

In the Matter of the Application of)
Missouri-American Water Company for)
an Accounting Authority Order related to) File No. WU-2017-0351
Property Taxes in St. Louis County and)
Platte County.)

COMES NOW Missouri-American Water Company (“MAWC” or “Company”), and, for its Statement of Position concerning the issues contained in the *List of Issues, Order of Witnesses, Order of Cross-Examination, and Order of Opening* filed on October 27, 2017, respectfully states as follows to the Missouri Public Service Commission (“Commission”):

MAWC Position: Yes. In late May and early June, 2017, MAWC was first notified by St. Louis and Platte County Assessors that the way in which they had previously assessed MAWC's property for property tax purposes for at least the last ten (10) years was dramatically changing. In the case of St. Louis County, MAWC was advised that St. Louis County was moving from a seven (7) year recovery period¹ to a twenty (20) year recovery period, for purposes of calculating depreciation on MAWC's property located in St. Louis County.² Platte County advised MAWC that it was moving from a twenty (20) year recovery period to a fifty (50) year recovery period

² In 2017, St. Louis County is moving to a “modified” twenty (20) year recovery period and, in 2018, it is moving to a “full” twenty (20) year recovery period.

for purposes of calculating depreciation on MAWC's property and, for the first time, was also including the value of construction work in progress ("CWIP") in its property tax assessment.

Absent the granting of an Accounting Authority Order ("AAO") as requested in this case, the incremental increase in property tax expense occasioned by the actions of these two counties will negatively impact MAWC by \$4.8 million in 2017, and \$2.7 million from January through the end of May of 2018 (which is the Operation of Law date in MAWC's pending rate case WR-2017-0285). As the Commission has stated in the past, AAO's are appropriate "for various unusual occurrences such as flood related costs, changes in accounting standards, and other matters which are unpredictable and cannot adequately or appropriately be addressed within normal budgeting parameters."³

The accounting changes at issue here were unpredictable and could not be forecast in the rate making process. They represent dramatic, sudden, one-time foundational shifts from how these counties have historically calculated the Company's property tax assessments. The actions by the counties in question are also extraordinary as they represent neither a traditional minor adjustment or change in the tax rate to be assessed on the Company's property, nor a minor change in the methodology of how property taxes are to be assessed. Finally, the property tax expenses resulting from the actions of the counties are material as the increased property tax expense the Company expects to incur during the seventeenth (17) month period covered by this AAO is estimated to be \$7.5 million, which represents approximately 9.6% of the Company's 2016 net income.

³ In the Matter of St. Louis County Water Company's Tariff designed to increase rates for water service to customers in the Company's service area, Case No. WR-96-263, (R&O issued December 31, 1996), 1996 Mo. PSC Lexis 99, p. 19.

Accordingly, the Commission should authorize MAWC: (1) to record on its books a deferred debit in NARUC account 186, which represents the incremental increase in Missouri property taxes for the counties of St. Louis and Platte associated with the counties' change in the calculation of Modified Accelerated Cost Recovery ("MACRS") class lives; and, (2) to maintain this deferred debit on its books until the effective date of the report and order in MAWC's pending general rate case. This is consistent with past Commission precedent regarding the granting of an AAO. No further conditions or qualifications are necessary or appropriate.

(MAWC witnesses Wilde Direct and Surrebuttal Testimonies; LaGrand Direct and Surrebuttal Testimonies)

2. If granted, when should the deferred debit amortization begin?

MAWC Position: This issue is neither appropriate nor relevant to the instant proceeding. MAWC has not requested the Commission to make any ratemaking decision in this case, including an amortization of the deferred debit. MAWC has made a proposal in its pending rate case (WR-2017-0285) to recover any deferred property tax expense over a three (3) year period that would begin with the effective date of new rates to be set in the pending rate case. Until the Commission has determined 1) that the instant AAO will be granted, and 2) the appropriate amortization period (in the rate case), it is premature to make a determination in the instant case as to when to begin that amortization.

(MAWC witness LaGrand Direct Testimony, p. 5; Surrebuttal Testimony, pp. 12-13)

3. If granted, should the Commission AAO Order direct MAWC to create a regulatory asset or simply allow MAWC to defer the expenses as a miscellaneous deferred debit to USOA Account 186?

MAWC Position: As indicated above, MAWC is simply requesting the Commission, in this case, to allow it to defer on its books the incremental property tax increases to be incurred in St. Louis and Platte counties to USOA Account 186. No further determination or qualification is being sought, nor is any required by the Commission.

(MAWC witness LaGrand Surrebuttal Testimony, pp. 12-14)

4. If granted, should the Commission AAO Order specifically state that it is not deciding that the deferred expenses are “probable” of rate recovery or that rate recovery is “likely to occur”?

MAWC Position: This issue is neither relevant nor appropriate in the context of the instant case. All MAWC is seeking is an AAO from the Commission that would allow it to defer the incremental property tax expense increase it will incur in St. Louis and Platte counties from the period January 1, 2017, to May 31, 2018, due solely to their sudden, dramatic foundational shift from how these counties have historically calculated the Company’s property tax assessments.

(MAWC witness LaGrand Surrebuttal Testimony, pp. 13-14)

WHEREFORE, MAWC submits this Statement of Position for the Commission’s consideration.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail or by U.S. Mail, postage prepaid, on October 30, 2017, to the following:

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