

**FILED**

NOV 14 2017

Missouri Public  
Service Commission

Exhibit No.:

Issues:

Witness:

Exhibit Type:

Sponsoring Party:

Case No.:

Date:

Property Tax Expense, Accounting  
Authority Order

Brian W. LaGrand

Surrebuttal

Missouri-American Water Company

WU-2017-0351

October 25, 2017

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. WU-2017-0351**

**SURREBUTTAL TESTIMONY  
OF  
BRIAN W. LAGRAN**

**ON BEHALF OF  
MISSOURI-AMERICAN WATER COMPANY**

MAWC Exhibit No. 5  
Date 11-08-17 Reporter KF  
File No. WU-2017-0351

## **SURREBUTTAL TESTIMONY**

**BRIAN W. LAGRAND**

1    **Q.    Please state your name, title and business address.**

2    A.    My name is Brian W. LaGrand, and my business addressed is 727 Craig Road, St.  
3           Louis, MO, 63141.

4

5    **Q.    Are you the same Brian W. LaGrand that previously submitted direct testimony**  
6           **in this proceeding?**

7    A.    Yes.

8

9    **Q.    What is the purpose of your surrebuttal testimony?**

10   A.    The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of  
11           Missouri Public Service Commission (“PSC” or “Commission”) staff member Mark L.  
12           Oligschlaeger, Office of Public Counsel (“OPC”) witnesses John R. Riley and Charles  
13           Hyneman and, along with Company Witness Wilde, to St. Louis County (“SLC”)   
14           witness, Suzanne Strain. My testimony first responds to Mr. Oligschlaeger’s assertion  
15           that the sudden change in property tax assessment practices by various Missouri  
16           counties are not sufficiently “extraordinary” in nature. Second, my testimony responds  
17           to Mr. Oligschlaeger’s implicit dismissal of the \$7.5 million impact on Missouri-  
18           American Water Company (“MAWC”, “Missouri-American” or the “Company”) in  
19           the absence of granting the requested accounting authority order (“AAO”). Finally,  
20           my testimony responds to and rebuts Staff’s asserted “distinguishing characteristics”

1 regarding prior Commission AAO precedent. Given the similarity of argument  
2 between Staff's testimony and the testimony of OPC witness Riley, I address his  
3 arguments in tandem with my discussion of Staff's positions. I then respond separately  
4 to the rebuttal testimonies of OPC witness Hyneman and SLC witness Strain.

5  
6 **Q. Can you briefly summarize the Company's position regarding whether the**  
7 **requested AAO should be granted?**

8 A. Yes. The Company's petition and the direct testimony filed by me and John R. Wilde  
9 fully support granting the AAO requested by the Company given the unique or  
10 extraordinary changes in the property tax assessment methodologies and tax  
11 obligations experienced by the Company that, absent an AAO, will negatively impact  
12 the Company by \$4.8 million in 2017 and by \$2.7 million through May of 2018. The  
13 Company's AAO request is consistent with past Commission precedent regarding the  
14 granting of an AAO, whereby the Company would: 1) be authorized to record on its  
15 books a deferred debit in NARUC Account 186, which represents the incremental  
16 increase in Missouri property taxes for the counties of St. Louis and Platte associated  
17 with the counties change in the calculation of Modified Accelerated Cost Recovery  
18 ("MACRS") class lives; and 2) maintain this deferred debit on its books until the  
19 effective date of the Report and Order in Missouri-American's pending general rate  
20 proceeding.

21  
22 **Q. Does Staff Witness Oligschlaeger or OPC Witness Riley support the Company's**  
23 **Petition for an AAO?**

24 A. No.

1

2 **Q. Turning to Staff's testimony first, please expand further upon the testimony of**  
3 **Staff Witness Oligschlaeger.**

4 A. Witness Oligschlaeger asserts that there is "nothing unusual or unique" in how St.  
5 Louis County proposes to assess MAWC assets for property tax purposes and,  
6 accordingly, this particular action by the taxing authorities does not appear to meet the  
7 Commission's past criteria for deeming certain events to be extraordinary  
8 [Oligschlaeger Rebuttal at 7-8]. "Staff views that actions taken to change the  
9 parameters of how utility assets are assessed by taxing authorities should be considered  
10 as part of the ordinary discretion available to those bodies and should not be considered  
11 to be inherently extraordinary in nature." [Oligschlaeger Rebuttal at 8]. He also  
12 dismisses Platte County's actions to extend to 50 years the assumed lives of the  
13 Company's assets for property tax purposes, which he acknowledges as  
14 "unprecedented in this State", because it is immaterial [Oligschlaeger Rebuttal at 8].

15

16 **Q. Is the rationale provided by OPC Witness Riley for not supporting the Company's**  
17 **AAO petition similar to Staff's?**

18 A. Yes, sufficiently so that I will respond to the points raised by Staff Witness  
19 Oligschlaeger and OPC witness Riley together in this section of my testimony.

20

21 **Q. Please explain further Staff's opposition to the AAO petition.**

22 A. While recognizing the Commission's standard that AAO's are appropriate to address  
23 "events occurring during a period which are extraordinary, unusual and unique, and not  
24 recurring," Staff asserts that the tax assessment methodology changes are not

1 “extraordinary” [Oligschlaeger Rebuttal at 8]. Staff argues “because utilities have  
2 incurred property taxes on an annual basis in the past, when considered as a category  
3 of cost, are routine and ongoing and should be considered the most “ordinary” of costs  
4 incurred by a utility.” [Oligschlaeger Rebuttal at 7]. Staff also asserts that the changes  
5 in assessment practices “appear to be the result of discretionary judgment by the taxing  
6 authorities that for the most part, are not unprecedented in nature when taking into  
7 account the assessment practices of other Missouri County taxing authorities.”  
8 [Oligschlaeger Rebuttal at 7].

9  
10 **Q. Next, can you please provide a brief overview of OPC Witness Riley’s rebuttal**  
11 **testimony?**

12 **A.** Yes. Mr. Riley asserts that “property tax increases are common” and therefore, like  
13 Staff, claims the changed assessment methodologies (and resulting increase in tax  
14 expense) are not “extraordinary” [Riley Rebuttal at 3]. Like Staff Witness  
15 Oligschlaeger, Mr. Riley attempts to distinguish, past instances where the Commission  
16 has granted an AAO to a Missouri utility for property taxes [Riley Rebuttal at 8-9]. Mr.  
17 Riley also makes the statement, with no apparent personal knowledge, that St. Louis  
18 County did not unexpectedly shift its property tax policy [Riley Rubuttal at 9]. Mr.  
19 Riley relies on his fellow OPC witness, Charles R. Hyneman, to assert a series of  
20 mainly legal arguments regarding whether or not the AAO petition is a request for a  
21 ratemaking finding that is inappropriate in an AAO proceeding. I will briefly address  
22 these arguments in my response to OPC witness Hyneman. Finally, Mr. Riley also  
23 seeks to rely on the matching principle for purposes of determining the start date for  
24 amortization of any deferred expenses. [Riley Rebuttal at 13].

1

2 **Q. Is the analysis by Staff's and OPC's witnesses flawed?**

3 A. Yes. Both Staff & OPC argue that the AAO petition addresses normal, ordinary, yearly  
4 adjustments in tax assessments, and that the tax increases are not extraordinary.  
5 Nothing could be further from the truth.

6

7 **Q. Is the change in tax assessment methodology extraordinary?**

8 A. Yes. The actions by the counties in question to alter their tax assessment methodologies  
9 represent dramatic, sudden, one-time foundational shifts from how the counties have  
10 historically calculated the Company's tax assessments. This case clearly involves  
11 neither a traditional minor adjustment or changes in the tax rate to be assessed on the  
12 Company's property nor a minor change in the methodology of how property taxes are  
13 to be assessed. Instead, it involves a sudden, drastic departure from prior  
14 methodologies, which are beyond the Company's control, that have resulted in millions  
15 of dollars of new tax expense for the Company, expenses that are not addressed in the  
16 Company's current rate structure. It is also extraordinary as it is extremely unlikely  
17 the Company will experience another similarly sudden dramatic spike in property tax  
18 expense based on a future alteration by the counties of their property tax assessment  
19 methodologies.

20

21 **Q. Is the Company including all increases in property taxes in the AAO application,**  
22 **including normal, ordinary changes due to increases in investments?**

23 A. No. The Company is not seeking to defer "ordinary," routine and ongoing property tax  
24 expenses as Staff and OPC suggest [Oligschlaeger Rebuttal at 7], [Riley Rebuttal at 3].

1        Instead, the Company seeks an AAO for only the incremental amount of property tax  
2        expense due solely to: 1) St. Louis County's decision to change the recovery period  
3        from 7 to 20 years; and 2) Platte County's decision to change the recovery period from  
4        20 to 50 years, as well as to include Construction Work in Progress in its assessment.  
5        To the extent MAWC has experienced increased property tax expense since its last rate  
6        case due to either increases in its investment levels and/or increases in the property tax  
7        rates of the various counties, it is absorbing those increases as a normal, ordinary  
8        adjustment in its property tax assessment and those increases are not included in its  
9        Accounting Authority Order request in this case.

10

11    **Q.    Is Staff Witness Oligschlaeger's comparison on page 8 of his testimony of his**  
12        **testimony between St. Louis County's new methodologies for assessing the**  
13        **Company to the methodologies utilized by other counties in the state valid or**  
14        **relevant?**

15    **A.    No.** What makes St. Louis County's recent action "extraordinary" is the fact that it  
16        represents a dramatic, unique, one time departure from the existing assessment  
17        methodology that St. Louis County had been using for the Company for at least ten  
18        (10) years. The fact that St. Louis County was so different from the other counties for  
19        many years makes its recent change even more of an "extraordinary" occurrence.  
20        Indeed, in discussing Platte County, Staff concedes that "Platte County's action of  
21        attempting to place some of MAWC's property in a 50-year asset life category appears  
22        to be unprecedented in this State" [Oligschlaeger Rebuttal at 8]. Whether or not the  
23        tax assessment methodology being newly adopted is substantively the same as the  
24        methodology utilized by other counties should have no bearing on whether or not it is

1 an extraordinary event for AAO purposes. The key fact is the change itself, which  
2 undeniably radically altered past practice and was therefore an “extraordinary” event.  
3 As the Commission has made clear in the past, AAO’s are appropriate “for various  
4 unusual occurrences such as flood related costs, changes in accounting standards, and  
5 other matters which are unpredictable and cannot adequately or appropriately be  
6 addressed within normal budgeting parameters.”<sup>1</sup> The accounting changes at issue here  
7 were unpredictable and could not be forecasted in the ratemaking process. These were  
8 unusual, unique and non-recurring events. In short, despite Staff’s assertion to the  
9 contrary, the sudden changes in the respective tax assessment methodologies by both  
10 St. Louis County and Platte County fit squarely within the Commission “extraordinary”  
11 event standard for granting AAO petitions.  
12

13 **Q. Does Staff or the OPC question whether the property tax increases are material?**

14 **A.** Partially. Staff and OPC’s witnesses first note, correctly, that the standard materiality  
15 threshold is 5% of a utility’s annual net income for consideration of AAO deferral  
16 requests. Staff acknowledges that the standard has been met for St. Louis County, but  
17 argues that the Platte County changes “considered in isolation” are not material  
18 [Oligschlaeger Rebuttal at 6]. OPC Witness Riley asserts that the Company’s estimate  
19 of the increase is material in 2017, but not material in 2018 (although OPC indicates it  
20 is continuing its evaluation), suggesting that each year should be considered separately  
21 [Riley Rebuttal at 3]. However, Mr. Riley on page 4 of his rebuttal suggests otherwise.

---

<sup>1</sup> In the matter of St. Louis County Water Company’s Tariff Designed to Increase Rates for Water Service to Customers in the Company’s Service Area, Case No. WR-96-263, (R&O issued December 31, 1996), 1996 Mo. PSC Lexis 99, p. 19.



1 In citing FERC's USOA definition of extraordinary items, he actually provides support  
2 for the fact that the impact in 2017 and 2018 should be considered in the aggregate.<sup>2</sup>  
3 Moreover, neither Staff nor OPC proffer any credible explanation why the Platte  
4 County changes should be considered "in isolation." The Company does not  
5 experience the financial impact of changes to its property taxes "in isolation." The  
6 changes in tax assessment methodology, including Platte County's "unprecedented"  
7 imposition of a 50 year life category both occurred during the time period at issue in  
8 the Company's AAO petition [Oligschlaeger Rebuttal at 7]. Based on the financial  
9 impact of the property tax assessment methodology changes imposed on the Company,  
10 the materiality threshold has been exceeded<sup>3</sup> and is not a bar to the Commission  
11 granting the Company's AAO petition.  
12

13 **Q. Does Staff seek to downplay the significance of the financial harm to the Company**  
14 **that would result from a failure to grant the Company an AAO?**

15 **A.** Yes. Staff states that there is only a "maximum lag of five months between MAWC's  
16 payment of any increased property tax at issue in this AAO filing and approval of new  
17 customer rates incorporating the higher expense levels, implying that the failure to  
18 grant an AAO at this time will readily be cured in the near future [Oligschlaeger  
19 Rebuttal at 9]. While the date new rates will go into effect may occur five months after

---

<sup>2</sup> The FERC USOA definition of extraordinary items provides that "the effects of a series of related transactions arising from a single specific and identifiable event or plan of action should be considered in the aggregate." In this case, the change in tax assessment methodology is a single and identifiable event.

<sup>3</sup> The increased tax expenses the Company expects to incur during the period covered by this AAO is estimated to be \$7.5 million. After adjusting for income taxes, this represents approximately 9.6% of the Company's 2016 net income. See Schedule BWL. MAWC notes that the workpaper provided by Mr. Oligschlaeger supporting his rebuttal testimony includes a few errors (e.g., includes tax expense for all of 2018 rather than just January – May, does not include the 2018 expense for Platte County, and does not tax effect the expense), and offers Schedule BWL-1 for the Commission's consideration in its place.

1 payment of the 2017 property taxes, this misses the objective of the AAO request,  
2 which is to address the time period from January 2017 to May of 2018, when the  
3 increased tax bills are effective, prior to MAWC's new rates going into effect in June  
4 of 2018.

5

6 **Q. Will the \$7.5 million in dollars of extra expense paid by the Company during the**  
7 **period of time governed by the requested AAO be “cured” or “remedied” when**  
8 **new rates become effective in five months?**

9 A. No. The AAO petition seeks to address the \$4.8 million dollars in sudden, additional  
10 tax expense imposed on the Company for the calendar year 2017 and the additional tax  
11 expense to be incurred from January 1, 2018 through May 31, 2018 of \$2.7 million.  
12 New rates to be set in June of 2018 can only address the increased property taxes on a  
13 going forward basis, but fail to reimburse the Company for the \$7.5 million dollars of  
14 additional tax expense it will have incurred for the prior 17 month period. Without  
15 approval of the AAO, the Company will be denied the chance to recover its incurred  
16 property tax expense that has increased significantly above what was authorized in the  
17 Company's prior rate case.

18

19 **Q. If the Commission were to grant the AAO deferral, would that automatically**  
20 **authorize rate recovery in five months in the new rate case?**

21 A. No. An AAO would simply allow the Company to defer items for later consideration.  
22 It is not an assurance for recovery and it would be up to the Commission to determine  
23 whether the deferred costs should be included in rates. The Company has asked the

1 Commission to allow it to recover any such deferred costs in its current pending rate  
2 case.

3  
4 **Q. Staff witness Oligschlaeger makes reference on page 9 of his testimony to a prior**  
5 **AAO application by Missouri Gas Energy (“MGE Case”). OPC Witness Riley**  
6 **makes reference to the same proceeding on pages 8-9 of his rebuttal testimony.**  
7 **Do you agree with Staff and OPC’s identification of allegedly distinguishing**  
8 **characteristics?**

9 **A.** No, I do not. OPC Witness Riley seeks to distinguish the Missouri Gas Energy  
10 (“MGE”) proceeding by indicating that in that case the tax imposed was material to the  
11 utility. [Riley Rebuttal at 9]. That is a similarity here, not a distinction as the changes  
12 are clearly material to the Company. Staff Witness Oligschlaeger asserts that the  
13 actions taken by the state of Kansas were in his recollection unprecedented and  
14 therefore extraordinary in nature [Oligschlaeger Rebuttal at 9]. Staff appears to be  
15 implicitly asserting that the actions of St. Louis County and Platte County were in some  
16 fashion not unprecedented. Yet, Staff expressly conceded that the action of Platte  
17 County was, in fact unprecedented [Oligeschlaeger Rebuttal at 7]. And, as I noted  
18 earlier in my testimony, the change in assessment methodology by both Platte County  
19 and St. Louis County from the methodology that to my knowledge they have used for  
20 at least the past 10 years was completely unprecedented. Rather than distinguish the  
21 MGE case, Staff’s and OPC’s assertions serve to further demonstrate how the MGE  
22 case is applicable to the current situation.

1

2     **Q.     How else does Staff seek to distinguish the MGE Case?**

3     A.     Staff asserts that in the MGE Case, MGE and other parties made extensive efforts in  
4           the state and federal courts to overturn the actions taken by the State of Kansas. Staff  
5           next testifies that in its view while a legal challenge by a utility is “not sufficient in and  
6           of itself to justify deferral of the increased costs, deferral of such costs does provide[s]  
7           [sic] financial support for the utility challenging the taxes, in that the utility in question  
8           would not have to recognize the financial loss associated with the increased property  
9           taxes as long as the regulatory commission approved the deferral.” Staff’s argument  
10          here is unclear. If Staff is asserting that the grant of a deferral (via an AAO) would not  
11          require the Company to recognize the financial loss associated with the increased  
12          property taxes, we are in agreement. In fact, that is exactly why Company’s AAO  
13          should be granted. On the other hand, if Staff is attempting to imply that initiation of  
14          litigation is part of the Commission’s standard for granting an AAO, they have  
15          provided no precedent or even logic to support such a conclusion. In any event, as  
16          indicated in the Direct Testimony of Company Witness Wilde, and updated in his  
17          Surrebuttal Testimony, the Company is still evaluating its options in St. Louis County  
18          and has filed a further appeal regarding Platte County’s assessment [Wilde Surrebuttal  
19          Testimony at 5-6].

20

21     **Q.     Are there any other points raised by OPC Witness Riley that are not addressed**  
22           **by Staff that you wish to briefly address?**

23     A.     Yes. Mr. Riley makes the claim that “St. Louis County did not unexpectedly shift its  
24           property tax policy, [Riley Rubuttal at 9] but rather “found an error in MAWC’s tax

1 reporting and corrected the error.” That statement is erroneous, as I demonstrate later  
2 in response to the testimony of SLC Witness Strain on the same subject. Witness Riley  
3 also sets forth unsupported statements about the OPC’s concerns with what it  
4 characterizes as “MAWC’s proposed ratemaking treatment of these deferred expenses”  
5 [Riley Rebuttal at 10]. Mr. Riley also asserts that the Company’s AAO petition is a  
6 request for a ratemaking finding that is inappropriate in an AAO, and seeks to buttress  
7 that conclusion via a discussion of the “matching principle” in rate making proceedings  
8 (which he previously argued the AAO was not), via discussions of FERC matching  
9 principles (which do not apply here) and various summaries of testimony and positions  
10 taken by Staff in other proceedings. That too is an erroneous assertion.  
11

12 **Q. Is the Company seeking ratemaking treatment in this AAO proceeding?**

13 **A.** No, it is not. The Company is seeking Commission authorization to record and defer  
14 on its books the increase in property tax expense for the period between January 1,  
15 2017 and May 31, 2018 (the approximate operation of law date for MAWC’s pending  
16 rate case) associated with the change in tax assessment methodologies to NARUC  
17 account 186 – Miscellaneous Deferred Debits.

18 As was the case in the Company’s AAO proceeding regarding the replacement of lead  
19 service lines (WU-2017-0296), the parties viewed language in my testimony seeking  
20 that the costs stay in account 186 “until all eligible costs are amortized and recovered  
21 in rates” as a request for ratemaking treatment. The Company is not seeking  
22 ratemaking treatment for the deferred property tax expense in this case. Instead, it is  
23 doing so in its pending rate case proceeding (WR-2017-0285). In an attempt to avoid  
24 litigating that issue in this case, we advised the parties in this proceeding that we are

1 not seeking ratemaking treatment in this AAO proceeding and that we would be  
2 deleting the phrase in question from page 7, lines 19 and 20 of my direct testimony. A  
3 redlined version of my direct testimony showing that phrase deleted was circulated to  
4 all parties prior to the filing of rebuttal testimony. Consequently, Mr. Riley's  
5 arguments regarding ratemaking treatment for and amortization of the deferred  
6 expense are no longer relevant in this proceeding and need not be considered by the  
7 Commission in deciding whether to grant the requested AAO.

8  
9 **Q. Please briefly summarize the rebuttal testimony of OPC Witness Hyneman.**

10 A. Like Mr. Riley, Mr. Hyneman also argues that ratemaking treatment is not  
11 appropriately determined in an AAO proceeding. Mr. Hyneman's focus, however, is  
12 that the Company cannot seek and the Commission cannot authorize a regulatory asset  
13 in this AAO proceeding, spending much of his rebuttal testimony citing to FERC  
14 requirements he admits are not applicable to the Company and a variety of accounting  
15 standards [Hyneman Rebuttal at 14-25 & Exhibits CRH-R-1 through CRH-R-4]. He  
16 also spends a great deal of his testimony discussing the probability of recovery  
17 determination applicable to regulatory assets.

18  
19 **Q. Is the Company asking the Commission to make a determination regarding the**  
20 **probability of recovery of the costs it is seeking to defer?**

21 A. No, it is not. As I explained above, the Company is asking to record and defer on its  
22 books the increase in property tax expense for the period between January 1, 2017 and  
23 May 31, 2018 (the approximate operation of law date for MAWC's pending rate case)  
24 associated with the change in tax assessment methodologies. The deferred costs would

1 be booked to NARUC account 186 – Miscellaneous Deferred Debits. Consequently,  
2 the Company is not addressing the issues raised by Mr. Hyneman because they are  
3 irrelevant to this proceeding and need not be considered by the Commission in deciding  
4 whether to grant the requested AAO.

5  
6 **Q. OPC Witness Hyneman states on page 4 of his rebuttal testimony that the**  
7 **Company can defer expenses to NARUC account 186 without Commission**  
8 **authorization to do so. Why is MAWC seeking Commission authorization to defer**  
9 **these costs?**

10 A. Due to the extraordinary nature and materiality of these expenditures, the Company  
11 wants to bring this issue before the Commission to confirm that these costs are  
12 appropriate for deferral until rate treatment for these expenses can be addressed in the  
13 Company's pending rate case.

14  
15 **Q. Does Witness Strain's testimony support some of the factual statements in your**  
16 **testimony and Mr. Wilde's?**

17 A. Yes, it does. First, it confirms that up until May 2017, the Company had consistently  
18 utilized a 7 year recovery period and that methodology had been accepted by St. Louis  
19 County in the past [Strain Rebuttal at page 3, Q&A 11]. It also indicates that the  
20 Company was first notified of the County's change in position on May 30, 2017 via an  
21 e-mail to the Company's tax agent, asking for a change to a 20 year recovery period  
22 [Strain Rebuttal at page 3, Q&A 11 & Exhibit 2]. It also confirms that the Company  
23 complied with the County's request [Strain Rebuttal at page 5, Q&A 15].

1

2     **Q.     On page 3 of SLC Witness Strain’s Rebuttal, she alleges that the Company had**  
3           **provided assessments to her that were “incorrect” in her view. Do you agree that**  
4           **the Company filed in “error” its assessment reporting data with St. Louis County?**

5     **A.     No. There was no error. As noted in the surrebuttal of Company Witness Wilde, the**  
6           **Company, as it has for at least the last 10 years, utilized a seven year recovery period**  
7           **for these types of assets. Once it was notified by the County to make a change to the**  
8           **methodology to utilize a longer recovery period, it complied.**

9

10    **Q.     Witness Strain’s testimony appears to imply that the Company should have**  
11       **altered its tax assessment reporting based on the fact that other counties required**  
12       **the Company to report differently. Do you agree with this implication?**

13    **A.     No. A water company, such as MAWC, has a duty to its customers to seek to maintain**  
14       **expenses as low as reasonably possible while still providing quality service. SLC**  
15       **Witness Strain appears to want the Commission to draw some type of negative**  
16       **inference from the fact (as shown on Exhibit 3 to Witness Strain’s testimony) that the**  
17       **Company or its agent discussed Missouri’s implementation of MACRS depreciation**  
18       **schedules statewide and the “potential impact, should that fully occur in St. Louis**  
19       **County” [Strain Rebuttal at page 7, Q&A 20]. No such negative inference can or**  
20       **should be drawn. While the Company may have been trying to educate itself about**  
21       **potential future changes in assessment methodology, the essential fact is that the change**  
22       **had not been made in St. Louis County. The Company had no duty to survey the**  
23       **requirements of other counties or to seek affirmatively, under its own initiative, for**  
24       **ways to increase the property tax burden placed on its customers. When it became**  
25       **aware of the County’s new methodology, the Company complied and implemented that**



1 new policy [Strain Rebuttal at page 5, Q&A 15].

2

3 **Q. To the extent MAWC's distribution property has been assessed at values less than**  
4 **it would have been assessed had a twenty-year recoverable life been used, who has**  
5 **benefitted from that lower valuation?**

6 **A.** MAWC's customers have been the sole beneficiary of the lower property tax expense.  
7 The property tax expense used by the Commission in establishing rates for MAWC has  
8 been based on the most current year's actual property tax expense. Therefore, to the  
9 extent MAWC was paying a lower property tax expense to SLC than it would otherwise  
10 have paid had the SLC Assessor's office used a twenty-year recovery life, the benefit  
11 of that lower tax expense has been passed directly to our customers in the form of lower  
12 rates for water service.

13

14 **Q. Ms. Strain also has concerns about MAWC's inability to provide county-specific**  
15 **information that details equipment that is also contained in MAWC's Annual**  
16 **Report to the Commission [Strain Rebuttal at pages 7-8, Q&A 21]. How do you**  
17 **respond?**

18 **A.** The Missouri Commission Annual Report and the SLC property declaration are two  
19 different reports serving two different purposes. The Annual Report filed with the  
20 Commission is a total Company report detailing annual revenues, expenses and  
21 investments on a form that is provided by the Commission. There is no listing of  
22 property or equipment in this form - only total dollar amounts taken from the accounts  
23 on the Company's books and presented using the NARUC chart of accounts. The  
24 primary purpose of the Company's Annual Report to the Commission is to provide

1 financial results for the prior calendar year. As Company Witness Wilde explains in  
2 his surrebuttal, the property declaration filed by MAWC with the SLC Assessor is a  
3 detailed listing of all property and equipment, and its original cost, located in St. Louis  
4 County. While the total original cost of all plant located in the state would equal the  
5 total investment amount in MAWC's Annual Report to the Commission, that  
6 information is simply not broken down by county on the Company's books of account  
7 or in the Commission's Annual Report. Moreover, the accumulated depreciation  
8 reported to the Commission is based on Commission-approved depreciation rates  
9 which are different than the tax depreciation rates used by the various county assessors.

10

11 **Q. Does this conclude your surrebuttal testimony at this time?**

12 **A. Yes.**

Case No. WU-2017-0315  
 Missouri American Water  
 Exhibit BWL-1

	St. Louis County	Platte County	Grand Total
<b>Annual Incremental Property Taxes for 2017 &amp; 2018</b>			
Incremental Additional 2017 Property Taxes	\$4,400,000	\$400,000	\$4,800,000
Incremental Additional 2018 Property Taxes	6,100,000	400,000	6,500,000
<b>Total Incremental Additional Property Taxes</b>	<b>\$10,500,000</b>	<b>\$800,000</b>	<b>\$11,300,000</b>
<b>Property Taxes Included in This AAO</b>			
2017 Property Taxes	\$4,400,000	\$400,000	\$4,800,000
2018 Pro-Rated Property Taxes through May	2,541,667	166,667	2,708,333
<b>Taxes in AAO</b>	<b>\$6,941,667</b>	<b>\$566,667</b>	<b>\$7,508,333</b>
Taxes Included in This AAO			\$7,508,333
Tax Effect @ 38.9% Effective Rate			2,920,742
<b>After Tax Impact of Incremental Additional Taxes</b>			<b>\$4,587,592</b>
2016 MAWC Net Income in PSC Annual Report page F-13			\$47,826,578
<b>After Tax Impact of Incremental Additional Taxes as a Percent of Net Income</b>			<b>9.6%</b>