

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

In the Matter of the Petition of)
Missouri-American Water Company for) File No. WO-2018-0373
Approval to Establish an Infrastructure)
System Replacement Surcharge (ISRS).)

MAWC’S STATEMENT OF POSITION

COMES NOW Missouri-American Water Company (“MAWC” or “Company”), and, as its Statement of Position concerning the issues contained in the *List of Issues, List and Order of Witnesses, Order of Cross-Examination and Order of Opening* filed on November 14, 2018, respectfully states as follows to the Missouri Public Service Commission (“Commission”):

In determining MAWC’s ISRS rates in this case, under the applicable statute, may MAWC’s accumulated deferred income tax (ADIT) balance in rate base be reduced by the ADIT asset resulting from its net operating loss(es), if any?

MAWC Position: Yes. Section 393.1000(1)(a), RSMo, defines “Appropriate Pretax Revenues” as

[T]he revenues necessary to produce net operating income equal to: (a) The water corporation’s weighted cost of capital multiplied by the net original cost of eligible infrastructure replacements, including recognition of accumulated deferred income taxes and accumulated depreciation associated with eligible infrastructure system replacements which are included in a currently effective ISRS.

(emphasis added).

Accumulated deferred income taxes include both Deferred Tax Assets and Deferred Tax Liabilities. Thus, including the Deferred Tax Asset is consistent with the ISRS statutes.

Moreover, failure to include the Deferred Tax Asset resulting from Net Operating Losses in MAWC’s rate base is inconsistent with a normalized method of accounting and as such,

inconsistent with the tax normalization rules. and impacts a Consent Agreement MAWC entered into in order to allow the utilization of the repairs deduction method.

This is inconsistent with a normalized method of accounting because the impact of ignoring the Deferred Tax Asset provides customers with the benefit of the tax deduction now, via a lower ISRS rate, even though the Company is unable to benefit from those tax deductions at this time.


Under the referenced Consent Agreement, MAWC is allowed to take additional repairs deductions on its tax returns. One of the requirements of that Consent Agreement is that MAWC must use a normalized method of accounting. MAWC's reflection of a Repairs deduction in the ISRS filing has an impact on the necessity of the reflection of the Deferred Tax Asset resulting from the Net Operating Loss.

A finding by the Internal Revenue Service during an audit, that the Company violated the tax normalization rules, or the terms of the Consent Agreement, could cause the loss of significant tax benefits currently benefiting customers. Specifically, MAWC could lose its ability to claim accelerated tax depreciation deductions and tax repair deductions.

(LaGrand, Dir., All; and, Wilde, Dir., All)

WHEREFORE, MAWC submits this Statement of Position for the Commission's consideration.

Respectfully submitted,



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ATTORNEYS FOR MISSOURI-AMERICAN
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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 November 16, 2018, to the following:

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