

Exhibit No.:
Issue: *ISRS Accumulated
Deferred Income Taxes*
Witness: *Karen Lyons*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *WO-2019-0184*
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

FILED

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REBUTTAL TESTIMONY Missouri Public
Service Commission

OF

KAREN LYONS

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WO-2019-0184

*Jefferson City, Missouri
May 2019*

Staff Exhibit No. 7
Date 5/21/19 Reporter JMB
File No. WO-2019-0184

1 Q. Does Staff agree with Mr. Wilde when he states that accumulated deferred
2 income taxes include both deferred tax liabilities and deferred tax assets?¹

3 A. Yes, as long as the deferred tax liabilities and deferred tax assets in question
4 are related to deductions for costs included in the utility cost of service. However, in this
5 ISRS petition, it is Staff's opinion that MAWC has not generated NOLs associated with ISRS
6 investment for the current ISRS period of October 1, 2018, through March 31, 2019, as well
7 as the previous ISRS period of January 1, 2018, through September 30, 2018. The Tax Cuts
8 and Jobs Act ("TCJA"), passed in December of 2017, changed the tax law to eliminate the
9 availability of bonus depreciation deductions which has historically been the main cause of
10 NOLs incurred by utilities.

11 Q. Does MAWC's proposed calculation of the NOL using the "with and without"
12 method make sense in this proceeding?

13 A. No. In Missouri, direct rate recovery of investment by a utility can only occur
14 after that investment is in service. If you take the approach of subtracting the incremental tax
15 deductions associated with new ISRS plant investment from an assumed level of zero
16 incremental revenues for the same additions, a hypothetical net operating loss amount will be
17 calculated every time, whether the utility is actually generating incremental NOL or not.
18 There could be a situation in the future when an actual NOL may be generated due to ISRS
19 investment, but in that case, a different method of calculation will need to be considered in
20 order to allocate appropriately an overall NOL value to incremental ISRS investment. At a

¹ John R. Wilde Direct Testimony, page 4, lines 17-18.

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1 minimum, a pro rata ratio of ISRS plant additions to non-ISRS plant additions would need to
2 be used to calculate the portion of the NOL reasonably attributable to ISRS plant additions.

3 Q. Is it possible to determine what specific ratemaking elements give rise to
4 an NOL?

5 A. No. NOLs are calculated on an overall basis and are not split out for
6 accounting purposes by the various tax deductions that may contribute to an NOL situation.

7 Q. What is the repairs deduction and associated "Consent Agreement" that
8 Mr. Wilde mentions on page 12, lines 6-9 of his testimony?

9 A. In 2010, American Water Works Inc. and its subsidiaries requested permission
10 from the IRS to change their method of tax accounting for costs associated with routine repair
11 and maintenance of tangible property. MAWC's request was granted, subject to the
12 conditions outlined in the Consent Agreement with the IRS. This agreement is attached to the
13 direct testimony of MAWC witness Wilde as Schedule JRW-6. The repairs tax deduction
14 covers costs that are incurred to keep the taxpayer's property in efficient operating condition
15 and that do not materially increase the value of the property or increase its useful life.

16 Q. Is a repairs deduction appropriate to reflect in MAWC ISRS cases?

17 A. Yes. The deferred tax liability associated with the repair allowance deduction
18 is appropriate to include in ISRS rates because the costs associated with this deduction are
19 directly related to ISRS plant additions.

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1 Q. Mr. Wilde discusses the Consent Agreement related to the tax repairs
2 deduction that MAWC was able to begin taking.² Does Staff believe that its recommendation
3 in this case would cause a normalization violation regarding the repairs deduction?

4 A. No. Staff agrees the Consent Agreement with the IRS requires MAWC to
5 follow normalization accounting regarding its repairs deduction, and Staff has applied
6 normalization accounting in its treatment of the repair allowance in this case. Staff included
7 the deferred tax liability relating to the repairs allowance deduction in its recommended ISRS
8 rate base; however, it is Staff's position that MAWC has not generated any NOL deferred tax
9 asset related to either accelerated depreciation deductions or repair allowance deductions in
10 the current ISRS period or the prior ISRS period. This is evident by MAWC's declining NOL
11 balances over time.³

12 Q. On page 15, lines 12-15, Wilde states "Staff only attributes the term
13 'hypothetical' to the NOL DTA [Deferred Tax Asset] that they suggest should be excluded
14 from the ISRS rate base, yet this amount is no more or less an estimate and 'hypothetical'
15 than the DTL [Deferred Tax Liability] generated in claiming tax depreciation and tax repairs."
16 Does Staff agree with this assessment?

17 A. No. Staff understands that MAWC uses accrual accounting to record estimates
18 of its deferred tax assets and liabilities on its financial reporting books and may "true-up"
19 these amounts with updated information later. When Staff called the deferred tax asset
20 "hypothetical," it meant that MAWC calculated an NOL solely for purposes of this ISRS
21 proceeding, while no such NOL deferred tax asset was actually booked by MAWC during the

² John R. Wilde, Direct Testimony, beginning on page 17, line 20.

³ Lyons Direct Testimony, MAWC Historical NOL Balances, page 6.

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1 | ISRS period. Assuming the existence of an NOL when no such amount at all is recorded on a
2 | utility's books is very different than relying on actual book information for the amount of
3 | accelerated depreciation deferred tax liabilities, even if such amounts may be subject to
4 | change later.

5 | Q. Does this conclude your rebuttal testimony?

6 | A. Yes, it does.

Missouri American Water Company
 WO-2019-0184
 ISRS
 Updated Reconciliation

	MAWC Filed Application	MAWC Updated Position	Staff's Position	Amount of NOL Removed	Total STAFF and MAWC Differences
Plant Additions - Replacements					
Gross Plant Additions	\$ 53,498,915	\$ 65,156,806	\$ 65,156,806		\$ -
CIAC	\$ (10,928)	\$ (10,928)	\$ (10,928)		\$ -
Deferred Taxes	\$ (548,022)	\$ (522,256)	\$ (9,222,666)	\$ (8,700,410)	\$ (8,700,410)
Accumulated Depreciation	\$ (282,134)	\$ (309,021)	\$ (309,021)		\$ -
Total Net Main Replacements	\$ 52,657,831	\$ 64,314,601	\$ 55,614,191	\$ (8,700,410)	\$ (8,700,410)
Plant Additions - Relocations					
Gross Plant Additions	\$ 1,149,549	\$ 1,010,834	\$ 1,010,834		
CIAC	\$ (298,250)	\$ (298,250)	\$ (298,250)		
Deferred Taxes	\$ (42,648)	\$ (3,856)	\$ (68,099)	\$ (64,243)	\$ (64,243)
Accumulated Depreciation	\$ (7,980)	\$ (7,484)	\$ (7,484)		\$ -
Total Net Relocations	\$ 800,671	\$ 701,244	\$ 637,001	\$ (64,243)	\$ (64,243)
Accumulated Deprec. and Deferred Tax on Investment in Current ISRS					
Accumulated Deprec. prior to ISRS	\$ (441,997)	\$ (441,997)	\$ (441,997)		
Deferred Taxes prior to ISRS	\$ (18,781)	\$ (18,781)	\$ (18,781)		
Total Acc. Deprec. And Deferred Taxes on Investment in Current ISRS	\$ (460,778)	\$ (460,778)	\$ (460,778)	\$ -	\$ -
TOTAL ISRS NET PLANT ADDITIONS	\$ 52,997,724	\$ 64,555,067	\$ 55,790,414	\$ (8,764,653)	\$ (8,764,653)

CALCULATION OF ISRS REVENUE REQUIREMENT

	MAWC Filed Application	MAWC Updated Position	Staff's Position	Amount of NOL Removed	Total STAFF and MAWC Differences
Total ISRS Net Plant Additions	\$ 52,997,724	\$ 64,555,067	\$ 55,790,414	\$ (8,764,653)	\$ (8,764,653)
Overall Pretax Rate of Return	9.44%	9.44%	9.44%	9.44%	
Revenue Requirement on Capital	\$ 5,002,985	\$ 6,093,998	\$ 5,266,615	\$ (827,383)	\$ (827,383)
Depreciation Expense	\$ 662,746	\$ 873,085	\$ 873,085		\$ -
Property Taxes	\$ 2,739,347	\$ 2,739,145	\$ 2,739,145		\$ -
ISRS Undercollection	\$ -	\$ -	\$ -		\$ -
Revenue Requirement Before Interest Deductibility	\$ 8,405,078	\$ 9,706,228	\$ 8,878,845	\$ (827,383)	\$ (827,383)