

Exhibit No.:

Issue(s): *Adjustments to Net Income Tax Calculations, Eliminate Net Operating Loss From Excess Deferred Tax Calculations, Reduce the Pre-Tax Rate of Return in Water & Sewer Infrastructure Rate Adjustment, and Staff's Corrections*

Witness: *Ashley Sarver*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Cross-Rebuttal/Surrebuttal Testimony*

Case No.: *WR-2024-0320*

Date Testimony Prepared: *January 10, 2025*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

CROSS-REBUTTAL/SURREBUTTAL TESTIMONY

OF

ASHLEY SARVER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2024-0320

Jefferson City, Missouri
January 2025

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CROSS-REBUTTAL/SURREBUTTAL TESTIMONY OF
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1 **ADJUSTMENTS TO NET INCOME TAX CALCULATIONS**

2 Q. What is Staff’s response to Mr. Riley’s discussion on pages 2-4, lines 14-22 of
3 his direct/rebuttal testimony?

4 A. At this time, Staff is still researching this issue. This issue may impact other
5 utilities that currently have a rate case before the Commission, thus to be consistent among all
6 of the Missouri regulated utilities, Staff needs to perform more due diligence before providing
7 guidance on this issue.

8 **ELIMINATE NOL FROM EXCESS DEFERRED TAX CALCULATIONS**

9 A. What is a Net Operating Loss (“NOL”)?

10 Q. In a year when a corporate taxpayer’s tax deductions exceed its revenue,
11 income is calculated as a negative amount, and a NOL exists. Instead of the taxpayers losing
12 the benefits of the deductions causing the loss, the Internal Revenue Service (“IRS”) will
13 allow the taxpayer to save (defer) the excess tax deductions to offset revenue earned in another
14 tax year. The balance of deferred deductions is recorded and accumulated, on the corporation’s
15 books as a Net Operating Loss Carryforward (“NOLC”) deferred tax asset.

16 A. Does MAWC¹ have a NOLC balance on its books?

17 Q. Yes, According to MAWC’s response to OPC’s data request no. 1313,
18 . . . the line items labeled Federal and State NOLC are for the
19 remeasurement of NOLC at the time of the tax rate changes. The
20 federal item relates to the MAWC portion of the American Water
21 Works consolidated NOLC as of December 31, 2017, which was
22 remeasured in accordance with the [Tax Cuts and Jobs Act] (“TCJA”)
23 from 35% to 21%. The line item labeled with state and federal
24 benefits are for the state deduction and the federal tax calculation and
25 the federal deduction in the state tax calculation.

¹ Missouri-American Water Company (MAWC).

1 Q. What is Mr. Riley’s position regarding the ADIT balance in rate base?

2 A. On pages 8, line 23 through page 9, line 3 of his direct/rebuttal testimony,
3 Mr. Riley states, “Companies argue that any NOLC balance should be an offset to the
4 accumulated deferred income tax (“ADIT”) balances that are included as a reduction to the
5 rate base balance of a company. If included in this manner, the NOLCs reduce ADIT, thereby
6 increasing rate base.”

7 Q. Could Mr. Riley’s approach result in a normalization violation?

8 A. Yes. The approach of not including the NOLC in rate base could result in a
9 normalization violation. When a tax timing difference is not passed to customers (referred to
10 as “normalized” ratemaking treatment), there is a mismatch between the income tax expense
11 in the rates and the income taxes payable generated from tax returns.

12 Q. Did Staff include the current balance of Excess ADIT, offset by the Excess
13 NOLC, in its revenue requirement?

14 A. Yes. Staff included the net Excess ADIT as a reduction to rate base and
15 amortized the balance per IRS regulation. Staff’s methodology is consistent with prior cases.

16 **REDUCE THE PRE-TAX RATE OF RETURN IN WATER AND SEWER**
17 **INFRASTRUCTURE RATE ADJUSTMENTS (“WSIRA”)**

18 Q. In Mr. Riley’s direct testimony, page 11, lines 2-3, he states, “my proposal
19 is for the Commission to calculate WSIRA revenues using only the standard rate of return
20 that is established in the general rate case and not using a ‘pre-tax rate of return.’”

21 Does Staff agree?

1 A. Staff does not have a position on this issue; however, if income taxes are not
2 included and are being recovered from ratepayers as part of the WSIRA, then the associated
3 ADIT incurred should not be included as a deduction to the WSIRA.

4 **SERVICE COMPANY - EXCLUSIONS**

5 Q. Did Staff remove all of the business development expense from the
6 direct/rebuttal revenue requirement?

7 A. No, not all of the business development expense were removed.

8 Q, What business development expenses were removed in the revenue
9 requirement?

10 A. Staff removed all of the payroll and related payroll expenses for business
11 development. Please refer to Staff's witness Sherrye Lesmes' direct/rebuttal testimony
12 and cross-rebuttal/surrebuttal testimony on the removal of business development
13 payroll expenses.

14 Q. Did Staff eliminate other business development expenses other than payroll
15 expenses addressed by Staff witness Sherrye Lesmes.

16 A. Yes. Staff removed all the other expenses associated with business
17 development cost. Examples include books and publications, meals, insurance, training, and
18 transportation.

19 **REVENUES – DISTRICT 2 – ALL OTHER WATER**

20 Q. Did Staff make corrections to the customer numbers for District 2 – All Other
21 Water, industrial, other public authority (“OPA”) and commercial rate classes?

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1 A. Yes. Staff corrected an error in the customer numbers for water District 2,
2 All Other Water for industrial, OPA, and commercial, Rate A and Rate J. The following table
3 shows the difference to the customer numbers for Rate A and Rate J.

District 2 Rate Class	Direct/Rebuttal Testimony - Customer Numbers	Cross-Rebuttal / Surrebuttal Testimony - Customer Numbers
Industrial - Rate A	196	180
Industrial - Rate J	145	72
OPA – Rate A	2,470	1,154
OPA – Rate J	12	4
Commercial – Rate A	27,247	10,116
Commercial – Rate J	58	30

5
6 Q. What is the cross-rebuttal/surrebuttal testimony revenue normalized level for
7 District 2 revenues for industrial, OPA and commercial?

8 A. The District 2 revenues for industrial revenues are \$11,403,377, OPA
9 \$5,366,775, and commercial \$24,981,344.

10 Q. Did Staff update the normalized average gallons of usage per customer per day
11 for residential customers for District 2 – All Other Water?

12 A. Yes. Please refer to Jarrod J. Robertson, of the Commission’s Water, Sewer,
13 Gas, and Steam Department cross-rebuttal/surrebuttal testimony.

14 Q. Does changing the normalized average gallons of usage per customer per day
15 for residential customers affect other expenses?

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1 A. Yes. Staff updated District 2 annualized usage gallons for chemicals and fuel
2 and power expense. Staff's calculation for District 2 chemicals is \$3,8448,448 and fuel and
3 power expense \$5,229,303.

4 Q. What is Staff's expense for MAWC's chemicals and fuel and power expense?

5 A. MAWC expense for chemicals is \$18,621,664 and \$15,667,230 for fuel and
6 power expense.

7 Q. What is the District 2 – All Other Water's residential revenue total?

8 A. \$71,931,780.

9 Q. What is the total MAWC revenue?

10 A. \$465,666,355.

11 Q. Does the change to the revenues affect corporate allocations?

12 A. Yes. The change to MAWC's revenue affects the direct allocations for the
13 following: PSC assessment, uncollectible expense, and income taxes.

14 Q. Does this conclude your cross-rebuttal/surrebuttal testimony?

15 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's)
Request for Authority to Implement a General Rate) Case No. WR-2024-0320
Increase for Water and Sewer Service Provided in)
Missouri Service Areas)

AFFIDAVIT OF ASHLEY SARVER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ASHLEY SARVER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Cross-Rebuttal / Surrebuttal Testimony of Ashley Sarver*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

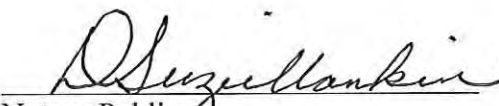


ASHLEY SARVER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 9th day of January 2025.





Notary Public