO-2022-0193, *Report & Order* p. 51, issued August 18, 2022.

1 Just like Liberty, the Company has prudently incurred this cost and should be
2 allowed to recover its investment in base mat coal like any other investment. Basemat coal
3 serves as the foundation, or floor, to allow useable coal to be dumped on top. To have a
4 coal pile at Rush Island, or any other coal fired energy center, you must also have a
5 foundation of unusable coal. In accordance with FERC Uniform System of Accounts
6 ("USoA") the Company has recorded cost of inventoried coal, including the initial truck
7 load in 1976 at Rush Island, in account 151-Fuel. OPC witness Riley appears willing to
8 suggest the Company should have deviated from this common practice (but to my
9 knowledge neither he nor anyone at OPC has never raised this issue in any recent rate
10 review) in an attempt ensure there is no recovery of the Company's prudently incurred base
11 mat coal costs.

12 Second, Mr. Riley suggests the Commission could determine the Company should
13 write this inventory off. His rationale appears to be that the Company has received a return
14 on basemat coal since Rush Island costs were first included in rates. Its perplexing to me
15 that OPC witness Riley appears surprised that the Company received a return on its rate
16 base over the life of the asset – that is ratemaking 101, and Mr. Riley should know this. It's
17 further perplexing that this recommendation suggests the Company should not receive
18 recovery of the asset because it received recovery of a return on the asset. This suggests a
19 fundamental departure from the Commission's order in the Liberty securitization case and
20 traditional regulatory treatment of recovery of and on rate base in Missouri and is
21 completely illogical. The Company has properly received a return on its investment in base
22 mat coal because during the entire time the coal has been in place, the Company has been
23 financing it.

1 **Q. Does Mr. Riley provide an alternative to his primary recommendation**
2 **above?**

3 A. Yes.

4 **Q. Please describe your understanding of Mr. Riley's alternative**
5 **recommendation.**

6 A. In this alternative, Mr. Riley provides his own valuation of the Company's
7 basemat coal, \$562,436, and suggests the Commission could allow recovery of the basemat
8 coal but not a return on the coal. Mr. Riley doesn't take issue with the estimated tons of
9 basemat coal by the Company but suggests the coal price per ton from 1977, 47 years ago,
10 is more relevant than the amount proposed by the Company which, to my knowledge, is
11 the amount that has been relied upon by all parties in every rate review for at least the past
12 15 years (since the Company's 2008 rate review, File No. ER-2008-0318). To my
13 knowledge, OPC has never disputed base mat coal valuations in any of those rate reviews.
14 The Company accounts for all of its coal inventory (including base mat coal) using a
15 weighted average cost. There is uncertainty around what both the quantity and price of base
16 mat coal will be upon retirement of the energy center, given the final quantity is
17 unknowable at this time and the interaction of base mat coal pricing with the weighted
18 average price that will exist at that future date is also unknowable at this time. Ultimately,
19 the Company will use all the usable coal at the site and expense the coal used accordingly.
20 Any amount left recorded in inventory after all the usable coal has been used will be the
21 final base mat coal amount. If the Commission were to decide Mr. Riley's valuation of
22 \$562,436 was appropriate for securitization, and after Rush Island's retirement it was
23 determined the actual amount of unusable coal was higher than Mr. Riley's amount, the

1 incremental difference would be part of the reconciliation process in a future rate review
2 and customers would experience a lesser benefit from securitization as a result.

3 **XII. INCOME TAXES**

4 **Q. What is Mr. Riley's understanding of Accumulated Deferred Income**
5 **Taxes ("ADIT")?**

6 A. Mr. Riley credits my understanding of ADIT and the approximately eight
7 pages of direct testimony I put forth on the topic in this case as doing a "fine job" of
8 explaining the topic. He does not, nor does any other party in this case, dispute any aspect
9 of my explanation of ADIT or how it is treated in traditional ratemaking in any way. He
10 goes on to explain as follows:

11 ADIT is the accumulation of the annual income tax differences that result
12 from using straight line depreciation instead of accelerated depreciation.
13 Initially, the ADIT balance is positive and grows each year, but eventually
14 the balance begins to decline each year. If the asset is used until the end of
15 its straight-line tax depreciation life, then at the end of that life, the ADIT
16 balance is zero.²⁰

17 **Q. Do you agree with Mr. Riley's understanding?**

18 A. No, and I honestly have a hard time understanding what he is describing.
19 Mr. Riley's first sentence beginning on line 11 above, suggests that ADIT only arises from
20 book versus tax *depreciation* timing differences and that is not true. ADIT arises from *all*
21 book versus tax timing differences, including where recognition for tax purposes occurs
22 both earlier and later than which occurs for book purposes. Mr. Riley's second sentence
23 beginning on line 13 above, suggests ADIT arising from accelerated tax depreciation is
24 *positive* and, while what he means by *positive* is unclear to me, ADIT arising from

²⁰ File No. EF-2024-0021, John S. Riley Rebuttal Testimony, p. 2 ll. 19-24.

1 accelerated depreciation results in a *liability* and represents amounts due to the Internal
2 Revenue Service ("IRS")²¹ in future periods.

3 Finally, in his third sentence beginning on line 14 above Mr. Riley contends that
4 ADIT balances will only reverse out to zero if the asset is used until the end of its straight-
5 line tax depreciation life. This statement is factually incorrect in several ways. First and
6 foremost, ADIT will always reverse out to zero because, as I explained in my direct
7 testimony in this case, the book basis and tax basis of an asset will always converge at zero
8 over a long enough time horizon and once both bases are zero there is no book versus tax
9 difference and, therefore, no ADIT balance. Another issue I have with this sentence is his
10 use of the word *asset*, because when taken with his prior characterization of ADIT as
11 *positive*, I think he may believe ADIT balances arising from accelerated tax depreciation
12 are assets on the Company's books. This is not true, as I just explained above and in my
13 direct testimony in this case. Finally, I disagree with his use of "straight-line depreciation
14 for tax purposes" because ADIT reverses out over time whether tax depreciation is either
15 straight-line or declining balance (such as 5-year or 15-year Modified Accelerated Cost
16 Recovery System or MACRS), which is far more common for utility property.

17 **Q. Does Mr. Riley raise any other concern with regard to ADIT in this**
18 **case?**

19 A. Mr. Riley claims that the Company's position relating to ADIT is
20 inconsistent with Staff's position and the Commission's decision in File No. EO-2022-
21 0193, *Report and Order*, issued August 28, 2022, as it relates to the securitization of
22 Liberty's Asbury plant and the treatment of the related ADIT.

²¹ Or other taxing authority such as the Missouri Department of Revenue.

1 **Q. How do you respond?**

2 A. As I stated in my direct testimony and Mr. Riley did not dispute, the
3 evidentiary record in this case is substantially different from the facts presented in File No.
4 EO-2022-0193, *Report and Order*, issued August 28, 2022. Staff's agreement with the
5 Company's recommendation concerning ADIT in this case demonstrates the significant
6 differences that exist between this case and File No. EO-2022-0193, *Report and Order*,
7 issued August 28, 2022.

8 **Q. Mr. Riley takes further issue with a footnote from your direct**
9 **testimony. Please explain.**

10 A. I will explain in the context of Mr. Riley's position. The footnote in question
11 from my direct testimony means that if the Commission were to order the Company to
12 reduce the securitized amount in this case for amounts relating to ADIT by approximately
13 \$87 million (as is the position of Mr. Riley), the Company must increase its ongoing
14 financing costs for income tax costs exactly as Liberty was ordered to do in File No. EO-
15 2022-0193, *Report and Order*, issued August 28, 2022. Mr. Riley further asserts that in
16 this scenario, no additional monies would need to be collected from customers as ongoing
17 financing costs and provided an analysis he represented supports his conclusion. His
18 analysis and conclusions are flawed and should not be relied on by the Commission.

19 **Q. Please describe the flaws in Mr. Riley's analysis in his Schedule JSR-R-**
20 **02.**

21 A. Mr. Riley is attempting to calculate the future income tax payments that will
22 result from the Company's collection of the principal portion of the securitization bonds
23 and compare those future income tax payments to the ADIT balance. Since ADIT *is* the

1 future income tax payments that will result from the Company's recovery of these costs via
2 recovering the amounts necessary to make the principal payments on the bonds, Mr. Riley's
3 result should produce this ADIT proof. That is to say, this calculation should *prove* that
4 recovering the principal amounts of the securitized tariff bonds results in income tax
5 payments *exactly* equal to the ADIT balance at the time of issuance. Mr. Riley's analysis
6 does not pass muster. It does not because Mr. Riley 1) included excess deferred taxes in
7 his initial ADIT balance when excess deferred taxes are not payments owed to the IRS in
8 the future and therefore have no relation to the statutory tax rate, 2) erroneously presumed
9 carrying charges on the ADIT balance (which I will address separately later), 3) developed
10 principal payments for a generic \$500 million bond issuance rather than utilizing the
11 \$475,235,629 net book value of plant balance from my direct testimony that gave rise to
12 the ADIT, 4) included a 23.84% composite statutory tax rate instead of the Company's
13 actual 23.733% statutory tax rate that was used to determine the ADIT balance, and 5)
14 erroneously included a tax gross up factor (which I will also specifically address later).

15 **Q. Have you prepared a schedule that includes these updates?**

16 A. Yes. Schedule MJL-S10 has that analysis.

17 **Q. Please explain the corrections you made to Mr. Riley's Schedule-JSR-**
18 **R-02 in order to create Schedule MJL-S10 in more detail.**

19 A. Mr. Riley's schedule contains an ADIT balance as of the retirement date of
20 \$138,927,203 in cell B5. As I previously mentioned, the balance contains excess ADIT
21 which has entirely different characteristics than ADIT itself.²² I changed Mr. Riley's figure

²² Excess ADIT is a component of ADIT that results from a change in tax law that reduces the statutory tax rate. Excess ADIT represents amounts previously collected from customers in order to satisfy a higher tax rate, that has been subsequently lowered, and customers should be refunded as a result.

1 in cell B5 to be the ADIT balance (which should not include excess ADIT) I included in
2 my direct testimony \$112,788,066. I then deleted all the carrying charges Mr. Riley had in
3 columns C and D. In cell F5 I included a formula that calculates the portion of an
4 amortizing loan payment that relates to principle (as opposed to interest) during the first
5 loan period. That formula relies on the following inputs: 1) an annual interest rate of 5.59%
6 which I divided by 2 to arrive at a semi-annual rate, 2) the payment number (1 through 30)
7 which Mr. Riley already had in column A, 3) the total number of 30 payments for a 15-
8 year loan that requires semi-annual payments, and the loan amount of \$475,235,629. I
9 repeated this formula in the remainder of column F for the other 29 payments, while
10 adjusting the payment number accordingly. In column G I updated the tax rate to be
11 23.73%. Finally, I eliminated the tax gross up Mr. Riley had in column I.²³

12 **Q. What is the result of making these changes?**

13 A. The ADIT balance of \$112,788,066 in column B reduces down to exactly
14 zero after the 30th semi-annual period.²⁴ Total tax payments in column H sum to exactly
15 the same amount (\$112,788,066). The Company will pay exactly the amount of future
16 income tax payments as it has recorded as ADIT at the retirement date of the plant.

17 **Q. Please now address Mr. Riley's inclusion of carrying costs in his**
18 **analysis.**

19 A. The reduction to Energy Transition Costs is the customer benefit that results
20 from ADIT. That customer benefit is the net present value of the ADIT rate base offset that
21 would otherwise occur under traditional ratemaking. Mr. Riley presuming that ADIT could

²³ I did so by deleting the contents of the cells in column I and changing the cell references in column B to reference the same lines in column H that Mr. Riley referenced in column I.

²⁴ Mr. Riley's formula in cell B35 is zero.

1 also generate returns for the Company would double count or provide double the benefits
2 to customers if both the ADIT benefit offset to Energy Transition Costs and Mr. Riley's
3 carrying costs in his Schedule JSR-02 were to occur. This presumption is untrue.

4 **Q. Mr. Riley states that the ADIT balance doesn't have anything to do with**
5 **the credit for securitization (the reduction to Energy Transition Costs). How do you**
6 **respond?**

7 A. This statement couldn't be more inaccurate. To repeat myself, the reduction
8 to Energy Transition Costs *is* the customer benefit that results from ADIT. That customer
9 benefit is the net present value of the ADIT rate base offset that would otherwise occur
10 under traditional ratemaking. ADIT itself is the future tax payments the Company will have
11 to make to the IRS. The fact that the Company has collected those future tax payments
12 from customers but has not yet been required to make the tax payments to the IRS is why
13 customers should experience a time value of money benefit so that customers are not, in
14 essence, making a zero-interest loan to the Company.

15 **Q. Please now address Mr. Riley's tax gross-up.**

16 A. Mr. Riley premises the need for a tax gross-up on the existence of the
17 carrying charge in his analysis and I just explained why the carrying charge is
18 inappropriate. Therefore, the tax gross-up is also inappropriate. I will also say that I'm very
19 well versed in the need for tax gross-ups and exactly what they represent. I cannot
20 comprehend what Mr. Riley was attempting to explain in his testimony on this point nor
21 do I see any reason for a tax gross-up to exist. The ADIT proof I put forward in Schedule
22 MJL-S10 further proves no gross-up is required.

1 **Q. Why are the results in Schedule MJL-S10 meaningful?**

2 A. The result is a proof of ADIT that any tax expert could produce. Mr. Riley's
3 imprecise inputs and additional concepts fall flat when exposing the calculation for what it
4 truly is, an ADIT proof.

5 **Q. Please describe Mr. Riley's abandonment tax deduction position.**

6 A. Mr. Riley contends an abandonment loss deduction of \$25,747,200 should
7 reduce the Company's securitization revenue requirement. His *most important* factor to
8 consider is that he claims the abandonment loss tax deduction is not a portion of ADIT.

9 **Q. Is an abandonment loss deduction a portion of ADIT?**

10 A. Yes, it absolutely is. I put forth eight pages of direct testimony explaining
11 in detail how ADIT is calculated, included in utility ratemaking, and provided a detailed
12 spreadsheet of supporting calculations. I don't think Mr. Riley appropriately considered
13 that testimony. To restate some of that testimony, ADIT is generally calculated as the
14 difference in book basis and tax basis of an asset multiplied by the applicable tax rate. The
15 abandonment loss Mr. Riley has identified is a reduction of tax basis from, in this case an
16 estimated \$108 million at the time of Rush Island retirement to a tax basis of zero. Absent
17 any other change, ADIT (specifically deferred tax liabilities) will increase by \$25 million
18 (\$108 million multiplied by the combined statutory tax rate) at the moment of retirement.
19 Tax depreciation and an abandonment loss deduction are both deductions that result from
20 the reduction of tax basis in an asset. The cumulative reduction in an asset's tax basis
21 resulting from depreciation, an abandonment loss, or any other circumstances cannot
22 exceed the original tax basis of the asset. That is to say, total deductions relating to an asset
23 cannot exceed the value of the asset. In fact, over the tax life of an asset total deductions

1 relating to an asset must exactly equal the value of the asset. The reduction of tax basis to
2 zero (which is the abandonment loss deduction and no different than tax depreciation in
3 that it reduces the tax basis of an asset) is precisely why there is expected to be an ADIT
4 balance of \$112,328,071²⁵ upon retirement.

5 **Q. Did the Commission correctly understand the facts surrounding an**
6 **abandonment loss deduction in File No. EO-2022-0193?**

7 A. Yes.

8 **Q. And what did the Commission order in that case?**

9 A. As Mr. Riley acknowledges, the Commission rejected his proposal to offset
10 Liberty's cost recovery by an abandonment loss deduction.

11 **XIII. WORKFORCE TRANSITION**

12 **Q. Staff witness Majors recommends any costs associated with workforce**
13 **transition be excluded from the balance to be securitized. How do you respond?**

14 A. It is uncertain whether these costs will ultimately exist. Although I disagree
15 with Mr. Majors basis for excluding workforce transition costs from the recovery allowed
16 in this case, the Company does not have an estimate of these costs to include at this time.
17 Any costs that may be incurred in the future must be reconciled in a future rate review in
18 accordance with Mr. Wills' Direct Testimony.

19 **Q. How should the Commission consider this new information?**

20 A. I acknowledge this agreement has come late in the process for this case. Due
21 to the timing of this agreement, other parties to this case may not have adequate time to

²⁵ This amount is the estimated ADIT balance presuming a September 1, 2024 retirement, whereas the ADIT balance is estimated to be \$111,290,628 if the plant retires on October 15, 2024. These amounts exclude excess ADIT.

1 perform discovery or testify on the details of this agreement. It is in customer's best interest
2 to include these costs in Energy Transitions Costs and, therefore, include these costs in the
3 securitized tariff bond issuance, like is also true for any Energy Transition Cost. However,
4 the Commission could find that there was not sufficient time for discovery and order the
5 Company to exclude these costs at this time and reconcile these Energy Transition Costs
6 as described by Company witness Steve Wills' in his direct testimony.

7 **XI. ARO-WATER TREATMENT AND MONITORING**

8 **Q. Staff witness Majors and OPC witness Schaben recommend the costs**
9 **for the Company's water treatment and monitoring ARO obligations be excluded**
10 **from securitization. Additionally, OPC witness Schaben recommends a reduction of**
11 **plant in service by \$1,787,102 related to water treatment and monitoring assets**
12 **recorded in plant in service. How do you respond?**

13 A. An ARO is an obligation to return a piece of property back to its original
14 condition upon retirement of an asset. Water treatment and monitoring is the central
15 component of the Company's ARO related to Rush Island. The costs Staff and OPC are
16 recommending excluding in this case are the same costs that exist at other coal-fired
17 powerplants, including the Liberty's Asbury plant, which was securitized in File No. EO-
18 2022-0193, *Report and Order*, issued August 28, 2022. In that case, the Commission
19 ordered that the cost associated with Asbury's ARO be included in the total amount to be
20 securitized as follows: "the estimates and the actual costs incurred will be reconciled, and
21 allowing Liberty to recover these costs through securitization will reduce the amount that
22 would be paid by ratepayers if they are not securitized. The Commission will allow Liberty to

1 include AROs totaling \$21,282,684 within its securitization balance."²⁶ The facts are no
2 different in this case, other than the amount the Company is seeking is far less than that in
3 the Liberty case.

4 **X. DEFERRAL REQUEST**

5 **Q. Mr. Murray suggests you simply made a mistake in determining the**
6 **WACC applicable to the Company's deferral request. Did you make a mistake?**

7 A. Yes. The appropriate WACC (grossed up for income taxes) to be applied to
8 the Company's deferral request is 8.36%.

9 **Q. OPC witness Robinett disagrees with the amounts the Company has**
10 **identified as included in current base rates relating to the Rush Island Energy Center**
11 **and serves as the basis of its deferral request. How do you respond?**

12 A. Mr. Robinett simply states his disagreement and provides no evidence or
13 support for what he believes the figures should be. I'm perplexed that he takes issue with
14 the base amounts of the deferral being based on "a point in time analysis" considering
15 customer rates are based on an established test year or true-up date (arguably a point in
16 time analysis) in a rate review proceeding. The costs the Company included in the base
17 amount for its deferral request are known amounts from the Company's last rate review,
18 File No. ER-2022-0337, Report and Order, issued June 24, 2023, that ultimately the
19 Commission approved to be included in customer rates. The parties to this case have had
20 months to perform discovery, audit, and assess the figures I presented in my direct
21 testimony. Staff has not expressed any concerns about these amounts, presumably because

²⁶ File No. EO-2022-0193, *Report and Order*, p. 59, issued August 28, 2022.

1 Staff does not have concerns. Instead, Staff must have performed the necessary procedures
2 to evaluate the amounts and agrees with the Company's recommendations.

3 **Q. If the Commission orders the Company to record deferrals of amounts**
4 **relating to the Rush Island Energy Center that were included in the Company's**
5 **revenue requirement used to set current customer rates, does the Company need to**
6 **know what those amounts are?**

7 A. Yes.

8 **Q. Will any information relevant to determining the appropriate amounts**
9 **become available in the future that are not currently available now?**

10 A. No. The only relevant information to determining these amounts is the
11 information that was available during the pendency of the case in File No. ER-2022-0337,
12 Report and Order, issued June 24, 2023.

13 **XI. CONCLUSION**

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

15 A. Yes, it does.

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

In the Matter of the Petition of Union)
Electric Company d/b/a Ameren Missouri)
for a Financing Order Authorizing the Issue) EF-2024-0021
of Securitized Utility Tariff Bonds for)
Energy Transition Costs related to Rush)
Island Energy Center.)

AFFIDAVIT OF MITCHELL J. LANSFORD

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

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

My name is Mitchell J. 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 J. Lansford
Mitchell J. Lansford

Sworn to me this 22nd day of March, 2024.