Exhibit No.:	
Issues:	Accumulated Deferred Income Taxes, Excess Accumulated Deferred Income Taxes.
Witness:	John R. Wilde
Exhibit Type:	Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2020-0344
Date:	February 9, 2021

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2020-0344

SURREBUTTAL TESTIMONY

OF

JOHN R. WILDE

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, John R. Wilde , under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Vice President – Tax Compliance and Strategy for American Water Service Company, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

John R Wilde
John R. Wilde

February 9, 2020
Dated

SURREBUTTAL TESTIMONY
JOHN R. WILDE
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2020-0344

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SURREBUTTAL TESTIMONY

JOHN R. WILDE

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is John R. Wilde, and my business address is One Water Street, Camden, NJ 08102.

Q. Are you the same John R. Wilde who previously submitted direct testimony and rebuttal testimony in this proceeding on behalf of Missouri-American Water Company ("Missouri American," "MAWC" or "Company)?

A. Yes.

II. OVERVIEW

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony is to update the Commission with respect to actual December 31, 2020 Excess Accumulated Deferred Income Taxes ("EADIT") balances, to respond to proposals to amortize unprotected EADIT balances using a very short amortization period made by Missouri Public Service Commission Staff ("Staff") witness Kimberly K. Bolin, Office of the Public Counsel ("OPC") witness John S. Riley, and Missouri Industrial Energy Consumers ("MIEC") witness Greg R. Meyer, and to respond to a proposal to adjust the provision for income taxes by OPC witness Riley.

III. UPDATED ADIT BALANCES AND UPDATED EADIT AMORTIZATION

Q. Has the Company updated its ADIT balances and EADIT amortizations as ordered[1] by the Commission?

A. Yes, the Company's updated ADIT balances and updated EADIT amortizations are reflected in updated revenue requirements amounts presented by Company witness LaGrand. Schedules supporting the update of EADIT balance and amortization amounts are attached to this testimony as Schedules JRW-1SR, and JRW-2SR, and should supersede versions of those schedules attached to my direct and rebuttal testimony in this proceeding.

Q. Can you explain what changed in each of the revised schedules?

A. Yes. In Schedule JRW-1SR, which is the TCJA Excess ADIT and State Rate Change Excess and related amortization, the PowerTax deferred tax module was updated for the 2019 tax return filed in October 2020. The state excess changed slightly since the state rate change occurred as of January 1, 2020, and is based on the final gross temporary differences at December 31, 2019. It was also determined that the PowerTax case used as the starting point in the original filing was off slightly from the final federal amounts. As compared to Schedule JRW-1R, these current adjustments caused a net increase in total excess of $247,318. Finally, the 2020 plant activity used to calculate the deferred taxes was also updated to the full year actual amounts on the books at December 31, 2020. These changes updated the amortization of the excess ADIT for each year.

Schedule JRW-2SR, which is the Comparison of EADIT Amortization periods, was updated for the new amounts in Schedule JRW-1SR. It still shows the effect of a 3, 5, 10

[1] WR-2020-0344 Order Setting Test Year and Adopting Procedural Schedule, p. 4-5.

and 20 year amortization period versus using ARAM for the amortization.

Q. Does Staff adjust the ADIT or EADIT balances during rebuttal to exclude balances not related to having claimed accelerated tax depreciation as proposed by OPC witness Riley in his Direct Testimony?

A. No, Staff accounts for the entire the ADIT and EADIT balances in its calculation[2], without excluding plant related items not associated with accelerated tax depreciation. With respect to Mr. Riley's proposed exclusion of ADIT related to Net Operating Loss Carryforward ("NOL" or "NOLC"), Staff witness Foster in his rebuttal testimony supports the inclusion of the NOL related ADIT in the balance impacting rate base[3].

Q. Has MIEC in this proceeding proposed the adoption of the limitation to the ADIT balance included in rate base suggested by OPC?

A. No, not that I am aware of. MIEC witness Meyer has not suggested limiting ADIT or EADIT to the balance related to having claimed accelerated tax deprecation (protected).

IV. EADIT AMORTIZATION PERIODS

Q. Do OPC, MIEC, and Staff agree with the Company that the Average Rate Assumption Method (ARAM) should be used to amortize "protected" EADIT Balances?

A. Yes.

Q. Does Staff continue to use the same 5 year straight line method for EADIT amortization related to the stub period (or catchup period) of January 1, 2018

[2] Staff Witness Foster Rebuttal Testimony Page 2, Line 6.
[3] Staff Witness Foster Rebuttal Testimony Page 2, Starting on Line 10.

through the date base rates will go into effect in this case?

A. Yes. Staff Witness Bolin in her rebuttal testimony confirms a 5 year amortization period is being used for the stub period portion of the EADIT balance.[4] The Company agrees this was the period specified for stub period amounts in the settlement agreement that resolved the Company's previous rate case as discussed in my Rebuttal Testimony.

Q. Do OPC and MIEC agree that the catch-up period EADIT should be amortized over 5 years?

A. No, despite the terms of the settlement for the prior rate case, both OPC and MIEC now request a 3 year amortization period be used for amortization of the catch-up period EADIT balance.[5]

Q. Do OPC, Staff, and MIEC agree with the Company that ARAM should be used to amortize plant related unprotected EADIT balances, and a 20 year straight line amortization method should be used for non-plant unprotected EADIT balances?

A. No. Staff proposes the Commission use a five year straight line amortization period for both unprotected EADIT balances[6], while MIEC and OPC propose the Commission use a three year straight line amortization period for both unprotected EADIT balances[7].

Q. Will using a short amortization period such as 5 years for unprotected EADIT balances result in a significant increase in rate base over that same period and a significantly higher revenue requirement in the year after the amortization of

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[4] Staff Witness Bolin Rebuttal Testimony, Page 21, Line 20.
[5] OPC Witness Riley Rebuttal Testimony, Page 6, Starting on Line 8.
[6] Staff Witness Bolin Rebuttal Testimony, Page 21, Line 20.
[7] OPC Witness Riley Rebuttal Testimony, Page 6, Starting on Line 8.

unprotected EADIT ends?

A. Yes, based on the attached comparative analysis (Schedule JRW-2SR) rate base would be $46.5 million more on a comparative basis and revenue requirement would increase by $23 million in the year after the 5 year amortization period ends.

Q. Is there any tax normalization issue the Commission should be aware of in deciding which method and period of amortization it should use for unprotected EADIT balance?

A. No, not as long as the Commission transitions from using ARAM for all plant related EADIT balances to using an alternative method for all unprotected plant related EADIT balances, and consistently adjusts rate base and cost of service for the resulting change in the EADIT amortization. I have updated the comparative analysis of several alternative methods and amortization periods for unprotected EADIT. This comparative analysis is provided as part of Schedule JRW-2SR, and this analysis is done in a manner that adjusts the revenue requirement and rate base in each year consistent with the tax normalization rules. The Commission might find this comparative analysis relevant to its decision regarding the appropriate method and period to use to amortize unprotected EADIT balances.

Q. Does using a short amortization period like 3 or 5 years match the period over which the EADIT benefit will be realized or the period over which the customer will fund the deductions that gave rise to the EADIT balance?

A. No. The investment in plant that produced the tax deduction at the 35% tax rate, and thus gave rise to the plant-related EADIT when the tax rate was reduced to 21%, will reverse over the remaining useful life of the plant. As such, the EADIT related to having accelerated tax deduction in the past at a rate of 35% will only be realized in the future if the original tax deduction is sustained in any future audit, and the tax rate remains at 21% for the period over which the accelerated tax deduction will reverse. The period the book tax difference or accelerated tax deduction will reverse is the average remaining life of the plant investment that was the basis on which the accelerated tax deduction and book deduction are claimed. If the tax rate were to increase from the current level of 21% during the remaining useful life of the plant, then the amount of EADIT that calculated at a 14% reduction (35% minus 21%) in the tax rate would not be realized. If deduction claimed for periods prior to 2017 were to be adjusted in an audit by the IRS, then EADIT would need to be recalculated. The average remaining life of the plant as of December 31, 2017 is just over 40 years. The average period over which non-plant related EADIT balances will be realized and funded by customers is also significantly longer that 3-5 years. The Company believes a 20 year period is reflective of the period over which non-plant EADIT would reverse.

Q. Will customers be burdened with a higher revenue requirement on comparative basis if the Commission were to use a method that amortized the unprotected EADIT balances over a three or five year period versus the method and period proposed by the Company?

A. Yes, based on the comparative analysis available in JRW-2SR the revenue requirement over the average remaining life of the underlying plant would be $112.3 million higher using a 3 year straight line method and $114.1 million higher using a 5 year straight line method.

Q. Does Staff witness Bolin support her use of a 5 year straight-line method to amortize unprotected EADIT balances in this case?

A. No. Staff witness Bolin only states the "What should govern the amortization period is whether the ADIT is protected or unprotected, not if it is related to plant or not plant related."

Q. Does the fact that an EADIT balance item is identified as "unprotected" require the Commission to use a short amortization period such as 5 years?

A. No. The Commission could decide that the best interest of the customer and Company is better served by using ARAM or one of the longer lives analyzed on a comparative basis in Schedule JRW-2SR. The Company continues to believe that matching the amortization of EADIT to the period that customers will fund the underlying tax deduction, and the period over which the EADIT will actually be realized, is in the best interest of the Customer and the Company. Using ARAM for plant related unprotected balances provides EADIT to those customers that will be asked to fund the investment in plant that gave rise to the EADIT. The same is true in using a 20 year amortization period for non-plant items, as that is the representative period the Company believes that balance of EADIT will be realized, and the underlying book to tax difference will be funded and reverse.

Q. Has OPC been consistent in other Missouri rate setting proceedings regarding its proposal to use a three year straight-line amortization method for unprotected EADIT?

A. No. OPC witness Riley, in his rebuttal testimony, concedes that OPC's position has generally been to propose a 10 year period of amortization. Specifically, he states, "The OPC was concerned that companies would have to finance the refund of such a large amount, so it proposed a 10-year amortization period so financing would not be necessary." (Riley RT, p. 6). However, Mr. Riley now believes that "it doesn't appear that there will be a cash flow problem with a shorter amortization period." (Riley RT, p. 6).

Q. Do you agree with OPC witness Riley's assessment that the concerns regarding funding of EADIT should have changed over the past couple of years?

A. No, given the Company has not yet begun its amortization of EADIT, there would be no experience on which to base a conclusion that using a three year period to amortize unprotected EADIT would have no impact on the Company's ability or cost to raise debt or equity to fund EADIT amortization. EADIT amortization does result in reduction in a cashflow from operations, which in turn increases the need to raise cash from debt and equity. In addition, the TCJA eliminated a utility's ability to claim bonus depreciation for tax purposes. This also has the effect of reducing cashflow from operations, thus resulting in a need to raise more cash through debt and equity in order to continue to reinvest in the business at current levels. Due to the transition rules related to the elimination of bonus depreciation, and net operating loss carryover balances related to having previously been allowed to claim bonus depreciation, a utility like Missouri American would not have experienced the full impact of this change in tax law until later in 2020 or 2021. For these reasons, I would not consider the last couple of years as indicative of the challenge's the Company will face related to funding EADIT amortization and the elimination of bonus depreciation.

V. PROPOSED ADJUSTMENT TO PROVISION FOR INCOME TAXES

Q. Do you agree with OPC witness Riley's adjustment to Federal and state tax obligations computed pursuant to the relevant tax sharing policy on a separate return

basis?

A. No. What OPC witness Riley's adjustment is contrary to the tax sharing policy that governs the tax obligations of each subsidiary that is part of the Federal consolidated group, and Missouri Combined group. The provisions of the tax sharing policy that the Company must follow are consistent with what both Federal and Missouri tax law addressing the joint and severable tax obligations of each member of a combined or consolidated filing group. The provisions of the tax sharing policy that the Company must follow are consistent with each and every tax sharing policy or agreement that I have reviewed as they were reviewed and acted on by the respective regulatory commission. What Staff and the Company each have done in computing the Company's standalone or separate return tax obligation, is calculate the basis for the allocation of the Federal consolidated and Missouri Combined return obligation to each member. What Staff and the Company each have done in computing the Company's tax obligations pursuant to the tax sharing policy is also consistent with how I have seen these calculations done by commissions setting rates across the United States. I would also be concerned that OPC witness Riley's proposed adjustment would violate the consistency provisions of the tax normalization rules, as his adjustment would appear to double-count the effects of ADIT and disconnects the accrual of deferred tax expense through the tax provision from the accrual of the ADIT balance included in rate base.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.