

Exhibit No.:	
Issues:	Income Tax Calculations
Witness:	Linda Schlessman
Exhibit Type:	Rebuttal/Surrebuttal/Sur-Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2024-0320
Date:	January 24, 2025

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2024-0320

REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY

OF

LINDA SCHLESSMAN

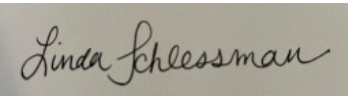
ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Linda Schlessman, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am a Director – Tax Regulatory for American Water Works Service Company, Inc., that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

1/20/2025

X 

Signed by: SCHLESL

Linda Schlessman

January 24, 2025

Dated

**REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY
LINDA SCHLESSMAN
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2024-0320**

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REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY

LINDA SCHLESSMAN

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Linda Schlessman. My business address is 1 Water Street, Camden, NJ 08102.

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

A. I am employed by American Water Works Service Company, Inc. as the Director - Tax Regulatory. I am responsible for the oversight of calculating tax expense and accumulated deferred income taxes in rate cases and rate filings for American Water Works, Inc.’s subsidiaries, including Missouri-American Water Company (“MAWC” or the “Company”).

Q. Please summarize your educational background and business experience.

A. I received a Bachelor of Business Administration Degree in Accounting from Miami University in 2006 and am a Certified Public Accountant in the State of Ohio. I have eighteen years of tax experience and six years of utility tax experience. Prior to joining American Water in September of 2024, I was a Tax Accounting and Regulatory Support Manager at American Electric Power, Inc. Prior to that, I held positions in both public accounting and the private sector. My previous employers include GBQ Partners, LLC, HBD Industries, Inc. and L Brands, Inc., now Bath and Body Works, Inc.

Q. Have you previously filed testimony in any regulatory proceedings?

A. Yes. At American Water I have filed testimony in rate proceedings before the Tennessee Public Utility Commission in Docket No. 24-00032 and the Iowa Utilities Commission in

1 Docket No. RPU-2024-0002. While employed at American Electric Power I filed
2 testimony in rate proceedings before the Oklahoma Corporation Commission in Case No.
3 PUD 2022-000093, before the Arkansas Public Service Commission in Case No. 23-012-
4 FR, before the Public Service Commission of Kentucky in Case No. 2023-00159, and
5 before the Public Utility Commission of Texas in Docket No. 56165.

6 **Q. Have you previously provided testimony in this proceeding?**

7 A. No, I have not.

8 **Q. What is the purpose of your Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony in this**
9 **proceeding?**

10 A. The purpose of my Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony is to address the Office
11 of the Public Counsel (“OPC”) witness John Riley’s recommendations regarding the
12 following:

- 13 • Impairments, retirements, and gains/losses
- 14 • Net Operating Losses and Excess Accumulated Deferred Income Taxes
- 15 • Taxes and the WSIRA
- 16 • Gross-up on the Revenue Requirement

17 Additionally, I address Staff Witness Ashley Sarver’s recommendations regarding current
18 and deferred tax expense.

19 **Q. Are you sponsoring any Schedules with your Rebuttal/Surrebuttal/Sur-Surrebuttal**
20 **Testimony?**

21 A. Yes. I am sponsoring the below Schedules:

- 22 • Schlessman RT/ST/SST – Schedule LMS-1

- 1 • Schlessman RT/ST/SST – Schedule LMS-2
- 2 • Schlessman RT/ST/SST – Schedule LMS-3
- 3 • Schlessman RTST/SST – Schedule LMS-4
- 4 • Schlessman RT/ST/SST – Schedule LMS-5

5 **II. IMPAIRMENTS, RETIREMENTS, AND GAINS/LOSSES**

6 **Q. OPC Witness Riley states that the Company has failed to recognize MAWC specific**
7 **impairments, retirements or gains/losses in the case. Is this true?**

8 A. No. The Company did include within the current tax expense calculation a tax deduction
9 for property, plant, and equipment retirements in the amount of \$7,049,382. This amount
10 is included in the row “Other Book versus Tax Timing Differences” on tab “CAS 10
11 Calculation 05-31-25” of the Workpaper “2024 GRC-Deferred Tax _Workpaper as filed –
12 2025-05”. The amount is based on an average of estimated property, plant, and equipment
13 retirements for 2024 and 2025. To assist with locating this amount, I have aggregated the
14 necessary tabs from the Workpaper and summarized in Schlessman RT/ST/SST – Schedule
15 LMS-5.

16 **Q. Has the Company ignored the tax benefit and increased the Company’s rate of return**
17 **beyond what the Commission authorized?**

18 A. No. The Company included within Accumulated Deferred Incomes Taxes (ADIT), as a
19 reduction to rate base, deferred taxes on the tax deduction for property, plant, and
20 equipment retirements. Therefore, the Company has properly incorporated tax losses on
21 retirements into ratemaking and is not earning a rate of return beyond what the Commission
22 authorized.

23 **Q. Do you agree with witness Riley’s proposal to calculate the tax loss adjustment based**

1 **on the 2023 and 2022 tax return Forms 4797?**

2 A. No. The Company calculated the tax deduction of \$7,049,382 based on the estimated
3 retirements for 2024 and 2025 in accordance with the case parameters. This method is
4 consistent with the prior case calculation for tax losses from retirements.

5 **Q. Did the Staff include a deduction for tax losses from retirements within the current**
6 **tax expense calculation?**

7 A. No. The Staff's calculation included tax depreciation, but did not include the tax losses
8 from retirements. However, the Staff's ADIT calculation did properly include the ADIT
9 as a reduction to rate base for deferred taxes on the tax deduction for property, plant, and
10 equipment retirements.

11 **Q. What do you recommend regarding the tax deduction for property, plant, and**
12 **equipment retirements?**

13 A. I recommend using the Company's proposed tax deduction of \$7,049,382 as a part of the
14 current tax expense calculation. I do not recommend lowering this deduction to an estimate
15 based on 2023 and 2022 tax returns, as proposed by OPC witness Riley.

16 **III. NET OPERATING LOSS (NOL) IN EXCESS ACCUMULATED DEFERRED**
17 **INCOME TAXES (EADIT)**

18 **Q. What does OPC Witness Riley propose regarding the Regulatory Asset for NOL**
19 **Remeasurement?**

20 A. Mr. Riley proposes to remove the Regulatory Asset for NOL Remeasurements from Rate
21 Base. He incorrectly concludes that because the Company is no longer in an NOL position
22 the Regulatory Asset for NOL Remeasurements should be eliminated.

23 **Q. Is what Witness Riley proposes harmful to customers?**

1 A. Yes. OPC Witness Riley’s proposal would result in higher income tax expense. I will
2 explain the result of his proposal in detail throughout this section of my testimony.

3 **Q. What is Accumulated Deferred Income Tax (“ADIT”)?**

4 A. ADIT arises because the accelerated depreciation provisions of the Internal Revenue Code
5 (“IRC”) can result in corporations, such as MAWC, recovering their federal corporate
6 income tax expense through rates at a different (initially earlier) time than they pay the
7 associated taxes to the government. Over the life of the underlying depreciable asset, the
8 deferred tax timing difference reverses and balances. However, when the Company has
9 received tax expense from customers that it does not yet have to pay the government, the
10 ADIT balance that has resulted is recognized as cost-free capital and used to offset rate
11 base.

12 **Q. What is a Net Operating Loss (“NOL”)?**

13 A. A “NOL” occurs when, in a given year, a taxpayer has more deductions than taxable
14 revenues. When an NOL occurs, the IRC allows the taxpayer to carry the NOL forward to
15 subsequent years and offset otherwise taxable income produced in that future year.

16 **Q. How is an NOL recorded for tax accounting purposes?**

17 A. A Deferred Tax Asset (“DTA”) is recorded in ADIT to use against future tax liabilities.
18 The DTA reduces ADIT. When a Company is in a NOL position it does not receive cost-
19 free capital from the government through accelerated depreciation provisions in the IRC.
20 Instead, the company can carry forward the benefits allowed in the IRC for use in a future
21 year. Below, and attached as Schlessman RT/ST/SST – Schedule LMS-1, is an illustration
22 of the comparison between the tax accounting entries in a Net Operating Income situation
23 and in a Net Operating Loss situation. Note that instead of recording a credit to current tax

1 expense and a debit to taxes payable, a deferred tax asset is recorded in a Net Operating
 2 Loss situation. This is because a debit to the payable would indicate that the government
 3 owes the Company for the NOL; however, this is not possible because the government will
 4 not pay the Company for the inability to use the accelerated tax benefits provided in the
 5 IRC. The government only allows the unused deductions to be carried forward to a future
 6 year.

Schlessman RT/ST/SST - Schedule LMS-1
 Example of Tax Accounting with a Net Operating Loss Carryforward

	<u>Net Operating Income</u>	<u>Net Operating Loss</u>
Pre-Tax Book Income	1,000,000	1,000,000
Book Depreciation	500,000	500,000
Tax Depreciation	(1,100,000)	(2,000,000)
Taxable Income/ (Loss)	<u>400,000</u>	<u>(500,000)</u>
Tax Rate	35%	35%

	<u>Debit/(Credit)</u>	<u>Debit/(Credit)</u>
Current Tax Expense	140,000	-
Deferred Tax Expense	210,000	350,000
Deferred Tax Liability- Plant	(210,000)	(525,000)
Taxes Payable	(140,000)	-
Deferred Tax Asset - NOL	-	175,000

8 **Q. What is Excess Accumulated Deferred Income Taxes (“EADIT”)?**

9 A. MAWC, as a regulated utility following Financial Accounting Standards Codification 980,
 10 deferred its ADIT balance on the Company’s books as a regulatory liability, and if income
 11 tax rates had remained the same, the deferral would have been reversed in later years as the
 12 Company paid its current federal corporate income tax expense at a rate that was greater
 13 than the Company was recovering through rates.

14 When the federal corporate income tax rate is reduced, as happened with the Tax Cuts and

1 Jobs Act (TCJA) in 2017 when the rate was reduced from 35% to 21%, and all other things
2 remaining equal, a portion of the deferred taxes will never be paid to the government and
3 thus becomes “excess.” Similarly, DTAs resulting from the ability to take future tax
4 deductions are devalued and become “deficient”.

5 **Q. When the tax rate is decreased, how is an NOL DTA effected?**

6 A. As with all other deferred tax assets and liabilities, the NOL DTA must be remeasured
7 when a tax rate changes. In the case of a tax rate decrease with the TCJA in 2017, the tax
8 deductions that could not be used in the past because the Company is in an NOL position
9 will not be as valuable in the future. Therefore, the NOL DTA decreases. For a regulated
10 utility, the remeasurement, not the NOL itself, is recorded into a regulatory asset and is
11 amortized through deferred tax expense based on a Commission order or based on the
12 normalization requirements of the IRC. The regulated utility’s rate base includes the
13 regulatory asset until it is fully amortized. Schlessman RT/ST/SST – Schedule LMS-2, a
14 continued illustration of the NOL tax accounting in LMS-1, demonstrates the tax
15 accounting and rate base impacts of the remeasurement of a NOL DTA. Note that the NOL
16 remains in deferred taxes while the remeasurement is recorded in the regulatory asset.

Schlessman RT/ST/SST - Schedule LMS-2
 Example of Tax Accounting for a Tax Rate Change

	Net Operating Loss
Pre-Tax Book Income	1,000,000
Book Depreciation	500,000
Tax Depreciation	(2,000,000)
Taxable Income/ (Loss)	(500,000)
Year 1 Rate	35%
Year 2 Rate	21%
Gross-up Rate	1.27
EADIT Amortization Period	4 years

	Year 1	Remeasurement	Year 2	Year 3	Year 4	Year 5
	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)
Deferred Tax Expense	350,000		(35,000)	(35,000)	(35,000)	(35,000)
(a) Deferred Tax Liability - PPE	(525,000)	210,000				
(a) Deferred Tax Asset on Excess ADIT		55,823	(13,956)	(13,956)	(13,956)	(13,956)
(b) Regulatory Liability PPE - Excess ADIT		(265,823)	66,456	66,456	66,456	66,456
(a) Deferred Tax Asset - NOL	175,000	(70,000)				
(a) Deferred Tax Liability on Deficient ADIT		(18,608)	4,652	4,652	4,652	4,652
(b) Regulatory Asset NOL - Deficient ADIT		88,608	(22,152)	(22,152)	(22,152)	(22,152)
Deferred Taxes - Sum of (a)	(350,000)	(172,785)	(182,089)	(191,392)	(200,696)	(210,000)
Regulatory Assets/Liabilities - Sum of (b)	-	(177,215)	(132,911)	(88,608)	(44,304)	-
Rate Base	(350,000)	(350,000)	(315,000)	(280,000)	(245,000)	(210,000)

Q. What does the Company have on its books for Deferred Taxes and Regulatory Assets associated with NOLs?

A. The Company had a Federal NOL DTA at December 31, 2017 that was remeasured in accordance with TCJA. Additionally, a State NOL DTA at December 31, 2019 was remeasured in accordance with Missouri legislation¹. The remeasurements of the NOLs for Federal and State purposes were recorded to a regulatory asset and the balances are detailed in EADIT Amortization schedule² provided with the filing of this Case. Since that time, the Federal and State NOLs have been used and were removed from ADIT. The Regulatory Asset for the NOL Remeasurements are being amortized in accordance with the order received in Case No WR-2020-0344. Schlessman RT/ST/SST – Schedule LMS-3 is a copy of the EADIT Amortization schedule provided in the case. A summation

¹ Section 143.071, RSMo, reduced the tax rate on corporations to 4.0% for tax years beginning January 1, 2020.

² Worksheet entitled “E – EADIT” contained in 2024 GRC-Deferred Tax_Workpaper.xls provided with initial case filing.

1 column titled “Balance at 12/31/2024” of the balances at December 31, 2024 has been
2 added to show the totals through 2024. The total balance of the Regulatory Asset for NOL
3 Remeasurement for Federal and State NOLs is \$20,653,149. As demonstrated in the tax
4 accounting example in LMS-2, the balance is a regulatory asset within the overall
5 regulatory liability. The Company is proposing to include within the tax expense
6 calculation for this case an amount of \$1,978,980 for the deficient amortization on the
7 Regulatory Asset for NOL Remeasurements as indicated in LMS-3, column “Annual
8 Amort”.

9 **Q. What is the flaw in OPC Witness Riley’s logic regarding the NOL EADIT?**

10 A. Mr. Riley incorrectly states that the Company is amortizing an NOL as opposed to using
11 the NOL against taxable income. However, the NOLs have been used and are no longer
12 included in Deferred Taxes, and it is the Regulatory Asset for NOL Remeasurements that
13 is included in Rate Base and is being amortized in accordance with the order received in
14 Case No WR-2020-0344.

15 **Q. OPC Witness Riley states that the Regulatory Asset for NOL Remeasurement balance
16 through 2024 is \$21,371,624. Is this correct?**

17 A. No. The balance is \$20,653,149 as indicated in Schlessman RT/ST/SST – Schedule LMS-
18 3.

19 **Q. Do you agree with Mr. Riley’s proposal to remove the Regulatory Asset for NOL
20 Remeasurement from Rate Base?**

21 A. No. OPC Witness Riley fails to address the consequence to customers if the Regulatory
22 Asset for NOL Remeasurement is removed from Rate Base. Below would be the
23 accounting entry required based on his proposal and included in Schlessman RT/ST/SST

1 – Schedule LMS-4. The result would be immediate tax expense in cost of service of
2 \$15,729,381 and an increase to the Revenue Requirement of \$20,653,149 after gross-up
3 for taxes.

Schlessman RT/ST/SST - Schedule LMS-4
Tax Accounting to remove Regulatory Asset for NOL Remeasurement

Balance at December 31, 2024 20,653,149 Per LMS-3
Gross-up Rate 1.31303 Per LMS-3

	<u>Debit/(Credit)</u>
Deferred Tax Expense	15,729,381
Deferred Tax Liability on Deficient ADIT	4,923,768
Regulatory Asset NOL - Deficient ADIT	(20,653,149)

4
5 **Q. Staff Witness Sarver states that OPC Witness Riley’s approach could result in a**
6 **normalization violation. Do you agree?**

7 A. Yes. A portion of the balance is “protected” in nature, meaning that the Average Rate
8 Assumption Method (“ARAM”) must be followed for amortization through rates. Of the
9 \$20,653,149 amount at 12/31/2024, \$12,166,039 is protected in nature (See Schlessman
10 RT/ST/SST – Schedule LMS-3). The amount was determined as part of the Case No WR-
11 2020-0344 by applying the “with and without” accelerated depreciation methodology as
12 recommended in IRS guidance. The “with and without” method determines the portion of
13 the NOL which is attributable to accelerated depreciation and therefore protected under
14 normalization requirements.

15 **Q. What do you propose regarding the Regulatory Asset for NOL Remeasurement?**

16 A. I propose to keep the Regulatory Asset for NOL Remeasurement in Rate Base as ordered
17 in Case No WR-2020-0344 and continue to amortize the balance as proposed in the case
18 to avoid subjecting customers to a \$20M revenue requirement increase.

1 **Q. Does Staff agree with continuing the past practice of including the Regulatory Asset**
2 **for NOL Remeasurement in Rate Base?**

3 A. Yes. Staff and the Company agree with the ADIT balance of \$596,570,400 as of June 30,
4 2024.³ This balance is inclusive of the Regulatory Asset for NOL Remeasurement.
5 Furthermore, the Company and Staff agree to continue to amortize the balance on an annual
6 basis.⁴

7 **IV. TAXES AND THE WSIRA**

8 **Q. What is OPC Witness Riley proposing regarding WSIRA income tax?**

9 A. Witness Riley is proposing to exclude income tax expense on WSIRA revenue calculations
10 due to the absence of a current tax liability.⁵

11 **Q. Do you agree with OPC Witness Riley's proposal?**

12 A. No. Mr. Riley states that income taxes should not be calculated in the interim because
13 there aren't any due. However, this is not accurate because income tax expense is based
14 on both current and deferred taxes in accordance with Accounting Standards Codification
15 for Income Taxes (ASC 740) and Accounting Standards Codification for Regulated
16 Operations (ASC 980). Furthermore, excluding deferred taxes from the calculation would
17 lead to a mismatch between ADIT included in the WSIRA and the deferred taxes in the
18 revenue requirement.

19 **Q. What do you propose regarding the tax calculation on WSIRA revenues?**

20 A. I propose to continue the practice of calculating taxes on WSIRA revenues, in accordance
21 with ASC 740 and ASC 980 guidelines and consistent with fundamental ratemaking and

³ Sarver DT/RT, p. 25.

⁴ Sarver DT/RT, p. 27.

⁵ Riley DT/RT, p. 14.

1 economic principles, and include both current and deferred taxes.

2 **Q. Do any other Company witnesses discuss Mr. Riley's proposal regarding WSIRA?**

3 A. Yes. Please see the Rebuttal/Surrebuttal/Sur-Surrebuttal testimony of Brian LaGrand.

4 **V. GROSS-UP ON THE REVENUE REQUIREMENT**

5 **Q. OPC Witness Riley states that a gross-up on tax is not required because the Company**
6 **is not in a taxable situation. Is this correct?**

7 Q. No. The Company does have tax expense and is including the amount in the revenue
8 requirement. Tax expense includes both current and deferred taxes. The absence of current
9 tax expense does not mean the Company is not in a taxable situation. The Company has
10 deferred tax expense which it must pay to the government in the future and therefore has
11 taxes to collect from customers. The gross-up on tax expense ensures that the Company is
12 made whole because taxes collected in the revenue requirement are not deductible.
13 Therefore, each dollar of tax collected in the revenue requirement will also be taxed. Below
14 is an illustration that demonstrates the importance of a gross-up in the revenue requirement.
15 As demonstrated in the example, the Company will not meet its authorized revenue
16 requirement without a gross-up rate applied to income tax expense.

Illustration of Gross-Up Rate

<u>Line</u>			
1		1,000,000	Rate Base
2		7.68%	Authorized Rate of Return
3	Line 1 * Line 2	76,800	Revenue Requirement
4		21%	Tax Rate
5		1.27	Gross-up Rate = 1/(1-.21)

Example A: Without Gross-Up

6	Line 3	76,800	Return on Rate Base
7	Line 3 * Line 4	16,128	Tax Expense on Return of Rate Base
8	Line 6 + Line 7	92,928	Return of Rate Base plus Tax Expense
9	Line 8 * Line 4	19,515	Tax Expense
10	Line 8 - Line 9	73,413	Net Income does not equal revenue requirement
11	Line 10 - Line 7	3,387	Tax expense owed over tax expense collected in rates

Example B: With Gross-Up

12	Line 3	76,800	Return on Rate Base
13	Line 7 * Line 5	20,415	Tax Expense on Return of Rate Base with Gross-Up
14	Line 12 + Line 13	97,215	Revenue Requirement before taxes
15	Line 14 * Line 4	20,415	Tax Expense
16	Line 14 - Line 15	76,800	Net Income equals revenue requirement
17	Line 16 - Line 13	-	Tax expense owed equals tax expense collected in rates

1

2 **Q. Is the fact that the Company does not have current tax expense relevant to the use of**

3 **a gross-up factor on tax expense?**

4 A. No. As discussed previously, tax expense includes both current and deferred tax expense

5 in accordance with ASC 740 and ASC 980 guidelines. Tax expense is included in the

6 revenue requirement and the collection of this revenue will be taxed regardless of the nature

7 of current or deferred.

8 **Q. What do you propose regarding the use of a gross-up rate?**

9 A. I propose the Commission approve the use of a gross-up rate as included in the Company's

10 filing which is consistent with prior cases.

11 **VI. CURRENT AND DEFERRED TAX EXPENSE IN STAFF CALCULATIONS**

12 **Q. Do you agree with Staff Witness Sarver's Tax Testimony and Tax Calculation**

13 **Methodology?**

1 A. Yes, apart from the following:

- 2 • The exclusion of tax losses for retirements and non-plant timing differences in the
- 3 current and deferred tax expense calculation; and
- 4 • The use of the Straight-Line Tax Ratio in the deferred tax expense calculation.

5 **Q. Staff Witness Sarver’s current tax expense calculation does not include a deduction**
6 **for tax losses on retired assets or non-plant timing differences. Do you agree with**
7 **this?**

8 A. No. I propose to include deductions as included in the Company’s calculations for tax
9 losses on retirements and non-plant timing differences. These calculations are detailed in
10 the 2024 GRC-Deferred Tax_Workpaper as filed – 2025-05 Revision, Tab CAS 10
11 Calculation 05-31-25 for “Gain/Loss” and “Other Book versus Tax Timing Differences”
12 which relate to non-plant timing differences. While the inclusion of these deductions will
13 affect current tax expense with an offset to deferred tax expense and not impact tax expense
14 in cost of service, it will align the deferred taxes in the case to those included in the ADIT
15 balance in Rate Base.

16 **Q. Staff Witness Sarver includes a Straight-Line Tax Ratio when calculating deferred**
17 **tax expense. Do you agree with this?**

18 A. No. The effect of the Straight-Line Tax Ratio in Ms. Sarver’s deferred tax calculation is
19 flow-through tax accounting on a portion of the timing difference related to property. The
20 Company does not calculate tax expense using a flow-through methodology on property
21 related timing differences in this manner. Instead, the Company flows-through the book
22 depreciation portion of the timing difference on property in which tax depreciation was
23 previously flown-through using the Reverse South Georgia (“RSG”) method. The amount

1 is \$597,515 and is detailed in the 2024 GRC-Deferred Tax_Workpaper as filed – 2025-05
2 Revision, Tab CAS 10 Calculation 05-31-25 rows “Legacy RSG Federal” and “Legacy
3 RSG State”. Because Staff agrees with the Company’s ADIT balance as of June 30, 2024,
4 which includes the deferred taxes on property timing differences outside the Legacy RSG
5 method, the Straight-Line Ratio method should be eliminated, and the full book
6 depreciation amount should be included in the timing difference used to calculate deferred
7 taxes. The Straight-Line Tax Ratio method inflates tax expense beyond what is proposed
8 by the Company in the case. I propose that the Legacy RSG method continue and the
9 Straight-Line Tax Ratio method in Staff Witness Sarver’s calculation be removed so that
10 the tax expense calculation is aligned with the ADIT in rate base and aligns with the
11 Company’s tax accounting method.

12 **Q. Does this conclude your Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony?**

13 A. Yes, it does.

Schlessman RT/ST/SST - Schedule LMS-1

Example of Tax Accounting with a Net Operating Loss Carryforward

	<u>Net Operating Income</u>	<u>Net Operating Loss</u>
Pre-Tax Book Income	1,000,000	1,000,000
Book Depreciation	500,000	500,000
Tax Depreciation	(1,100,000)	(2,000,000)
Taxable Income/ (Loss)	400,000	(500,000)
Tax Rate	35%	35%
	<u>Debit/(Credit)</u>	<u>Debit/(Credit)</u>
Current Tax Expense	140,000	-
Deferred Tax Expense	210,000	350,000
Deferred Tax Liability - Plant	(210,000)	(525,000)
Taxes Payable	(140,000)	-
Deferred Tax Asset - NOL	-	175,000

Schlessman RT/ST/SST - Schedule LMS-2
 Example of Tax Accounting for a Tax Rate Change

	Net Operating Loss					
Pre-Tax Book Income		1,000,000				
Book Depreciation		500,000				
Tax Depreciation		<u>(2,000,000)</u>				
Taxable Income/ (Loss)		(500,000)				
Year 1 Rate		35%				
Year 2 Rate		21%				
Gross-up Rate		1.27				
EADIT Amortization Period		4 years				
		Year 1	Remeasurement	Year 2	Year 3	Year 4
		<u>Debit/(Credit)</u>	<u>Debit/(Credit)</u>	<u>Debit/(Credit)</u>	<u>Debit/(Credit)</u>	<u>Debit/(Credit)</u>
Deferred Tax Expense		350,000		(35,000)	(35,000)	(35,000)
(a) Deferred Tax Liability - PPE		(525,000)	210,000			
(a) Deferred Tax Asset on Excess ADIT			55,823	(13,956)	(13,956)	(13,956)
(b) Regulatory Liability PPE - Excess ADIT			(265,823)	66,456	66,456	66,456
(a) Deferred Tax Asset - NOL		175,000	(70,000)			
(a) Deferred Tax Liability on Deficient ADIT			(18,608)	4,652	4,652	4,652
(b) Regulatory Asset NOL - Deficient ADIT			88,608	(22,152)	(22,152)	(22,152)
Deferred Taxes - Sum of (a)		(350,000)	(172,785)	(182,089)	(191,392)	(200,696)
Regulatory Assets/Liabilities - Sum of (b)		<u>-</u>	<u>(177,215)</u>	<u>(132,911)</u>	<u>(88,608)</u>	<u>(44,304)</u>
Rate Base		(350,000)	(350,000)	(315,000)	(280,000)	(245,000)
				(280,000)	(245,000)	(210,000)

Missouri American Water
Case No. WR-2024-3020
Case No. SR-2024-0321
EADIT Amortization

		Amortization										Stub Period (Jan 2018 to 2.5 Yrs - Start May 2021)		Regular (06/01/25 - 05/31/26)		Regular (06/01/24 - 05/31/25)							
Item	Method	Period	Type	Dec 2017 EADIT	Dec 2019 EADIT	Total EADIT	2018	2019	2020	2021	2022	2023	2024	Balance at 12/31/2024	2025	2026	Accumulated Amort	Annual Amort	Annual Amort	Reserve/Trac ker	Amortization 3 YR	Total Amortization	Annual Amort
Utility Plant in Service (PowerTax)																							
Method / Life	ARAM	Asset Life	Protected	87,400,056		87,400,056	1,347,453	1,481,934	1,387,699	1,910,440	1,247,230	1,278,139	2,081,122	76,666,039	1,379,289	1,568,637	5,013,103	2,005,241	1,458,184	(98,711)	(32,904)	1,425,281	1,788,692
Cost of Removal	Straight-Line	10	Unprotected	(3,760,653)		(3,760,653)	(376,065)	(376,065)	(376,065)	(376,065)	(376,065)	(376,065)	(376,065)	(1,128,196)	(376,065)	(376,065)	(1,284,890)	(513,956)	(376,065)	-	-	(376,065)	(376,065)
Repairs	Straight-Line	10	Unprotected	72,455,741		72,455,741	7,245,574	7,245,574	7,245,574	7,245,574	7,245,574	7,245,574	7,245,574	21,736,722	7,245,574	7,245,574	24,755,711	9,902,285	7,245,574	-	-	7,245,574	7,245,574
Taxable CIAC	ARAM	Asset Life	Protected	(5,233,286)		(5,233,286)	(310,249)	(310,315)	(310,245)	(310,245)	(310,644)	(310,534)	(310,201)	(3,060,852)	(310,201)	(310,201)	(1,060,078)	(424,031)	(310,201)	(369)	(123)	(310,324)	(310,201)
All Other Federal	Straight-Line	10	Unprotected	11,330,762		11,330,762	1,133,076	1,133,076	1,133,076	1,133,076	1,133,076	1,133,076	1,133,076	3,399,229	1,133,076	1,133,076	3,871,344	1,548,537	1,133,076	-	-	1,133,076	1,133,076
Federal Benefit of State	Straight-Line	10	Unprotected	(10,105,779)		(10,105,779)	(1,010,578)	(1,010,578)	(1,010,578)	(1,010,578)	(1,010,578)	(1,010,578)	(1,010,578)	(3,031,734)	(1,010,578)	(1,010,578)	(3,452,808)	(1,381,123)	(1,010,578)	-	-	(1,010,578)	(1,010,578)
State Benefit of Federal	Straight-Line	10	Unprotected		4,246,359	4,246,359	424,636	424,636	424,636	424,636	424,636	424,636	424,636	2,123,179	424,636	424,636	601,567	240,627	424,636	-	-	424,636	424,636
State	Straight-Line	10	Unprotected		23,846,082	23,846,082			2,384,608	2,384,608	2,384,608	2,384,608	2,384,608	11,923,041	2,384,608	2,384,608	3,378,195	1,351,278	2,384,608	-	-	2,384,608	2,384,608
Sub-Total (UPIS)				152,086,841	28,092,441	180,179,282	8,029,211	8,163,627	10,878,705	11,401,446	10,737,837	10,768,856	11,572,172	108,627,429	10,870,340	11,059,688	31,822,145	12,728,858	10,949,235	(99,080)	(33,027)	10,916,208	11,279,742
CWIP, CAC, and other Non-UPIS Plant Items																							
Plant Customer Advances	Straight-Line	10	Unprotected	(2,767,893)	(198,718)	(2,966,611)	(276,789)	(276,789)	(296,661)	(296,661)	(296,661)	(296,661)	(296,661)	(929,727)	(296,661)	(296,661)	(973,848)	(389,539)	(296,661)	-	-	(296,661)	(296,661)
Plant CWIP	Straight-Line	10	Unprotected	(2,047)	24,491	22,445	(205)	(205)	2,244	2,244	2,244	2,244	2,244	11,632	2,244	2,244	2,770	1,108	2,244	-	-	2,244	2,244
CIAC WIP	Straight-Line	10	Unprotected	(148,263)	(15,811)	(164,075)	(14,826)	(14,826)	(16,407)	(16,407)	(16,407)	(16,407)	(16,407)	(52,385)	(16,407)	(16,407)	(52,897)	(21,159)	(16,407)	-	-	(16,407)	(16,407)
Plant 481	Straight-Line	10	Unprotected	940,523		940,523	94,052	94,052	94,052	94,052	94,052	94,052	94,052	282,157	94,052	94,052	321,345	128,538	94,052	-	-	94,052	94,052
(a)(b) Federal NOLC	ARAM	Asset Life	Protected	(10,293,275)		(10,293,275)	(94,204)	(137,620)	(134,976)	(200,461)	(117,329)	(121,215)	(221,849)	(9,265,622)	(133,928)	(157,648)	(450,326)	(180,130)	(143,811)	12,412	4,137	(139,674)	(b) (185,215)
(a) Federal NOLC	Straight-Line	10	Unprotected	(12,525,338)		(12,525,338)	(1,252,534)	(1,252,534)	(1,252,534)	(1,252,534)	(1,252,534)	(1,252,534)	(1,252,534)	(3,757,601)	(1,252,534)	(1,252,534)	(4,279,490)	(1,711,796)	(1,252,534)	-	-	(1,252,534)	(b) (1,252,534)
(a) State NOLC	Straight-Line	10	Unprotected		(5,166,647)	(5,166,647)	-	-	(516,665)	(516,665)	(516,665)	(516,665)	(516,665)	(2,583,323)	(516,665)	(516,665)	(731,942)	(292,777)	(516,665)	-	-	(516,665)	(b) (516,665)
(a) State Benefit of Federal	Straight-Line	10	Unprotected		(245,669)	(245,669)			(24,567)	(24,567)	(24,567)	(24,567)	(24,567)	(122,835)	(24,567)	(24,567)	(34,803)	(13,921)	(24,567)	-	-	(24,567)	(b) (24,567)
Sub-Total (Non-UPIS)				(24,796,293)	(5,602,354)	(30,398,647)	(1,544,506)	(1,587,922)	(2,145,513)	(2,210,998)	(2,127,866)	(2,131,752)	(2,232,386)	(16,417,704)	(2,144,465)	(2,168,185)	(6,199,190)	(2,479,676)	(2,154,348)	12,412	4,137	(2,150,211)	(2,195,752)
Sub-Total Plant				127,290,548	22,490,087	149,780,635	6,484,705	6,575,705	8,733,192	9,190,448	8,609,971	8,637,104	9,339,787	92,209,725	8,725,875	8,891,503	25,622,955	10,249,182	8,794,886	(86,668)	(28,889)	8,765,997	9,083,990
Non-Plant																							
Other	Straight-Line	10	Unprotected	(121,030)	(1,554,066)	(1,675,095)	(12,103)	(12,103)	(167,510)	(167,510)	(167,510)	(167,510)	(167,510)	(813,342)	(167,510)	(167,510)	(261,511)	(104,604)	(167,510)	-	-	(167,510)	(167,510)
State Benefit of Federal	Straight-Line	10	Unprotected		(506,391)	(506,391)			(50,639)	(50,639)	(50,639)	(50,639)	(50,639)	(253,196)	(50,639)	(50,639)	(71,739)	(28,695)	(50,639)	-	-	(50,639)	(50,639)
Total				127,169,518	20,429,631	147,599,149	6,472,602	6,563,602	8,515,043	8,972,299	8,391,822	8,418,955	9,121,638	91,143,187	8,507,726	8,673,354	25,289,705	10,115,882	8,576,738	(86,668)	(28,889)	8,547,848	8,865,841

	Sum of (a)	(15,729,381)	GROSSED UP	33,206,141	13,282,456	11,261,514	(113,797)	(37,932)	11,223,581	(1,978,980)
Regulatory Asset (Above times Conversion Factor)		(20,653,149)								(2,598,461)
	Protected Portion (b)	(9,265,622)								0
Regulatory Asset (Above times Conversion Factor)		(12,166,039)								
Deficient Amortization Grossed Up (Above times Conversion Factor)										

Gross Revenue Conversion Factor

Revenue	1,000.0
Uncollectibles Rate	0.0000%
Uncollectibles	0.0
PSC Assessment Rate	0.0000%
PSC Assessment	0.0
Before Tax Amount	1,000,000
SIT Rate	3.5951%
State Income Taxes	35.951
FIT Rate	20.2450%
Federal Income Taxes	202.450
Total Taxes and Expenses	238.401
Net Amount	761.599
Conversion Factor	1.313030

Schlessman RT/ST/SST - Schedule LMS-4

Tax Accounting to remove Regulatory Asset for NOL Remeasurement

Balance at December 31, 2024 20,653,149 Per LMS-3

Gross-up Rate 1.31303 Per LMS-3

Debit/(Credit)

Deferred Tax Expense 15,729,381

Deferred Tax Liability on Deficient ADIT 4,923,768

Regulatory Asset NOL - Deficient ADIT (20,653,149)

Schlessman RT/ST/SST - Schedule LMS-5
 Tax Loss Calculation

<u>From the Taxable Income Calculation:</u>	<u>5/31/2025</u>	<u>Workpaper Reference</u>
Excess of Tax Depreciation Over Book	9,118,498	CAS 10 Calculation 05-31-25
Other Book versus Tax Timing Differences	233,347,240	CAS 10 Calculation 05-31-25
Total Timing Differences	242,465,738	

<u>Detail of Other Book versus Tax Timing Differences:</u>		
Excess of Tax Depreciation Over Book	9,118,498	CAS 10 Calculation 05-31-25
Gain/loss	28,813,617	CAS 10 Calculation 05-31-25
Taxable CIAC	-	CAS 10 Calculation 05-31-25
Repairs	196,437,510	CAS 10 Calculation 05-31-25
Other Book versus Tax Timing Differences	8,096,113	CAS 10 Calculation 05-31-25
Total Book versus Tax Timing Differences	242,465,738	Ties to Total Timing Differences above

<u>Detail of Gain/Loss:</u>	<u>12/31/24 (Note 1)</u>	<u>12/31/25 (Note 2)</u>	<u>05/31/25</u>
Cost of Removal	23,981,607	18,659,916	21,764,236
Tax Loss on Retirements	8,011,747	5,702,070	7,049,382
	31,993,354	24,361,986	28,813,617
			Ties to Gain/Loss above

Note 1: From 2024 Rpt 216 total

Note 2: From 2025 Rpt 216 total