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Case No.:

Ameren's Cash
Working Capital (CWC)
Riley/Direct
Public Counsel
ER-2019-0335

DIRECT TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

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

FILE NO. ER-2019-0335

December 4, 2019

DPC Exhibit No. _____
Date 3/4/20 Reporter JNB
File No. ER-2019-0335

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

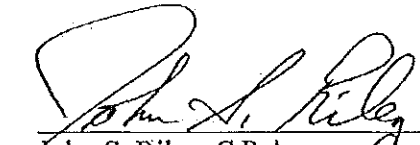
In the Matter of the Union Electric Company d/b/a)
Ameren Missouri's Tariffs to Decrease Its) File No. ER-2019-0335
Revenues for Electric Service)

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 Public Utility Accountant III for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct 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, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 4th day of December 2019.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13764037


Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

DIRECT TESTIMONY

OF

JOHN S. RILEY

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

FILE NO. ER-2019-0335

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

2 A. John S. Riley, P.O. 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 Public Utility
5 Accountant III.

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 business from 2014 through 2017.

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

19 A. Yes. I am also a member of the Institute of Internal Auditors ("IIA").

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

2 A. Yes I have. A listing of my case filings is attached as JSR-D-1

3 **Q. What is the purpose of your direct testimony?**

4 A. I am sponsoring OPC's negative adjustment to Ameren Missouri's ("Ameren" or
5 "Company") Cash Working Capital ("CWC") calculations due to federal and state income tax
6 expense built into the revenue requirement of this case.

7 **Q. Can you provide a concise description of CWC and how it is introduced into the revenue
8 requirement?**

9 A. Simply put, CWC is a rate base item which reflects the amount of cash necessary for a utility
10 to pay the day-to-day expenses incurred in providing service to its ratepayers. It is calculated
11 as a measurement of both the timing and amount of revenues and expenses that flow through
12 a company each month. The measurement is performed in a lead/lag study. The "lead" is the
13 timing of revenue transactions by customer payments and off-system sales. The "lag" is the
14 amount of time used to pay expenses like payroll, insurance and fuel. Ameren witness Ms.
15 Brenda L. Weber does a thorough job of explaining each measurement in her lead/lag study
16 testimony. Since ratepayers pay a return on the portion of CWC provided by the company's
17 shareholders, it is important to ensure the CWC is calculated correctly to avoid excessive
18 rates.

19 **Q. Company witness Ms. Laura Moore has included a negative \$171,000¹ for income tax
20 liability in the CWC calculations of this case. What is the adjustment that OPC is
21 recommending be include in the CWC?**

¹ Laura Moore direct, Schedule LMM-D16, Line 7 - 8

1 A. OPC is recommending a reduction of \$102,020,471 for federal and state income tax expense
2 within the CWC calculations.

3 **Q. What is the basis of OPC's recommendation?**

4 A. I used the Company formula to compute my adjustment. Ameren has essentially used the
5 same calculations for its last three general rate cases. The only difference in my calculations
6 is the fact that I recognized that the Company has not had to pay a dime in federal income
7 taxes in at least eight years and is not expected to in the near future. By recognizing that the
8 company will not have to pay taxes despite the cost of taxes being included in the revenue
9 requirement; the expense lead/lag changes from a Company computed negative 37.88 days to
10 a negative 365 days. (Schedule JSR-D-2). This change in lead/lag time results in the
11 \$102,020,471 negative adjustment I recommend.

12 **Q. What has lead you to believe that Ameren Missouri does not pay income taxes?**

13 A. I have reviewed the consolidated federal tax returns provide by Ameren's parent company
14 Ameren Corporation & Subsidiaries ("Ameren Corp.") for the last eight years and have
15 discovered that neither Ameren Corp nor Ameren have been required to pay income tax in
16 that eight year period.² Because of an accumulated net operating loss ("NOL"), general
17 business credits and other loss carryovers; it does not appear that either Ameren Corp. or the
18 Company will owe any income taxes prior to its next general rate case filing.

19 **Q. If neither Ameren Corp. nor Ameren have paid income tax in the past eight years, why**
20 **then does the Ameren include income tax expense in the CWC calculations?**

² The 2016 and 2017 Missouri state income tax returns indicate that there were no MO state income taxes paid for those years as well.

1 A. The Company claims that Ameren does make payments and that the lead/lag expense time of
2 the payments can be calculated. Company witness Brenda I. Weber, who developed the
3 lead/lag study, explains the negative 37.88 day expense lead in this way:

4 The lead time associated with federal income tax payments was based
5 on the provisions of the Internal Revenue Code that require estimated
6 tax payments of 25 percent of total income taxes due on April 15, June
7 15, September 15, and December 15 of the current year. Taking this
8 schedule into consideration a lead time of 37.88 days for federal
9 income tax payments made by the Company was determined.³

10 Q. Noting the above explanation, does either Ameren Corporation or Ameren need to make
11 estimated tax payments?

12 A. No. Estimated tax payments are only required if Ameren Corporation owed tax in the prior
13 year or expects to pay income tax in the current year. Given that Ameren Corp. had over a
14 billion dollars in net operating loss carryovers prior to 2018, and it has not paid income tax
15 since at least 2010, there would be absolutely no reason to pay estimated quarterly taxes.
16 Therefore, paying no estimated quarterly tax payments would extend the calculation of a lead
17 time to the entire 365 day year.

18 Q. This begs the question. How does Ameren Missouri have a tax liability if the
19 consolidated tax return does not owe income tax to a governmental agency?

20 A. It is an interesting question. The Commission, through Staff's EMS calculations, provides
21 Ameren Missouri with the proper federal and state income tax expenses based on the
22 Company's revenue requirement. The calculations are straight-forward, simple, and do not
23 consider IRS created income tax return advantages⁴ like accelerated depreciation. The Staff
24 EMS calculations will calculate an income tax expense to be included in the cost of service.

³ Weber direct, page 17, Line 11-15

⁴ Staff separates deferred tax calculations from the income tax expense calculations in its accounting schedules

1 **Q. So where does this income tax expense go if it is not paid to a federal or state**
2 **government?**

3 A. Ameren Corp. has each of its subsidiaries calculate its hypothetical income tax liability
4 separately. Obviously, some subsidiaries' stand-alone calculations will reveal positive tax
5 amounts, while others will have no income tax due. The combination of the positive and
6 negative income tax calculations belonging to all these subsidiaries are combined to create the
7 consolidated income tax return. In the case of stand-alone Ameren, if its quarterly tax
8 calculations are positive (taxable income) then the Company forwards a "tax" payment to
9 Ameren Corp. I am not completely sure how these payments are recorded by Ameren Corp.
10 since it has not had any taxes due for many years. Regardless of the parent company's
11 recording, Ameren is not using its designated income tax expense for taxes.

12 **Q. Are you questioning the revenue lag or the Company's calculation of federal and state**
13 **income tax amounts?**

14 A. No. I am only questioning the expense lag calculation. The actual federal and state income
15 tax amounts used in the revenue requirement will be a fluid number until the Commission
16 decides all aspects of the rate case.

17 **Q. Is it your position that the lead days used by the Company in its lead/lag, CWC study,**
18 **does not reflect the true number of days until the income tax expense is used?**

19 A. That is correct. The expense is never used as a payment of income tax and therefore should
20 be represented by an entire year of nonpayment.

21 **Q. Does this conclude your direct testimony?**

22 A. Yes it does.

John S. Riley, CPA
Summary of Case Participation

ST LOUIS COUNTY WATER COMPANY	CASE NO. WR-88-5
SOUTHWESTERN BELL TELEPHONE COMPANY	CASE NO. TC-89-21
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. ER-2016-0023
KCP&L GREATER MISSOURI OPERATIONS COMPANY	CASE NO. ER-2016-0156
KANSAS CITY POWER & LIGHT COMPANY	CASE NO. ER-2016-0285
AMEREN MISSOURI	CASE NO. ER-2016-0179
EMPIRE DISTRICT ELECTRIC PRUDENCE REVIEW	CASE NO. EO-2017-0065
LACLEDE GAS COMPANY	CASE NO. GR-2017-0215
MISSOURI AMERICAN WATER COMPANY	CASE NO. WU-2017-0351
MISSOURI AMERICAN WATER COMPANY	CASE NO. WR-2017-0285
LIBERTY (MIDSTATE NATURAL GAS)	CASE NO. GR-2018-0013
KANSAS CITY POWER AND LIGHT	CASE NO. ER-2018-0145
KCP&L GREATER MISSOURI OPERATIONS COMPANY	CASE NO. ER-2018-0146
EMPIRE DISTRICT ELECTRIC PRUDENCE REVIEW	CASE NO. EO-2018-0244
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. ER-2018-0228
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. ER-2018-0366
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. EO-2018-0092
AMEREN GAS COMPANY	CASE NO. GR-2018-0227
MISSOURI AMERICAN WATER COMPANY	CASE NO. WO-2018-0373
LIBERTY UTILITIES EMPIRE ELECTRIC CO	CASE NO. EA-2019-0010
SUMMIT NATURAL GAS OF MISSOURI, INC	CASE NO. GR-2018-0230
SPIRE NATURAL GAS, EAST/WEST ISRS	CASE NO. GO-2019-0115
MISSOURI AMERICAN WATER COMPANY	CASE NO. WO-2019-0184

John S. Riley, CPA
Summary of Case Participation

AMEREN GAS

CASE NO. GR-2019-0077

OPC Recalculation of income tax expense for CWC ER-2019-0335

TAX OFFSET FROM RATE BASE:

<u>Company calculations</u>	Revenue Lag	Expense Lead	Net Lead/Lag	Factor	Test Year Expense	Cash Working Capital Requirement
Federal Tax Cash Requirement	37.33	(37.88)	(0.550)	(0.001507)	96,302,655	(145,000)
State Tax Cash Requirement	37.33	(37.88)	(0.550)	(0.001507)	17,340,562	(26,000)
						<u>\$ (171,000.00)</u>
<u>OPC Calculations of CWC income tax</u>						
Federal Tax Cash Requirement	37.33	(365.00)	(327.670)	(0.897726)	96,302,655	\$ (86,453,397.26)
State Tax Cash Requirement	37.33	(365.00)	(327.670)	(0.897726)	17,340,562	\$ (15,567,073.36)
						<u><u>\$ (102,020,470.62)</u></u>