BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Petition of Missouri-)
American Water Company for Approval to)   Case No. WR-2025-0345
Establish a Water and Sewer Infrastructure)
Rate Adjustment (WSIRA))

STATEMENT OF POSITION

Comes now the Office of the Public Counsel (the "OPC") and submits this Statement of

Positions:

1. **Should the gross-up on income taxes be included in the WSIRA revenue requirement?**

No, the Commission should not include a gross up on income taxes in this water and sewer

infrastructure rate adjustment ("WSIRA") case because based on the information from Missouri-

American Water Company's ("MAWC") most recent rate case, MAWC does not currently pay

income taxes to the Internal Revenue Service ("IRS"). (Riley Direct Test. 2, 7-8, 10, Doc. 16).

When it is included, an income tax gross-up allows a utility to collect more from its customers so

that it may pay the income taxes due on the amount it collects from its customers to pay the income

taxes due on the amount the Commission has set as its authorized revenues.[1] (*Id.* 2-6). The purpose

of an income tax gross-up is to allow a utility the opportunity to earn its full Commission-

authorized income. (*See id.*).

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[1] As Mr. Riley explained in his Direct Testimony, the IRS considers the amount a utility collects to pay the income taxes owed on its Commission-authorized revenues to be additional income to the utility. (Riley Direct Test. 2-6). The IRS therefore taxes this additional income. (*See id.*). An income tax gross-up represents the amount of taxes due on this additional income. (*See id.*).

As a simplified example, if the Commission authorizes a utility to collect $100,000 the utility must pay $23,840 to the IRS as income taxes. Generally, the Commission allows a utility to collect this $23,840 from its customers. The IRS therefore sees this $23,840 as additional income to the utility. If the utility pays taxes to the IRS, an income tax gross-up should be calculated as well, so that the utility can collect its $100,000. In this example, the gross-up should be approximately $7,460, so that the utility can pay the income taxes on the $23,840 as well. In this scenario, the utility would collect $131,300 total. (*See id.*).

In defining "appropriate pretax revenues," § 393.1503 RSMo. does not explicitly require a gross-up be included with the income taxes, though it does require recovery of the income taxes themselves.[2] *See* § 393.1503(1)(b) RSMo. Here, based on the information from its most recent rate case, MAWC does not pay income taxes to the IRS.[3] (Riley Direct Test. 7). Therefore, it is made whole when it collects its Commission-authorized revenues and the taxes associated with those revenues. (*Id.* 7-8). For this reason, the Commission should not include the gross-up on income taxes in this WSIRA case and should disallow $430,535 from the Staff of the Commission's calculation of the appropriate revenue requirement in this case. (*Id.* 2).

WHEREFORE, the Office of the Public Counsel respectfully submits its Statement of Position.

Respectfully submitted,

 /s/ Lindsay VanGerpen
Lindsay VanGerpen (#71213)
Senior Counsel

Missouri Office of the Public Counsel
P.O. Box 2230
Jefferson City, MO 65102
Telephone: (573) 751-5565
Facsimile: (573) 751-5562
E-mail: Lindsay.VanGerpen@opc.mo.gov

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[2] The OPC does not contest MAWC's recovery of the income taxes. The OPC's argument is focused solely on the income tax gross-up.

[3] It is the OPC's understanding that if there is a change to MAWC's taxable situation it will be recognized in a general rate case. (Riley Rebuttal Test. 6-7, Doc. 22). If this occurs, rates will be designed so that it may recover not only the income taxes themselves, but a gross up as well. (*Id.*). However, this determination should only be made in a general rate case when all relevant factors are considered. (*Id.* 4, 6-7).

CERTIFICATE OF SERVICE

I hereby certify that copies of the forgoing will be emailed to all counsel of record this 21st day of January 2026.

/s/ Lindsay VanGerpen