

Exhibit No.:
Issues: *ISRS Accumulated
Deferred Income Taxes*
Witness: *Karen Lyons*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *WO-2019-0184*
Date Testimony Prepared: *May 7, 2019*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

FILED

MAY 21 2019

Missouri Public
Service Commission

DIRECT TESTIMONY

OF

KAREN LYONS

MISSOURI AMERICAN WATER COMPANY

CASE NO. WO-2019-0184

*Jefferson City, Missouri
May 2019*

Staff Exhibit No. 6
Date 5/17/19 Reporter JMB
File No. WO-2019-0184

1 **DIRECT TESTIMONY**
2 **OF**
3 **KAREN LYONS**
4 **MISSOURI AMERICAN WATER COMPANY**
5 **CASE NO. WO-2019-0184**

6 Q. Please state your name, employment position, and business address.

7 A. Karen Lyons, Utility Regulatory Auditor with the Missouri Public Service
8 Commission ("Commission" or "PSC"), Fletcher Daniels State Office Building, 615 East 13th
9 Street, Kansas City, Missouri 64106.

10 Q. Are you the same Karen Lyons who contributed to Staff's Recommendation
11 filed April 22, 2019, in this case?

12 A. Yes.

13 Q. Have you previously filed testimony before this Commission?

14 A. Yes. A listing of the cases in which I have previously filed testimony before this
15 Commission is attached as Schedule KL-d1 to this direct testimony.

16 Q. What is the purpose of your direct testimony?

17 A. My direct testimony will provide a summary of the ISRS revenue requirement
18 calculation that includes the differences between Staff and Missouri-American Water Company
19 ("MAWC"). I will also address aspects of MAWC's proposed inclusion of a net operating loss
20 ("NOL") as an offset to the deferred tax liability as part of the overall incremental increase in
21 Infrastructure System Replacement Surcharge ("ISRS") revenues as part of its Petition.

1 In his direct testimony in this proceeding, Staff witness Mark L. Oligschlaeger will
2 address policy related matters regarding MAWC's proposal to increase rate base by including
3 a hypothetical NOL associated with ISRS plant in service additions.

4 Q. Does MAWC agree with Staff's recommended ISRS revenue requirement
5 of \$8,878,845?¹

6 A. No. In *MAWC's response to Staff's recommendation* filed on April 26, 2019,
7 MAWC did not object to Staff's adjustments associated with repairs to customer owned
8 appliances and property, service lines, and investment included in a prior ISRS but objected to
9 Staff's treatment of the NOLs.²

10 Q. How did Staff's treatment of the NOLs differ from MAWC's?

11 A. Staff and MAWC are calculating accumulated deferred income taxes ("deferred
12 tax liability") in the same manner; however, MAWC takes an extra step to offset the deferred
13 tax liability with an imputed deferred tax asset relating to an assumed NOL amount. The ISRS
14 revenue requirement difference between Staff and MAWC with regard to the NOLs is
15 \$827,387.

16 Q. Has the Commission recently addressed the inclusion of NOLs in a MAWC
17 ISRS request?

18 A. Yes. In Case No. WO-2018-0373, the Commission stated the following on page
19 8 of its Report and Order issued December 5, 2018:

20 MAWC has not provided evidence to support that it will in fact
21 have an NOL in 2018. On the contrary, the evidence indicates
22 MAWC is generating more revenue for 2018 than it is generating
23 expenses that qualify for deductions. Thus, MAWC is expected
24 to utilize prior NOL carryovers to offset its taxable income in

¹ Staff's Recommendation, April 22, 2019, page 5.

² MAWC's Response to Staff Recommendation, April 26, 2019, page 1.

1 2018 and 2019, but will not generate a new NOL. Since the IRS
2 Private Letter Rulings only address periods where an NOL is
3 generated, there is no legal support for MAWC's position that an
4 exclusion of an NOL would violate normalization requirements
5 of the IRS Code.

6 Because MAWC is expected to have taxable income in 2018, it
7 is reasonable to conclude that MAWC is not generating an NOL
8 during the 2018 ISRS Period at issue, either. And in fact, there
9 was no evidence of an NOL being generated during the 2018
10 ISRS Period. In short, although the ISRS statute requires
11 recognition of ADIT, which might include reflection of an NOL,
12 we cannot allow MAWC to reduce its ADIT balance to reflect an
13 NOL that does not exist.

14 Q. Please explain what accumulated deferred income taxes are and how they are
15 determined?

16 A. A utility's deferred tax reserve balance represents, in effect, a net prepayment of
17 income taxes by a company's customers in rates prior to actual payment to the taxing
18 authorities. MAWC may deduct depreciation expense on an accelerated basis for income tax
19 purposes. Depreciation expense used for income taxes paid by MAWC is higher than
20 depreciation expense used for ratemaking purposes. This results in what is referred to as a
21 "book-tax timing difference," and creates a deferral of income taxes to the future. The net credit
22 balance in the deferred tax reserve represents a source of cost-free funds; therefore, rate base is
23 reduced by the deferred tax reserve balance to avoid having customers pay a return on funds
24 that are provided cost-free to the company. Since the level of book depreciation expense is
25 lower than the level of accelerated tax depreciation expense used for income tax purposes,
26 customers are typically required to pay higher costs for income taxes in rates than MAWC will
27 actually pay to the Internal Revenue Service ("IRS"). The difference in income taxes paid by
28 the utility to the IRS and those amounts collected by the utility from its customers through rates

1 are “accumulated” to recognize the future tax liability that will eventually be paid to the IRS.
2 In cases where a utility incurs an NOL the accumulated deferred income tax (“ADIT”) balance
3 is then offset by that NOL due to the fact that the utility did not have enough taxable income to
4 utilize all of its available deductions. The amount of deferred tax associated with this ISRS
5 petition is determined by the sum of the tax timing differences (deductions) for repairs and
6 accelerated depreciation that are applied to the investment for the period of October 1, 2018,
7 through March 31, 2018. However, MAWC then offsets the deferred tax liability by imputing
8 a deferred tax asset.

9 Q. How does MAWC calculate the net operating loss that is used to offset the
10 deferred tax liability?

11 A. MAWC sums the tax timing differences related to repairs and accelerated
12 depreciation with depreciation expense and interest expense, and then subtracts those reductions
13 from zero. Zero represents the revenue that MAWC has yet to recover in regard to this ISRS
14 investment. This calculation creates a “hypothetical” net operating loss amount that is not
15 appropriate for recovery in an ISRS rate calculation.

16 Q. Why does Staff take the position that the NOL calculation proposed by MAWC
17 is inappropriate for purposes of ISRS?

18 A. If MAWC’s methodology is used, the existence of a hypothetical net operating
19 loss will always result from the calculation, whether the utility is actually recording an NOL
20 amount on its books or not. That is because in Missouri a utility must place investment
21 in-service prior to obtaining recovery in rates. Recovery of such investment can be sought on
22 an interim basis through an ISRS filing (for gas and water utilities) or through permanent rates
23 as part of a general rate case filing. MAWC is seeking interim recovery in this petition, so the

1 utility assumes zero revenue in its ISRS calculation because it will not receive ISRS revenue
2 related to this particular investment until new rates are put in effect as part of this proceeding.
3 However, as MAWC is not generating or booking any actual NOL during this ISRS period, it
4 is obvious that other factors are causing a situation in which MAWC has enough taxable income
5 to “use” prior amounts of booked NOL in the ISRS period and is not generating or booking any
6 incremental NOL associated with ISRS plant additions that might need to be taken into account
7 in this ISRS case.

8 Q. Is MAWC actually currently generating an NOL?

9 A. No. For several years prior to 2018, MAWC generated an amount of NOL
10 largely associated with its use of bonus depreciation deductions. It is reasonable to assume that
11 a balance of an NOL deferred tax asset booked prior to 2018 is currently included in MAWC’s
12 base rates as an offset to ADIT as a result of its last general rate case, Case No. WR-2017-0285.
13 This means that for the current ISRS period of October 1, 2018, through March 31, 2019, as
14 well as the previous ISRS period of January 1, 2018, through September 30, 2018, there would
15 have to be an incremental increase in MAWC’s ongoing NOL balances directly related to ISRS
16 plant additions, within the applicable ISRS periods, in order for any NOL to be eligible for
17 inclusion in the ISRS ratemaking process since January 1, 2018. However, based on MAWC’s
18 response to Staff Data Request No. 0004 shown below, its NOL balance has been decreasing
19 over time since the start of 2018, and is expected to continue to decline through 2019 with the
20 exception of a few months. The original response to this data request is included with this
21 testimony as Schedule KL-d2:

1

MAWC NOL Balance		
Month	NOL Deferred Tax Asset Balance	Change in Balance
December 2017	\$31,464,998	--
January 2018	\$31,464,998	\$0
February 2018	\$30,928,397	\$536,601
March 2018	\$30,222,134	\$706,263
April 2018	\$28,099,143	\$2,122,991
May 2018	\$26,261,074	\$1,838,069
June 2018	\$27,493,077	\$(1,232,003)
July 2018	\$25,207,589	\$2,285,488
August 2018	\$23,689,065	\$1,518,524
September 2018	\$21,183,942	\$2,505,123
October 2018	\$21,795,951	\$(612,009)
November 2018	\$27,807,457	\$(6,011,506)
December 2018	\$22,108,537	\$5,698,920
January 2019	\$21,845,006	\$263,531
February 2019	\$21,915,687	\$(70,681)
December 2019 (Estimated)	\$12,108,537	\$10,000,000

2

3

Q. Please explain why there are a few months that MAWC's NOL is depicted as increasing in the chart shown above?

4

5

A. Staff's understanding is that these increases primarily relate to ongoing updates of the amount of NOL that MAWC expects to be able to apply to its taxable income from January 2018 onward. The largest upward adjustment was made in November 2018 to true-up the December 2017 NOL amount to tie to the amount in the 2017 tax return.³

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Q. Do these isolated monthly increases in the NOL amounts call into question Staff's position that no amount of NOL has been generated by MAWC since January 1, 2018?

10

11

A. No. The above chart clearly shows that MAWC's NOL balances have consistently declined on an overall basis from January 2018 through February 2019, and that decline is expected to continue at least through year-end 2019. Over the two years of 2018 and

12

13

³ Staff Data Request 0004.1, Schedule KL-d3.

1 2019, MAWC's NOL balance is projected to decline from approximately \$31 million to
2 \$12 million. Given this material decline during the current and past ISRS periods, it is
3 reasonable to conclude that MAWC is not generating NOL amounts associated with ISRS
4 investment from January 1, 2018, onward.

5 Q. Does MAWC file income tax returns on a stand-alone basis?

6 A. No. MAWC files a consolidated tax return with its parent corporation, American
7 Water Works. In the response to Staff Data Request No. 0005 attached to this testimony as
8 Schedule KL-d4, it is conveyed that "MAWC's NOL usage is allocated based on an individual
9 company's NOL carryforward as a percent of the total group's NOL carryforward balance."
10 Also in the response to Staff Data Request No. 0005, MAWC acknowledged that it expects to
11 use prior NOL balances in 2018 and 2019 because the consolidated tax group is projecting
12 taxable income for those years.

13 Q. Does the fact that MAWC still has a prior NOL amount on its books mean that
14 offsetting the deferred tax liability with an NOL as part of this ISRS is appropriate?

15 A. No. The NOL generated by MAWC prior to 2018 was appropriately reflected in
16 MAWC's base rates in its prior general rate case. There has been no incremental
17 actual generation of NOLs by MAWC during the previous ISRS period of January 1, 2018,
18 through September 30, 2018, and the current ISRS period of October 1, 2018, through
19 March 30, 2019, associated with ISRS plant additions.

20 Q. Does this conclude your direct testimony?

21 A. Yes, it does.

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

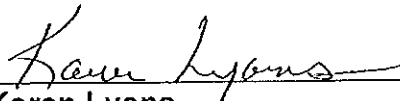
In The Matter of Petition of Missouri-American)	
Water Company for Approval to Change an)	Case No. WO-2019-0184
Infrastructure System Replacement Surcharge)	Tariff No. YW-2019-0018
(ISRS))	

AFFIDAVIT OF KAREN LYONS

State of Missouri)
) ss.
County of Jackson)

COMES NOW, Karen Lyons, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached *Direct Testimony*; and that the same is true and correct according to her best knowledge and belief.

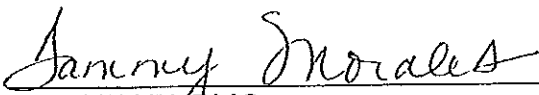
Further the Affiant sayeth not.



Karen Lyons

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 6th day of May, 2019.



NOTARY PUBLIC



TAMMY MORALES
My Commission Expires
January 7, 2022
Clay County
Commission #14461000

Educational and Employment Background and Credentials
of
Karen Lyons

I am currently employed as a Utility Regulatory Auditor V for the Missouri Public Service Commission (“Commission”). I was employed by the Commission in April 2007. Previously, I was employed by AT&T as a Regulatory Complaint Manager from December 1999 to February 2007. In that capacity I was responsible for addressing consumer and business complaints filed with various state and federal regulatory agencies. I earned a Bachelor of Science degree in Management Accounting and a Master’s in Business Administration from Park University.

As a Utility Regulatory Auditor V, I perform rate audits and prepare miscellaneous filings as ordered by the Commission. In addition, I review all exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written and oral testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases I have been assigned are shown in the following table:

Date Filed	Case/Tracking Number	Company Name - Issue
4/22/2019-Staff Memorandum 5/7/2019-Direct	WO-2019-0184	Missouri American Water Company (ISRS)
3/26/2019 Staff Memorandum	SA-2019-0161	United Services, Inc (CCN)
2/11/2019 Staff Memorandum	SA-2019-0183	Missouri American Water Company (CCN)
6/19/2018-Direct 7/27/2018-Rebuttal 9/4/2018-Surrebuttal and True-up Direct	ER-2018-0145	Kansas City Power & Light Company (Electric Rate Case) - Pending
6/19/2018-Direct 7/27/2018-Rebuttal 9/4/2018-Surrebuttal and True-up Direct	ER-2018-0146	KCP&L Greater Missouri Operations Company (Electric Rate Case)

Date Filed	Case/Tracking Number	Company Name - Issue
9/08/2017-Direct 10/17/2017-Rebuttal 11/21/2017-Surrebuttal 11/28/2017-True-Up Direct	GR-2017-0215 and GR-2017-0216-Contested	Laclede Gas and Missouri Gas Energy (Gas Rate Case)
11/30/2016-Direct 12/30/2016-Rebuttal 1/27/2017-Surrebuttal 3/01/2017-True-Up Direct 3/10/2017-True-Up Rebuttal	ER-2016-0285-Contested	Kansas City Power & Light Company (Electric Rate Case)
7/15/2016-Direct 8/15/2016-Rebuttal 9/02/2016-Surrebuttal	ER-2016-0156-Stipulated	KCP&L Greater Missouri Operations Company (Electric Rate Case)
2/09/2016-Deposition	EA-2015-0256-Contested	KCP&L Greater Missouri Operations Company (Solar CCN)
12/29/2015 Staff Memorandum	WO-2016-0098	Missouri American Water Company- Infrastructure Service Replacement Surcharge (ISRS)
4/02/2015-Direct 5/07/2015-Rebuttal 6/05/2015-Surrebuttal 7/15/2015-True Up Rebuttal	ER-2014-0370-Contested	Kansas City Power & Light Company (Electric Rate Case)
5/01/2014-Direct	HR-2014-0066-Stipulated	Veolia Energy Kansas City, Inc. (Steam Rate Case)
1/23/2014-Direct 4/01/2014-Surrebuttal	GR-2014-0007-Stipulated	Missouri Gas Energy Company (Gas Rate Case)
4/09/2013 Staff Memorandum	GO-2013-0391	Missouri Gas Energy - Infrastructure Service Replacement Surcharge (ISRS)
2/01/13 Staff Memorandum	WM-2013-0329	Bilyeu Ridge Water Company, LLC (Water Sale Case)

Date Filed	Case/Tracking Number	Company Name - Issue
8/09/2012-Direct 9/12/12-Rebuttal 10/10/12-Surrebuttal	ER-2012-0175-Contested	KCP&L Greater Missouri Operations Company (Electric Rate Case)
8/02/2012-Direct 9/05/2012-Rebuttal 10/08/2012-Surrebuttal	ER-2012-0174-Contested	Kansas City Power & Light Company (Electric Rate Case)
4/20/2012 Staff Memorandum	WM-2012-0288	Valley Woods Water Company, Inc. (Water Sale Case)
1/06/2012 Staff Memorandum	GO-2012-0144	Missouri Gas Energy - Infrastructure Service Replacement Surcharge (ISRS)
8/08/2011-Direct	HR-2011-0241-Stipulated	Veolia Energy Kansas City, Inc. (Steam Rate Case)
11/17/2010-Direct 12/15/2010-Rebuttal 1/05/2011-Surrebuttal	ER-2010-0356-Contested	KCP&L Greater Missouri Operations Company (Electric Rate Case)
11/10/2010-Direct 12/08/2010-Rebuttal 1/05/2011-Surrebuttal	ER-2010-0355-Contested	Kansas City Power & Light Company (Electric Rate Case)
12/22/2011 Staff Memorandum	SA-2010-0219	Canyon Treatment Facility, LLC (Certificate Case)
6/07/2010 Staff Memorandum	WR-2010-0202	Stockton Water Company (Water Rate Case)
4/02/2010 Staff Memorandum	SR-2010-0140	Valley Woods Water Company (Water Rate Case)
4/02/2010 Staff Memorandum	WR-2010-0139	Valley Woods Water Company (Sewer Rate Case)
1/14/2010-Direct	SR-2010-0110	Lake Region Water and Sewer (Sewer Rate Case)
1/14/2010-Direct	WR-2010-0111	Lake Region Water and Sewer (Water Rate Case)

Date Filed	Case/Tracking Number	Company Name - Issue
8/12/2009-Direct	GR-2009-0355-Stipulated	Missouri Gas Energy (Gas Rate Case)
2/13/2009-Direct 3/13/2009-Rebuttal 4/09/2009-Surrebuttal	ER-2009-0090-Global Settlement	KCP&L Greater Missouri Operations Company (Electric Rate Case)
2/13/2009-Direct 3/13/2009-Rebuttal 4/09/2009-Surrebuttal	HR-2009-0092-Global Settlement	KCP&L Greater Missouri Operations Company (Steam Rate Case)
2/11/2009-Direct 3/11/2009-Rebuttal 4/07/2009-Surrebuttal	ER-2009-0089-Global Settlement	Kansas City Power & Light Company (Electric Rate Case)
8/01/2008	HR-2008-0300-Stipulated	Trigen Kansas City Energy Corporation (Steam Rate Case)
4/28/2008	QW-2008-0003	Spokane Highlands Water Company (Water Rate Case)
12/17/2007	GO-2008-0113	Missouri Gas Energy - Infrastructure Service Replacement Surcharge (ISRS)

Missouri Public Service Commission

Respond Data Request

Data Request No.	0004
Company Name	Missouri-American Water Company-(Water)
Case/Tracking No.	WO-2019-0184
Date Requested	3/6/2019
Issue	Cost Recovery Mechanism - Infrastructure System Replacement Surcharge (ISRS)
Requested From	Brian LaGrand
Requested By	Casi Aslin
Brief Description	NOL Deferred Tax Asset Balances
Description	Reference Staff Data Request 0004 in Case No. WO-2018-0373. Please update the response to include actual monthly balances of MAWC's NOL deferred tax asset through most current date available. Also provide the projected monthly balances of the NOL deferred tax asset as of June 30, 2019 and December 31, 2019. DR Requested by Karen Lyons (Karen.lyons@psc.mo.gov)
Response	Please see the file "MoPSC 0004_Attachment update" for the monthly balances from December 2017 through February 2019, and an estimated balance for December 2019. Monthly balances are not available after February 2019.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WO-2019-0184** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Missouri-American Water Company-(Water)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Missouri-American Water Company-(Water)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

Missouri-American Water
WO-2019-0184
MoPSC 0004

NOL Deferred Tax Asset balances

<u>Month</u>	<u>Ending Balance</u>	<u>Change in balance</u>
Dec-17	31,464,998	
Jan-18	31,464,998	-
Feb-18	30,928,397	536,601
Mar-18	30,222,134	706,263
Apr-18	28,099,143	2,122,991
May-18	26,261,074	1,838,069
Jun-18	27,493,077	(1,232,003)
Jul-18	25,207,589	2,285,488
Aug-18	23,689,065	1,518,524
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Oct-18	21,795,951	(612,009)
Nov-18	27,807,457	(6,011,506)
Dec-18	22,108,537	5,698,920
Activity sum		9,356,461
Jan-19	21,845,006	263,531
Feb-19	21,915,687	(70,681)
Dec-19	12,108,537	10,000,000 Estimate

Missouri Public Service Commission

Respond Data Request

Data Request No.	0004.1
Company Name	Missouri-American Water Company-(Water)
Case/Tracking No.	WO-2019-0184
Date Requested	3/27/2019
Issue	Cost Recovery Mechanism - Infrastructure System Replacement Surcharge (ISRS)
Requested From	Brian LaGrand
Requested By	Casi Aslin
Brief Description	NOL Journal entries
Description	Reference the response to Staff data request 4 in Case No, WO-2019-0184. For Missouri-American Water Company (MAWC), please provide the monthly journal entries used to record the changes in the net operating loss balances for the period of January 2018 through the most current date available. The response should include a description of each journal entry explaining the purpose of the entry and support for the calculation of the entry. DR requested by Karen Lyons (Karen.lyons@psc.mo.gov).
Response	Please see attached.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WO-2019-0184** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Missouri-American Water Company-(Water)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Missouri-American Water Company-(Water)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

DATA INFORMATION REQUEST
Missouri American Water Company
WO-2019-0184

Requested From: Brian LaGrand
Date Requested: 3/27/19

Information Requested:

Cost Recovery Mechanism - Infrastructure System Replacement Surcharge (ISRS)

Reference the response to Staff data request 4 in Case No, WO-2019-0184. For Missouri-American Water Company (MAWC), please provide the monthly journal entries used to record the changes in the net operating loss balances for the period of January 2018 through the most current date available. The response should include a description of each journal entry explaining the purpose of the entry and support for the calculation of the entry.

Requested By: Karen Lyons – karen.lyons@psc.mo.gov

Information Provided:

The cumulative NOLC balance does not result from nor is it tracked via a JE posted to the G/L. It results from activity posted in our tax provision software that is based on both standalone calculations of taxable income within the provision and consolidated build and use limitations allocated pursuant to the tax sharing agreement.

While the tax provision results make up a majority of the NOLC movement and are decreasing the NOLC, there was also an adjustment for the 2017 tax return true up in December 2018 and increased the NOLC. In other words, what was booked in the December 2017 provision estimate for NOLC usage was too high and needed to be adjusted to tie to the tax return. Any other fluctuations during the months is based on normal provision results.

Missouri Public Service Commission

Respond Data Request

Data Request No.	0005
Company Name	Missouri-American Water Company-(Water)
Case/Tracking No.	WO-2019-0184
Date Requested	3/6/2019
Issue	Cost Recovery Mechanism - Infrastructure System Replacement Surcharge (ISRS)
Requested From	Brian LaGrand
Requested By	Casi Aslin
Brief Description	NOL Detail
Description	Reference Staff Data Request 0005 in Case No. WO-2018-0373. To the extent there is additional information available, provide and update to the following questions. Is MAWC currently expected to generate additional NOL amounts in 2018 and 2019 on an aggregate basis, or to use prior NOLs to offset taxable income in 2018 and 2019 in the aggregate? Please provide the projected net NOL amount generated or used for both calendar years. DR Requested by Karen Lyons (Karen.lyons@psc.mo.gov)
Response	MAWC expects to use prior NOLs in both 2018 and 2019 because it is part of American Water Works (AWW) consolidated group which projects taxable income for those tax years. AWW projects to use approximately \$395 million in 2018, per the year end provision estimate. MAWC was allocated about \$60.6 million, which, when tax effected, reduced the deferred tax asset by approximately \$12.7 million (See MoPSC 0006 Attachment Update). AWW projects to use approximately \$320 million of NOL in 2019.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WO-2019-0184** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Missouri-American Water Company-(Water)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Missouri-American Water Company-(Water)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security : Public
Rationale : NA