

Exhibit No:

*Issues: Income Taxes; True-up
adjustments: Pension, OPEB,
Defined Contribution Plan*

Witness: Kofi A. Boateng

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No. WR-2015-0301

Date Testimony Prepared: March 4, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

KOFI A. BOATENG

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

*Jefferson City, Missouri
March 2016*

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1 non-taxable portion of Contributions in Aid of Contribution and Customer Advances.
2 Mr. Meyers then suggests that including the non-taxable portions of the contributions and
3 advances amounts in the deferred income tax calculation is duplicative and overstates the
4 amount of the deferred taxes as the non-taxable piece has already been accounted to arrive at
5 MAWC's tax basis. Rather, Mr. Meyers believes that Staff should have included the taxable
6 portions of those items in the deferred income tax calculation. Does Staff agree with MAWC
7 witness Meyers' rebuttal testimony on this issue?

8 A. Yes. Staff has revised its deferred income tax calculation based on data
9 received from MAWC and incorporated the taxable portions of contributions and advances
10 consistent with MAWC's tax basis calculation.

11 **PENSIONS TRACKER**

12 Q. At pages 24-26 of her rebuttal testimony, Ms. Tinsley discusses a "flaw" that
13 Staff found in the operation of MAWC's pension tracker prior to the last MAWC general rate
14 proceeding, Case No. WR-2011-0337. Please comment.

15 A. Yes. The flaw that Staff discovered in the operation of MAWC's prior pension
16 trackers was that MAWC was capturing certain fluctuations in its accrued pension expense
17 amounts from year to year and providing those differences rate base treatment, even though
18 those accounting fluctuations did not affect either positively or negatively its actual cash
19 investment in the pension trust funds. This flaw was corrected on a going-forward basis by
20 the language on the pension tracker included in the *Non-Unanimous Stipulation and*
21 *Agreement* ("Stipulation") between MAWC, Staff and other parties that was filed in Case No.
22 WR-2011-0337 on February 24, 2012.

1 Q. Does Staff continue to maintain the position that MAWC's pension tracker
2 should only allow for rate base treatment of differences between the amount of MAWC's cash
3 investment in its pension trust fund and its rate recovery for pension expense?

4 A. Yes. Contrary to the implication in Ms. Tinsley's rebuttal testimony, Staff's
5 position on operation of MAWC's pension tracker is fully consistent with the terms of the
6 pension tracker language in the 2011 rate case *Stipulation*, and Staff does not support in any
7 manner a "return" to how the MAWC pension tracker was incorrectly operated prior to that
8 agreement.

9 **STAFF'S TRUE-UP AUDIT**

10 Q. Please identify the rate base items and income statement adjustments that you
11 are sponsoring as part of Staff's true-up filing?

12 A. For the rate base portion of the revenue requirement calculation, I am
13 sponsoring regulatory assets / (liabilities) balances resulting from MAWC's pension and
14 Other Post Employment Benefit Costs ("OPEBs") trackers, and accumulated deferred income
15 taxes. In the income statement section, I am sponsoring adjustments to pension and OPEBs.

16 **PENSION AND OPEBS TRACKER/TRUE-UP**

17 Q. Has Staff made any changes to pension and OPEBs tracker balances included
18 in the cost of service?

19 A. Yes. Staff has reflected the regulatory liability balances for both pension and
20 OPEBs in the current rate case through January 31, 2016. Both of these regulatory liability
21 balances reduce MAWC's rate base. Additionally, Staff has reflected MAWC's prepaid

1 pension asset balances as of January 31, 2016, in the cost of service calculation. This is an
2 addition to MAWC's rate base.

3 **ACCUMULATED DEFERRED INCOME TAXES/TRUE-UP**

4 Q. Has Staff updated the accumulated deferred income taxes ("ADIT") balances
5 included in the cost of service?

6 A. Yes. Staff has reflected the ADIT balances in the current rate case through
7 January 31, 2016. The ADIT balance is a reduction to the revenue requirement in the rate
8 base section.

9 **EXPENSES/TRUE-UP**

10 Q. Please discuss the various expense adjustments that Staff has reflected in its
11 true-up filing.

12 A. For pension and OPEBs costs, Staff has reflected the 2016 actuarial estimates
13 developed by MAWC's actuaries and applied updated allocation factors to determine the
14 ongoing level of these costs for inclusion in the cost of service calculation. In respect to
15 defined contribution plan, Staff has included a normalized level of this cost in its accounting
16 schedule. Additionally, Staff has reflected MAWC's pension and OPEBs tracker
17 amortizations through January 31, 2016.

18 Q. Does this conclude your surrebuttal testimony?

19 A. Yes, it does.

