

Exhibit No.:
Issues: Income Taxes and Property Taxes
Witness: John R. Wilde
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2017-0285
SR-2017-0286
Date: June 30, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2017-0285
CASE NO. SR-2017-0286

DIRECT TESTIMONY

OF

JOHN R. WILDE

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

**DIRECT TESTIMONY
JOHN R. WILDE
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285
CASE NO. SR-2017-0286**

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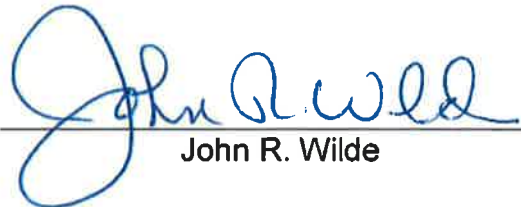
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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

IN THE MATTER OF MISSOURI-AMERICAN) WATER COMPANY FOR AUTHORITY TO) FILE TARIFFS REFLECTING INCREASED) RATES FOR WATER AND SEWER) SERVICE)	CASE NO. WR-2017-0285 CASE NO. SR-2017-0286
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AFFIDAVIT OF JOHN R. WILDE

John R. Wilde, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of John R. Wilde"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.



John R. Wilde

**State of New Jersey
County of Camden
SUBSCRIBED and sworn to
Before me this 6 day of June 2017.**



Notary Public

My commission expires:

BEVERLY A. VAZQUEZ
NOTARY PUBLIC OF NEW JERSEY
ID # 50014203
My Commission Expires 4/20/2020

DIRECT TESTIMONY

JOHN R. WILDE

I. INTRODUCTION

1

2 **Q. Please state your name and business address.**

3 A. My name is John R. Wilde, and my business address is 131 Woodcrest Road, Cherry
4 Hill, New Jersey 08003.

5

6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by American Water Works Service Company, Inc. (“Service
8 Company”) as Senior Director - Tax. The Service Company is a subsidiary of
9 American Water Works Company, Inc. (“American Water”) that provides services to
10 American Water’s subsidiaries, including Missouri-American Water Company
11 (“Missouri-American” or “Company”).

12

13 **Q. What are your duties as Senior Director - Tax?**

14 A. My duties include management and oversight of the corporate tax function for
15 American Water and its subsidiaries including Missouri-American.

16

17 **Q. Please summarize your education background and professional experience.**

18 A. I graduated from Saint Norbert College, De Pere, Wisconsin, in 1984 with a Bachelor
19 of Business Administration Degree in Accounting. I have a graduate certificate in state
20 and local taxation, as well as a Master of Science Degree in Taxation from the
21 University of Wisconsin-Milwaukee. I have over 30 years of experience as a tax and

1 accounting professional serving utilities with regulated operations in multiple states.
2 For the fifteen years before my employment with Service Company, I was the head of
3 the tax function for Integrys Energy Group, Inc (now WEC Energy Group, Inc.), that
4 included six utilities with operations in four states.

5

6 **Q. Have you previously testified before this Commission or any other regulatory**
7 **agencies?**

8 A. This is my first experience testifying before this Commission, but I have previously
9 testified before Federal Energy Regulatory Commission (“FERC”), the Public Service
10 Commission of Wisconsin, the Michigan Public Service Commission, the Minnesota
11 Public Utilities Commission, the Illinois Commerce Commission, the Virginia State
12 Corporation Commission, and the Pennsylvania Public Utility Commission.

13

14 **Q. What is the purpose of your testimony in this proceeding?**

15 A. The purpose of my testimony is to support and explain the current and deferred income
16 taxes calculated in the filing; and, support and explain property taxes calculated in the
17 filing.

18

19

II. INCOME TAXES

20 **Q. Please explain the Company’s calculation of its pro forma level of income taxes.**

21 A. The Company’s pro forma level of current income taxes at present rates is based on
22 deducting from revenues all operating expenses and interest expense. Additional add-
23 backs and deductions are reflected for tax-over book depreciation, repairs tax
24 deduction, and non-deductible meals. The resulting taxable income is then multiplied

1 by the state and federal tax rates of 5.213% and 33.175%, respectively. These rates
2 differ from the statutory tax rates of 6.25% and 35% due to the Missouri allowing 50%
3 of the federal taxes calculated to be deducted in the calculation of state taxes and the
4 Federal statutory rule allowing a deduction for the full state taxes calculated. Rather
5 than building that into the calculation, the tax rates were adjusted to reflect the correct
6 result.

7 Deferred income taxes for the temporary timing difference related to tax-over book
8 depreciation and the repairs tax deduction also were calculated at the tax rates described
9 above. Because the tax calculation at present rates results in current tax losses, a net
10 operating loss is calculated, zeroing out the current taxes, and are moved to the deferred
11 taxes. The per books level of the amortization of the deferred investment tax credits
12 (“ITC”) and the deferred taxes associated with the amortization of the regulatory assets
13 and liabilities was also included in the calculation of income taxes.

14 Income taxes at the proposed rates reflect the impact of the Company’s request for
15 additional revenues.

16

17

III. PROPERTY TAXES

18 **Q. Please describe the Company’s property tax obligations.**

19 A. Missouri-American pays property taxes in 24 Missouri counties. Missouri-American
20 property is broken into property classifications pursuant to definitions provided for in
21 the statute, and then assessed by the respective county at the percentage of fair value
22 assigned by statute to that classification of property. A tax rate applicable to that
23 classification of property is then applied by the taxing jurisdiction within the county,
24 and Missouri-American then is billed. Property is assessed as of January 1 of the tax

1 year. Chapter 137 of the Missouri Revised Statutes covers the Assessment and Levy
2 of Property Taxes.

3

4 **Q. Please describe the Company's forecasted estimate of its property tax obligations**
5 **in this case.**

6 A. Missouri-American has based its forecast on a historic experience rate applied to
7 forecasted utility plant balances established for the filing in this case. The historic
8 experience rate is developed based on taxes payable in prior years as a function of
9 actual utility plant balances in those prior years, and this experience rate is intended to
10 capture assessment experience as well as tax rate experience. Missouri-American
11 adjusts for known or knowable changes in law or administrative practice that are
12 expected to impact the assessment or tax rate in any historic or future year. Also,
13 included in the Schedule are taxes associated with vehicles. The test year level is
14 adhered to for both rate year periods May 2018 and May 2019. Details of this
15 adjustment are found on Schedule CAS-13.

16

17 **Q: Have there been any unique or extraordinary changes in the property tax**
18 **assessments on the Company in St. Louis County in 2017?**

19 A: Yes. In assessing Missouri-American's property for 2017, St Louis County has
20 indicated that it will move a significant portion of property to a 20 year Modified
21 Accelerated Cost Recovery (MACRs) class life from the seven year MACRs class life,
22 which will result in a significant increase in the assessed value of Missouri-American's
23 property and also a significant increase in its property tax obligation Accordingly,

1 forecasted tax obligations reflect this change in St. Louis County’s administrative
2 practice.

3

4 **Q: Did the Company also experience other unique or extraordinary changes in the**
5 **property tax assessment in Platte County in 2017?**

6 A. Yes. In assessing MissouriAmerican’s property for 2017, Platte County has indicated
7 that it will move a significant portion of property to a 50 year life from the 20 year
8 MACRs class life it had been using for over 10 years. Platte County also indicated its
9 intent to assess the value of Construction Work In Progress (“CWIP”) as of January 1,
10 2017 of the tax year, which is a departure of past practice. These changes in
11 administrative practice by the County Assessor would result in a significant increase
12 in the assessed value of Missouri-American’s property and also a significant increase
13 in its property tax obligation (estimated impact of this administrative change is \$356K
14 for 2017, and \$451K for 2018). Therefore, Missouri-American has provided for the
15 expected increases from these administrative changes in its forecasted estimates.

16

17 Additionally, the Company is in the process of building the new Parkville Water
18 Treatment Plant located in Platte County and part of the Northwest District. The new
19 construction is separately provided for as a Utility Plant estimate, but will create
20 additional property taxes. These changes have been embedded in the Company’s
21 Northwest District on the workpaper in the Taxes as a % of UPIS column. UPIS for
22 December 2017 and December 2018 rely on rate base UPIS that include the
23 construction related to the Parkville Water Treatment Plant and is approximately
24 \$30M. Therefore, in summary, the Company has embedded changes to the percent’s

1 (Taxes as a % of UPIS) by specific affected district and utilized UPIS from the rate
2 base exhibit.

3

4 **Q. Does this conclude your direct testimony?**

5 A. Yes, it does.