Exhibit No.:
Issue: Revenue Requirement
Witness: Michael L. Brosch
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2014-0258
Date Testimony Prepared: February 6, 2015

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company, d/b/a Ameren Missouri's Tariff to Increase Its Annual Revenues for Electric Service	)))))	**Case No. ER-2012-0166** Tariff No. YE-2012-0370

Surrebuttal Testimony and Schedules of

Michael L. Brosch

Revenue Requirement

On behalf of

Missouri Industrial Energy Consumers

February 6, 2015

MIEC Exhibit No. 502
Date 2-24-15 Reporter KF
File No. ER-2014-0258

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company, d/b/a Ameren Missouri's Tariff to Increase Its Annual Revenues for Electric Service	)	Case No. ER-2014-0258 Tariff No. YE-2015-0003

STATE OF MISSOURI)
) SS
COUNTY OF JACKSON)

Affidavit of Michael L. Brosch

Michael L. Brosch, being first duly sworn, on his oath states:

1. My name is Michael L. Brosch. I am President of Utilitech, Inc., having its principal place of business at PO Box 481934, Kansas City, Missouri 64148. Utilitech has been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2014-0258.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

Michael L. Brosch

Subscribed and sworn to before me this 5th day of February, 2015.

Notary Public

FRANCISCO PACHECO
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: April 11, 2017
16372181

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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In the Matter of Union Electric Company, d/b/a Ameren Missouri's Tariff to Increase Its Annual Revenues for Electric Service	)	**Case No. ER-2014-0258** Tariff No. YE-2015-0003

Surrebuttal Testimony of Michael L. Brosch

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City, Missouri 64148.

Q ARE YOU THE SAME MICHAEL L BROSCH WHO PREVIOUSLY SPONSORED DIRECT TESTIMONY ON BEHALF OF THE MISSOURI INDUSTRIAL ENERGY CONSUMERS ("MIEC")?

A Yes. My qualifications were described in Appendix A to my direct testimony that was previously submitted in this matter.

Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A My testimony is responsive to Ameren Missouri's rebuttal witness Mr. James I. Warren regarding eight separate income tax related issues raised in my direct testimony. First, I should note that Mr. Warren has accepted four of my proposed adjustments and, based upon additional information that is now available, I am withdrawing two of the adjustments proposed in my Direct Testimony. In this surrebuttal, I respond to Mr. Warren regarding the two remaining contested income tax issues. First, I explain my proposed utilization of Ameren Missouri's separately

calculated or "stand-alone" Net Operating Loss Carryforward ("NOLC") in rate base, explaining why this approach is necessary and more equitable than Ameren Missouri's preferred "consolidated group" approach to NOLC quantification. Then, I will respond to Mr. Warren's criticism of my corrections to Ameren Missouri's Domestic Production Activities tax deduction, providing updated calculations for that deduction.

Q PLEASE SUMMARIZE THE STATUS OF THE RATE CASE ADJUSTMENTS AND INCOME TAX POSITIONS THAT WERE SET FORTH IN YOUR DIRECT TESTIMONY?

A I initially sponsored eight income tax related MIEC adjustments that were attached to my Direct Testimony, at Schedules MLB-1 through MLB-8. These adjustments were based upon Ameren Missouri's pre-filed rate base and operating income positions, as set forth in the Schedules and Workpapers attached to Ms. Laura Moore's Direct Testimony. The Company has now accepted four of my proposed adjustments in its rebuttal testimony and is expected to reflect the correct revised amounts within its formal compliance filings made later in this proceeding.[1] Therefore, the adjustments contained in Schedules MLB-1, MLB-2, MLB-5 and MLB-6 are no longer at issue.

Additionally, the recently submitted updated financial information supportive of Ameren Missouri's true-up position as of December 31, 2014 changes the value of two of my remaining adjustments, while rendering the other two adjustments no longer necessary. A major change in income tax law occurred in December 2014 that retroactively extended 50% "bonus" tax depreciation for the 2014 tax year. This law change significantly impacted the Company's 2014 income tax calculations and

[1]See Rebuttal Testimony of James I. Warren, pages 5-9, under the heading 'The Four Proposals With Which I Agree."

its accumulated deferred income tax ("ADIT") balances at December 31, 2014 that are to ultimately be reflected within the Company's true-up calculations. As a result of this change, as well as additional information provided by Ameren Missouri in response to data requests, I am withdrawing two of my proposed adjustments at Schedule MLB-3 (Investment Credit Amortization) and Schedule MLB-7 (ADIT on Metro East Deferred Intercompany Gain).

This leaves only two disputed income tax issues involving the proper level of Net Operating Loss ("NOL") carryforward (or "NOLC") balances in rate base (Schedule MLB-8) and the proper level of Section 199 Domestic Production Deduction ("DPD") (Schedule MLB-4) used to calculate income tax expenses. These two remaining issues are discussed in the separate testimony sections that follow. My revised adjustment amounts for these two remaining disputed issues are set forth in Schedule MLB-8 REVISED and Schedule MLB-4 REVISED that are attached to this testimony.

ADJUSTMENTS ACCEPTED BY AMEREN MISSOURI

Q BEFORE EXPLAINING THE TWO REMAINING DISPUTED ISSUES, PLEASE SUMMARIZE YOUR UNDERSTANDING OF THE CHANGES THAT AMEREN MISSOURI INTENDS TO MAKE WITHIN ITS TRUE-UP CALCULATIONS, TO ADOPT YOUR ADJUSTMENTS WHERE MR. WARREN HAS STATED AMEREN MISSOURI'S AGREEMENT.

A Changes to Ameren Missouri's rate base and income tax expenses that should result from the Company's acceptance of my adjustments should produce the following impacts, using information from informally submitted true-up calculations that have been circulated for review by the Company:

- Equity Issuance Costs (Schedule MLB-1) reducing tax expense by $1.0 million.
- Increasing Research Tax Credits (Schedule MLB-2) reducing tax expense by $0.3 million.
- Synchronize Energy Efficiency ADIT balances (Schedule MLB-5) decreasing rate base by $10.4 million.[2]
- Including ADIT balances on Pollution Control Facilities (Schedule MLB-6) decreasing rate base by $78.8 million.[3]

Q HAVE YOU BEEN ABLE TO FULLY REVIEW A COMPILATION OF AMEREN MISSOURI'S REVISED REVENUE REQUIREMENT, INCLUDING ALL OF ITS PROPOSED TRUE-UP CHANGES TO TEST YEAR COSTS AS OF DECEMBER 31, 2014?

A No. I understand that the calculations that were provided by Ameren Missouri for discussion with Staff and other parties in late January have not yet been assembled into a complete update of the revenue requirement. Therefore, I wish to reserve the right to review and confirm all of the needed changes to income tax expense and ADIT balances within rate base, and to submit supplemental testimony responding to any problems that emerge in connection with the issues I have raised.

[2]A different synchronization adjustment amount is required within the true-up calculation, given changes in the regulatory asset balance and associated ADIT amounts as of December 31, 2014.

[3]The adjustment to include FERC Account 281 ADIT balances on Pollution Control Facilities has grown to approximately $95 million as of December 31, 2014 within Ameren Missouri's true-up calculations.

INCOME TAX NET OPERATING LOSSES

Q MR. WARREN PROVIDES A GENERAL DISCUSSION OF UTILITY DEFERRED TAXES AT PAGES 11 THROUGH 13 OF HIS REBUTTAL, AND THEN HE PROVIDES AN EXAMPLE WITHIN HIS TABLE I SHOWING HOW AN INCOME TAX NET OPERATING LOSS REDUCES THE "INCREMENTAL CASH" THAT WOULD OTHERWISE BE REALIZED BY THE UTILITY FROM ITS INCOME TAX DEDUCTIONS.[4] DO YOU DISPUTE THIS GENERAL DISCUSSION?

A No. There is no dispute regarding the fundamental accounting and ratemaking concepts that arise from the deferral of income taxes for accelerated depreciation and other tax deductions. There is also agreement that tax deferral benefits arising from accelerated depreciation and other deductions are, in turn, limited by the existence of taxable income. Tax deductions for accelerated and bonus depreciation, as well as dozens of other book/tax differences, result in temporarily unpaid or "deferred" taxes that are generally recorded as credit balances that are ADIT on the utility's books. These ADIT balances, that must be paid as higher future taxes even though recovered presently in utility rates, are then treated as a source of non-investor supplied funds by subtracting such balances from rate base.

There is also conceptual agreement with Ameren Missouri that it is appropriate to recognize that, when accelerated depreciation and other tax deductions become large enough to drive the utility's taxable income negative, it is necessary to include in rate base the offsetting positive (or debit) deferred tax asset representing NOLC balances. NOLC tax assets serve to increase rate base, because of the utility's inability to fully utilize its other tax credits and deductions when

[4]Rebuttal Testimony of James I. Warren, pages 12-14 and Table I.

taxable income becomes negative. The remaining dispute on this topic involves only definition of the proper method to quantify NOLC balances that belong in rate base.

Q WHAT IS THE DISPUTE WITH REGARD TO METHODS FOR QUANTIFYING INCOME TAX NOLC BALANCE THAT IS INCLUDED IN RATE BASE?

A There are two alternative methods that can be used to quantify test year income tax NOLC balances for rate base inclusion. They are the "consolidated group" method or the "stand-alone" method.

Mr. Warren and Ameren Missouri recommend use of the "consolidated group" method, based upon the Ameren Corporation's Tax Allocation Agreement ("TAA"). Ameren Corporation's TAA governs the allocation of consolidated annual income tax responsibility among the members of Ameren's consolidated tax group and defines the amounts that are recorded on the utility's books. Under the TAA consolidated group approach, any income tax losses on Ameren Corporation's consolidated return are allocated in that year based upon the relative size of stand-alone tax losses for only the loss companies within the group. This approach allows the consolidated group to combine and offset income and loss companies within the group, which normally results in accelerating the realization of cash savings for tax losses experienced by individual subsidiaries.

The alternative I recommend is to employ either the "consolidated group" or the "stand-alone" method in any particular test year, depending upon which approach yields the most advantageous (the lowest) NOLC rate base addition. This approach insures that ratepayers are never disadvantaged by the financial performance and income tax losses being experienced by Ameren's non-regulated affiliates, while allowing ratepayers to equitably participate in consolidation tax benefits whenever they can be used to more rapidly monetize utility income tax losses.

Q ISN'T IT INHERENTLY UNFAIR TO PICK AND CHOOSE THE TAX LOSS CARRYFORWARD METHOD THAT ACHIEVES THE MOST DESIRABLE RESULT FOR RATEPAYERS, WITHOUT REGARD TO CONSISTENCY?

A No. Utility holding companies are free to invest in both regulated and non-regulated subsidiaries and to structure cost allocation and affiliate transaction arrangements between the controlled subsidiaries that may be more beneficial to shareholders than ratepayers. Ameren Corporation oversees a portfolio of investments, some of which are regulated and others that are not regulated. This holding company structure introduces an opportunity for complex affiliated company transactions and intercompany allocations to unreasonably impact the costs borne by the regulated utility businesses within the portfolio. In particular, Ameren Corporation's TAA produces extremely adverse consequences for Ameren Missouri's ratepayers in 2013 by crowding out the utility's taxable income in that year with tax losses arising from Ameren Corporation's divestiture of its merchant generation and energy marketing subsidiaries. It is entirely reasonable for the Missouri Public Service Commission ("Commission") and other regulatory agencies to employ affiliate transaction policies and safeguards that protect against unreasonable utility transactions with affiliated companies.

Q WAS IT REASONABLE IN PRIOR AMEREN MISSOURI RATE CASES FOR YOU TO ACCEPT THE COMPANY'S CONSOLIDATED GROUP APPROACH IN QUANTIFYING AMEREN MISSOURI'S INCOME TAX LOSS CARRYFORWARDS?

A Yes. Prior to 2013, most of the income tax losses generated by Ameren Missouri could be immediately translated into cash tax savings by combining such losses with the taxable income of Ameren Missouri's affiliated companies within a consolidated tax return. It was essential at that time to not burden Missouri ratepayers with

overstated NOLC rate base additions, when actual cash tax payments to the government were reduced through consolidation of Ameren Corporation's taxable income and loss subsidiaries. However, in 2013 this historical arrangement was fundamentally changed.

Q WHAT HAPPENED IN 2013 THAT MADE CONTINUED USE OF THE CONSOLIDATED GROUP NOLC METHOD PURSUANT TO AMEREN CORPORATION'S TAA UNREASONABLE FOR AMEREN MISSOURI?

A Ameren Corporation engaged in a one-time restructuring transaction (the "Transaction") in 2013 to divest its holdings in Ameren Generating Company, Ameren Energy Resources Company, EEI, Inc., and in Ameren Energy Marketing Company, primarily to Dynegy, Inc.[5] The restructuring Transaction contributed to massive income tax losses on Ameren Corporation's consolidated tax return in 2013 that, pursuant to the consolidated group approach to NOLC allocation, have precluded Ameren Missouri from using its own taxable income to monetize the tax losses that were generated in 2008 through 2010.

The anticipated income tax losses created by the Transaction were identified within the disclosures made in the Ameren/Dynegy Joint Application filed with the FERC for Authorization of the Transaction under Section 203 of the Federal Power Act. The Joint Applicants stated therein, "Ameren will receive no cash proceeds as a result of the divestiture of New AER. However, Ameren will receive benefits from the transaction including the removal of Ameren Generating's debt from Ameren's

[5]See "Transaction Agreement by and between Ameren Corporation and Illinois Power Holdings, LLC" as attached to the Ameren/Dynegy Joint Application to FERC for Section 203 approval, provided in response to Data Request MIEC 27.2(e).

consolidated balance sheet, as well as certain tax benefits that will accrue to Ameren."[6]

Q AT PAGE 27 OF HIS REBUTTAL, MR. WARREN STATES, "IT WAS ONLY AS OF THE END OF 2013 THAT AMEREN MISSOURI ON A CONSOLIDATED BASIS FINALLY SHIFTED INTO A SLIGHTLY DISADVANTAGEOUS POSITION." DOES HE PROVIDE ANY DISCUSSION OF THE IMPACT OF THE DYNEGY TRANSACTION TO CONSOLIDATED TAXABLE INCOME IN 2013?

A No details are offered by Mr. Warren. However, Data Request MIEC 27.5 was submitted to elicit additional details. The Company's Highly Confidential response to Data Request MIEC 27.5 includes spreadsheet calculations showing the widely disparate incomes of Ameren Corporation ("AMC" in the attachment) as a result of the Dynegy transaction, compared to Ameren Missouri's large positive taxable income ("UEC" in the attachment). I have included a complete copy of the Company's Highly Confidential response to Data Request MIEC 27.5 within Highly Confidential Schedule MLB-9.

Q WHY SHOULD IT MATTER TO MISSOURI RATEPAYERS THAT AMEREN CORPORATION EXPERIENCED LARGE TAX LOSSES FROM ITS 2013 CORPORATE RESTRUCTURING TRANSACTION WITH DYNEGY?

A The consolidated group method of allocating tax losses from the Transaction with Dynegy has worked to the distinct disadvantage of Ameren Missouri. In 2013 alone, Ameren Missouri could have monetized most of its accumulated NOLC from prior

[6]Ameren/Dynegy Joint Application to FERC for Section 203 approval, page 17.

years because of its own large positive taxable income in that year.[7] As noted previously, any ability to accelerate the realization of prior year's NOLC taxes will reduce the NOLC that is added to Ameren Missouri's rate base. However, the size of the Transaction-related tax losses on Ameren Corporation's tax return was so large in 2013 as to overcome all of Ameren Missouri's taxable income, while driving the net consolidated Ameren Corporation taxable income negative. Using the consolidated group TAA accounting method, this resulted in no reduction of Ameren Missouri's NOLC balance included in rate base, despite the utility's quite large 2013 stand-alone taxable income.

Q ACCORDING TO MR. WARREN'S REBUTTAL, "A CONSOLIDATED INCOME TAX RETURN IS ALMOST ALWAYS BENEFICIAL TO A GROUP OF CORPORATIONS THAT IS QUALIFIED TO FILE ONE. MOST OFTEN, ONE OR MORE MEMBERS ARE BETTER OFF THAN IF THEY HAD FILED SEPARATE RETURNS. THAT IS WHY CONSOLIDATED RETURNS ARE SO FREQUENTLY USED. OCCASIONALLY, ONE OR MORE MEMBERS ARE LESS WELL OFF THAN IF THEY HAD FILED SEPARATE TAX RETURNS."[8] DO YOU AGREE WITH THIS GENERAL OBSERVATION?

A Yes. In fact, for Ameren Missouri, the filing of a consolidated return has been beneficial in the three years 2008 through 2010, where combining Ameren Missouri losses with positive taxable income from affiliated companies reduced the overall NOLC tax burden included in the utility's rate base.

[7]See Rebuttal Testimony of James I. Warren, page 24, Table VI, where Ameren Missouri's "Stand-Alone" taxable income of $598 million offset all but $125 million of previously accumulated taxable losses.

[8]Rebuttal Testimony of James I. Warren, page 23.

Q MR. WARREN THEN CONTINUES BY STATING, "MR. BROSCH HAS IDENTIFIED A SINGLE POINT IN TIME AT WHICH IT APPEARS THAT AMEREN MISSOURI WAS WORSE OFF HAVING BEEN INCLUDED IN THE AMEREN CONSOLIDATED INCOME TAX RETURN THAN IT WOULD HAVE BEEN IF IT HAD FILED SEPARATE TAX RETURNS."[9] IS THIS TRUE?

A No. Mr. Warren's own tables belie this statement. Table VI shows that on a "stand-alone" basis of taxation, with no consolidated group tax treatment, Ameren Missouri tax losses in 2008, 2009 and 2010 would have been reduced in each year 2011, 2012 and 2013 when Ameren Missouri had positive taxable income. In contrast, Table VII shows in column (4) that use of Ameren Corporation's TAA and consolidated group approach attributed a cumulative consolidated NOLC "Allocated to Ameren Missouri" that increased in 2008, 2009 and 2010, but then was not reduced in any subsequent year even though Ameren Missouri had positive taxable income in every subsequent year (see column 1). This is not a "single point in time" problem, as Mr. Warren suggests.

Q DOES THE ADVERSE IMPACT CAUSED BY THE CONSOLIDATED GROUP NOLC APPROACH THAT IS PREFERRED BY AMEREN MISSOURI CONTINUE INTO 2014?

A Yes. In 2014, Ameren Missouri's estimated taxable income is again a positive amount of approximately $55.1 million.[10] Under a stand-alone NOLC analysis, the utility's taxable income in 2014 would have further reduced the NOLC tax asset included in Ameren Missouri's rate base. However, the consolidated group approach precludes any reduction in Ameren Missouri's NOLC in 2014, in spite of positive utility

[9] Id.

[10] See Ameren Missouri's response to Data Request MIEC 27.4, as contained in Schedule MLB-10.

taxable income, because the consolidated Ameren Corporation entity expects to experience a taxable loss in 2014.

Q YOU MENTIONED PREVIOUSLY THAT REGULATORY AGENCIES MAY EMPLOY RESTRICTIVE POLICIES IN DEALING WITH UTILITY TRANSACTIONS WITH AFFILIATED COMPANIES, SO AS TO SAFEGUARD RATEPAYERS' INTERESTS AND PREVENT UNREASONABLE OUTCOMES. DOES THE MISSOURI COMMISSION HAVE SUCH A POLICY?

A Yes. The Commission's rule governing affiliate transactions appears at 4 CSR 240-20.015 Affiliate Transactions and has as its stated purpose:

> PURPOSE: This rule is intended to prevent regulated utilities from subsidizing their nonregulated operations. In order to accomplish this objective, the rule sets forth financial standards, evidentiary standards and recordkeeping requirements applicable to any Missouri Public Service Commission (commission) regulated electrical corporation whenever such corporation participates in transactions with any affiliated entity (except with regard to HVAC services as defined in section 386.754, RSMo Supp. 1998, by the General Assembly of Missouri). The rule and its effective enforcement will provide the public the assurance that their rates are not adversely impacted by the utilities' nonregulated activities.

The Commission's rule adopts an asymmetric transfer pricing standard in regulating utility transactions with affiliated entities that is stated as follows:

> (2) Standards.
> (A) A regulated electrical corporation shall not provide a financial advantage to an affiliated entity. For the purposes of this rule, a regulated electrical corporation shall be deemed to provide a financial advantage to an affiliated entity if—
> 1. It compensates an affiliated entity for goods or services above the lesser of—
> A. The fair market price; or
> B The fully distributed cost to the regulated electrical corporation to provide the goods or services for itself; or
> 2. It transfers information, assets, goods or services of any kind to an affiliated entity below the greater of—
> A. The fair market price; or
> B. The fully distributed cost to the regulated electrical corporation.

Asymmetric pricing is intended to safeguard utility ratepayer interests when the regulated company is involved in transactions with affiliated companies. It ensures no self-dealing by insisting that the utility and its ratepayers always receive the lower of fair market value or cost-based pricing in affiliate arrangements.

Q DOES THE COMMISSION'S AFFILIATE TRANSACTION RULE AT 4 CSR 240-20.015 SPECIFICALLY ADDRESS AFFILIATE TAA MATTERS?

A No. However, the stated purpose of the Rule and the asymmetric treatment of affiliate transfer pricing clearly indicates a preference for affiliate arrangements that intentionally favor the utility and its customers, by providing the better of "market" or "cost-based" transfer pricing for affiliate transactions in order to safeguard the public interest. The specification in the Rule of a general standard that, "A regulated electrical corporation shall not provide a financial advantage to an affiliated entity" is directly applicable in concept to the income tax NOLC methodology issue. If the Ameren Corporation "consolidated group" method pursuant to the TAA is used, as proposed by Mr. Warren, Ameren Missouri will be providing a "financial advantage to an affiliated entity" in a manner contrary to the general standard stated in 4 CSR 240-20.015. For the 2013 tax year in particular, consolidation of Ameren Missouri's large positive stand-alone income with the consolidated tax losses caused by the Transaction with Dynegy create an impermissible financial advantage to Ameren Corporation, by enabling tax loss realization with Ameren Missouri's income while denying recognition of such utilization through no reduction in the utility's carryforward balance in 2013.

Q IS YOUR PROPOSED USE OF A STAND-ALONE NOLC METHOD FOR THE TEST YEAR CONSISTENT WITH THE COMMISSION'S AFFILIATE TRANSACTIONS RULE?

A Yes. The MIEC method would asymmetrically apply the better of "stand-alone" or "consolidated group" assignments of tax NOLC amounts in any given test year, in a manner entirely consistent with the Commission's Rule. This approach would ensure that no "financial advantage" is attributed to other Ameren entities through affiliation with Ameren Missouri.

Q MR. WARREN CHARACTERIZES YOUR PROPOSED USE OF "STAND-ALONE" AMEREN MISSOURI NOLC CALCULATION AT THIS TIME AS "OPPORTUNISTIC AND UNFAIR," INDICATING THAT YOUR METHOD WOULD HAVE INCREASED RATE BASE IN PRIOR TEST YEARS BUT, "NO SUCH PROPOSAL WAS OFFERED" IN THOSE CASES.[11] HOW DO YOU RESPOND?

A There is nothing unfair about rejecting affiliate cost allocation arrangements that produce unreasonable results or protecting Missouri ratepayers from the burden of consolidated tax losses caused by the Dynegy transaction in 2013. Ratepayers should not be made to subsidize that Transaction by foregoing the opportunity otherwise available for Ameren Missouri to monetize its prior tax losses in 2013. Ameren Corporation's restructuring efforts and resulting parent company tax losses should not be attributed to Ameren Missouri's ratepayers pursuant to the TAA. Moreover, there is nothing opportunistic about recognizing and accounting for the accelerated utility NOLC realization that routinely occurs under more normal utility holding company tax consolidation arrangements. Further, as noted above, affiliate transactions necessarily receive heightened regulatory scrutiny, particularly when

[11]Rebuttal Testimony of James I. Warren, page 28.

they result in higher utility rate base costs than would occur in the absence of affiliate agreements such as Ameren Corporation's TAA.

Q DOES THE ADJUSTMENT YOU PROPOSED WITHIN YOUR DIRECT TESTIMONY AND IN SCHEDULE MLB-8 TREAT INCOME TAX NET OPERATING LOSS CARRYFORWARDS ON AN AMEREN MISSOURI STAND-ALONE BASIS?

A Yes. I stated in my Direct Testimony that, "Ameren Missouri should not be allowed to include in rate base any Federal or State NOL deferred tax asset carryforward amounts or federal tax credit carryforward balances that exceed what would have occurred if the Company's income taxes were calculated on a stand-alone basis in each applicable year through 2014." I also pointed out that, "[i]f bonus depreciation is retroactively extended, Ameren Missouri would experience larger tax depreciation deductions and proportionately lower taxable income in 2014 that may limit the Company's ability to utilize previously deferred NOL and tax credits" stating that, "[u]nder these circumstances, the Company should update its projected ADIT provisions for tax depreciation and balances in Account 282 as of December 31, 2014 and then evaluate Ameren Missouri's NOL position using stand-alone tax return amounts for each prior year."

Q WAS TAX LAW ENABLING BONUS TAX DEPRECIATION RETROACTIVELY EXTENDED FOR APPLICABILITY IN THE 2014 TAX YEAR?

A Yes. The United States Congress passed a tax "extender" package on December 16, 2014 which included an extension of 50% bonus depreciation retroactive to January 1, 2014 and effective through the end of 2014.[12]

[12]H.R. 5771, the "Tax Increase Prevention Act of 2014" was signed into law by President Obama on December 19, 2014.

Q DID THE RETROACTIVE EXTENSION OF BONUS DEPRECIATION CAUSE AMEREN MISSOURI TO EXPERIENCE A TAX LOSS (NEGATIVE TAXABLE INCOME) IN 2014?

A No. Ameren Missouri has had positive taxable income on a stand-alone basis in every tax year since 2010, even with bonus depreciation allowed during this period. This is why it is essential that the NOLC included in rate base not ignore Ameren Missouri's stand-alone taxable income. To burden Missouri ratepayers with higher NOLC balances in rate base just because other Ameren affiliated companies experienced tax losses in recent years is unreasonable.

According to Ameren Missouri's response to Data Request MIEC 27.6, Ameren Missouri's stand-alone Net Operating Loss Carryforward at 12/31/14 would be $69,710,561. When this amount is added into Mr. Warren's summary of Ameren Missouri's annual "stand-alone" taxable income/(Loss) in his Table VI, the following results can be observed:

EXPANDED JAMES WARREN TABLE VI	
	Annual "Stand-Alone" Taxable Federal Income/(Loss)
2008	($461,008,006)
2009	($162,043,265)
2010	($130,775,965)
2011	$17,970,962
2012	$12,890,120
2013	$598,155,735
Sub-total Through 2013	**($124,810,419)**
2014	**$55,099,858**[13]
Total Through 2014	**($69,710,561)**[14]

Q HOW DOES THE NOLC OF $69.7 MILLION YOU PROPOSED USING THE STAND-ALONE METHOD COMPARE TO THE RESULT THAT IS ACHIEVED USING THE CONSOLIDATED GROUP METHOD ADVOCATED BY MR. WARREN?

A Mr. Warren's proposed method employing the Ameren TAA results in a $215.7 million NOLC amounts for Ameren Missouri, as shown at page 26 of his testimony, in column (4) of Table VII. Mr. Warren's Table VII illustrates in column (4) the problem with the consolidated group method that leaves the NOLC allocated to Ameren Missouri unchanged in all years after 2010, even though Ameren Missouri had positive stand-alone taxable income in every one of those subsequent years.

[13]This amount is derived from the cumulative differences at 12/31/2014 versus 12/31/2013.
[14]Ameren Missouri's response to Data Requests MIEC 27.4 and MIEC 27.6.

Q HAVE YOU REVISED SCHEDULE MLB-8 TO UPDATE THE AMEREN MISSOURI FEDERAL NOL BALANCE THAT SHOULD BE INCLUDED IN RATE BASE AS OF DECEMBER 31, 2014, USING THE "STAND-ALONE" APPROACH DISCUSSED IN YOUR DIRECT TESTIMONY?

A Yes. Using the stand-alone cumulative "Total Through 2014" taxable loss of $69.7 million for Ameren Missouri and a 35% statutory tax rate, the Federal NOL carryforward tax asset included in rate base should be $24.4 million, rather than the updated $75.5 million that the Company has preliminarily included in its true-up calculations. These calculations can be confirmed from Ameren Missouri's response to Data Request MIEC 27.4, which I have included within Schedule MLB-10.

Q SHOULD THE COMMISSION ALSO BE CONCERNED THAT THE COMPANY'S TRUE-UP BALANCE FOR <u>STATE</u> INCOME TAX NET OPERATING LOSS CARRYFORWARDS IN RATE BASE ARE OVERSTATED?

A Yes. However, the Company has not provided detailed information from which the corresponding cumulative Missouri state income tax losses through the 2014 tax year can be precisely derived.[15] Therefore, in Schedule MLB-8 REVISED, I have relied upon estimates of Ameren Missouri's stand-alone state taxable income and loss amounts each year and have estimated cumulative taxable state loss amounts through 2014 of $114 million,[16] resulting in a State NOLC balance for rate base inclusion of $4.6 million, applying a statutory Missouri income tax rate of 6.25%,

[15] In its response to Data Request MIEC 26.3(f), the supplied calculations supporting State NOLC carryforward balances did not provide taxable income data for Ameren Missouri after 2010, presumably because consolidated tax losses on the Company's books are only allocated to subsidiaries with negative taxable income each year.

[16] This amount is derived from Ameren Missouri's Highly Confidential Attachment to Data Request MIEC 17.6 for each tax year 2008 through 2013, plus Missouri state income taxes on "income companies" in Attachment MIEC 26.3(f)(2) in 2014, divided by a 6.25% statutory tax rate.

reduced by the Federal Income savings at 35% of this amount.[17] This amount should be revised as necessary and included as an increase to rate base to recognize the inability of Ameren Missouri to fully realize the cash tax savings from prior tax years with tax losses when such losses are viewed cumulatively on a stand-alone, Ameren Missouri basis.

Q DOES YOUR SCHEDULE MLB-8 REVISED INCLUDE ANY ADJUSTMENT TO THE COMPANY'S PROPOSED CARRYFORWARD BALANCE FOR FEDERAL INCOME TAX CREDITS?

A No. Additional information has been provided by the Company in response to Data Request MIEC 26.3(d) that demonstrates the reasonableness of Ameren Missouri's treatment of these tax credit carryforward amounts in the true-up rate base.

Q FROM PERSONAL EXPERIENCE, ARE YOU AWARE OF ANOTHER ELECTRIC UTILITY THAT IS PART OF A CONSOLIDATED GROUP WHEN FILING FEDERAL INCOME TAX RETURNS, BUT THAT EMPLOYS A STAND-ALONE CALCULATION OF NET OPERATING LOSS CARRYFORWARD BALANCES, BASED UPON THE UTILITY'S CALCULATED TAXABLE INCOME?

A Yes. I have been involved in several recent Texas retail rate cases of Southwestern Public Service Company ("SPS"), a subsidiary of Xcel Energy, Inc. and a member of Xcel's consolidated group in filing Federal income tax returns. SPS records on its books an allocation of Xcel Energy Inc.'s NOLC, pursuant to that consolidated group's TAA. This accounting treatment is comparable to Ameren Missouri's

[17]Ameren Missouri's true-up calculation of State NOLC includes a new rate base credit arising from a re-allocation of state income tax NOLC amounts to recognize Ameren Corporation's sale of its merchant generation and energy marketing businesses in 2013. This adjustment was presented the same week this testimony was prepared and requires additional analysis prior to any comment by the MIEC.

recorded NOLC based upon the Ameren TAA. However, in rate cases, SPS disregards its recorded NOLC amount pursuant to the TAA and substitutes a separately calculated NOLC amount based solely upon the utility's jurisdictional utility business operations, pro-forma Texas revenues, expenses and tax deductions. This process ensures that this Texas utility's rate base is not overstated through inclusion of allocations of consolidated tax losses pursuant to Xcel Energy's TAA. I have included within Schedule MLB-11 a complete copy of two responses to information requests in the pending SPS Texas rate case where these procedures are described.

Q ARE THE SPS PROCEDURES USED IN TEXAS COMPARABLE TO WHAT YOU ARE RECOMMENDING FOR AMEREN MISSOURI?

A Yes. The use of utility-specific taxable income calculations to quantify utility NOLC amounts for ratemaking purposes, rather than allocated NOLC amounts pursuant to the consolidated group's TAA, is comparable to my recommendation.

DOMESTIC PRODUCTION INCOME TAX DEDUCTION

Q MR. WARREN IS CRITICAL OF YOUR REVISED CALCULATION OF AMEREN'S SECTION 199 DOMESTIC PRODUCTION DEDUCTION ("DPD") AT SCHEDULE MLB-4, STATING THAT YOU HAVE INCORPORATED "AN INCORRECT TECHNICAL CONCLUSION REGARDING THE COMPUTATION OF THE DPD."[18] DO YOU AGREE?

A Not in the context of Missouri regulation. This tax deduction has been consistently calculated in rate cases based upon pro-forma test year operating results, including the Company's proposed rate increase amount, and is therefore entirely forward

[18]Rebuttal testimony of James I. Warren, page 31.

looking. This means that the DPD amount has been calculated in prior Missouri rate cases for the projected rate-effective period and in a manner that ignores the Company's NOLC's. This fact has been acknowledged in the Company's response to Data Request MIEC 27.7 which states, "Ameren Missouri believes that the DPD has been calculated in prior rate cases using a separate return basis, but without proper recognition of net operating loss carryforwards." I have included a complete copy of the Company's response to Data Request MIEC 27.7 within Schedule MLB-12.

Q IN HIS REBUTTAL, MR. WARREN STATES, "AS OF THE END OF 2013, AMEREN MISSOURI HAD A SIGNIFICANT NOLC. NOTWITHSTANDING MR. BROSCH'S ASSERTION TO THE CONTRARY, ANY COMPUTATION OF A DPD FOR 2014 MUST TAKE THE IMPACT OF THIS NOLC INTO ACCOUNT." IS THIS CORRECT?

A No. The NOLC that Mr. Warren is referencing is the overstated amount resulting from application of Ameren Corporation's consolidated group method pursuant to its TAA. If the more reasonably calculated NOLC resulting from the stand-alone method I have employed were considered, it is entirely possible that Ameren Missouri would have positive taxable income when its new rates are in effect, starting in June 2015, that would enable full realization of the test year DPD amount that is calculated based upon proposed rates and domestic production income in the previously applied methodology.

Q SHOULD THE DPD AMOUNT BE RECALCULATED, BASED UPON THE REVENUES, COSTS AND OTHER FINDINGS WITHIN THE COMMISSION'S FINAL ORDER IN THIS RATE CASE?

A Yes.

Q DO YOU BELIEVE IT IS NECESSARY TO MODIFY THE DPD CALCULATION METHODS HISTORICALLY EMPLOYED BY THE COMPANY AND THE COMMISSION, SO AS TO ACCOUNT FOR NOLC AMOUNTS?

A I do not believe such a change is necessary; however, I recognize that it is nearly impossible to predict whether or not Ameren Missouri will have positive future taxable income when its new rate levels are in effect. This is particularly problematic, given the recent tendency of Congress to take up important tax policies such as bonus depreciation very late in the year, for application retroactively.

Q HAVE YOU PREPARED A REVISED DPD CALCULATION, FOR USE <u>ONLY</u> IN TEST YEARS WHEN SIGNIFICANT NOLC AMOUNTS, CALCULATED ON A STAND-ALONE BASIS, ARE EXPECTED TO PERSIST DURING THE PERIOD NEWLY DETERMINED UTILITY RATES ARE EFFECTIVE?

A Yes. I have modified the DPD calculations in Schedule MLB-4 REVISED, to account for the NOLC concern raised by the Company. Specifically, I have updated the Estimated M-1s amounts beside Note D and Note E to reflect 2014 bonus depreciation and other updated tax deductions within the "COGS: Estimated M-1s" line and to include my revised Federal NOLC amounts on a stand-alone basis of calculation at December 31, 2014 within the "SG&A: Estimated M-1s" line, respectively. If the Commission agrees with Mr. Warren that some accounting for NOLC amounts from prior years is appropriate within the prospective calculation of

the DPD, these changes can be made to modify the long-settled method of calculating this income tax deduction.

Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A Yes.

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Witness: M. Brosch

AMEREN MISSOURI
CASE NO. ER-2014-0258
INCOME TAX EXPENSE - SECTION 199 DOMESTIC PRODUCTION DEDUCTION
TEST YEAR ENDED MARCH 31, 2014
$000

LINE NO.	DESCRIPTION	REFERENCE	TEST YEAR AMOUNT	TAX EXPENSE ADJUSTMENT AMOUNT
	(A)	(B)	(C)	(D)
1	Revised Domestic Production Deduction - per Schedule MLB-4, page 2	Sch. MLB-4, p.2	$ 7,910	
2	Revised Domestic Production Deduction Amount per Ameren Missouri	True-up Workpapers	4,532	
3	MIEC Adjustment to Domestic Production Deduction	Line 1 - Line 2	3,378	
4	Times: Federal Income Tax Rate	LMM-WP-518	38.12%	
5	Adjustment to Income Tax Expense - Eliminate Equity Issuance Amortization	Line 3 X Line 4		(1,288)
6	**MIEC Adjustment to Correct Ameren Missouri's Domestic Production Deduction**			$ (1,288)

Witness: M. Brosch

AMEREN MISSOURI
CASE NO. ER-2010-0028
INCOME TAX EXPENSE - SECTION 199 DOMESTIC PRODUCTION DEDUCTION
TEST YEAR ENDED MARCH 31, 2010
$000

LINE NO.	DESCRIPTION	REFERENCE	COMPANY	REFERENCE	% QUALIFIED	DPRG
	(A)	(B)	(C)	(D)	(E)	(F)
	REVENUES:					
1	Electric (less Purch. Power)	(Note A)	2,818,399,903	(Note B)	69.84%	1,968,370,492
2	Off-system Sales Revenue		234,414,026	(Note B)	69.84%	163,714,756
3	Deficiency		264,099,796		69.84%	184,447,298
4	Total Revenue		3,316,913,725		69.84%	2,316,532,546
	COGS:					
5	O&M	(Note C)	1,827,949,595	Rev. Composite	69.84%	1,276,639,997
6	Depreciation		529,416,327	Rev. Composite	69.84%	369,744,363
7	Estimated M-1s	(Note D)	568,414,576	Rev. Composite	52.67%	299,397,006
8	Total COGS		2,925,780,498			1,945,781,366
	SG&A:					
9	Other Taxes		165,281,330	Rev. Composite	69.84%	115,432,481
10	Interest		192,826,901		100.00%	192,826,901
11	State Income Tax		30,150,580	Rev. Composite	69.84%	21,057,165
12	Estimated M-1s	(Note E)	69,710,561	Rev. Composite	69.84%	48,685,856
13	Total Standard Cost		457,969,372			378,002,403
	Adjustments:					
14	Interest		192,826,901		100.00%	192,826,901
15	Interest Reallocated		(192,826,901)	(Note F)	50.66%	(97,684,685)
16	Total Adjustments		-			95,142,216
17	Total Qualified		(66,836,145)			87,890,993
						9.00%
18	**Revised Domestic Production Deduction - per MIEC**					**7,910,189**

Witness: M. Brosch

AMEREN MISSOURI
CASE NO. ER-2014-0258
UPDATE NET OPERATING LOSS CARRYFORWARDS
TEST YEAR ENDED MARCH 31, 2014
$000

LINE NO.	DESCRIPTION	REFERENCE	FEDERAL NOL RATE BASE $	STATE NOL AMOUNT
	(A)	(B)	(C)	(D)
1	Updated Stand-alone Ameren Missouri NOLC Amount	Brosch Rebuttal	$69,711	$ 114,000
2	Times: Statutory Tax Rates	Ameren True-up	35%	6.25%
3	Gross NOL Carryforward Deferred Tax Asset	Line 1 * Line 2	$24,399	$7,125
4	Less: State Tax Deduction on Federal Return	Col D, line 3 *35%		-$2,494
5	Net NOL Deferred Tax Asset in Rate Base Using Stand-alone Method		$24,399	$4,631
6	Less: Ameren Missouri Proposed Federal & State Tax NOL Tax Asset in Rate Base	Ameren True-up	$75,479	$4,408
7	MIEC Adjustment to Revise NOL Carryforward Deferred Tax Asset	Lines 5 - Line 6	$ (51,080)	$ 223
8	Total MIEC Adjustment Revising NOL Deferred Tax Asset - Stand alone method			**$ (50,857)**

SCHEDULE MLB-9 HAS BEEN REDACTED AS IT IS

DEEMED HIGHLY CONFIDENTIAL IN ITS ENTIRETY

Ameren Missouri
Response to MIEC Data Request
MPSC Case No. ER-2014-0258
In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase Its Revenues for Electric Service

Data Request No.: MIEC 27.4 - Diana Vuylsteke

[Deferred Income Taxes] Ref: Warren Rebuttal, page 26 (NOL Tax Asset). Please provide an updated Table VII, including the additional columns showing Ameren Corporation's consolidated federal income tax or NOLC in each year (as requested in the previous question, part (b), and adding calendar 2014 amounts at the bottom for all columns, based upon recorded amounts for Ameren Corporation and Ameren Missouri. Using the cumulative amounts in columns 2 and 4, provide a calculation of NOL balance that would be included in rate base at true-up under the Company's consolidated group approach versus Mr. Brosch's proposed "Stand Alone" approach. State assumptions and provide workpapers for all calculations relied upon in formulating your response.

RESPONSE

Prepared By: Brenda J. Menke
Title: Director, Income Tax
Date: January 30, 2015

See "MIEC 27.4 Attachment" for an updated Table VII including calendar 2014 amounts at the bottom for all columns (based on the 2014 tax provision).

The information for Ameren Corporation's consolidated federal income/loss and NOLC in each year is available in "MIEC 27.3-b Attachment HC".

The deferred tax asset for federal net operating loss carryforward that has been included in rate base at true-up under the Company's consolidated group approach is $75,479,093 ($215,654,550 x 35%). The deferred tax asset that would be included in rate base at true-up under Mr. Brosch's proposed "Stand Alone" approach would be $24,398,696 ($69,710,561 x 35%).

Table VII (updated)

	(1)	(2)	(3)	(4)	(5)	(6)
	"Stand Alone" Ameren Missouri Taxable Income/(Loss) By Year	**Cumulative "Stand Alone" Ameren Missouri NOLC**	**Consolidated NOLC Allocated to Ameren Missouri By Year**	**Cumulative Consolidated NOLC Allocated To Ameren Missouri**	**Excess of Cumulative "Stand Alone" NOLC (2) Over Consolidated NOLC (4)**	**Approximate Ameren Missouri Rate Base Decrease/(Increase) Due to Filing Consolidated (5) X 35%**
2008	($461,008,006)	($461,008,006)	($97,421,862)	($97,421,862)	($363,586,144)	$127,255,150
2009	($162,043,265)	($623,051,271)	($65,062,485)	($162,484,347)	($460,566,924)	$161,198,423
2010	($130,775,965)	($753,827,236)	($53,170,203)	($215,654,550)	($538,172,686)	$188,360,440
2011	$17,970,962	($735,856,274)	$0	($215,654,550)	($520,201,724)	$182,070,603
2012	$12,890,120	($722,966,154)	$0	($215,654,550)	($507,311,604)	$177,559,061
2013	$598,155,735	($124,810,419)	$0	($215,654,550)	$90,844,131	($31,795,446)
2014 est	$55,099.858	($69,710,561)	$0	($215,654,550)	$143,943,989	($51,080,396)

QUESTION NO. AXM 3-4:

[Income Taxes] Ref: DAB-RR-2_1.1 – COS Results.xls, Total Company tab, lines 221, 253, 254, 468 and 552. SPS appears to be including a calculated, rather than per book, amount of Net Operating Loss ("NOL") carryforward deferred tax asset in rate base. Please provide the following information regarding the Company's accounting for test year income tax Net Operating Loss carryforward tax asset balances:

a. Explain whether Texas NOL Carryforward amounts are maintained by separate isolation of SPS' NOL position by jurisdiction or between regulated and non-regulated operations from filed tax returns and analysis of jurisdictional income.

b. If your response to part (a) is affirmative, please provide monthly balances for the overall SPS NOL position and its attribution among states and between regulated and non-regulated operations.

c. Confirm that all of the income tax deductions taken by SPS, including those associated with Deferred Fuel costs (line 429) and other deductions that are eliminated for ratemaking purposes, have an impact upon SPS' taxable income and resulting NOL carryforward balances, or explain any inability to provide such confirmation.

d. What, if any, consideration was given to anticipated SPS realization of NOL carryforward amounts subsequent to June 30, 2014 in determining the proper ratemaking treatment of such amounts in rate base?

e. Does SPS expect to fully or partially realize its NOL carryforward balance by the time the GSEC load reduction that is included within the asserted revenue requirement actually occurs? Please explain your response.

RESPONSE:

a. SPS maintains its NOL Carryforward position on a total company basis, which reflects the operations of all jurisdictions. In the cost of service, SPS eliminates the per book NOL Carryforward balances and calculates the NOL Carryforward balance for the Texas jurisdiction, which reflects only those items that affect the Texas jurisdiction taxable income.

b. Not applicable.

c. Confirmed. Please refer to SPS's response to subpart (a).

d. The NOL Carryforward balance reflects only those adjustments included in the cost of service. It does not include any anticipated amounts.

e. Prior to the Tax Increase Prevention Act of 2014 becoming law, SPS expected to partially realize its NOL Carryforward balance. SPS is still analyzing the impact of the Tax Increase Prevention Act of 2014 on the NOL Carryforward balance.

Preparers: Arthur P. Freitas, Ryan Merrell
Sponsors: Christopher A. Arend, Deborah A. Blair

QUESTION NO. AXM 3-3:

[Income Taxes] Ref: DAB-RR-2_1.1 – COS Results.xls, Total Company tab, lines 221, 253, 254, 468 and 552. SPS appears to be including a calculated, rather than per book, amount of Net Operating Loss ("NOL") carryforward deferred tax asset in rate base. Please provide the following information:

a. A detailed step-by-step discussion of assumptions made and calculations performed to determine the NOL amounts includable in SPS' asserted rate base, including support for each input amount and calculation appearing within the "NOL" tab of the referenced Excel file.

b. The amounts of SPS' stand-alone taxable income, as-filed and as adjusted to date for each prior tax year 2007 through 2013.

c. The amounts of Xcel consolidated taxable income, as-filed and as adjusted to date for each prior tax year 2007 through 2013.

d. A complete copy of all applicable income tax allocation agreements used by Xcel to allocate or apportion income tax expense and liability amounts among affiliated companies, including SPS, for the tax years 2007 to present.

e. Using the information in your responses to parts (b) through (d), provide a calculation supportive of the recorded amounts of SPS' NOL deferred income tax asset of $51,186,654.

f. Explain each reason why the Company's recorded NOL deferred income tax asset balance should not be included in rate base, in favor of the separately calculated amount shown on the "NOL" tab of the spreadsheet file.

g. What are the Company's expectations regarding the future utilization of the recorded NOL deferred tax asset, in terms of amounts expected to be utilized in each future year? State assumptions made and provide calculations to support your response.

RESPONSE:

a. The first step is to determine if there is an NOL in the test year. This is done by calculating taxable income. Taxable income is Revenues (1) less Expenses (2) less any Tax Deductions (3) equals Taxable Income (4).

(1) Revenues – Revenues are calculated through the addition of three items: Present Revenues are calculated under current rates, plus the Proposed Revenue Increase based on the Test Year costs and adjustments, plus Other

Revenues. The sum of these three items equal the Total Revenue presented on Line 4 of the "NOL" tab in the Attachment DAB-RR-2_1.1.xlsx file.

(2) Expenses – Expenses include Cost of Goods Sold ("COGS"), plus Operations and Maintenance expense, plus Depreciation and Amortization expense, plus Taxes Other Than Income Taxes ("TOTI") expense, plus Gain on Sale of Utility Plant. The sum of these items equal the Total Expense presented on Line 11 of the "NOL" tab in Attachment DAB-RR-2_1.1.xlsx file.

Net Income before Tax is equal to Total Revenue less Total Expense.

(3) Tax Deductions – SPS separates the Tax Deductions into two distinct pieces: Interest Deduction and Book/Tax Differences. First, the interest deduction is from Line 395 in the "Total Company" tab in the Attachment DAB-RR-2_1.1.xlsx file, which is the Total Rate Base multiplied by the Weighted Average Cost of Debt (Vol. RR16, page 164 of 426). This item is not added into the Revenue Requirement, but must be included in the tax calculations in order to obtain the correct taxable income. Second, Book/Tax Differences are plant and non-plant related, and they include but are not limited to differences between book depreciation and tax depreciation. The NOL Carryforward book/tax difference is recalculated in the cost of service model, Attachment DAB-RR-2, which is a comprehensive calculation described below.

(4) Taxable Income – Taxable Income is calculated by subtracting the Interest Deduction from the Net Income before Tax and adding any book/tax differences.

After determining Taxable Income, the test year impact on the NOL Accumulated Deferred Tax Asset ("NOL ADIT") must be determined. In the Test Year in this case, SPS is not in a current NOL position, so Taxable Income can be used to reduce the prior period NOL ADIT balances. If SPS had negative Taxable Income in the Test Year, this would result in SPS being in an NOL position. In that case, the NOL ADIT balance would be accumulating and the NOL Deferred Tax Expense would be positive.

NOL Adjustment and Calculation

The three line items included in the cost of service as noted above are interrelated. The ADIT amount begins with the NOL Carryforward and represents the ending

ADIT from the prior period and is then either reduced through a negative Deferred Tax expense (resulting from positive Taxable Income from the test period) or is increased through a positive Deferred Tax expense (resulting from a current period NOL).

Before calculating the Deferred Tax expense, the NOL Book/Tax Difference (Schedule M) must be determined. If SPS has positive Taxable Income, and there is an ADIT NOL Carryforward from a prior period, Taxable Income is reduced to zero ($0) to the extent that the ADIT NOL Carryforward is reduced to zero ($0). An adjustment for NOL Book/Tax Differences is made to either reduce taxable income to zero ($0) or to reduce NOL ADIT to zero ($0).

The Deferred Tax expense is calculated by multiplying the NOL Book/Tax Difference by the negative of the Federal Income Tax Rate (35.00%).

Due to the iterative nature of this adjustment to Rate Base, Expense, and Income Tax Deductions, a calculation of the precise adjustment outside of this comprehensive model would be both exhaustive and cumbersome. With a comprehensive model, the Company uses an automated process through a Microsoft Excel® function called "Goal Seek."

The Goal Seek function is programmed to set Taxable Income to zero ($0). The function changes the NOL Book/Tax Difference (Schedule M) in the adjustment column. Since the model is fully integrated and takes into account all jurisdictional allocations, the Goal Seek function is able to accurately determine an adjustment that will eventually set taxable income to zero ($0). This is accomplished by the comprehensive model automatically changing the Deferred Tax NOL entry and ADIT NOL entry as described above.

If this process results in a negative NOL ADIT the adjustment is then recalculated to set the NOL ADIT year-end balance to zero ($0) by changing the NOL Book/Tax Difference (Schedule M). Once the Goal Seek Function determines a solution to find zero ($0) for the stated item, the amount is automatically entered into the model and the changes described above flow through the model.

b. Please refer to the tables below:

	As Originally Filed	
Year	Federal Taxable Income Before NOL	Federal Taxable Income After NOL
2007	25,688,390	25,688,390
2008	39,634,862	39,634,862
2009	25,879,099	25,879,099
2010	42,265,665	42,265,665
2011	(176,369,023)	(176,369,023)
2012	91,979,631	76,375,586
2013	(27,478,222)	(27,478,222)

	As Amended/Adjusted	
Year	Federal Taxable Income Before NOL	Federal Taxable Income After NOL
2007	26,791,151	25,688,390
2008	44,711,905	44,962,728
2009	30,190,542	30,190,542
2010	41,622,532	42,530,662
2011	(174,984,339)	(174,984,339)
2012	92,782,060	75,205,959
2013	(27,478,222)	(25,124,502)

c. Please refer to the tables below:

	As Originally Filed	
Year	Federal Taxable Income Before NOL	Federal Taxable Income After NOL
2007	61,768,462	0
2008	141,309,509	0
2009	(145,581,482)	(145,581,482)
2010	(227,716,987)	(227,716,987)
2011	(1,085,592,040)	(1,085,592,040)
2012	762,162,050	0
2013	(473,908,354)	(473,908,354)

	As Amended/Adjusted	
Year	Federal Taxable Income Before NOL	Federal Taxable Income After NOL
2007	57,541,702	0
2008	176,504,414	0
2009	(124,902,230)	(124,902,230)
2010	(216,861,550)	(216,861,550)
2011	(1,076,842,577)	(1,076,842,577)
2012	774,622,975	0
2013	(428,544,194)	(428,544,194)

d. Please refer to Exhibit SPS-AXM 3-3.

e. Please refer to Schedule G-7.13f (Vol. SCH1, page 489-490 of 544).

f. The recorded NOL benefit is eliminated because it includes the impact of items that are not related to the Texas jurisdiction or are related to items included in fuel or other non-base rate riders. The calculated NOL reflects the NOL specific to Texas jurisdictional costs and base rate items.

g. SPS is uncertain as to the future utilization of the NOL deferred tax asset because the utilization will depend on a number of factors, including the outcome of the current case.

Preparers: Arthur P. Freitas, Ryan Merrell
Sponsors: Christopher A. Arend, Deborah A. Blair

XCEL ENERGY INC.
AND ITS AFFILIATED CORPORATIONS

TAX ALLOCATION AGREEMENT

This agreement is made as of December 29, 2000 by and among Xcel Energy Inc., a registered public utility holding company ("Parent"), and its affiliated corporations (collectively, including Parent, the "Group"; individually, including Parent, "member" or "member of the Group").

WHEREAS, the members of the Group will join in the filing of a consolidated federal income tax return, and consolidated or combined state income and franchise tax returns;

WHEREAS, the members of the Group intend to allocate the consolidated and combined income and franchise tax liabilities and benefits to each member of the Group in an equitable manner and in accordance with Rule 45(c) of the Public Utility Holding Company Act of 1935, as amended; and to provide for certain other related matters as set forth below;

IT IS THEREFORE AGREED, as follows:

Section 1. Definitions

For purposes of this agreement, the following definitions shall apply:

(a) "Consolidated tax" shall mean the Group's aggregate tax liability for a taxable year as shown on the consolidated federal income tax return.

(b) "Consolidated refund" shall mean the Group's aggregate refund for a taxable year as shown on the consolidated federal income tax return.

(c) "Corporate taxable income" or "corporate taxable loss" shall mean the income or loss of a member of the Group for a taxable year, computed as though the member had filed a separate federal income tax return on the same basis as used in the consolidated return, except that:

(1) Dividend income from other members of the Group shall be disregarded, and

(2) Intercompany transactions shall be taken into account as provided under the consolidated return regulations.

(d) "Separate return tax" shall mean the federal regular income tax liability or federal regular income tax refund, computed with respect to the corporate taxable income or loss of a member of the Group, less all tax credits. If the separate return tax is a liability, it shall be referred to as a "positive separate return tax." If the separate return tax is a refund, it shall be referred to as a "negative separate return tax."

(e) A "positive" allocation shall be the obligation to make a payment to the Group in accordance with Section 5. A "negative" allocation shall be the right to receive a payment from the Group in accordance with Section 5.

Section 2. General Federal Allocation Method

Each taxable year, the members of the Group shall allocate the consolidated tax or consolidated refund in accordance with the following procedures:

(a) A member, including Parent, that would have a positive separate return tax shall receive a positive allocation in an amount equal to such positive separate return tax.

(b) A member, other than Parent, that would have a negative separate return tax shall receive a negative allocation in an amount equal to such negative separate return tax.

(c) If Parent would have a negative separate return tax, then each member having positive separate return tax shall receive a negative allocation in an amount equal to such negative separate return tax multiplied by the member's share of the sum of the positive separate return tax.

Section 3. Special Federal Allocation Rules

(a) Alternative Minimum Tax. In any year in which alternative minimum tax ("AMT") is payable by the Group, the consolidated tax shall be separated into two parts: regular tax and AMT.

(1) Regular tax shall be allocated in accordance with the general allocation method set forth in Section 2, above.

(2) AMT will be allocated to each member of the Group based on the proportion of:

(A) the excess of its separate company tentative minimum tax over its separate company regular tax liability, to

(B) the aggregate of the excesses of such companies' tentative minimum tax amounts over their regular tax liability amounts.

(3) Each member whose regular tax liability exceeds its tentative minimum tax on a separate company basis shall be excluded from this calculation and shall not be impacted by the Group's AMT liability.

(4) The minimum tax credit shall be allocated to the members of the Group to which the associated AMT was allocated, in proportion to the associated AMT allocated to such members.

(b) Tax Credits; Other Tax Benefits and Material Items Taxed at Different Rates. Any tax credits, other tax benefits and material items taxed at rates other than the rate applicable to corporate taxable income shall be allocated directly to the members of the Group giving rise to them.

Section 4. Maximum Allocation

The tax allocated to any member shall not exceed the separate return tax of such member.

Section 5. Payments

Each member of the Group is responsible for its own tax liability. Payment of such liability shall be made in accordance with the following procedure:

(a) A member of the Group with a net positive allocation shall pay Parent the net amount allocated, except as modified in Section 5(f) below.

(b) A member of the Group with a net negative allocation shall receive payment from Parent in the amount of the net negative allocation, except as modified in Section 5(e) and 5(f) below.

(c) Parent shall pay to the Internal Revenue Service the Group's net current federal income tax liability from the net of the receipts and payments to and from members of the Group.

(d) Parent shall make any calculations on behalf of the members of the Group necessary to comply with the estimated tax and extension payment provisions. Based on such calculations, Parent shall charge the members appropriate amounts at intervals consistent with those provisions.

(e) If the Group has a consolidated net operating loss ("NOL") for a taxable year (the "loss year") and the NOL cannot be used in full by being carried back to a prior

taxable year, the unused portion of the NOL shall be allocated (as negative allocations) to the members of the Group having negative allocations for the loss year in proportion to the relative magnitude of such negative allocations for the loss year. Each such member shall carry forward a negative allocation from the loss year to the following taxable year and combine it with its allocation for such following taxable year.

(f) If the Group is unable to utilize all of the tax credits available for a taxable year, and the tax credits cannot be used in full by being carried back to a prior taxable year, payment for the tax credits shall be as follows:

(1) Tax Credits Actually Used. Payment for credits actually used in the current or carryback year shall be made to those members who generated the credits in the order in which they are used on the relevant return. If more than one member generated a particular type of tax credit, the portion of the tax credit used shall be apportioned among and paid to those members in a ratio of the total tax credit generated of that type by the respective member over the total tax credits generated of that type for that tax year.

(2) Tax Credits Carried Forward. The unused portion of any tax credits being carried forward shall be allocated (as negative allocations) to the members of the group generating such tax credits and such members shall carry forward such tax credits to the following taxable year and combine it with its allocation for such following taxable year.

(g) A member shall make or receive any payment required by this Section on the date Parent pays the Internal Revenue Service. Parent shall provide at least two days advance notice of member's payment amount. In the case of any second (or lower) tier subsidiary, the parent of such second (or lower) tier subsidiary may make or receive the payment required by this Section for itself and all of its second (or lower) tier subsidiaries.

Section 6. Adjustments to Federal Tax Liability Shown on Returns

(a) In the event that the consolidated tax or consolidated refund is subsequently adjusted by the Internal Revenue Service or by a court decision, the consolidated tax, consolidated refund and separate return tax shall be adjusted accordingly consistent with the methodology set forth previously in this agreement. Any prior payments among the members of the Group shall be adjusted to conform to the change.

(b) If any interest is paid or received as a result of an adjustment to consolidated tax or consolidated refund, it will be allocated to the parties in the proportion that

each member's change in separate tax in each affected year bears to the change in consolidated tax or consolidated refund.

(c) Any penalty shall be paid by the member of the Group that is responsible for the penalty. If the party at fault cannot be determined, the penalty shall be allocated in the same manner as if it were additional tax.

Section 7. State Income and Franchise Taxes

(a) Any state income or franchise tax liability (including liability for interest or penalties) associated with the filing of a separate state tax return by a member of the Group shall be allocated to and paid directly by such member.

(b) Any state income or franchise tax liability (including liability for interest or penalties) associated with the filing of a consolidated or combined state tax return shall be allocated to the members of the Group participating in the return following the procedures set forth above for federal income tax liabilities.

(c) Because certain states utilize a combined method, the Group's aggregate income or franchise tax liability to a state may exceed the sum of the members' separate return tax liabilities to the state. Notwithstanding Section 4 of this agreement, if this occurs, the excess of the Group's aggregate liability to such state over the sum of the members' separate return liabilities for such state shall be allocated to the member or members who have nexus with such state based on their relative presence as measured by apportionment factors. Conversely, the sum of the members' separate return liabilities may exceed the Group's aggregate liability to the state. If this occurs, the excess of the sum of the members' separate return liabilities for such state over the Group's aggregate liability to such state shall be allocated to the member or members following the procedures set forth in this Section.

Section 8. Effectiveness

This agreement shall be effective until amended. This agreement may be amended from time to time as the result of changes in federal or state law or relevant facts and circumstances. Any new affiliate will automatically be party to this agreement.

Section 9. Cooperation of Members

Each member shall timely provide information and shall execute such consent, elections and other documents that may be required or appropriate for the proper filing of consolidated and combined income and franchise tax returns and for the allocations provided by this agreement. Parent shall have final decision-making authority relative to

any consent or election. Members shall also timely provide information relating to any tax audits.

Section 10. Termination

In the event any member ceases to be a member of the Group, this agreement will remain in full force and effect with respect to any period of time up to and including the taxable year in which the termination occurs.

Section 11. Regulatory Filings

Each member hereby consents to the filing of this agreement and any subsequent amendments with the Securities and Exchange Commission to the extent required under Rule 45(c) of the Public Utility Holding Company Act of 1935, as amended, or with any other regulatory agency.

Section 12. Dispute Resolution

Any dispute between or among the members with respect to this agreement shall be resolved by a nationally recognized public accounting firm or a nationally recognized law firm, which accounting firm or law firm shall be reasonably satisfactory to the disputing members, and whose fees and expenses shall be shared equally by the disputing members. Such determination shall be binding and conclusive on the disputing members.

Section 13. Signatures

This agreement has been duly executed on behalf of its members, as follows:

Xcel Energy Inc.

By: Gary R. Johnson

Its: Vice President & General Counsel

Black Mountain Gas Company

By: [signature]

Its: Vice President & CFO

Ameren Missouri
Response to MIEC Data Request
MPSC Case No. ER-2014-0258
In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase Its Revenues for Electric Service

Data Request No.: MIEC 27.7 - Diana Vuylsteke

[Income Taxes] Ref: Warren Rebuttal, page 32 (Domestic Production Deduction).
At page 32 of his rebuttal, Mr. Warren states, "In the above excerpt from Mr. Brosch's testimony, he asserts that, for purposes of this computation, taxable income is calculated without regard to NOLCs from prior years. That is not true. This is important because Ameren Missouri has significant NOLCs that will reduce its taxable income in 2014. Because his technical conclusion is wrong, his DPD computation is materially incorrect." Please provide the following additional information:

a. Does Mr. Warren or Ameren Missouri believe that the Domestic Production Deduction ("DPD") has been calculated in prior Missouri base rate cases using a separate tax return basis of computation, or "DPD computed on a consolidated basis" as referenced by Mr. Warren at page 31 of his rebuttal?
b. Please explain and provide copies of any documents supportive of your response to part (a).
c. Does Mr. Warren or Ameren Missouri believe that the DPD calculations that were approved by the Commission in MPSC Case No. ER-2010-0036 (1/31/10) recognized and properly accounted for "NOLCs from prior years" which is said to be required treatment at page 32, lines 11-25 of Mr. Warren's rebuttal?
d. Does Mr. Warren or Ameren Missouri believe that the DPD calculations that were approved by the Commission in MPSC Case No. ER-2011-0028 (2/28/11) recognized and properly accounted for "NOLCs from prior years," which is said to be required treatment at page 32, lines 11-25 of Mr. Warren's rebuttal?
e. Does Mr. Warren or Ameren Missouri believe that the DPD calculations that were approved by the Commission in MPSC Case No. ER-2012-0166 (7/31/12) recognized and properly accounted for "NOLCs from prior years" which is said to be required treatment at page 32, lines 11-25 of Mr. Warren's rebuttal?
f. If your responses to parts (c), (d) or (e) are affirmative, please provide complete copies of the final DPD calculations employed in the referenced rate case(s) with pinpoint citation to where, within the DPD calculation approved by the Commission, Ameren Missouri's NOLCs are believed to have been included.

RESPONSE

Prepared By: Brenda J. Menke
Title: Director, Income Tax
Date: January 30, 2015

a. Ameren Missouri believes that the DPD has been calculated in prior rate cases using a separate tax return basis, but without proper recognition of net operating loss carryforwards.

b. See response to MIEC 27.8, part h.

c. Ameren Missouri does not believe that the DPD calculation approved by the Commission in Case No. ER-2010-0036 recognized and properly accounted for NOLCs from prior years.

d. Ameren Missouri does not believe that the DPD calculation approved by the Commission in Case No. ER-2011-0028 recognized and properly accounted for NOLCs from prior years.

e. Ameren Missouri does not believe that the DPD calculation approved by the Commission in Case No. ER-2012-0166 recognized and properly accounted for NOLCs from prior years.

f. Not applicable.