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Riley
Rebuttal
File No. EF-2024-0021

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Tax Deduction for Abandonment/Exclusion
of Basemat Coal/Community Transition Costs
Witness/Type of Exhibit: Riley/Rebuttal
Sponsoring Party: Public Counsel
Case No.: EF-2024-0021

REBUTTAL TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

**UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI**

CASE NO. EF-2024-0021

February 23, 2024

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REBUTTAL TESTIMONY

OF

JOHN S RILEY

CASE NO. EF-2024-0021

1 **Q. What is your name and what is your business address?**

2 A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Utility Regulatory
5 Supervisor.

6 **Q. What is your educational background?**

7 A. I earned a B.S. in Business Administration with a major in Accounting from Missouri State
8 University.

9 **Q. What is your professional work experience?**

10 A. I was employed by the OPC from 1987 to 1990 as a Public Utility Accountant. In this capacity,
11 I participated in rate cases and other regulatory proceedings before the Public Service
12 Commission (“Commission”). From 1994 to 2000 I was employed as an auditor with the
13 Missouri Department of Revenue. I was employed as an Accounting Specialist with the
14 Office of the State Court Administrator until 2013. In 2013, I accepted a position as the Court
15 Administrator for the 19th Judicial Circuit until April 2016 when I joined the OPC as a Public
16 Utility Accountant III. I have also prepared income tax returns, at a local accounting firm, for
17 individuals and small businesses from 2014 through 2017.

18 **Q. Are you a Certified Public Accountant (“CPA”) licensed in the State of Missouri?**

19 A. Yes. I earned my license in 1998. As a CPA, I am required to continue my professional
20 training by attending Missouri State Board of Accountancy qualified educational seminars

1 and classes. The State Board of Accountancy requires that I spend a minimum of 40 hours *a*
2 *year* in training that continues my education in the field of accountancy.

3 **Q. Have you previously filed testimony before the Missouri Public Service Commission?**

4 A. Yes, I have. A listing of my case filings and certification is attached as JSR-R-1.

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. My testimony is to provide my opinion and adjustments on four cost positions that Ameren
7 Missouri has proposed to be included in the energy transition costs for eventual securitization
8 and one income tax deduction that has gone unmentioned by Ameren Missouri. I first discuss
9 the balance of the net present value of accumulated deferred income tax or otherwise known
10 as the NPV of ADIT. Second, I discuss Ameren Missouri's failure to recognize its upcoming
11 income tax deduction for the abandonment of Rush Island. Third, I explain my opposition to
12 basemat coal being included in the securitization amount. Fourth, and finally, I discuss my
13 opposition to Ameren Missouri's proposed transition costs to assist Jefferson County with the
14 loss of tax revenues due to the plant closure. These costs cannot be included in the energy
15 transition costs.

16 **CALCULATING THE NPV OF ADIT FOR SECURITIZATION**

17 **Q. What is ADIT?**

18 A. ADIT, short for Accumulated Deferred Income Tax. Ameren Missouri witness Mitchell
19 Lansford does a fine job of explaining how ADIT is calculated. As he explains, ADIT is the
20 accumulation of the annual income tax differences that result from using straight line
21 depreciation instead of accelerated depreciation. Initially, the ADIT balance is positive and
22 grows each year, but eventually the balance begins to decline each year. If the asset is used
23 until the end of its straight-line tax depreciation life, then at the end of that life, the ADIT
24 balance is zero.

1 **Q. How are ADIT and Excess Deferred Income Tax (EDIT) to be treated in a securitization**
2 **financing order?**

3 A. Section 393.1700.2(3)(m), RSMo, spells out:

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

26 In short, the new present value of the ADIT balance associated with Rush Island will be a
27 deduction to the Rush Island plant balance that is securitized.

1 **Q. Ameren Missouri witness Lansford’s testimony and workpaper show a NPV of Rush**
2 **Island ADIT to reduce the securitized bond amount of \$49,798,897¹. Do you agree**
3 **that this is the correct credit amount for the NPV of Rush Island ADIT?**

4 A. No. Ameren Missouri has double calculated the NPV of the original ADIT amount. Liberty
5 attempted to include this same type of calculation in its Asbury securitization case, Case No.
6 EO-2022-0193.² Evergy intervened and supported Liberty’s methodology³ and Ameren
7 Missouri filed an *amicus brief* with the Commission also supporting it⁴; however, the
8 Commission disagreed with Liberty’s computation and adopted its Staff’s NPV calculation.

9 **Q. According to Ameren Missouri what is the original amount of Rush Island ADIT?**

10 A. In his prefiled direct testimony Ameren Missouri witness Mr. Lansford has \$112,788,066 in
11 ADIT and \$26,139,137 in EDIT for a total of \$138,927,203 as of September 1, 2024. His
12 workpaper at tab NPV ADIT has an original calculation of ADIT plus EADIT at
13 \$136,696,234, as of October 15, 2024⁵. The difference is dependent on the date of retirement
14 so I’m not going to be picky on the exact dollar amount in this testimony. I am using the
15 values I took from Mr. Lansford’s workpapers.

¹ The NPV ADIT tab of Mr. Lansford’s workpapers and testimony schedule MJL-D1, marked confidential in testimony but not as a workpaper.

² EO-2022-0040, Report & Order, page 52 paragraphs 107 and 108.

³ See *Application for Rehearing*, August 27, 2022; *Reply in Support of Liberty’s Reply in Support of Motion for Reconsideration or Clarification and/or Application for Rehearing*, September 14, 2022; *Evergy Missouri Metro’s and Evergy Missouri West’s Application for Rehearing*, September 30, 2022.

⁴ Case No. EO-2022-0193 *Amicus Curiae* Brief of Union Electric Company d/b/a Ameren Missouri filed August 30, 2022.

⁵ This calculation is based on the net plant amount at a given date so depending on the actual retirement date, this calculation will have a slight variation which will adjust the ultimate NPV of ADIT balance.

1 **Q. How does Mr. Lansford calculate the credit amount for the NPV of the Rush Island**
2 **ADIT?**

3 A. Mr. Lansford first divides the \$136,696,234 ADIT plus EADIT amount over the life of the
4 proposed bonds and then he uses the anticipated bond interest rate to produce a NPV of
5 \$87,311,890.

6 **Q. This \$87,311,890 is not the NPV ADIT credit amount Ameren Missouri is proposing, is**
7 **it?**

8 A. No. Mr. Lansford then takes the \$87,311,890, amortizes it over 15 years, then does a NPV
9 calculation to arrive at the amount of \$49,798,897 which is what Ameren Missouri asserts is
10 the NPV ADIT credit amount.

11 **Q. Are either of these the amount that should be, as the statute states earlier in your**
12 **testimony, “credited to retail customers by reducing the amount of such securitized**
13 **utility tariff bonds that would otherwise be issued”?**

14 A. The process Mr. Lansford used to calculate the \$87,311,890 is the process the Commission’s
15 Staff used and that the Commission adopted in Liberty’s securitization case; however, the
16 Commission rejected the same method that Mr. Lansford used to calculate the \$49,798,897.

1 **Q. Mr. Lansford includes a footnote number 21 on page 22 of his direct testimony which**
2 **references the Commission’s decision in the Liberty Asbury securitization case, Case**
3 **No. EO-2022-0193. Based on that footnote, it appears that a Commission decision to**
4 **reaffirm in this case the Staff’s NPV ADIT method in that case, which would be higher**
5 **than the Company’s \$49,798,897 (By Mr. Lansford’s calculation \$87,311,890), is a**
6 **trigger for Ameren Missouri to seek to include in the ongoing finance costs amounts**
7 **sufficient to cover the income taxes imposed on the securitization charges. Do you agree**
8 **that Ameren Missouri’s retail customers will not have provided enough Rush Island**
9 **ADIT to cover the income taxes that Ameren Missouri will incur from the Rush Island**
10 **securitization charges?**

11 A. No. Additional money from ratepayers is not needed. Ameren Missouri has more than
12 enough money in the way of an ADIT balance to fund the income tax on the securitization
13 charges for bond repayment. Mr. Lansford points out on page 22 of his direct testimony that
14 ADIT is the income tax which will be paid to the taxing authority over 15 years after the
15 securitization transactions commence.⁶ In response to that testimony, I developed a
16 spreadsheet that indicates that Ameren Missouri very well could have over \$75 million in
17 excess ADIT balance remaining when these bonds are paid off in 15 years.

18 **Q. Would you explain your spreadsheet?**

19 A. Yes. First, that spreadsheet is attached to this testimony as Schedule JSR-R-02. Pages 1 and
20 2 of that schedule is the amortization schedule I used, where the column titled, “Principal”
21 consists of the principal payments that I then transferred to the Tax Payment calculations on
22 page 3 of the schedule. I began with a 15-year semi-annual loan amortization table for an
23 estimated bond balance of \$500 million and assumed a 5.1% interest rate. Computing this
24 amortization schedule will provide the semi-annual principal and interest payments for each
25 of the 30 payments in the 15-year payment schedule. Now that I have laid out these

⁶ Lansford direct, page 22, line 1 and 2

1 parameters, I should point out that I have made some assumptions in how the principal
2 payments will be transacted. I am treating these semi-annual payments similar to a mortgage
3 amortization where the semi-annual payments reduce a portion of the loan balance (principal)
4 as well as the accrued interest for each period.

5 **Q. Why did you calculate tax only on the principal portion of the payments?**

6 A. Retail customer payments consist of principal, interest, and any other ongoing finance costs.
7 Interest and ongoing finance costs are taxable, but they are also tax deductible, so they cancel
8 out. The only taxable portion left is principal.

9 **Q. Would you explain page three of your spreadsheet—the tax payment calculations?**

10 A. As Mr. Lansford points out, the ADIT balance will pay the taxes on the transactions, so the
11 starting balance is the beginning \$138,927,203 ADIT balance.

12 **Q. Why start with the full amount of \$138,927,203 when the statute requires that the NPV
13 of ADIT is the credit to be applied against the amount to be securitized?**

14 A. Because the \$138 million is the interest free loan provided by Ameren Missouri ratepayers to
15 pay the deferred taxes when they come due, taxes recognized by the Commission and the IRS.
16 This balance doesn't have anything to do with the credit for securitization. This is about what
17 Ameren Missouri's retail customers have provided to Ameren Missouri in advance to pay
18 future Ameren Missouri income taxes. It should also be pointed out that Mr. Lansford didn't
19 reduce his ADIT/EDIT balances when he spoke of paying the "taxing authority" over 15
20 years⁷.

⁷ Lansford direct, page 22, line 1.

1 **Q. Why did you apply a carrying charge to the ADIT balance in the second column on**
2 **page three of your spreadsheet?**

3 A. The ADIT balance can't be expected to sit in a vacuum. There should be an investment value
4 assigned to the former balance. As Mr. Lansford pointed out in page 20 of his direct testimony
5 where he discusses applying WACC to the ADIT balance in Schedule MJL-D5, there is a
6 time value to money. Besides, Ameren Missouri expects to receive a half a billion dollars in
7 one lump sum. Should it be expected that there will be no economic benefit to that much
8 cash? I applied the interest rate (5.1%) that I expect will be the securitized bonds interest rate.

9 **Q. So, in the remaining columns you apply adjusted ADIT to the tax and gross-up**
10 **payments?**

11 A. Yes. If you adhere to the idea that this interest free loan is receiving some sort of carry charge
12 over the payment life of the bonds, then the ADIT balance supplies well more funding than
13 the income taxes Ameren Missouri will incur on the securitization charges used to pay off the
14 securitized bonds.

15 **TAX DEDUCTION FOR ABANDONMENT**

16 **Q. What is Ameren Missouri's income tax abandonment deduction for Rush Island?**

17 A. The premature closure of the Rush Island generation plant caused a permanent loss of use of
18 an asset that was not fully depreciated for income tax purposes. Since Rush Island still had a
19 value, as far as tax purposes, that balance was written off or disposed. Abandonment,
20 retirement, and disposition are interchangeable when referring to the Rush Island retirement.
21 The plant is no longer used in the production of income. While depreciation on Rush Island
22 ends, Ameren Missouri is entitled to take an abandonment deduction equal to its original cost
23 of Rush Island net of accumulated tax depreciation.

1 **Q. Has Ameren Missouri taken an abandonment deduction for Rush Island?**

2 A. No yet. It cannot take that deduction before it abandons Rush Island. It anticipates doing so
3 by no later than October 15, 2024, so it will be able to take that deduction in its 2024 income
4 tax year.

5 **Q. Do you know what Ameren Missouri expects its Rush Island abandonment tax
6 deduction to be?**

7 A. Ameren's answer to OPC data request 1302, attached as JSR-R-03 indicates the Company
8 expects to take a deduction of \$108 million.

9 **Q. Do you know what income tax savings this \$108 million income tax deduction will yield?**

10 A. For ratemaking purposes this tax reduction would be the \$108 million multiplied by the
11 composite tax rate generally used by Staff, OPC and most companies, which is 23.84% The
12 tax savings would then be valued at \$25,747,200.

13 **Q. Should the Commission recognize this abandonment deduction in this securitization
14 case?**

15 A. Absolutely. In fact, I believe this case is the only proceeding that the Commission can apply
16 the adjustment. Because the deduction is explicitly related to the closure of Rush Island and
17 it represents a one-time expense savings that applies to no other procedure other than the
18 securitization of Rush Island, the deduction should be included in the total energy transition
19 costs where it will have the effect of reducing the final amount of those costs.

20 **Q. Did not the Commission address this same issue in Liberty's Asbury securitization case,
21 Case No. EO-2022-0193?**

22 A. Yes, it did.

1 **Q. What did the Commission do there?**

2 A. It quoted Liberty witness Ms. Charlotte Emery's surrebuttal testimony and determined that
3 the abandonment tax benefit was an ADIT item which would amortize with the regulatory
4 asset set up for Asbury. The Commission stated in its Amended Report and Order that my
5 adjustment was not needed.

6 **Q. Are the circumstances here the same as the Commission apparently understood them to**
7 **be in Liberty's Asbury securitization case?**

8 A. No. Charlotte Emery confused the issue, and the Commission didn't see the deduction for
9 what it was, a stand-alone deduction. There are two factors in the Asbury decision that don't
10 apply to what I am proposing here.

11 The first is that Rush Island will not be a regulatory asset as the Commission referred to
12 Asbury in that case. Rush Island will be removed from the regulatory assets of Ameren
13 Missouri and will be included in energy transition costs that will be reduced by a calculated
14 ADIT balance and that balance will be securitized. There will be no Rush Island regulatory
15 asset amortization like the regulatory asset the Commission referenced in the Asbury case.

16 Secondly, and most importantly, is that the abandonment deduction is not a portion of ADIT.
17 The accumulation of deferred taxes stops at retirement. The abandonment is a current tax
18 deduction that should not be confused with an ADIT balance that has accumulated over
19 several years.⁸

⁸ Sections 1.167(a)-8(a), 1.168(i)-8(b)(2) and 1.167(I)-1(h)(2) provide that the accumulated ADIT balance must be adjusted to reflect dispositions. Also, in Private Letter Ruling -101888-23 the IRS stated "the removal of public utility property from the rate base necessitated the removal of the associated ADIT under the Consistency Rule of § 168(i)(9)(B)

1 **Q. Is your adjustment for the tax impacts of the Rush Island abandonment deduction any**
2 **different than any other adjustment you would make for determining the balance to**
3 **securitize for Rush Island?**

4 A. No. It is just like the Commission deducting a newly calculated salvage value or including a
5 new updated financial advising fee into the securitization balance.

6 **Q. In its Asbury securitization order the Commission quoted a portion of Section**
7 **393.1700.2(3)(c)m which addresses ADIT and the net present value of tax benefits.**
8 **What if the Commission were to include the Rush Island abandonment deduction in**
9 **ADIT as it stated in its Asbury order?**

10 A. Then I pose the question, “What is the net present value of a current deduction?” The answer
11 is “The current deduction amount.” This \$25 million isn’t getting paid out in the future where
12 an NPV calculation is necessary. It isn’t deferred. It is this year’s tax deduction that only
13 applies to Rush Island and not the entire revenue requirement of Ameren Missouri. This
14 cannot be a new ADIT balance because, by IRS definition, the ADIT balance disappears from
15 the books at disposition. To be clear. If the Commission were to include this deduction in
16 ADIT, it should not reduce the deduction balance. There should still be a \$25 million
17 securitization decrease. Not including this deduction with the rest of the securitization
18 balance is essentially violating the matching principle and cherry-picking relevant
19 securitization components.

20 **Q. Are you sure that the tax impact of Ameren Missouri’s \$108 million Rush Island**
21 **abandonment deduction is not included in its \$138,927,203 ADIT balance?**

22 A. I am confident that it is not. First, Ameren Missouri has not realized this deduction yet.
23 Second, by the manner that the Company explained its calculation of ADIT, which was
24 essentially applying the composite tax rate to the net book value of the plant, does not include
25 this tax deduction because the net plant balance has nothing in common with the software

1 developed \$108 million applied to the income tax return.⁹ ADIT itself is not a current tax
2 return item.

3 **Q. Would you summarize Public Counsel’s Rush Island abandonment deduction**
4 **argument?**

5 A. This deduction of \$25,747,200 is a real and measurable savings to Ameren Missouri for
6 applying the final \$108 million of Rush Island’s tax basis to its taxable income in the 2024
7 federal and state income tax returns. This is a current deduction, not subject to NPV
8 calculations, that is specific to the Rush Island energy transition costs and cannot be recouped
9 in the next general rate procedure. Ignoring this deduction and applying it to reduce
10 securitized energy transition costs is a disservice to the ratepayers.

11 **BASEMAT COAL**

12 **Q. What is Basemat coal?**

13 A. Generally, it is the initial truckloads of coal, delivered when a power plant is near its
14 completion, and laid down on the designated coal pile location. This coal is spread out over
15 the coal bed field and sacrificed as the foundation, or floor, to allow additional coal to be
16 dumped on top. As additional truck loads are deposited, this original basemat is crushed into
17 the ground. Basemat is also referred to as “unrecoverable coal” which is coal that is no longer
18 usable as a fuel, yet is still recorded in FERC USoA account 151 – Fuel. For Rush Island, the
19 value for this basemat coal has been recorded in account 151 since the Rush Island generation
20 plant’s initial construction in 1976.

⁹ Please refer back to Schedule JSR-R-03 where the answer to DR 1302 was that the \$108 million was the computer generated estimated remaining tax basis.

1 **Q. You mentioned that this basemat coal is recorded in the original fuel account. How does**
2 **Staff normally recognize this coal?**

3 A. In her surrebuttal testimony in fuel adjustment clause Case No. ER-2020-0311 Staff witness
4 Ms. Kimberly K. Bolin, testified that basemat coal for Liberty’s Asbury Plant was considered
5 to be coal inventory by both Staff and Empire in Empire’s Case No. ER-2019-0374 general
6 rate case.

7 **Q. Why was Ms. Bolin testifying about Asbury basemat coal in a Liberty FAC case?**

8 A. She was disagreeing with Liberty including the cost of its basemat coal in its FAC rate change,
9 and since Liberty was in the process of retiring Asbury, she stated “it would be more
10 appropriate to amortize the cost of unrecoverable coal over a multi-year period.”¹⁰

11 **Q. Do you agree with her?**

12 A. No, amortizing the cost of unrecoverable coal over multiple years to arrive at an amount to
13 include in an electric utility’s revenue requirement for setting general rates would not be my
14 first choice.

15 **Q. What is Ameren Missouri proposing be done with the cost of the basemat coal at Rush**
16 **Island in this securitization case?**

17 A. Ameren Missouri has included its calculated amount for unrecoverable/basemat coal in the
18 energy transition costs that would be included in the securitized utility tariff bonds amount.

19 **Q. What is that amount?**

20 A. Schedule MLJ-D1 from Ameren Missouri witness Mr. Mitch Lansford direct testimony
21 indicates the amount is \$1,923,660.

¹⁰ Case No. ER-2020-0311, Empire District Electric FAC, Surrebuttal, page 3, lines 19 and 20.

1 **Q. Do you agree that this amount should be included in the securitization energy transition**
2 **costs?**

3 A. No.

4 **Q. Why not?**

5 A. I have a more accurate accounting of the value of this 53,000 tons of unusable coal. Attached
6 as Schedule JSR-R-04 is the Commission's Report & Order from Case No. ER-77-154. This
7 is the Ameren Missouri (then doing business as Union Electric) case Ameren Missouri filed
8 shortly after Rush Island came online, but prior to the completion of Callaway No. 1. The
9 Commission calculated a price per ton of coal to determine what amount should be accepted
10 in inventory.

11 The Commission can only assume that since Staff and Company differ by
12 838,000 tons and \$8,893,000, the price which both parties used can be
13 determined by dividing \$8,893,000 by the 838,000 tons or a price of \$10.612
14 per ton. Given an inventory level of 2,887,000 tons, Staff's calculation of coal
15 inventory should be increased by \$6,759,844 instead of the \$8,893,000
16 proposed by Company.¹¹

17 So, the amount in question is 53,000 tons costing \$10.612 per ton. The value of the original basemat
18 should be \$562,436 not \$1,923,660.

19
20 **Q. Would you include the value of this basemat in Ameren Missouri's cost of service in a**
21 **general rate case if it was no to be securitized?**

22 A. No, it should be excluded for at least two reasons. One: Basemat coal has been ground into
23 the soil and essentially is part of the land and should not be included as an Energy transition
24 cost. Secondly, the basemat coal has been in inventory (Account 151 – Fuel) for 48 years.

¹¹ Report & Order, Case No. ER-77-153, last six lines of page 5.

1 Inventory is included in rate base where it receives a rate of return.¹² Keep in mind that this
2 basemat inventory is neither depreciated nor depleted. That is \$562,436 of coal has been
3 recorded in Ameren Missouri's rate base since 1976¹³. Multiplying this \$562,436 by a ROR
4 of 6.82% yields \$38,358 in annual return on investment. Multiply that by 48 years is
5 \$1,841,190, and when finally grossed up for nearly half a century for annual fed/state income
6 taxes, the Ameren windfall comes to a conservative \$2,417,483.

7 **Q. Are you saying that Ameren Missouri's retail customers have been providing Ameren**
8 **Missouri a return on, and taxes for, the undepreciated value of Ameren Missouri's**
9 **basemat coal at Rush Island for the entire life of the Rush Island generating plant?**

10 A. Yes. That's the important distinction with this asset over almost all other assets that ratepayers
11 fund. It never lost value even though it is designated as "unrecoverable". There is no cost
12 allocation. No recognized deterioration. No obsolescence. How many utility assets can you
13 think of that don't "wear out" and become totally spent on the financial statements? Answer:
14 Land, intangibles and basemat. Yet we know basemat is unrecoverable. In fact, it was
15 unrecoverable shortly after it was put down on the ground. Yet Ameren Missouri would like
16 its original investment back in full and have its retail customers fund it another 15 years, even
17 though the asset in question is pulverized and indistinguishable from the land around it.

18 Using a 5% interest rate on the for the bonds, Ameren Missouri is asking the Commission to
19 have its retail customers fund an additional \$3,414,563 for principal, interest and taxes¹⁴ to
20 satisfy an amount that should have been expensed when the first rate case for Rush Island was
21 completed.

¹² Coal inventory can be found as an addition to Net Plant In Service on the Accounting Schedule 02 "Rate Base Schedule" in Staff's accounting schedules in every rate case.

¹³ 1976 taken from the Ameren website featuring Rush Island information. <https://www.ameren.com/-/media/missouri-site/files/aboutus/rush-island-factsheet.pdf>

¹⁴ Loan amortization of \$1,923,660 @ 5% semi-annual payments for 15 years with 23.84% tax on the total payments of \$2,757,238

1 **Q. How did the Commission deal with Liberty’s basemat coal at its Asbury plant when it**
2 **authorized Liberty to securitize its Asbury energy transition costs?**

3 A. The Commission cited Section 393.1700.1(7)(a) and determined that basemat coal falls within
4 the statutory definition of energy transition costs to be securitized. It allowed the full amount
5 of basemat coal that the Company requested to be included.

6 **Q. Do you agree with this decision?**

7 A. I argued against basemat inclusion in that case. The Commission decision was within the
8 statutory parameters and within its discretion. The Commission made its decision based on
9 statute, and the facts and evidence presented, and decided what it viewed to be fair and
10 reasonable in that situation. The Commission can certainly make a different decision here
11 given the new facts that I’ve presented.

12 Staff has always agreed with the utilities that basemat coal cost is a cost that needs to be
13 recovered. I think it has already been recovered. I’m pointing out that this is a *peculiar* asset
14 the cost of which is not reduced over time, and which, here, received an unreduced ROR for
15 48 years. The retail customers also pay for state and federal income taxes on this rate based
16 asset whereas we know from rate case experience, because of accelerated expensing, the
17 utility rarely pays that amount of income tax out to the governments. In theory at least,
18 Ameren Missouri’s basemat coal expense would have also benefitted from an initial positive
19 Cash Working Capital calculation in 1976, to add to Ameren Missouri’s basemat coal cost
20 recovery.

21 **Q. How do you recommend that the Commission treat an electric utility’s basemat expense**
22 **going forward?**

23 A. I believe the Commission has three legitimate choices. First, it could determine that basemat
24 is now incorporated into the land and should neither be securitized nor recovered. Second it
25 could write this inventory off. Basemat coal has served its purpose and the utility’s retail

1 customers have paid for it several times over. The basemat coal amount should be a credit to
2 Account 151 – Fuel and a debit to Account 501 or a Retained Earnings account. If the
3 Commission views the spent asset as incorporated into the soil, then there should be a credit
4 to account 151 and a debit to a Land account. Third, the Commission could allow a return of
5 the expense, here \$562,436, but not a return on the coal. An argument could be made that
6 we are dealing with estimates and inexact measurements and the original amount was
7 expensed in the original Income Statement and there never was an unrecovered cost. Ameren
8 Missouri workpapers have revealed that these basemat calculations were agreed to in a
9 stipulation and agreement from a 2008 rate case¹⁵, and the amount Ameren Missouri proposes
10 for Rush Island basemat in this case comes from estimated calculations. Since this original
11 coal foundation was never going to be physically recovered, it should have been incorporated
12 into the original cost of goods sold in 1976 or amortized over a short period. Allowing cost
13 recovery 48 years later is not a fair and reasonable decision for ratepayers that have been
14 subsidizing this amount for nearly half a century.

15 **Q. Would you summarize your position on the disposition of basemat coal?**

16 A. First, I don't believe the basemat coal should be included in the energy transition costs. The
17 coal has been paid for and it can't be recovered. Asking the ratepayer to fund another 15 years
18 is unreasonable. The coal should either be incorporated into a land account or written off as
19 paid for and no longer used and useful. We now know from a historical Report & Order that
20 the basemat should have been valued at \$562,436. Let's put that in perspective. The
21 Company has enjoyed a return on \$1,923,660 since 2008. Ameren Missouri has over

¹⁵ Lansford workpapers tab Mar&Sup2, footnote (5) Per Stipulation and Agreement in AmerenUE Case ER-2008-0318

1 *collected* \$1,907,937 in those 16 years so it is certainly within the Commission’s prerogative
2 to declare this “unrecovered asset” sufficiently recovered.¹⁶

3 Regardless, the value of Rush Island basemat should not be securitized.

4 **COMMUNITY TRANSITION COSTS**

5 **Q. In his testimony Mr. Lansford makes an Ameren Missouri request for nearly \$3.7**
6 **million for “community transition costs”. What are these “community transition**
7 **costs”?**

8 A. As Mr. Lansford explains, Ameren Missouri is planning to make expenditures from funds it
9 gets from its retail customers:

10 “to help the community transition after the retirement of the energy center
11 the Company requests inclusion of \$3,677,365 in the securitization revenue
12 requirement. This amount would be used to partially offset the substantially
13 reduced tax revenue currently received by the Jefferson County School
14 District which is derived from the value of the Company's coal inventory at
15 the energy center. Additionally, this amount would include a grant aimed to
16 help engage local community stakeholders to identify and implement
17 initiatives that support schools and students as well as community, economic,
18 and workforce development. Organizations currently administering these
19 types of grants around the country include The Just Transition Fund1 and
20 Houseal Lavigne. The Company would consider partnering with an
21 organization of this type.”¹⁷

22 Of course, this is a brief overview but I’m disappointed in the lack of actual Ameren Missouri
23 funding in this endeavor. There are a lot of details that are missing. There is no mention of
24 how the shareholders will assist the community or if it has performed an exhaustive search of
25 federal aid or state economic development money.

¹⁶ Taking pen to the back of the envelope: \$1,923,660 at 6.5% return plus tax over 16 years allowed Ameren Missouri to collect \$2,626,796 but \$562,436 @ 6.5% plus tax for 16 years is \$718,859. Ameren Missouri overcollected \$1,907,937.

¹⁷ Lansford Direct, Page 7 and 8.

1 The Company is asking to be paid over \$500 million in one lump sum. At a 5% investment
2 rate, Ameren Missouri could fund this community project in 54 days and it would be a
3 charitable contribution or business deduction which reduces the Company’s taxable income.¹⁸
4

5 **Q. How would you characterize Ameren Missouri’s proposal?**

6 A. I view it to be that Ameren Missouri is seeking involuntary retail customer contributions to
7 broad social goals. This sort of ratepayer funding does not endorse “safe and adequate
8 service” at “just and reasonable” rates, and if these payments were to be allowed, Ameren
9 Missouri’s customers have no choice but to pay them.

10 **Q. Would you sum up your position on “community transition costs”?**

11 A. The Company hasn’t shown that it has exhausted all the funding and services that may be
12 available to transition Jefferson County through this reduction in county revenues. The
13 Commission has traditionally rejected retail customer funding of charitable contributions.
14 This isn’t a cost that should be borne by Ameren Missouri retail customers, and definitely
15 isn’t a cost to be included in securitized bonds.

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

17 A. Yes.

¹⁸ \$500 million @ 5% divided by 365 and multiplied by 54 days. \$3,698,630

**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 of Securitized Utility) Case No. EF-2024-0021
Tariff Bonds for Energy Transition Costs related)
to Rush Island Energy Center)

AFFIDAVIT OF JOHN S. RILEY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

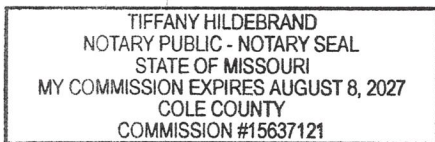
John S. Riley, of lawful age and being first duly sworn, deposes and states:

1. My name is John S. Riley. I am a Utility Regulatory Supervisor for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



John S. Riley
Utility Regulatory Supervisor

Subscribed and sworn to me this 22nd day of February 2024.



My Commission expires August 8, 2027.



Tiffany Hildebrand
Notary Public