

# Exhibit No. 6

Exhibit No.:  
Issues: Income Tax Expense, ADIT  
Witness: Melissa Ciullo  
Exhibit Type: Surrebuttal  
Sponsoring Party: Missouri-American Water Company  
Case No.: WR-2022-0303  
Date: February 8, 2023

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. WR-2022-0303**

**SURREBUTTAL TESTIMONY**

**OF**

**MELISSA CIULLO**

**ON BEHALF OF**

**MISSOURI-AMERICAN WATER COMPANY**

## AFFIDAVIT

I, Melissa Ciullo, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Vice President of Tax 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.

*Melissa Ciullo*

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Melissa Ciullo

February 8, 2023

Dated

**SURREBUTTAL TESTIMONY  
MELISSA CIULLO  
MISSOURI-AMERICAN WATER COMPANY  
CASE NO.: WR-2022-0303**

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**SURREBUTTAL TESTIMONY**

**MELISSA CIULLO**

**I. INTRODUCTION**

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

A. My name is Melissa Ciullo, and my business address is 1 Water Street, Camden, New Jersey, 08102.

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

A. I am employed by American Water Works Service Company, Inc. as the Vice President of Tax. I am responsible for management and oversight of the tax function for American Water Works, Inc., and its consolidated subsidiaries, including Missouri-American Water Company (“MAWC” or the “Company”).

**Q. Please summarize your educational background and professional experience.**

A. I graduated from Stockton College in 2001 with a Bachelor of Science Degree in Business and a concentration in Accounting. I have a Master of Business Administration Degree in Accounting and International Business from Rutgers University - Camden. I am a Certified Public Accountant in the State of New Jersey. I have 20 years of experience as a tax and accounting professional, including serving utilities with regulated operations in multiple states. For the 12 years before my employment with American Water, I held various positions with progressing responsibilities within the tax departments of utility holding companies Exelon Corporation and PEPCO Holdings Inc. Prior to these roles, I was employed by the international accounting firm KPMG.

**Q. What is the purpose of your Surrebuttal Testimony in this case?**

A. I support the method of calculating and including income tax expense and accumulated

1 deferred income taxes (“ADIT”) in this case as utilized by the Company and by Staff, and  
2 I address the proposal by the Office of Public Council witness John Riley to omit income  
3 tax expense from various calculations used to set rates in this case.

4 **II. ESTABLISHED MoPSC PRACTICE PROVIDING FOR INCOME TAXES**

5 **Q. OPC witness Riley’s Rebuttal Testimony proposes to eliminate income tax expense**  
6 **for the calculation of revenue requirement in this case.<sup>1</sup> Has the Commission**  
7 **established a practice of providing for income taxes in the calculation of the revenue**  
8 **requirement?**

9 A. Yes, the Commission has “normalized” income taxes into the revenue requirement by  
10 providing for both current and deferred income taxes. Including deferred income taxes  
11 when setting rates results in the tax benefits associated with the deferral of tax expense  
12 obligations (the ADIT) is included as a reduction of rate base and recognized as a source  
13 of interest-free capital available to MAWC. The Commission has also used the same  
14 normalization method of accounting with respect to setting rates for other regulated utilities  
15 operating subject to its jurisdiction in Missouri<sup>2</sup>.

16 **Q. Can you describe what a normalized method of providing for income taxes is, and**  
17 **what it accomplishes?**

18 A. Yes. Conceptually, normalization occurs when a cost is expensed and recovered  
19 proportionately over the relevant period in which operations are impacted by the incurrence  
20 of that cost. An example of a cost other than income taxes would be the cost of the Utility  
21 Plant in Service (UPIS), which is expensed and recovered on a proportionate basis over the

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<sup>1</sup> Riley RT, pp. 4-9.

<sup>2</sup> See *State ex rel. Utility Consumers Council of Missouri, Inc. v. Public Service Commission*, 606 S. W2d 222 (Mo, Ct, App. 1980) Decided Sept 2, 1980 (attached as Schedule MC-2 ST).

1 useful operating life of the UPIS through depreciation. A normalized method of accounting  
2 to provide for income taxes related to UPIS achieves the same proportionate result,  
3 normalizing the amount of income tax expense that will be recovered each year over the  
4 useful life of the UPIS. As shown on Staff Accounting Schedule 1 and 11, Total Company  
5 EMS – Direct Testimony, and noted by Mr. Riley in his Rebuttal Testimony<sup>3</sup>, Staff has  
6 calculated current income tax expense of \$2,263,841, which requires additional current  
7 income tax expense of \$8,829,638.<sup>4</sup> However, Mr. Riley ignores the \$24,992,937 of  
8 Deferred Income Taxes Staff has also included.<sup>5</sup> The vast majority of the Company’s tax  
9 expense is deferred due to the large difference between the book depreciation and tax  
10 depreciation, largely due to the Tax Repairs Deduction. Staff shows book depreciation  
11 expense of \$67,300,759 compared to tax depreciation expense of \$159,437,213, which  
12 results in a book/tax difference of \$92,136,454.<sup>6</sup> I have attached as Schedule MS-1 ST a  
13 simple illustration of how a normalized method of providing for income tax would operate  
14 for a \$1,000 UPIS investment having a useful operating life of 5 years.<sup>7</sup> Note, income tax  
15 expense obligations accrue and are recovered at a constant federal and state effective tax  
16 rate of 24% for each of the five years the UPIS is in operation. Also, note that the customers  
17 in each year directly benefit from the deferred taxes having been recovered in income tax  
18 expense by the reduction of rate base from the resulting ADIT. Also, note there is no over  
19 or under-recovery of costs as illustrated pursuant to this method. The decision I have  
20 attached as Schedule MC-2 ST from the Court of Appeals of Missouri, Western District,

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<sup>3</sup> Riley RT, p. 7.

<sup>4</sup> Staff Accounting Schedule 1, Total Company EMS – Direct Testimony, column C, lines 7 and 9.

<sup>5</sup> Staff Accounting Schedule 11, Total Company EMS – Direct Testimony, column E, line 46.

<sup>6</sup> Staff Accounting Schedule 11, Total Company EMS – Direct Testimony, column E, lines 3 and 10-12.

<sup>7</sup> Assumptions such as the statutory tax rate, debt to equity ratio, and return percentages are not the actual assumptions in this case, but instead are assumptions made for the purposes of illustration.

1 supports my answer to this question and would be one source for additional discussion  
2 related to how a normalization method of providing for income taxes operates pursuant to  
3 Commission practices.

4 **Q. Is the fact that MAWC accrued and reported a negative or zero current income tax**  
5 **expense obligation in a prior year something unique to this case requiring the**  
6 **Commission to reconsider its established practices and methods for including income**  
7 **taxes in the rate setting process?**

8 A. No. Due to bonus tax depreciation allowed prior to 2018, and tax repair deductions  
9 available since 2008, MAWC routinely generated taxable losses, meaning it had negative  
10 or zero current tax expense in those years. In recording losses in those years, MAWC also  
11 recorded the deferral of tax that gave rise to losses, and ratepayers benefited from those  
12 deferrals by having the related ADIT reducing MAWC rate base. I am also aware that a  
13 number of other utilities operating in Missouri since 2008 were similarly reporting the  
14 taxable losses since 2008.

### 15 **III. OPC POSITION REGARDING INCOME TAXES**

16 **Q. How does OPC Witness Riley propose that income tax expense be determined in this**  
17 **case?**

18 A. In his Rebuttal Testimony Mr. Riley rejects Staff's calculation and inclusion of income tax  
19 expense to be used for the revenue requirement in this case, and proposes no income tax  
20 expense be included in the revenue requirement<sup>8</sup>. However, Mr. Riley does not oppose  
21 using the ADIT balance to reduce rate base that is inclusive of additions to ADIT that  
22 resulted from the income tax expense as calculated by Staff and MAWC, which is

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<sup>8</sup> Riley RT, p. 6.



1 inconsistent with his proposal to exclude income tax expense.

2 **Q. What facts or reasoning does Mr. Riley cite in his Rebuttal Testimony for omitting**  
3 **income tax expense from selected calculations in this case?**

4 A. Mr. Riley only references the claim that MAWC reported a negative income tax expense  
5 in the five prior years.

6 **Q. Did MAWC report a negative income tax expense related to operating income for**  
7 **each of the prior five years, and has MAWC or Staff calculated a negative income tax**  
8 **expense in this case?**

9 A. No. MAWC consistently reported a positive income tax expense obligation being accrued  
10 for each of the five prior years. Mr. Riley did not include all components of income tax  
11 expense in drawing his erroneous conclusion.

12 **Q. What components of MAWC income tax expense did Mr. Riley omit in reaching his**  
13 **erroneous conclusion?**

14 A. He omitted the deferred income tax expense components of MAWC income tax expense  
15 for each of those five years and relied solely on the current tax expense component of  
16 income tax expense account 409.1. However, in addition to account 409.1, MAWC's  
17 income tax expense is accounted for by component part in NARUC Uniform System of  
18 Accounts (USOA) accounts 410.1, 411.1, and 412.1. Like account 409.1, these additional  
19 accounts include components of income tax expense related to operating income. The  
20 working definition for each of the deferred income tax expense accounts as provided in the  
21 1973 NARUC USOA for Class A and B Water utilities is as follows:

22 **410.1 Provision for Deferred Income Taxes, Utility Operating Income:** This

23 Account shall include the amount of deferred income taxes reflected in account

1 410, Provision for Deferred Income taxes, which relate to Utility Operating Income  
2 (by department).

3 **411.1 Income Taxes Deferred in Prior Years -- Credit, Utility Operating**

4 **Income:** This account shall include the amount of those taxes deferred in prior  
5 years—credit, reflected in account 411, Income Taxes Deferred in Prior Years—  
6 Credit, which relate to Utility Operating Income (by department).

7 **412.1 Investment Tax Credits, Utility Operations, Deferred to Future Periods:**

8 This account shall be debited with the amounts of realized investment tax credits  
9 relative to utility operations deferred to future periods and credited to account 255  
10 Accumulated Deferred Investment Tax Credits. (by department)

11 **Q. What was the total income tax expense reported by MAWC for the prior five years**  
12 **including both the current and deferred income tax components?**

13 A. Please see Table MC-1 below for the amounts recorded in NARUC accounts 409.1, 410.1,  
14 and 412.1. These amounts are taken from the Company's annual reports filed with the  
15 Commission between 2017 and 2021. Selected pages from those reports were included in  
16 the Rebuttal Testimony of OPC witness Riley, and are also included with my Surrebuttal  
17 Testimony as Schedule MC-3 ST.

Table MC-1

	Current Tax Expense	Deferred Tax Expense	Deferred Tax Expense	Total Tax Expense
<b>Year</b>	<b>409.1</b>	<b>410.1</b>	<b>412.1</b>	
2017	(\$16,523,912)	\$47,336,596	(\$106,662)	\$30,706,022
2018	(\$14,219,346)	\$34,820,817	(\$106,662)	\$20,494,809
2019	(\$10,407,246)	\$31,764,308	(\$103,620)	\$21,253,442
2020	(\$19,810,564)	\$42,010,227	(\$103,620)	\$22,096,043
2021 <sup>9</sup>	(\$38,370,630)	\$46,250,054	(\$103,551)	\$7,775,873

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2 **Q. Is the income tax expense reported by MAWC from 2017 to 2021 indicative of the**  
3 **income tax expense obligation that will be relevant to a future year?**

4 A. No. Future income tax expense will be based on the relevant operating income and  
5 assumptions for that year. The split of that income tax expense between current and  
6 deferred tax expense components is especially not going to be predicated on prior year  
7 activity. Tax years 2017 through 2021 is a time when MAWC was entitled to significant  
8 bonus depreciation and tax repair deductions, with the accumulated book-to-tax difference  
9 related to those tax deductions and like tax deductions from prior periods reversing on an  
10 ever-increasing basis. Schedule MC-1 ST illustrates the build of deferred taxes in the year  
11 the investment in UPIS is made, and the reversal that starts in the very next year. This 5-  
12 year period is also the period during which TCJA was enacted, and TCJA EADIT amounts  
13 started to be normalized or amortized, impacting deferred tax expense and ADIT.

14 **Q. Have MAWC and Staff calculated a positive income tax expense to be provided for**  
15 **in this case?**

16 A. Yes, total income tax expense was calculated to be positive in this case. In fact, both the  
17 current income tax expense, and the deferred tax expense components have been calculated

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<sup>9</sup> The decrease in total tax expense for 2021 is related to the amortization of TCJA EADIT which started in that year and included additional stub period amounts.

1 in this case to be positive expense amount.<sup>10</sup>

2 **Q. Should the Commission adjust Staff's calculation for incremental tax deductions that**  
3 **may or may not be available to MAWC as part of yet to be filed WSIRA proceeding**  
4 **as suggested by Mr. Riley?<sup>11</sup>**

5 A. No. There was no need for Staff to do so, there is no need for the Commission to do so.  
6 There is a separate proceeding that will provide for income taxes associated with the  
7 relevant incremental UPIS investments. To the extent MAWC is able to avail itself of  
8 additional accelerated tax deductions related to these incremental UPIS expenditures, there  
9 will be the related increase in ADIT and related reduction in rate base used in that  
10 proceeding to set rates. It is this feature of the normalized method of providing for income  
11 taxes that ensures the benefit of having accelerated tax depreciation accrues to the ratepayer  
12 both in this case and any interim rate setting mechanism or proceeding.

13 **Q. Should the Commission adjust Staff's calculation for the settlement of amounts due**  
14 **or receivable from MAWC's parent as suggested by Mr. Riley in his Rebuttal**  
15 **Testimony?<sup>12</sup>**

16 A. No. There is no additional cost or benefit that accrues in the settlement of MAWC's share  
17 of consolidated federal and state tax obligations. Therefore, there is no need to separately  
18 or incrementally accrue for the settlement of MAWC consolidated state and federal tax  
19 obligations in providing for income taxes in this case. You would not increase tax expense  
20 when MAWC has to pay the parent to settle its accrued tax obligations, and you would not

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<sup>10</sup> Staff Accounting Schedule 11, Total Company EMS – Direct Testimony, column E, line 52 minus lines 49-50, and Company Accounting Schedule 2.

<sup>11</sup> Riley RT, p. 8.

<sup>12</sup> Riley RT, p. 8.

1 decrease tax expense when the parent has to pay MAWC to settle its accrued tax obligation.  
2 Any amount due to, and any amount receivable from, the parent has already been accrued  
3 as a component of tax expense. In addition, the relevant change in ADIT would also already  
4 have been accrued. Therefore, considering the settlement as an addition or reduction to tax  
5 expense or ADIT would be duplicative and arbitrary, in addition to the income tax amounts  
6 MAWC and Staff have calculated.

7 **Q. Is OPC's proposal to omit MAWC's income tax expense obligations from the revenue**  
8 **requirement in this case consistent with established Commission practice?**

9 A. No, the Commission has consistently allowed for income taxes to be fully provided for in  
10 the rate setting process on a normalized basis. Additionally, I am unaware of any  
11 commission having an established practice of providing income taxes in setting rates as  
12 proposed by Mr. Riley.

13 **Q. Is OPC Witness Mr. Riley's proposal consistent with federal tax normalization**  
14 **requirements?**

15 A. No. Mr. Riley's proposal is internally inconsistent. He seeks to exclude income tax  
16 expense from the revenue requirement calculation in this case, while still allowing the  
17 related ADIT to reduce rate base. This would not be reflective of a normalized method of  
18 accounting as described earlier in my testimony. A portion the MAWC income tax expense  
19 and ADIT balance calculated by Staff and MAWC relate to MAWC having claimed  
20 accelerated tax depreciation. The federal tax normalization rules require a normalization  
21 method of accounting be used to account for income taxes related to having claimed

1 accelerated tax depreciation.<sup>13</sup>

2 **Q. Have MAWC and Staff calculated and provided for income taxes in this case**  
3 **consistent with established Commission practices and methods?**

4 A. Yes. As allowed by the Commission, MAWC and Staff have included current and deferred  
5 income tax expense obligations in the calculation of the revenue requirement proposed for  
6 this case. In doing so, MAWC and Staff included the resulting ADIT in the calculation of  
7 MAWC rate base in this case. MAWC and Staff have provided for income taxes in this  
8 case consistent with what has been allowed by the Commission in prior MAWC rate cases  
9 as well as the rate cases of other utilities operating in MO.<sup>14</sup>

#### 10 **IV. CONCLUSIONS**

11 **Q. How should the Commission include income taxes in this case?**

12 A. The Commission should include income taxes in this case pursuant to the practices utilized  
13 in MAWC's prior rate cases, as well as the prior rate cases of other utilities operating in  
14 Missouri, as recommended by both MAWC and Staff. The Commission's method of  
15 providing for income taxes on a normalized basis, ensures that the benefits of MAWC  
16 having claimed accelerated tax deductions inures to rate payers. The feature inherent in a  
17 normalized method of providing for income taxes effectively treats the ADIT as interest  
18 free money available to the utility.<sup>15</sup>

19 **Q. Does this conclude your Surrebuttal Testimony?**

20 A. Yes.

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<sup>13</sup> IRC 168(i)(9) - Normalization rules

<sup>14</sup> Schedule MC-2 ST.

<sup>15</sup> Schedule MC-2 ST, Page 3, Paragraph 1 illustrates Commission practices for including income tax expense in setting rates.

**Illustration - Normalization Method of Accounting**

		0	1	2	3	4	5
A	Capitalized Cost Deducted Tax	1,000					
B	Book to Tax Difference	(1,000)	(800)	(600)	(400)	(200)	-
C	Utility Plant in Service	1,000	1,000	1,000	1,000	1,000	1,000
D	Accumulated Book Depreciation	-	(200)	(400)	(600)	(800)	(1,000)
E	Net Plant in Service	1,000	800	600	400	200	-
F	Debt	(380)	(304)	(228)	(152)	(76)	-
G	Revenue						
H	ADIT	(240)	(192)	(144)	(96)	(48)	-
I	Rate Base	760	608	456	304	152	-
J	Average Rate Base	-	684	532	380	228	76
K	Revenue	-	268	253	238	223	208
L	Depreciation	-	(200)	(200)	(200)	(200)	(200)
M	Interest	-	(21)	(16)	(11)	(7)	(2)
N	Pre-Tax Income	-	48	37	27	16	5
O	Current Tax Expense	(240)	59	57	54	52	49
P	Deferred Tax Expense	240	(48)	(48)	(48)	(48)	(48)
Q	Total Tax Expense	-	11	9	6	4	1
R	Statutory Federal & State Effective Rate	24%	24%	24%	24%	24%	24%
S	Debt to Equity Ratio	50%	50%	50%	50%	50%	50%
T	Pre-Tax Cost of Debt	6%	6%	6%	6%	6%	6%
U	Pre-Tax Cost of Equity	14%	14%	14%	14%	14%	14%
V	Authorized Rate of Return	10%	10%	10%	10%	10%	10%

## State ex rel. Utility Consumers Council of Missouri, Inc. v. Public Service Commission

606 S.W.2d 222 (Mo. Ct. App. 1980)  
Decided Sep 2, 1980

222 \*222 606 S.W.2d 222 (Mo.App. W.D. 1980)  
STATE of Missouri ex rel. UTILITY CONSUMERS COUNCIL OF MISSOURI, INC., Appellant, v. PUBLIC SERVICE COMMISSION of Missouri and Union Electric Co., Respondents. No. WD 31071. Court of Appeals of Missouri, Western District. Sept. 2, 1980

Motion for Rehearing and/or Transfer to Supreme Court Denied Oct. 1, 1980.

223 1980. \*223 Application to Transfer Denied Nov. 12, Samuel H. Liberman, St. Louis, for petitioner-appellant.

Paul W. Phillips, Jefferson City, Stewart W. Smith, Jr., William E. Jaudes and Paul W. Agathen, St. Louis, for respondents.

Before WASSERSTROM, C. J., Presiding, and KENNEDY and PRITCHARD, JJ.

KENNEDY, Judge.

The sole issue in the present case is the propriety of the Public Service Commission's allowance in a rate case of deductions by Union Electric Company of "normalized" federal and state income taxes, as opposed to the smaller amount of income taxes actually paid during the test year, in arriving at cost of service. The test year ended June 30, 1977. The Commission allowed a \$30,755,498 rate increase effective on February 2, 1978. The appellant Utility Consumers Council of Missouri, Inc., argues that the Commission improperly allowed the company

to treat \$24,510,500 in "normalized" or "deferred" federal and state income taxes, and not actually paid out during the test year, as expenses in computing the cost of service.

The difference between the amount of "normalized" taxes allowed by the Commission and the amount of taxes actually paid out by the utility arises from the difference in the accounting treatment of certain items for rate-making purposes on the one hand and for income tax purposes on the other. Those items are: accelerated depreciation, investment tax credit, and certain construction expenses.

### Scope of review.

Before we take up the arguments of the parties, we first take up the matter of the scope of our review. Sec. 386.510, RSMo 1978, says that we review the order or decision of the Commission for "reasonableness and lawfulness". It is really not our business here to weigh the arguments for the "normalization" method which the Commission has ordered, and the arguments for the "flow through" method for which the Utility Consumers Council contends, and to decide which preponderates. That is for the Commission. If the Commission's decision to allow the normalization method is not unlawful, if it is supported by reason, and is not arbitrary or capricious, then it is our task to affirm the Commission's decision. We do not substitute our judgment or our discretion for that of the Commission. The complaining party carries the burden of making a convincing showing that the



Commission's order is not reasonable or lawful. *State ex rel. Chicago, Rock Islands&Pacific Railroad Company v. Public Service Commission*, 312 S.W.2d 791, 796 (Mo.banc 1958); *Empire Dist. Elec. Co. v. Cox*, 588 S.W.2d 263, 266 (Mo.App.1979); *State ex rel. Beaufort Transfer Co. v. Clark*, 504 S.W.2d 216, 217 (Mo.App.1973); *State ex rel. Cape Girardeau v. PSC*, 567 S.W.2d 450, 454 n.4 (Mo.App.1978).

We now take up in order the arguments of the parties:

#### Accelerated depreciation.

For income tax purposes, the Internal Revenue Code allows the use of accelerated depreciation, resulting in larger annual deductions in the early years of the life of a depreciable asset and smaller deductions in later years. For rate-making purposes, a depreciable asset is presumed to depreciate at a constant rate, and the cost basis is deducted ratably over the life of the asset. Respondent's brief furnishes the following comparison of the results of the straight line method (the method used for rate-making purposes) and a form of accelerated depreciation known as the sum-of-the-years digits method: For an asset costing \$1,000,000, with an estimated useful life of 10 years, the straight line depreciation deduction would be \$100,000 per year over the life of the asset. This is the method used for rate-making calculations. By the sum-  
224 \*224 of-the-years digits method, used by the company for income tax purposes, the first year depreciation would be \$181,818. That amount would decrease each year until in the tenth year the final depreciation deduction would be \$18,181.

There is no disagreement about the use of the straight line method to arrive at the correct deduction for rate-making purposes. The dispute is over the treatment of the income tax "saving", actually a deferral, resulting from the use of the accelerated depreciation method.

By "normalization", which was allowed in the present case, the income tax expense item allowed to be deducted in arriving at cost of service are not the taxes actually paid, but are the amount which would have been paid had the straight line depreciation method been used in figuring the income taxes. For the test year now under examination, the accelerated depreciation method resulted in an income tax deferral of \$5,474,678 over the amount which the straight line depreciation method would have produced. This deferred amount was credited to a "deferred tax" reserve. In later years, when the depreciation deduction is less than the straight line method would yield, and the resulting taxes more than the straight line method would have produced, the excess tax will be deducted from the reserve. Over the life of the asset, assuming constant tax rates, the total depreciation deduction and the total income tax reduction resulting therefrom, will be the same by either method. By the accelerated depreciation method, the depreciation deduction will be more in the early years and the income tax less, and the situation will be reversed in later years.

The Utility Consumers Council's criticism of the Commission's decision is that the deferred taxes which are allowed by the Commission's order to be charged to the ratepayers are actually a fictitious expense. To quote from appellant's brief, their position is as follows: "The income taxes paid by the company to the federal or state government in one year, should appropriately be charged to the customers buying company service in that year. .. 'Deferred' taxes are not expenses at all, but, at best, estimates of future taxes, which are charged to current ratepayers. .. Moreover, the whole idea of deferring expenses so as to 'even them out' over long periods of time, is at odds with the basic system employed by the PSC to set rates. The idea of applying test year information to a rate-making formula is to try to base rates on actual costs of service at a particular moment."

The "deferred tax reserve", to which the deferred amounts are credited, is an unfunded reserve. It creates, while it is in existence, a cost-free addition to capital. The appellant says that this is an interest-free loan from the ratepayers to the utility, for the ratepayers have paid it in and the utility does not pay it out. The Commission and the utility answer that the reserved amount is instead a loan from the United States Treasury to the utility. Whichever way one looks at it, it is a sum upon which the utility pays no interest. The amount of it is excluded from the rate base so the rates charged to the ratepayers do not include a return upon the reserved amount. The reserve therefore inures to the benefit of the ratepayers in that the rates do not reflect any cost for the use of the money. This feature provides an immediate benefit to the ratepayers.

Should normalization of taxes not be allowed, and "flow through" required, the substantial tax benefits of accelerated depreciation would be lost to the utility, Internal Revenue Code, ss 167(l) and 46(f); *City of Akron v. Public Utilities Commission*, 51 Ohio St.2d 27, 364 N.E.2d 869 (1977). In the latter case, the court said: "Since the accounting procedure for normalization uses straight-line depreciation which then creates a reserve for the tax obligation resulting from the tax deferral, the effect is that all of the rates and expenses stay the same in any event, but the utility loses the advantage of using the reserve fund as cost-free capital, which it would have if it uses both the accelerated depreciation method and normalization. ... Since we conclude \*225 that the Commission's inclusion in the ratemaking formula as an expense for the test year of the tax figure arrived at by normalizing tax liability computed by the accelerated depreciation method was neither unreasonable nor unlawful, and that under these facts the determination by the Commission concerning normalization is in the best interests of the ratepayers, the order of the Commission is affirmed." *Id.*, 364 N.E.2d at 870.

The normalization of taxes as ordered by the Commission in this case is widely accepted in rate cases. See *Fed. Power Commission v. Memphis Light, Gas&Water Division*, 411 U.S. 458, 93 S.Ct. 1723, 36 L.Ed.2d 426 (1973); *Cities of Lexington, etc. v. Federal Power Commission*, 295 F.2d 109, 111 (4th Cir. 1961); *Colorado Municipal League v. Public Utilities Commission*, 597 P.2d 586 (Colo. banc 1979); *City of Alton v. Illinois Commerce Commission*, 19 Ill.2d 76, 165 N.E.2d 513, 520 (1960); *New England Telephones&Telegraph Company v. Public Utilities Commission*, 390 A.2d 8 (Me.1978); *In Re Hackensack Water Company*, 57 N.J.Super. 180, 154 A.2d 212, 219 (1959); *City of Akron v. Public Utilities Commission*, supra. See also *Swiren*, Accelerated Depreciation Tax Benefits in Utility Rate Making, 28 U. of Chicago L.Rev. 629 (1961). See also the following regulatory agency cases approving the normalization method: *Re Hudson Water Company*, 28 PUR 4th 617, 620 (N.H.Pub.Util.Comm.1979); *Re Southwestern Public Service Company*, 27 PUR 4th 302, 315 (N.M.Pub.Serv.Comm.1978); *Re Kansas Powers&Light Company*, 20 PUR 4 th 55, 59 (Kan.State Corp.Comm.1977); *Re Mountain States Telephones&Telegraph Co.*, 22 PUR 4th 516, 538-40 (Col.Pub.Util.Comm.1977); *Re East Ohio Gas Co.*, 16 PUR 4th 137, 151 (Ohio Pub.Util.Comm.1976); *Re Arizona Public Service Company*, 20 PUR 4th 253, 258-59 (Ariz.Corp.Comm.1977).

In contending for the "flow through" system of accounting, by which the income tax component is the amount of income tax actually paid out, the appellant says that the normalization method "is at odds with the basic system employed by the PSC to set rates". It says that "(t)he idea of applying test year information to a rate-making formula is to try to base rates on actual costs of service at a particular moment." It cites in support of that proposition *State ex rel. Capital City Water Company v. Public Service Commission*, 252 S.W. 446, 448 (Mo.banc 1923),

which held that past losses could not be capitalized and charged to present or future customers. They also cite *State ex rel. Valley Sewage Company v. Public Service Commission*, 515 S.W.2d 845, 851 (Mo.App.1974), and *State ex rel. Martigny Creek Sewer Company v. Public Service Commission*, 537 S.W.2d 388, 394 (Mo.banc 1976), both of which held that customers' contributions in aid of construction must be deducted from rate base. We have no quarrel with the cases cited by the appellant nor with the general proposition that present expenses are to be charged to present ratepayers. The latter proposition, though, is a very broad one and a very flexible one. It does not prevent the allowance by the Commission of the normalization method of computing the income tax component of the cost of service, if, as we have shown above, there are good reasons for it.

To counter the utility's position, adopted by the Commission, that denying normalization would result in a loss of the tax benefits of accelerated depreciation, appellant Utility Consumers Council attacks the validity of those sections of the Internal Revenue Code which purport to deny accelerated depreciation and investment tax benefits to those companies which do not "normalize" them but which flow them through to net income and hence to the ratepayer. See Internal Revenue Code, ss 167(l) and 46(f). Appellant views these sections as requiring normalization by the Public Service Commission. Appellant then argues that this requirement is an unconstitutional intrusion by Congress upon state functions and violative of the Tenth Amendment to the United States Constitution. Leaving aside the effect of a pronouncement by this court in this proceeding, to which the federal government is not  
 226 \*226 a party, that these provisions of the Internal Revenue Code are unconstitutional and invalid, the answer to the appellant's contention is that its premise is incorrect. The cited sections of the Internal Revenue Code do not require normalization. The choice of normalization or

"flow through" was open to the utility, in the first instance, and to the Commission. It might have rejected normalization and have foregone the tax benefit, if other considerations outweighed the tax advantages to be gained by normalization. Sec. 393.270.4, RSMo 1978. It chose, however, upon weighing the features of the two methods, to normalize. We find no constitutional infirmity in the Internal Revenue Code sections cited, and we reject the appellant's point.

#### **Investment tax credit.**

A regulated utility like other businesses is allowed an income tax credit of 11% of any amount invested in certain qualifying assets. In our case, only the portion above 4% (i. e., the additional amount authorized by the Tax Reduction Act of 1975) was normalized and is at issue here. The income tax credit amounted to \$6,911,280. This credit was not "flowed through" to the ratepayers by adding it to net income for rate-making purposes. It was instead amortized over the life of the property to which it related. The credit was allowable only if normalized. It would have been disallowed if "flowed through". Internal Revenue Code, ss 167(l) and 46(f).

Appellant correctly points out that the investment tax credit is an actual tax saving and not a tax deferral. In this respect it is unlike the accelerated depreciation, which results in a tax deferral rather than an outright saving.

Appellant fails to demonstrate how the decision of the Commission to normalize the investment tax credit costs the ratepayers, present or future, anything at all.

Appellant says: "A PSC order contradicting (the provisions requiring normalization in order to claim the investment tax credit) by denying normalization would, at worst, not change the rates, as the ratepayers would pay the same either way"-an argument which says that if the investment tax credit cannot be "flowed through" to the ratepayers, it should be foregone altogether!

The ratepayers do, however, gain from normalization of the investment tax credit, as well as the accelerated depreciation and the construction expense deductions, the indirect benefit of an enhanced cash flow for the utility. It is difficult to see how the Commission could reasonably have denied normalization of the investment tax credit. It costs the utility customers nothing, but gives to the utility, to the indirect benefit of the customers, an improvement in cash position. See *Southern Cal. Gas Co. v. Public Utilities Com'n*, 23 Cal.3d 470, 153 Cal.Rptr. 10, 591 P.2d 34 (banc 1979).

### Construction expenses.

There is a third category of expenses which are capitalized for rate-making purposes, but currently deducted from income for income tax purposes. These expenses are interest, property taxes, pensions and other costs charged to construction. They are not permitted, for rate-making purposes, to be "flowed through" to the ratepayer as incurred. Sec. 393.135, RSMo 1978, prohibits the company from earning any return upon facilities before they are actually placed in service. They are added to the cost of the production facilities, then amortized over the life of the facility, beginning when the facility is placed in service. These expenses, currently deducted for income tax purposes, result in a reduction of income taxes. By the tax normalization method, approved by the Commission's order in this case, the income tax saving resulting from the current deduction of these expenses is not "flowed through" at once to the ratepayers, but reduces the cost of the facility to which the expenses relate. Thus the income tax saving-for the test year \$12,124,542-and the construction expenses to which they relate, are both amortized over the life of the facility, beginning with the time the facility is placed in service. There is logic and fairness in this method.

<sup>227</sup> The immediate flow-through <sup>227</sup> of income taxes saved, as the appellant would require, would result in a windfall to present ratepayers. Not having to

pay the construction expenses, they would yet get the benefit of the income tax deduction resulting therefrom. Later ratepayers, while paying the expenses by way of depreciation, would not have the benefit of any tax deduction therefrom. Cf. *Memphis Light, Gas&Water Div. v. Fed. Power Com'n*, 500 F.2d 798, 806-7 (D.C.Cir.1974).

As in the case of tax savings from accelerated depreciation and from investment credit, normalization does provide for the ratepayers the indirect benefit of an enhanced cash flow for the utility.

### Conclusion.

We conclude that the Commission's order approving normalization of income taxes in the three areas mentioned, i. e., accelerated depreciation, investment tax credit, and construction expenses, is supported by good and valid reasons. The appellant has not demonstrated either that they are unlawful or unreasonable. The least that can be said for the Commission's order is that it was within the zone of an allowable discretion, which is not to be disturbed upon judicial review. Cf. *Tenneco Oil Co. v. Federal Energy Regulatory Com'n*, 571 F.2d 834, 842-844 (5th Cir. 1978); *El Paso Natural Gas Co. v. Fed. Power Com'n*, 449 F.2d 1245 (5th Cir. 1971).

"It is obvious that we are confronted in this case with a problem in a special field which requires the exercise of expert skill that has been generally entrusted by state and federal legislation to administrative regulatory tribunals whose decisions, in the absence of abuse of discretion, should be followed by the courts." *Cities of Lexington, etc., Ky. v. Federal Power Commission*, supra at 114.

The judgment of the trial court is affirmed.

All concur.

**STATEMENT OF INCOME FOR THE YEAR**

Account No. (a)	Account Description (b)	Schedule Page No. (c)	Total	Sewer	Water
			Current Year (d)	Current Year (e)	Current Year (f)
<i>Utility Operating Income</i>					
400	Operating Revenues	S-1   W-1	\$ 289,427,008	\$ 9,368,770	\$ 280,058,238
401	Operation Expense	S-3   W-6	\$ 113,416,052	\$ 4,097,268	\$ 109,318,784
402	Maintenance Expense	S-3   W-6	\$ 11,945,302	\$ 222,780	\$ 11,722,522
403	Depreciation Expense	S-7   W-11	\$ 38,245,195	\$ 1,002,967	\$ 37,242,229
404-405	Amortization of Limited Term/Other Utility Plant	-	\$ (5,176,241)	\$ 734,325	\$ (5,910,566)
406	Amortization of Utility Plant Acquisition Adjustments	F-16	\$ 6,218,891	\$ 167,191	\$ 6,051,700
407	Amortization of Property Losses	-	\$ 160,403	\$ 1,510	\$ 158,893
408.1	Taxes Other Than Income Taxes-Utility Operating Income	F-31	\$ 23,968,726	\$ 436,530	\$ 23,532,196
409.1	Income Taxes, Utility Operating Income	F-31	\$ (16,523,912)		\$ (16,523,912)
410.1	Provision for Deferred Income Taxes-Utility Operating Income	F-36	\$ 47,336,596		\$ 47,336,596
411.1	Income Taxes Deferred in Prior Years-Credit Utility Operating Income	F-36	\$ -		\$ -
412.1	Investment Tax Credits-Utility Operations, Deferred to Future Periods	F-33	\$ (106,662)		\$ (106,662)
412.2	Investment Tax Credits-Utility Operations, Restored to Operating Income	F-33	\$ -		\$ -
	Total Utility Operating Expenses		\$ 219,484,350	\$ 6,662,571	\$ 212,821,779
	Net Utility Operating Income		\$ 69,942,658	\$ 2,706,199	\$ 67,236,459
413	Income from Utility Plant Leased to Others	F-38	\$ -		\$ -
414	Gains (Losses) from Disposition of Utility Property	F-40	\$ -		\$ -
	Total Net Utility Operating Income		\$ 69,942,658	\$ 2,706,199	\$ 67,236,459
<i>Other Income</i>					
415-418	Nonutility Operating Income	F-39	\$ 308,203		\$ 308,203
419	Interest and Dividend Income (Net)	F-39	\$ 2,799		\$ 2,799
420	Allowance for Funds Used During Construction	F-41	\$ 3,105,337	\$ 63,490	\$ 3,041,847
421	Miscellaneous Non-operating Income	F-41	\$ -		\$ -
422	Gains (Losses) from Disposition of Non-Utility Property	F-40	\$ 3,118,760	\$ 1,415,601	\$ 1,703,159
	Total Other Income		\$ 6,535,099	\$ 1,479,091	\$ 5,056,007
<i>Other Income Deductions</i>					
425	Miscellaneous Amortization	F-41	\$ 324,535	\$ 12,779	\$ 311,756
426	Miscellaneous Income Deductions	F-41	\$ 119,049		\$ 119,049
	Total Other Income Deductions		\$ 443,584	\$ 12,779	\$ 430,805
<i>Taxes Applicable to Other Income</i>					
408.2	Taxes Other than Income Taxes, Other Income and Deductions	F-31	\$ -		\$ -
409.2	Income Taxes, Other Income and Deductions	F-31	\$ (803,799)		\$ (803,799)
410.2	Provision for Deferred Income Taxes, Other Income and Deductions	F-36	\$ -		\$ -
411.2	Income Taxes Deferred in Prior Years - Credit, Other Income and Deductions	F-36	\$ -		\$ -
412.3	Investment Tax Credits-Utility Operations Restored to Non-operating Income	F-33	\$ -		\$ -
412.4	Investment Tax Credits, Non-utility Operations, Net	F-33	\$ -		\$ -
	Total Taxes on Other Income and Deductions		\$ (803,799)	\$ -	\$ (803,799)
	Net Other Income and Deductions		\$ 6,895,314	\$ 1,466,312	\$ 5,429,001
<i>Interest Charges</i>					
427	Interest on Long-Term Debt	F-41	\$ 29,680,898	\$ 558,221	\$ 29,122,677
428	Amortization on Debt Discount and Expense	F-21	\$ 987,626		\$ 987,626
429	Amortization of Premium on Debt - Credit	F-21	\$ -		\$ -
430	Interest on Debt to Associated Companies	F-41	\$ -		\$ -
431	Other Interest Expense	F-41	\$ 400,280		\$ 400,280
	Total Interest Charges		\$ 31,068,804	\$ 558,221	\$ 30,510,583
	Income Before Extraordinary Items		\$ 45,769,168	\$ 3,614,290	\$ 42,154,878
<i>Extraordinary Items</i>					
433	Extraordinary Income	-	\$ -		\$ -
434	Extraordinary Deductions	-	\$ -		\$ -
499.3	Income Taxes, Extraordinary Items	-	\$ -		\$ -
	Extraordinary Items After Taxes		\$ -	\$ -	\$ -
	Net Income		\$ 45,769,168	\$ 3,614,290	\$ 42,154,878

Indicates Link to Another Worksheet within Workbook

Indicates formula cell

Company Name **Missouri American Water Company**

**DISTRIBUTION OF TAXES TO ACCOUNTS**

Report hereunder the accounts and functions charged with taxes accrued and taxes cleared from prepaid accounts during the year. Where allocation is necessary, explain the basis used for such allocation. Report in footnote the amounts and kinds of taxes cleared from prepaid taxes, if any.

Account Number or Function Charged (a)	Real Estate and Personal Property Taxes (b)	State Income Taxes (c)	Federal Income Taxes (d)	FICA and Federal & State Unemployment Taxes (e)	Local Property Taxes (f)	State & Local Taxes Paid to Other States (g)	Other Taxes (h)	Total (i)
<i>Taxes Other Than Income Taxes-Utility Operating Income (Acct. 408.1)</i>								
Water	\$ 21,521,785			\$ 2,010,411				\$ 23,532,196
Sewer	\$ 340,825			\$ 95,704				\$ 436,530
Other	\$ 21,862,611			\$ 2,106,115				\$ 23,968,726
<b>Total (Acct. 408.1)</b>								(Total to Pg. F-13)
<i>Taxes Other Than Income Taxes-Other Income &amp; Deductions (Acct. 408.2)</i>								
Water								\$ -
Sewer								\$ -
Other								\$ -
<b>Total (Acct. 408.2)</b>								(Total to Pg. F-13)
<i>Income Taxes - Utility Operating Income (Acct. 409.1)</i>								
Water			\$ (142,579)					\$ (142,579)
Sewer			\$ (16,381,333)					\$ (16,381,333)
Other			\$ (16,381,333)					\$ (16,381,333)
<b>Total (Acct. 409.1)</b>								(Total to Pg. F-13)
<i>Income Taxes-Other Income &amp; Deductions (Acct. 409.2)</i>								
Water		\$ 643						\$ 643
Sewer		\$ 643						\$ 643
Other		\$ (804,442)						\$ (804,442)
<b>Total (Acct. 409.2)</b>								(Total to Pg. F-13)
Clearing Accounts								\$ -
Construction								\$ -
Other (Please specify):								\$ -
<b>Total</b>								(Total to Pg. F-13)
Footnote(s)								

Indicates formula cell.

**STATEMENT OF INCOME FOR THE YEAR**

Account No. (a)	Account Description (b)	Schedule Page No. (c)	Total	Sewer	Water
			Current Year (d)	Current Year (e)	Current Year (f)
<u>Utility Operating Income</u>					
400	Operating Revenues	S-1   W-1	\$ 319,007,901	\$ 10,445,359	\$ 308,562,543
401	Operation Expense	S-3   W-6	\$ 124,100,215	\$ 4,306,763	\$ 119,793,453
402	Maintenance Expense	S-3   W-6	\$ 13,653,732	\$ 241,306	\$ 13,412,426
403	Depreciation Expense	S-7   W-11	\$ 43,678,215	\$ 1,206,368	\$ 42,471,847
404-405	Amortization of Limited Term/Other Utility Plant	-	\$ (5,380,772)	\$ 721,547	\$ (6,102,319)
406	Amortization of Utility Plant Acquisition Adjustments	F-16	\$ 6,539,467	\$ 179,970	\$ 6,359,497
407	Amortization of Property Losses	-	\$ 158,893		\$ 158,893
408.1	Taxes Other Than Income Taxes-Utility Operating Income	F-31	\$ 28,780,491	\$ 433,001	\$ 28,347,489
409.1	Income Taxes, Utility Operating Income	F-31	\$ (14,219,346)		\$ (14,219,346)
410.1	Provision for Deferred Income Taxes-Utility Operating Income	F-36	\$ 34,820,817		\$ 34,820,817
411.1	Income Taxes Deferred in Prior Years-Credit Utility Operating Income	F-36	\$ -		\$ -
412.1	Investment Tax Credits-Utility Operations, Deferred to Future Periods	F-33	\$ (106,662)		\$ (106,662)
412.2	Investment Tax Credits-Utility Operations, Restored to Operating Income	F-33	\$ -		\$ -
	Total Utility Operating Expenses		\$ 232,025,049	\$ 7,088,954	\$ 224,936,095
	Net Utility Operating Income		\$ 86,982,852	\$ 3,356,405	\$ 83,626,448
413	Income from Utility Plant Leased to Others	F-38	\$ -		\$ -
414	Gains (Losses) from Disposition of Utility Property	F-40	\$ -		\$ -
	Total Net Utility Operating Income		\$ 86,982,852	\$ 3,356,405	\$ 83,626,448
<u>Other Income</u>					
415-418	Nonutility Operating Income	F-39	\$ 294,129	\$ 325	\$ 293,804
419	Interest and Dividend Income (Net)	F-39	\$ 114,421		\$ 114,421
420	Allowance for Funds Used During Construction	F-41	\$ 1,700,016	\$ 49,501	\$ 1,650,515
421	Miscellaneous Non-operating Income	F-41	\$ -		\$ -
422	Gains (Losses) from Disposition of Non-Utility Property	F-40	\$ 744,018	\$ 467,298	\$ 276,720
	Total Other Income		\$ 2,852,584	\$ 517,124	\$ 2,335,460
<u>Other Income Deductions</u>					
425	Miscellaneous Amortization	F-41	\$ 323,943	\$ 12,779	\$ 311,164
426	Miscellaneous Income Deductions	F-41	\$ 307		\$ 307
	Total Other Income Deductions		\$ 324,250	\$ 12,779	\$ 311,471
<u>Taxes Applicable to Other Income</u>					
408.2	Taxes Other than Income Taxes, Other Income and Deductions	F-31	\$ -		\$ -
409.2	Income Taxes, Other Income and Deductions	F-31	\$ (154,238)		\$ (154,238)
410.2	Provision for Deferred Income Taxes, Other Income and Deductions	F-36	\$ -		\$ -
411.2	Income Taxes Deferred in Prior Years - Credit, Other Income and Deductions	F-36	\$ -		\$ -
412.3	Investment Tax Credits-Utility Operations Restored to Non-operating Income	F-33	\$ -		\$ -
412.4	Investment Tax Credits, Non-utility Operations, Net	F-33	\$ -		\$ -
	Total Taxes on Other Income and Deductions		\$ (154,238)	\$ -	\$ (154,238)
	Net Other Income and Deductions		\$ 2,682,572	\$ 504,345	\$ 2,178,227
<u>Interest Charges</u>					
427	Interest on Long-Term Debt	F-41	\$ 30,914,460	\$ 532,058	\$ 30,382,402
428	Amortization on Debt Discount and Expense	F-21	\$ 785,312		\$ 785,312
429	Amortization of Premium on Debt - Credit	F-21	\$ -		\$ -
430	Interest on Debt to Associated Companies	F-41	\$ -		\$ -
431	Other Interest Expense	F-41	\$ 1,049,208		\$ 1,049,208
	Total Interest Charges		\$ 32,748,980	\$ 532,058	\$ 32,216,922
	Income Before Extraordinary Items		\$ 56,916,444	\$ 3,328,692	\$ 53,587,753
<u>Extraordinary Items</u>					
433	Extraordinary Income	-	\$ -		\$ -
434	Extraordinary Deductions	-	\$ -		\$ -
499.3	Income Taxes, Extraordinary Items	-	\$ -		\$ -
	Extraordinary Items After Taxes		\$ -	\$ -	\$ -
	Net Income		\$ 56,916,444	\$ 3,328,692	\$ 53,587,753

Indicates Link to Another Worksheet within Workbook

Indicates formula cell

Company Name **Missouri American Water Company**

**DISTRIBUTION OF TAXES TO ACCOUNTS**

Report hereunder the accounts and functions charged with taxes accrued and taxes cleared from prepaid accounts during the year. Where allocation is necessary, explain the basis used for such allocation. Report in footnote the amounts and kinds of taxes cleared from prepaid taxes, if any.

Account Number or Function Charged (a)	Real Estate and Personal Property Taxes (b)	State Income Taxes (c)	Federal Income Taxes (d)	FICA and Federal & State Unemployment Taxes (e)	Local Property Taxes (f)	State & Local Taxes Paid to Other States (g)	Other Taxes (h)	Total (i)
<u>Taxes Other Than Income Taxes-Utility Operating Income (Acct. 408.1)</u>								
Water	\$ 25,378,972			\$ 2,292,564			\$ 675,954	\$ 28,347,490
Sewer	\$ 339,882			\$ 93,119				\$ 433,001
Other	\$ 25,718,854			\$ 2,385,683			\$ 675,954	\$ 28,760,491
Total (Acct. 408.1)								(Total to Pgs. F-13)
<u>Taxes Other Than Income Taxes-Other Income &amp; Deductions (Acct. 408.2)</u>								
Water								\$ -
Sewer								\$ -
Other								\$ -
Total (Acct. 408.2)								(Total to Pgs. F-13)
<u>Income Taxes - Utility Operating Income (Acct. 409.1)</u>								
Water		\$ (161,953)	\$ (14,057,393)					\$ (14,219,346)
Sewer								\$ -
Other		\$ (161,953)	\$ (14,057,393)					\$ (14,219,346)
Total (Acct. 409.1)								(Total to Pgs. F-13)
<u>Income Taxes-Other Income &amp; Deductions (Acct. 409.2)</u>								
Water		\$ (1,757)	\$ (152,481)					\$ (154,238)
Sewer								\$ -
Other		\$ (1,757)	\$ (152,481)					\$ (154,238)
Total (Acct. 409.2)								(Total to Pgs. F-13)
Clearing Accounts								\$ -
Construction								\$ -
Other (Please specify):								\$ -
Total								\$ -
Footnote(s)								

Indicates formula cell.



**STATEMENT OF INCOME FOR THE YEAR**

Account No. (a)	Account Description (b)	Schedule Page No. (c)	Total	Sewer	Water
			Current Year (d)	Current Year (e)	Current Year (f)
<u>Utility Operating Income</u>					
400	Operating Revenues	S-1   W-1	\$ 324,614,677	\$ 10,875,370	\$ 313,739,307
401	Operation Expense	S-3   W-6	\$ 115,756,659	\$ 4,560,367	\$ 111,196,292
402	Maintenance Expense	S-3   W-6	\$ 12,887,801	\$ 290,604	\$ 12,597,198
403	Depreciation Expense	S-7   W-11	\$ 47,290,774	\$ 1,258,763	\$ 46,032,011
404-405	Amortization of Limited Term/Other Utility Plant	-	\$ (5,450,595)	\$ 718,125	\$ (6,168,720)
406	Amortization of Utility Plant Acquisition Adjustments	F-16	\$ 6,859,964	\$ 192,749	\$ 6,667,215
407	Amortization of Property Losses	-	\$ 158,893	\$ -	\$ 158,893
408.1	Taxes Other Than Income Taxes-Utility Operating Income	F-31	\$ 30,400,309	\$ 178,147	\$ 30,222,162
409.1	Income Taxes, Utility Operating Income	F-31	\$ (10,407,246)	\$ -	\$ (10,407,246)
410.1	Provision for Deferred Income Taxes-Utility Operating Income	F-36	\$ 31,764,308	\$ -	\$ 31,764,308
411.1	Income Taxes Deferred in Prior Years-Credit Utility Operating Income	F-36	\$ -	\$ -	\$ -
412.1	Investment Tax Credits-Utility Operations, Deferred to Future Periods	F-33	\$ (103,620)	\$ -	\$ (103,620)
412.2	Investment Tax Credits-Utility Operations, Restored to Operating Income	F-33	\$ -	\$ -	\$ -
	Total Utility Operating Expenses		\$ 229,157,246	\$ 7,198,754	\$ 221,958,492
	Net Utility Operating Income		\$ 95,457,431	\$ 3,676,616	\$ 91,780,815
413	Income from Utility Plant Leased to Others	F-38	\$ -	\$ -	\$ -
414	Gains (Losses) from Disposition of Utility Property	F-40	\$ -	\$ -	\$ -
	Total Net Utility Operating Income		\$ 95,457,431	\$ 3,676,616	\$ 91,780,815
<u>Other Income</u>					
415-418	Nonutility Operating Income	F-39	\$ 300,696	\$ 250	\$ 300,446
419	Interest and Dividend Income (Net)	F-39	\$ 371,813	\$ -	\$ 371,813
420	Allowance for Funds Used During Construction	F-41	\$ 3,114,126	\$ 229,375	\$ 2,884,751
421	Miscellaneous Non-operating Income	F-41	\$ -	\$ -	\$ -
422	Gains (Losses) from Disposition of Non-Utility Property	F-40	\$ 591,677	\$ 202,562	\$ 389,115
	Total Other Income		\$ 4,378,312	\$ 432,187	\$ 3,946,125
<u>Other Income Deductions</u>					
425	Miscellaneous Amortization	F-41	\$ 323,943	\$ 12,779	\$ 311,164
426	Miscellaneous Income Deductions	F-41	\$ 130,787	\$ -	\$ 130,787
	Total Other Income Deductions		\$ 454,730	\$ 12,779	\$ 441,951
<u>Taxes Applicable to Other Income</u>					
408.2	Taxes Other than Income Taxes, Other Income and Deductions	F-31	\$ -	\$ -	\$ -
409.2	Income Taxes, Other Income and Deductions	F-31	\$ (139,391)	\$ -	\$ (139,391)
410.2	Provision for Deferred Income Taxes, Other Income and Deductions	F-36	\$ -	\$ -	\$ -
411.2	Income Taxes Deferred in Prior Years - Credit, Other Income and Deductions	F-36	\$ -	\$ -	\$ -
412.3	Investment Tax Credits-Utility Operations Restored to Non-operating Income	F-33	\$ -	\$ -	\$ -
412.4	Investment Tax Credits, Non-utility Operations, Net	F-33	\$ -	\$ -	\$ -
	Total Taxes on Other Income and Deductions		\$ (139,391)	\$ -	\$ (139,391)
	Net Other Income and Deductions		\$ 4,062,973	\$ 419,409	\$ 3,643,565
<u>Interest Charges</u>					
427	Interest on Long-Term Debt	F-41	\$ 34,161,221	\$ 504,678	\$ 33,656,543
428	Amortization on Debt Discount and Expense	F-21	\$ 760,595	\$ -	\$ 760,595
429	Amortization of Premium on Debt - Credit	F-21	\$ -	\$ -	\$ -
430	Interest on Debt to Associated Companies	F-41	\$ -	\$ -	\$ -
431	Other Interest Expense	F-41	\$ 1,907,669	\$ -	\$ 1,907,669
	Total Interest Charges		\$ 36,829,485	\$ 504,678	\$ 36,324,807
	Income Before Extraordinary Items		\$ 62,690,919	\$ 3,591,346	\$ 59,099,572
<u>Extraordinary Items</u>					
433	Extraordinary Income	-	\$ -	\$ -	\$ -
434	Extraordinary Deductions	-	\$ -	\$ -	\$ -
499.3	Income Taxes, Extraordinary Items	-	\$ -	\$ -	\$ -
	Extraordinary Items After Taxes		\$ -	\$ -	\$ -
	Net Income		\$ 62,690,919	\$ 3,591,346	\$ 59,099,572

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Company Name **Missouri American Water Company**

**DISTRIBUTION OF TAXES TO ACCOUNTS**

Report hereunder the accounts and functions charged with taxes accrued and taxes cleared from prepaid accounts during the year. Where allocation is necessary, explain the basis used for such allocation. Report in footnote the amounts and kinds of taxes cleared from prepaid taxes, if any.

Account Number or Function Charged (a)	Real Estate and Personal Property Taxes (b)	State Income Taxes (c)	Federal Income Taxes (d)	FICA and Federal Unemployment Taxes (e)	Local Property Taxes (f)	State & Local Taxes Paid to Other States (g)	Other Taxes (h)	Total (i)
<i>Taxes Other Than Income Taxes-Utility Operating Income (Acct. 408.1)</i>								
Water	\$ 27,915,190			\$ 2,306,972			\$ -	\$ 30,222,162
Sewer	\$ 64,969			\$ 113,178			\$ -	\$ 178,147
Other	\$ -			\$ -			\$ -	\$ -
Total (Acct. 408.1)	\$ 27,980,159	\$ -	\$ -	\$ 2,420,150	\$ -	\$ -	\$ -	\$ 30,400,309
(Total to Pg. F-13)								
<i>Taxes Other Than Income Taxes-Other Income &amp; Deductions (Acct. 408.2)</i>								
Water	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total (Acct. 408.2)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(Total to Pg. F-13)								
<i>Income Taxes - Utility Operating Income (Acct. 409.1)</i>								
Water	\$ -	\$ 67,259.00	\$ (10,474,505.00)	\$ -	\$ -	\$ -	\$ -	\$ (10,407,246.00)
Sewer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total (Acct. 409.1)	\$ -	\$ 67,259.00	\$ (10,474,505.00)	\$ -	\$ -	\$ -	\$ -	\$ (10,407,246.00)
(Total to Pg. F-13)								
<i>Income Taxes-Other Income &amp; Deductions (Acct. 409.2)</i>								
Water	\$ -	\$ 21.00	\$ (139,412.00)	\$ -	\$ -	\$ -	\$ -	\$ (139,391.00)
Sewer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total (Acct. 409.2)	\$ -	\$ 21.00	\$ (139,412.00)	\$ -	\$ -	\$ -	\$ -	\$ (139,391.00)
(Total to Pg. F-13)								
Cleaning Accounts								
Construction								
Other (Please specify):								
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Footnote(s)								

Indicates formula cell.

**STATEMENT OF INCOME FOR THE YEAR**

Account No. (a)	Account Description (b)	Schedule Page No. (c)	Total	Sewer	Water
			Current Year (d)	Current Year (e)	Current Year (f)
<i>Utility Operating Income</i>					
400	Operating Revenues	S-1   W-1	\$ 345,995,302	\$ 10,856,478	\$ 335,138,824
401	Operation Expense	S-3   W-6	\$ 122,721,251	\$ 5,673,947	\$ 117,047,304
402	Maintenance Expense	S-3   W-6	\$ 13,521,989	\$ 317,841	\$ 13,204,149
403	Depreciation Expense	S-7   W-11	\$ 50,878,052	\$ 1,603,419	\$ 49,274,633
404-405	Amortization of Limited Term/Other Utility Plant	-	\$ (5,880,519)	\$ 701,525	\$ (6,582,044)
406	Amortization of Utility Plant Acquisition Adjustments	F-16	\$ 7,180,460	\$ 205,528	\$ 6,974,933
407	Amortization of Property Losses	-	\$ 158,893		\$ 158,893
408.1	Taxes Other Than Income Taxes-Utility Operating Income	F-31	\$ 32,742,495	\$ 188,104	\$ 32,554,391
409.1	Income Taxes, Utility Operating Income	F-31	\$ (19,810,564)		\$ (19,810,564)
410.1	Provision for Deferred Income Taxes-Utility Operating Income	F-36	\$ 42,010,227		\$ 42,010,227
411.1	Income Taxes Deferred in Prior Years-Credit Utility Operating Income	F-36	\$ -		\$ -
412.1	Investment Tax Credits-Utility Operations, Deferred to Future Periods	F-33	\$ (103,620)		\$ (103,620)
412.2	Investment Tax Credits-Utility Operations, Restored to Operating Income	F-33	\$ -		\$ -
	Total Utility Operating Expenses		\$ 243,418,664	\$ 8,690,362	\$ 234,728,302
	Net Utility Operating Income		\$ 102,576,637	\$ 2,166,115	\$ 100,410,522
413	Income from Utility Plant Leased to Others	F-38	\$ -		\$ -
414	Gains (Losses) from Disposition of Utility Property	F-40	\$ -		\$ -
	Total Net Utility Operating Income		\$ 102,576,637	\$ 2,166,115	\$ 100,410,522
<i>Other Income</i>					
415-418	Nonutility Operating Income	F-39	\$ 119,463	\$ 25	\$ 119,438
419	Interest and Dividend Income (Net)	F-39	\$ 527,103		\$ 527,103
420	Allowance for Funds Used During Construction	F-41	\$ 5,365,694	\$ 319,008	\$ 5,046,686
421	Miscellaneous Non-operating Income	F-41	\$ -		\$ -
422	Gains (Losses) from Disposition of Non-Utility Property	F-40	\$ (144,243)	\$ 5,939	\$ (150,181)
	Total Other Income		\$ 5,868,018	\$ 324,972	\$ 5,543,047
<i>Other Income Deductions</i>					
425	Miscellaneous Amortization	F-41	\$ 323,943	\$ 12,779	\$ 311,164
426	Miscellaneous Income Deductions	F-41	\$ 37,997		\$ 37,997
	Total Other Income Deductions		\$ 361,940	\$ 12,779	\$ 349,161
<i>Taxes Applicable to Other Income</i>					
408.2	Taxes Other than Income Taxes, Other Income and Deductions	F-31	\$ -		\$ -
409.2	Income Taxes, Other Income and Deductions	F-31	\$ -		\$ -
410.2	Provision for Deferred Income Taxes, Other Income and Deductions	F-36	\$ -		\$ -
411.2	Income Taxes Deferred in Prior Years - Credit, Other Income and Deductions	F-36	\$ -		\$ -
412.3	Investment Tax Credits-Utility Operations Restored to Non-operating Income	F-33	\$ -		\$ -
412.4	Investment Tax Credits, Non-utility Operations, Net	F-33	\$ -		\$ -
	Total Taxes on Other Income and Deductions		\$ -	\$ -	\$ -
	Net Other Income and Deductions		\$ 5,506,078	\$ 312,193	\$ 5,193,885
<i>Interest Charges</i>					
427	Interest on Long-Term Debt	F-41	\$ 37,895,325	\$ 476,128	\$ 37,419,197
428	Amortization on Debt Discount and Expense	F-21	\$ 805,142		\$ 805,142
429	Amortization of Premium on Debt - Credit	F-21	\$ -		\$ -
430	Interest on Debt to Associated Companies	F-41	\$ -		\$ -
431	Other Interest Expense	F-41	\$ 532,453		\$ 532,453
	Total Interest Charges		\$ 39,232,920	\$ 476,128	\$ 38,756,792
	Income Before Extraordinary Items		\$ 68,849,795	\$ 2,002,180	\$ 66,847,615
<i>Extraordinary Items</i>					
433	Extraordinary Income	-	\$ -		\$ -
434	Extraordinary Deductions	-	\$ -		\$ -
499.3	Income Taxes, Extraordinary Items	-	\$ -		\$ -
	Extraordinary Items After Taxes		\$ -	\$ -	\$ -
	Net Income		\$ 68,849,795	\$ 2,002,180	\$ 66,847,615

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Company Name **Missouri American Water Company**

**DISTRIBUTION OF TAXES TO ACCOUNTS**

Report hereunder the accounts and functions charged with taxes accrued and taxes cleared from prepaid accounts during the year. Where allocation is necessary, explain the basis used for such allocation. Report in footnote the amounts and kinds of taxes cleared from prepaid taxes, if any.

Account Number or Function Charged (a)	Real Estate and Personal Property Taxes (b)	State Income Taxes (c)	Federal Income Taxes (d)	FICA and Federal Unemployment Taxes (e)	Local Property Taxes (f)	State & Local Taxes Paid to Other States (g)	Other Taxes (h)	Total (i)
<i>Taxes Other Than Income Taxes-Utility Operating Income (Acct. 408.1)</i>								
Water	\$ 30,319,135			\$ 2,235,256				\$ 32,554,391
Sewer	\$ 70,690			\$ 117,413				\$ 188,104
Other	\$ 30,389,825			\$ 2,352,670				\$ 32,742,495
<b>Total (Acct. 408.1)</b>								(Total to Pg. F-13)
<i>Taxes Other Than Income Taxes-Other Income &amp; Deductions (Acct. 408.2)</i>								
Water								\$ -
Sewer								\$ -
Other								\$ -
<b>Total (Acct. 408.2)</b>								(Total to Pg. F-13)
<i>Income Taxes - Utility Operating Income (Acct. 409.1)</i>								
Water			\$ (741)					\$ (741)
Sewer								\$ (19,809,823)
Other								\$ -
<b>Total (Acct. 409.1)</b>								(Total to Pg. F-13)
<i>Income Taxes-Other Income &amp; Deductions (Acct. 409.2)</i>								
Water								\$ -
Sewer								\$ -
Other								\$ -
<b>Total (Acct. 409.2)</b>								(Total to Pg. F-13)
<i>Cleaning Accounts</i>								\$ -
<i>Construction</i>								\$ -
<i>Other (Please specify):</i>								\$ -
<b>Total</b>								\$ -
Footnote(s)								

Indicates formula cell.

**STATEMENT OF INCOME FOR THE YEAR**

Account No. (a)	Account Description (b)	Schedule Page No. (c)	Total	Sewer	Water
			Current Year (d)	Current Year (e)	Current Year (f)
<u>Utility Operating Income</u>					
400	Operating Revenues	S-1   W-1	\$ 349,429,411	\$ 12,381,782	\$ 337,047,629
401	Operation Expense	S-3   W-6	\$ 126,867,509	\$ 6,162,299	\$ 120,705,210
402	Maintenance Expense	S-3   W-6	\$ 10,858,378	\$ 317,455	\$ 10,540,924
403	Depreciation Expense	S-7   W-11	\$ 55,955,866	\$ 1,861,454	\$ 54,094,412
404-405	Amortization of Limited Term/Other Utility Plant	-	\$ (4,998,534)	\$ 708,847	\$ (5,707,381)
406	Amortization of Utility Plant Acquisition Adjustments	F-16	\$ 7,500,957	\$ 218,307	\$ 7,282,651
407	Amortization of Property Losses	-	\$ 158,893	\$ -	\$ 158,893
408.1	Taxes Other Than Income Taxes-Utility Operating Income	F-31	\$ 35,668,301	\$ 125,756	\$ 35,542,545
409.1	Income Taxes, Utility Operating Income	F-31	\$ (38,370,630)	\$ -	\$ (38,370,630)
410.1	Provision for Deferred Income Taxes-Utility Operating Income	F-36	\$ 46,250,054	\$ -	\$ 46,250,054
411.1	Income Taxes Deferred in Prior Years-Credit Utility Operating Income	F-36	\$ -	\$ -	\$ -
412.1	Investment Tax Credits-Utility Operations, Deferred to Future Periods	F-33	\$ (103,551)	\$ -	\$ (103,551)
412.2	Investment Tax Credits-Utility Operations, Restored to Operating Income	F-33	\$ -	\$ -	\$ -
	Total Utility Operating Expenses		\$ 239,787,244	\$ 9,394,117	\$ 230,393,127
	Net Utility Operating Income		\$ 109,642,168	\$ 2,987,665	\$ 106,654,502
413	Income from Utility Plant Leased to Others	F-38	\$ -	\$ -	\$ -
414	Gains (Losses) from Disposition of Utility Property	F-40	\$ -	\$ -	\$ -
	Total Net Utility Operating Income		\$ 109,642,168	\$ 2,987,665	\$ 106,654,502
<u>Other Income</u>					
415-418	Nonutility Operating Income	F-39	\$ 142,920	\$ -	\$ 142,920
419	Interest and Dividend Income (Net)	F-39	\$ 39,321	\$ -	\$ 39,321
420	Allowance for Funds Used During Construction	F-41	\$ 1,405,425	\$ 41,793	\$ 1,363,632
421	Miscellaneous Non-operating Income	F-41	\$ -	\$ -	\$ -
422	Gains (Losses) from Disposition of Non-Utility Property	F-40	\$ (218,259)	\$ 22,514	\$ (240,773)
	Total Other Income		\$ 1,369,408	\$ 64,307	\$ 1,305,100
<u>Other Income Deductions</u>					
425	Miscellaneous Amortization	F-41	\$ 323,943	\$ 12,779	\$ 311,164
426	Miscellaneous Income Deductions	F-41	\$ 20,739	\$ -	\$ 20,739
	Total Other Income Deductions		\$ 344,683	\$ 12,779	\$ 331,904
<u>Taxes Applicable to Other Income</u>					
408.2	Taxes Other than Income Taxes, Other Income and Deductions	F-31	\$ -	\$ -	\$ -
409.2	Income Taxes, Other Income and Deductions	F-31	\$ -	\$ -	\$ -
410.2	Provision for Deferred Income Taxes, Other Income and Deductions	F-36	\$ -	\$ -	\$ -
411.2	Income Taxes Deferred in Prior Years - Credit, Other Income and Deductions	F-36	\$ -	\$ -	\$ -
412.3	Investment Tax Credits-Utility Operations Restored to Non-operating Income	F-33	\$ -	\$ -	\$ -
412.4	Investment Tax Credits, Non-utility Operations, Net	F-33	\$ -	\$ -	\$ -
	Total Taxes on Other Income and Deductions		\$ -	\$ -	\$ -
	Net Other Income and Deductions		\$ 1,024,725	\$ 51,528	\$ 973,197
<u>Interest Charges</u>					
427	Interest on Long-Term Debt	F-41	\$ 39,360,606	\$ 446,323	\$ 38,914,284
428	Amortization on Debt Discount and Expense	F-21	\$ 819,034	\$ -	\$ 819,034
429	Amortization of Premium on Debt - Credit	F-21	\$ -	\$ -	\$ -
430	Interest on Debt to Associated Companies	F-41	\$ -	\$ -	\$ -
431	Other Interest Expense	F-41	\$ 34,105	\$ -	\$ 34,105
	Total Interest Charges		\$ 40,213,745	\$ 446,323	\$ 39,767,422
	Income Before Extraordinary Items		\$ 70,453,147	\$ 2,592,871	\$ 67,860,277
<u>Extraordinary Items</u>					
433	Extraordinary Income	-	\$ -	\$ -	\$ -
434	Extraordinary Deductions	-	\$ -	\$ -	\$ -
499.3	Income Taxes, Extraordinary Items	-	\$ -	\$ -	\$ -
	Extraordinary Items After Taxes		\$ -	\$ -	\$ -
	Net Income		\$ 70,453,147	\$ 2,592,871	\$ 67,860,277

Indicates Link to Another Worksheet within Workbook

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Company Name **Missouri American Water Company**

**DISTRIBUTION OF TAXES TO ACCOUNTS**

Report hereunder the accounts and functions charged with taxes accrued and taxes cleared from prepaid accounts during the year. Where allocation is necessary, explain the basis used for such allocation. Report in footnote the amounts and kinds of taxes cleared from prepaid taxes, if any.

Account Number or Function Charged (a)	Real Estate and Personal Property Taxes (b)	State Income Taxes (c)	Federal Income Taxes (d)	FICA and Federal Unemployment Taxes (e)	Local Property Taxes (f)	State & Local Taxes Paid to Other States (g)	Other Taxes (h)	Total (i)
<i>Taxes Other Than Income Taxes-Utility Operating Income (Acct. 408.1)</i>								
Water	\$ 33,117,300			\$ 2,425,246				\$ 35,542,546
Sewer	\$ (66)			\$ 125,822				\$ 125,756
Other	\$ -	\$ -	\$ -	\$ 2,551,068	\$ -	\$ -	\$ -	\$ 2,551,068
<b>Total (Acct. 408.1)</b>	\$ 33,117,233	\$ -	\$ -	\$ 2,551,068	\$ -	\$ -	\$ -	\$ 35,668,301
(Total to Pgs. F-13)								
<i>Taxes Other Than Income Taxes-Other Income &amp; Deductions (Acct. 408.2)</i>								
Water								\$ -
Sewer								\$ -
Other		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total (Acct. 408.2)</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(Total to Pgs. F-13)								
<i>Income Taxes - Utility Operating Income (Acct. 409.1)</i>								
Water		\$ (32,392)	\$ (38,338,238)					\$ (38,370,630)
Sewer								\$ -
Other								\$ -
<b>Total (Acct. 409.1)</b>	\$ -	\$ (32,392)	\$ (38,338,238)	\$ -	\$ -	\$ -	\$ -	\$ (38,370,630)
(Total to Pgs. F-13)								
<i>Income Taxes-Other Income &amp; Deductions (Acct. 409.2)</i>								
Water								\$ -
Sewer								\$ -
Other		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total (Acct. 409.2)</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(Total to Pgs. F-13)								
Cleaning Accounts								\$ -
Construction								\$ -
Other (Please specify):								\$ -
<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Footnote(s)								

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