

FILED³

APR 16 2007

Missouri Public
Service Commission

Exhibit No.:

034

Issues:

Income Tax Expense
Calculation, Section 199
Deduction, Cost of Removal

Witness:

Charles A. Mannix

Sponsoring Party:

Union Electric Company

Type of Exhibit:

Surrebuttal Testimony

Case No.:

ER-2007-0002

Date Testimony Prepared:

February 27, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

SURREBUTTAL TESTIMONY

OF

CHARLES A. MANNIX

ON

BEHALF OF

UNION ELECTRIC COMPANY

d/b/a AmerenUE

Ameren UE Exhibit No. 34
Case No(s). ER-2007-0002
Date 3/25/07 Rptr pk

St. Louis, Missouri
February, 2007

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1 **I. SECTION 199 DOMESTIC PRODUCTION ACTIVITIES DEDUCTION**

2 **Q. What do you want to address on the Section 199 Domestic Production**
3 **Activities Deduction?**

4 A. The Company's original Income Tax Expense Calculation did not include the
5 Section 199 Domestic Production Activities Deduction. This amount was omitted from the
6 original filing because the Company did not have the information available to calculate this
7 amount at the time of the filing.

8 **Q. Why did the Company not have the information available for the original**
9 **filing?**

10 A. The Domestic Production Activities Deduction became available under
11 recently enacted federal tax legislation in 2005. The final regulations for computing this
12 deduction were not issued by the U.S. Treasury until mid-2006. When the income tax
13 expense calculation was made for the Company's original filing, the Company was still in
14 the process of determining how to calculate the deduction under the newly issued regulations.

15 **Q. Has the Company determined how this deduction should be calculated?**

16 A. Yes.

17 **Q. What does the Company propose for this deduction in the context of the**
18 **Income Tax Expense Calculation?**

19 A. The Company utilized the information contained in the current rate filing to
20 calculate the Domestic Production Activities Deduction in accordance with the Treasury
21 Regulations and consistent with the approach used by the Company on the 2005 federal
22 income tax return.

1 **Q. Was this information provided to the other interested parties in this case?**

2 A. Yes, the deduction calculation was provided to Staff witness Stephen Rackers
3 and to State of Missouri witness Michael Brosch for their consideration.

4 **Q. Is there agreement among the Company, the Staff, and the State on the**
5 **deduction?**

6 A. Yes, these parties have agreed to the calculation reflected on Schedule
7 CAM-2, which is attached. The parties have also agreed that the calculation is dynamic and
8 should be adjusted to reflect the final rate of return developed in the case.

9 **Q. Is there anything else that you need to discuss with regard to the**
10 **Domestic Production Activities Deduction?**

11 A. Not at this time.

12 **II. COST OF REMOVAL**

13 **Q. What would you like to address about the accrued Cost of Removal**
14 **reflected in the original Income Tax Expense Calculation?**

15 A. The amount of the accrued Cost of Removal was understated in the original
16 Income Tax Expense Calculation.

17 **Q. Was this understatement intentional?**

18 A. No, this was an error. The original calculation used a forecasted 2006 accrued
19 Cost of Removal, which was inconsistent with the accrued Cost of Removal reflected in the
20 depreciation rates used for the case.

1 **Q. What were the implications of this understatement?**

2 A. The Income Tax Expense was understated when the accrued Cost of Removal
3 was understated. When Income Tax Expense is understated, the revenue requirement needed
4 to collect income taxes is understated.

5 **Q. What was the magnitude of the understatement in the original filing?**

6 A. The original filing reflected an accrued Cost of Removal of \$24,974,571. The
7 Cost of Removal based on the Company's depreciation rates should have been \$63,805,871.

8 **Q. What is the income tax expense change and resulting revenue**
9 **requirement adjustment needed for this specific correction?**

10 A. The Income Tax Expense Calculation prepared by the Company uses a flow
11 through method for accrued and incurred Cost of Removal. Under this flow through method,
12 using the corrected Company Cost of Removal and a composite tax rate of 38.34%, the
13 current income tax expense would increase by \$14, 887,921. The resulting increase in the
14 revenue requirement from this specific correction would be an increase of \$24,145,184.

15 **Q. Why is the flow through method being used?**

16 A. This has been the traditional method used by both the Staff and the Company
17 for preparing the Income Tax Expense Calculation.

18 **Q. Do you have any other changes to the original Income Tax Expense**
19 **Calculation?**

20 A. The Company and Staff have agreed to adjust the Income Tax Expense
21 Calculation to reflect actual data through year end 2006.

22 **Q. Does this conclude your Surrebuttal Testimony?**

23 A. Yes, it does.

**Schedule CAM-2-1
Union Electric Company
MPSC Case No. ER-2007-0002**

Calculation of Tax Benefit from Code Section 199 for Year Ended June 30, 2006

calculation
reflecting 2006
fuel costs with adjusted
revenue requirement

Total Domestic Production Gross Receipts			\$ 1,935,153,371
Less: Allocatable Cost of Goods Sold			(1,338,009,544)
Less: Allocable SG&A Expenses			(268,179,411)
Add: Net Interest & Overhead Allocation (sec 861)			<u>74,084,303</u>
Qualifying Production Activity Income			403,048,719
Deduction Percentage			<u>6%</u>
Deduction Before Allocation			24,182,923
Tax Rate			<u>38.10%</u>
Tax Benefit			<u><u>\$ 9,213,694</u></u>
AG pretax rate of return	10.33%	80.14%	7,383,821
MOPSC Staff rate of return	10.52%	81.61%	7,519,632
Company pretax rate of return	12.89%	100.00%	9,213,694

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

In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Company's Missouri Service Area.)

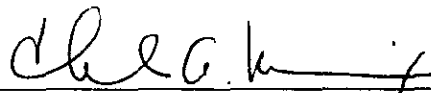
Case No. ER-2007-0002

AFFIDAVIT OF CHARLES A. MANNIX

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

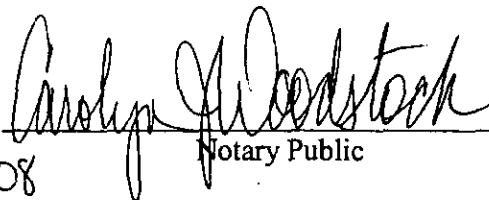
Charles A. Mannix, being first duly sworn on his oath, states:

1. My name is Charles A. Mannix. I work in the City of St. Louis, Missouri, and I am employed by Ameren Services as Manager of Income Taxes.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 4 pages, and Schedule CAM-2, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.



Charles A. Mannix

Subscribed and sworn to before me this 27th day of February, 2007.



Notary Public

My commission expires:

May 19, 2008

