

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

In the Matter of the Application of	)	
Missouri-American Water Company for an	)	<b><u>File No. WU-2017-0351</u></b>
Accounting Order Related to Property	)	
Taxes in St. Louis County and Platte County	)	

**OFFICE OF THE PUBLIC COUNSEL’S  
STATEMENT OF POSITION ON THE ISSUES**

**COMES NOW** the Office of the Public Counsel (“OPC”), and respectfully states as follows to the Missouri Public Service Commission (“Commission”):

On September 6, 2017, the Commission issued its *Order Scheduling Hearing and Setting Procedural Schedule* wherein, among other things, it required that the parties file a List of Issues, Order of Witnesses, Order of Cross-Examination, Order of Opening document by October 27, 2017. That document was filed as ordered on October 27.

The Commission further ordered that the parties file a Statement of Position no later than October 30, 2017. OPC hereby submits its Statement of Positions on the Issues.

**STATEMENT OF POSITIONS ON THE ISSUES**

**Issue Identified by MAWC:**

**1. Should the Commission grant MAWC the Accounting Authority Order it has requested in this case?**

Public Counsel’s position is the Commission should deny the AAO. The Commission has traditionally considered granting an AAO when there has been an extraordinary event. Paying property taxes is neither unusual, unforeseen, or infrequent. The requirement MAWC pay property taxes in the counties in which it operates is one of its most predictable and ordinary expenses.

Moreover, St. Louis County did not make any changes to its calculation of Modified Accelerated Cost Recovery (MACR) lives, or any other change to its property tax methodology. Instead, for years, MAWC, which has a duty to self-report its taxes, has been misreporting its property tax obligation to the County.

As discussed more below, in this AAO case, MAWC is actually asking for an assurance of ratemaking treatment. When the Commission has granted an AAO, it traditionally states it is not providing assurance of any ratemaking treatment. MAWC has a pending rate case in Missouri. If it seeks rate certainty for these expenses, it should seek ratemaking treatment from the Commission in its general rate case, not an accounting case where the Commission does not address ratemaking issues.

**Statement of Position on the Additional Issues Identified by OPC:**

**2. If granted, when should the deferred debit amortization begin?**

The foundational principle of both accounting and ratemaking is the matching principle and that is the foremost reason why the start date of the amortization should be matched as closely as possible with the benefits of the costs. If MAWC decides to defer these normal and routine operating expenses it will incur in December 2015, the amortization should begin the following month, January 2016.

**3. If granted, should the Commission AAO Order direct MAWC to create a regulatory asset or simply allow MAWC to defer the expenses as a miscellaneous deferred debit to USOA Account 186?**

The Commission has a long-standing policy not to grant any ratemaking treatment in an AAO case. Although MAWC can take this action on its own, the Commission can issue an AAO that does not take issue with MAWC's desire to defer these normal and recurring expense as a deferred debit in NARUC USOA Account 186.

However, the Commission should be aware that there are consequences if it orders the creation of a regulatory asset. Under generally accepted accounting principles, (“GAAP”) as enforced by the Securities and Exchange Commission (“SEC”), the SEC only allows a utility to reflect a regulatory asset on its balance sheet if the utility believes the deferred expenses are probable of recovery in rates. GAAP and the SEC define this “probable of recovery” as rate recovery being “likely to occur.” If the Commission takes a position that it is not conferring rate treatment on deferred expenses, but orders the creation of a regulatory asset, it is taking an inherently inconsistent position.

By ordering MAWC to create a regulatory asset, the Commission will be indicating to the financial community that it is likely the Commission will directly include these specific deferred expenses in rates in the utility’s next rate case. OPC does not believe that this is the Commission’s intent. The Commission can make its “no ratemaking treatment” intent clear by simply allowing MAWC to make a deferral of expenses as a deferred debit and not as a regulatory asset.

**4. If granted, should the Commission AAO Order specifically state that it is not deciding that the deferred expenses are “probable” of rate recovery or that rate recovery is “likely to occur?”**

No. If the Commission were to grant the AAO, in its Order the Commission should state explicitly that the burden to determine whether or not the deferred expenses qualify as a regulatory asset is completely on utility management and the Commission is expressing no opinion whatsoever on any likelihood of future rate recovery.

Respectfully submitted,

OFFICE OF THE PUBLIC COUNSEL

BY: /s/ Lera L. Shemwell

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**CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail or by U.S. Mail, postage prepaid, on October 30, 2017, to all counsel of record.

/s/ Lera L. Shemwell