

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**IN THE MATTER OF THE INDIANA UTILITY)
REGULATORY COMMISSION'S)
INVESTIGATION INTO THE IMPACTS OF)
THE TAX CUTS AND JOBS ACT OF 2017 AND) CAUSE NO. 45032-S16
POSSIBLE RATE IMPLICATIONS)
UNDER PHASE 1 AND 2 FOR HAMILTON)
SOUTHEASTERN UTILITIES, INC.)**

PREFILED TESTIMONY

MARGARET A. STULL – PUBLIC’S EXHIBIT NO. 1

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

September 8, 2020

Respectfully submitted,



Tiffany T. Murray, Atty. No. 28916-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor* ***Prefiled Testimony Margaret A. Stull*** has been served upon the following counsel of record in the captioned proceeding by electronic service on September 8, 2020.

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TESTIMONY OF OUCC WITNESS MARGARET A. STULL
CAUSE NO. 45032-S16
HAMILTON SOUTHEASTERN UTILITIES, INC.

I. INTRODUCTION

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

2 A: My name is Margaret A. Stull, and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as
6 a Chief Technical Advisor in the Water/Wastewater Division. My qualifications are
7 set forth in Appendix A.

8 **Q: What is the purpose of your testimony?**

9 A: I provide background on the Indiana Utility Regulatory Commission's ("IURC" or
10 "Commission") investigation in Cause No. 45032 (the "Commission
11 Investigation") and discuss the effects of the Tax Cuts and Jobs Act of 2017
12 ("TCJA") federal income tax reduction on regulated utilities. I respond to Hamilton
13 Southeastern Utilities, Inc.'s ("HSE" or "Respondent") subdocket proposal
14 regarding regulatory treatment of federal income taxes and recommend HSE be
15 required to: (1) reduce its current base rates by 0.54% to reflect the effect of TCJA
16 on its embedded income tax expense¹ and (2) refund the amount of income tax

¹ This represents a \$0.19 reduction to HSE's current flat monthly rate of \$35.04 per equivalent dwelling unit.

1 expense over-collected from ratepayers over a twelve (12) month period.² Due to
2 the immateriality of the adjustment, I recommend that there be no amortization of
3 excess accumulated deferred income taxes ("ADIT") at this time and that HSE's
4 excess ADIT be examined in its next base rate case. Applying the effects of the
5 TCJA, I recommend HSE's rates be based on a 23.31% combined income tax rate
6 based on HSE's status as a Subchapter S corporation, including a 18.91% federal
7 income tax rate and a 4.4% state income tax rate.³

8 **Q: Please describe the review and analysis you performed.**

9 A: I reviewed the testimony and workpapers of HSE witnesses Otto W. Krohn
10 (Respondent's Exhibit 1) and Aaron Bradley Mares (Respondent's Exhibit 2). I also
11 reviewed HSE's 30-day filing submitted on March 26, 2018, in Phase 1 of this
12 investigation. I reviewed HSE's IURC annual reports from 2017 through 2019.
13 Finally, I prepared discovery questions and reviewed HSE's responses.

14 **Q: Do you have any attachments?**

15 A: Yes. My attachments are listed in Appendix B.

² HSE currently estimates its over-collection to be \$42,734 as of May 31, 2020 but will need to adjust this calculation through the date when HSE incorporates the effect of TCJA in its rates and charges.

³ This equates to a combined effective income tax rate of 18.00% after the qualified business income deduction and 22.31% before the qualified business income deduction (see Attachment MAS-3)

II. TCJA BACKGROUND

1 **Q: What are the main effects of the TCJA on regulated utilities?**⁴

2 A: The main effects of the TCJA on regulated utilities are the reduction of the federal
3 corporate income tax rate to 21%, the elimination of bonus depreciation, and the
4 taxation of contributions-in-aid of construction (“CIAC”) for water and wastewater
5 utilities. Regulated utilities are still allowed to deduct interest expense without
6 limitation. An additional change brought about by TCJA is the exclusion of 20%
7 of S corporation income from the calculation of shareholder tax expense.⁵

8 **Q: What adjustments are necessary to reflect these effects in a regulated utility's**
9 **rates and charges?**

10 A: Three major adjustments are necessary: (1) reduction of federal income tax expense
11 embedded in utility rates to reflect the new income tax rates on a going forward
12 basis; (2) refunding of the federal income tax expense over-collected by the utility
13 from January 1, 2018 until the federal income tax rate embedded in rates and
14 charges is reduced;⁶ and (3) reduction of federal income tax expense to reflect the
15 return of excess ADIT created when ADIT is revalued at the new TCJA rate. Item
16 (1) is a Phase 1 issue in the Commission Investigation and items (2) and (3) are
17 considered Phase 2 issues.

⁴ TCJA was passed by Congress on December 22, 2017 and became effective January 1, 2018.

⁵ This is known as the qualified business income deduction. There are limitations on the type of income this deduction applies to as well as the amount of the deduction.

⁶ Per the Commission's order dated January 3, 2019 in Cause No. 45032, all Indiana investor-owned utilities are required to begin using regulatory accounting, such as the use of regulatory assets and liabilities, for all calculated differences resulting from the TCJA and what would have been recorded if the TCJA did not go into effect.

1 **Q: Have the effects of the TCJA on HSE's rates been addressed?**

2 A: No. On March 26, 2018, HSE made a 30-Day filing (TD50162) in compliance with
3 the Commission's February 16, 2018 order in this investigation. As the
4 Commission's Final Order in HSE's most recent base rate case, Cause No. 44683,
5 was on appeal, on April 13, 2018, the OUCC filed a motion to stay HSE's
6 proceedings in the Commission's Investigation until after HSE's base rates were
7 established through a non-appealable order. On May 18, 2018, the Commission
8 granted this motion, staying the Phase 1 filing as well as any further filings under
9 Phase 2.

10 On March 11, 2020, the Clerk of the Indiana Court of Appeals issued its
11 certification of the Court of Appeals' October 15, 2019 Order affirming the
12 Commission's February 20, 2019 Order on Remand in Cause No. 44683. On March
13 20, 2020, the OUCC filed its motion to lift the stay and the Commission approved
14 this motion in a docket entry dated March 23, 2020. A procedural schedule was
15 then established to address all the TCJA issues from the Commission's
16 Investigation as part of this subdocket proceeding.

III. PHASE 1

17 **Q: What is the purpose of the Phase 1 portion of the Commission's Investigation?**

18 A: According to the Commission's Order issued on February 16, 2018 ("February 16
19 Order"), the Phase 1 portion of the Investigation "... is intended to ascertain the
20 real time existing customer rate impact directly related to the change in the federal
21 income tax rate on the ongoing revenue requirement for each Respondent and to

1 foster an expedient process to reflect such impact in customer rates going forward.”

2 As this quote highlights, the central purpose of Phase 1 of this Investigation is to

3 provide the benefits of tax reform to customers as soon as possible. Therefore, the

4 Commission's February 16 Order requires all Respondents to reduce the amount of

5 income tax expense embedded in current rates and charges to reflect the effects of

6 the TCJA.

7 **Q: Did the Commission request any additional information be provided by water**
8 **and wastewater utilities in Phase 1 of its investigation?**

9 A: Yes. Because CIAC received by water and wastewater utilities is now taxable under
10 the TCJA, the Commission also stated that “Respondents that have contributions in
11 aid of construction that may be impacted by the tax changes made in the Act may
12 also include in its 30-day filing a request for Commission approval of a cost option
13 as set forth in 170 IAC 6-1.5-33 and 170 IAC 8.5-4-32.”

A. HSE Proposal

14 **Q: How was HSE's income tax expense determined in Cause No. 44683?**

15 A: When HSE filed Cause No. 44683, it was a Subchapter S corporation (“S
16 corporation”), which is not a taxable entity for income tax purposes. Instead, an S
17 corporation is a pass-through entity - its net income is allocated to each of its
18 shareholders who then include this income in their personal income tax returns and
19 pay taxes based on their individual tax situation. In Cause No. 44683, HSE's tax
20 expense was determined using the total tax expense of its shareholders based on
21 each shareholder's filing status and tax rates as applied to their share of HSE's

1 income. According to the Commission's Final Order in Cause No. 44683, the
2 combined federal and state income tax rate based on this methodology is 26.82%.

3 **Q: Has HSE changed its status as an S corporation since an order was issued in**
4 **Cause No. 44683?**

5 A: Yes. Effective January 1, 2018, HSE revoked its election as an S corporation and
6 subsequently converted to a C corporation.

7 **Q: How does HSE propose its income tax expense be determined for purposes of**
8 **Phase 1 of the Commission's Investigation?**

9 A: HSE proposes its income tax expense be based on its current status as a C
10 corporation. HSE witness Krohn asserts this proposal is in the best interest of HSE's
11 shareholders because "HSE's individual shareholder rates did not decrease as a
12 result of the Tax Act and the combined federal and state tax rate increased to
13 28.84% instead of the 26.82% approved by the Commission in Cause No. 44683."
14 (Krohn testimony at 5, lines 6-8.) HSE's calculation of its income tax rate as an S
15 corporation is shown in Attachment ABM-1, which is included with the testimony
16 of HSE witness Mares.

17 **Q: Based on this proposal, what amount of excess income tax expense does HSE**
18 **assert is embedded in its current rates and charges?**

19 A: HSE asserts the income tax expense currently embedded in rates is overstated by
20 \$10,110. According to Attachment OWK-3, per the Commission's Order in Cause
21 No. 44683, \$132,418 of total income tax expense is embedded in rates. Attachment
22 OWK-3 reflects HSE's calculation of income tax expense as \$122,308 based on a
23 26.35% C corporation combined income tax rate. Taking the difference between

1 the two, (\$132,418 - \$122,308), HSE asserts its income tax expense is overstated
2 by \$10,110. (Krohn Testimony at 5, lines 16-17).⁷

3 **Q: What is HSE's proposal in Phase 1 of this proceeding?**

4 A: According to Mr. Krohn, HSE's authorized net operating income should be reduced
5 by \$14,656 (\$10,110 multiplied by gross revenue conversion factor of 1.449702)
6 to remove this excess income tax expense.⁸ This represents a 0.12% reduction in
7 authorized revenues and equates to a \$0.05 reduction from its current \$35.04 rate
8 per equivalent dwelling unit ("EDU").

9 **Q: Did HSE provide a revised tariff reflecting this reduction?**

10 A: Yes. Attachment OWK-2 presents a red-lined version of its proposed tariff.

11 **Q: Did HSE make an election under 170 IAC 8.5-4-32 as directed by the**
12 **Commission in its February 16 Order?**

13 A: Yes. HSE chose option (2) in which HSE pays the tax associated with the
14 contributed plant (cash or property).

B. OUCC Recommendation

15 **Q: Do you accept HSE's Phase 1 proposal?**

16 A: No. I disagree with HSE's conclusion that income tax expense under the TCJA tax
17 rates applicable to C corporations is less than income tax expense calculated under

⁷ This amount is referenced in Attachment OWK-3 as "Variance from IURC 44683."

⁸ HSE incorrectly used the gross revenue conversion factor included in the Commission's Order in Cause No. 44683. However, this conversion factor is based on the 26.82% combined income tax rate and must be updated to reflect HSE's proposed 26.35% C corporation combined income tax rate.

1 the Commission's methodology for determining HSE's S corporation income tax
2 expense updated for TCJA effects.

3 **Q: Why do you disagree with HSE's conclusion regarding C corporation tax**
4 **expense?**

5 A: First, there are several errors in HSE's calculation of the amount of tax expense
6 embedded in its current rates and charges as well as its calculation of C corporation
7 tax expense. Second, there are errors and inconsistencies in HSE's calculation of
8 its S corporation income tax expense under the TCJA that incorrectly reflect an
9 increase in the updated tax rate. The combination of these errors and inconsistencies
10 led HSE to an incorrect conclusion regarding the appropriate update to its tax
11 expense under Phase 1 of this tax investigation.

12 **Q: Are there any other reasons to reject HSE's proposal to base its income tax**
13 **expense on its C corporation income tax expense?**

14 A: Yes. There is a question as to whether it is appropriate in this subdocket to calculate
15 HSE's income taxes based on its choice to change its corporate status - a choice
16 that occurred after the issuance of a Final Order in Cause No. 44683, HSE's last
17 base rate case. Put another way, this Commission Investigation is intended to
18 address effects of the TCJA, and the TCJA did not require HSE to convert to a C
19 corporation. The Commission's May 18, 2018 docket entry granting the OUCC's
20 motion to stay HSE's tax investigation proceedings highlights this concern:

21 HSE argues that a determination by the Indiana Supreme Court will
22 not affect this proceeding because HSE is no longer an S corporation
23 and as a C corporation it is entitled to include its federal income tax
24 expenses in rates. However, as HSE noted, the Commission
25 explained in its January 3, 2018 Order, the purpose of this
26 investigation 'is to consider the impacts and resulting benefits from

1 the Act...' While HSE argues that its change to a C corporation is a
2 result of the Act, we question whether HSE's new 21% tax rate
3 under the Act is a result of the Act, or is instead a result of HSE's
4 decision to revoke its S corporation status and to become a C
5 corporation.
6 (Commission May 18, 2018 Docket Entry at 2, footnote 1.)

1. **Tax Expense Embedded in Current Rates and Charges**

Commission-Authorized Income Tax Rate

7 **Q: What income tax rate did the Commission authorize in HSE's last rate case,**
8 **Cause No. 44683?**

9 A: The Commission determined HSE's appropriate income tax rate to be a combined
10 federal and state rate of 26.82% (Final Order, Cause No. 44683, issued November
11 9, 2016, paragraph 12(B), page 24).

12 **Q: What is the federal income tax rate included in this combined rate?**

13 A: The Commission did not identify the federal or state income tax rate included in
14 this combined rate and I could not replicate its 26.82% combined income tax rate.
15 However, the state income tax rate of 4.4% is not in question, which indicates the
16 federal income tax rate is 22.42% (26.82% - 4.40%).

17 **Q: What is the effective tax rate authorized by the Commission?**

18 A: The effective tax rate is 25.83%. Because state income tax expense is deductible
19 for federal income tax purposes, the actual income tax rate that results is not the
20 stated rate of 26.82%. To calculate the effective income tax rate, state and federal
21 income tax rates are added together and then reduced by the product of the state
22 income tax rate multiplied by the federal income tax rate.

Table 1: Commission Authorized Tax Rate

Federal Rate	22.42%	
State Rate	4.40%	
Stated Rate	<u>26.82%</u>	
Federal Rate	22.42%	(A)
State Rate	4.40%	(B)
Less: Deduction of State Taxes	<u>-0.99%</u>	(A) x (B)
Effective Rate	<u>25.83%</u>	

Income Tax Expense Embedded in Current Rates and Charges

1 **Q: What amount of income tax expense does HSE assert is embedded in its**
2 **current rates and charges?**

3 A: HSE asserts \$132,418 of tax expense is embedded in its current rates and charges.

4 This amount was calculated by applying the Commission's combined 26.82% tax
5 rate to the \$493,727 of required net operating income as reflected on page 25,
6 Paragraph 13 "Authorized Rate increase," of the Commission's Final Order issued
7 November 9, 2016.⁹ (See Attachment OWK-3.)

8 **Q: Do you agree with HSE's calculation of the embedded income tax expense**
9 **included in its current rates?**

10 A: No. The effective income tax rate should be used rather than the stated income tax
11 rate and the amount of taxable income used in HSE's calculation is incorrect. The
12 \$493,727 amount to which Mr. Krohn applied the 26.82% income tax rate is the
13 return on investment the Commission authorized in Cause No. 44683. As such, this
14 is an after-tax net income amount, not taxable income. Instead of multiplying this
15 amount by the income tax rate to determine the amount of income tax expense
16 embedded in current rates, it is necessary to "gross up" this amount to determine

⁹ \$493,727 x 26.82% = \$132,418

1 the amount of net income before income taxes and then apply the effective tax rate
2 to calculate embedded income tax expense (or calculate the difference between the
3 two numbers).¹⁰

4 **Q: What amount of embedded income tax expense did you calculate?**

5 A: I calculated \$172,117 of income tax expense embedded in HSE's current rates and
6 charges as authorized by the Commission in Cause No. 44683.

7 **Q: How did you determine the amount of embedded income tax expense?**

8 A: I used data from the Commission's order in Cause No. 44683. Specifically, in
9 paragraph 12 of the Commission's Order (page 24),¹¹ the Commission states that
10 \$131,361 of income tax expense is included in *pro forma* present rate net income.
11 I then added the income tax expense included in the additional \$139,305 of revenue
12 authorized by the Commission to determine the total income tax expense embedded
13 in rates in Cause No. 44683. The table in paragraph 13 of the Commission's Order
14 (page 25) shows the amount of the revenue increase before (\$96,092) and after
15 (\$139,305) it is grossed-up for fees and taxes using a gross revenue conversion
16 factor of 1.449702. The amount of additional taxes and fees associated with the rate
17 increase is \$43,213 (\$139,305 - \$96,092). The amount of income tax expense

¹⁰ Since \$131,361 of income tax expense is included in present rate revenues per the Commission's Order, Mr. Krohn's calculation of \$132,418 of total embedded income tax expense means that only \$1,057 of income tax expense was included in the \$139,305 of additional revenues authorized by the Commission,

¹¹ Commission Final Order in Cause No. 44683 issued November 9, 2016. While an Order on Remand was issued February 20, 2019, it addressed the issues on remand and did not change the rate increase as authorized in the Commission's November 9, 2016 Order.

1 included in this amount is \$40,756 and is comprised of \$6,107 of additional state
2 income tax and \$34,649 of additional federal income tax (Attachment MAS-1).

Table 2: Calculation of Additional Income Tax

1	Gross revenue Change	100.000000%	\$ 139,305	
2	Less: Bad Debt Rate	<u>0.260000%</u>	(362)	
3	Sub-total	99.740000%		
4	Less: IURC Fee	<u>0.107502%</u>	(150)	
5	Income Before State Income taxes	99.632498%		
6	Less: State Income Tax (4.4% of Line 5)	4.383830%	(6,107)	(A)
7	Utility Receipts Tax (1.4% of Line 3)	<u>1.396360%</u>	(1,945)	
8	Income before Federal income Taxes	93.852310%		
9	Less: Federal income Tax	<u>24.872600%</u>	(34,649)	(B)
10	Change in Operating Income	<u>68.979710%</u>	<u>\$ 96,092</u>	
11	Gross Revenue Conversion Factor	<u>144.97020%</u>		
	Additional Income Tax Expense		40,756	(A) + (B)

3 Under this methodology, the total income tax expense included in rates is
4 \$172,117 (\$131,361 + \$40,756). Table 3 shows this amount broken down between
5 federal and state income tax expense.

Table 3: Income Tax Expense Detail

	<u>Present Rates</u>	<u>Adjustment</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 12,006,679	\$ 139,305	\$ 12,145,984
Operating Expenses	11,477,683	2,457	11,480,140
Net Operating Income	528,996	136,848	665,844
Income Tax Expense	131,361	40,756	172,117
Net Income	<u>\$ 397,635</u>	<u>\$ 96,092</u>	<u>\$ 493,727</u>
Federal Income Tax	\$ 108,085	\$ 34,649	\$ 142,734
State Income Tax	23,276	6,107	29,383
Total Income Tax	<u>\$ 131,361</u>	<u>\$ 40,756</u>	<u>\$ 172,117</u>

2. HSE's Calculation of C corporation Income Tax Expense Under the TCJA

1 **Q: What C corporation income tax expense does HSE propose?**
2 A: Mr. Krohn calculated \$122,308 as HSE's income tax expense using both federal
3 and state 2018 corporate income tax rates. The calculation of this amount is shown
4 in Mr. Krohn's Attachment OWK-3.

5 **Q: Do you agree with Mr. Krohn's proposed corporate income tax expense?**
6 A: No. Putting aside the question of whether it is appropriate to base income tax
7 expense on a change in tax filing status effective after Cause No. 44683, Mr.
8 Krohn's calculation of C corporation income tax expense is incorrect for the same
9 reasons his calculation of embedded income tax expense is incorrect. As discussed
10 above, the \$493,727 amount to which Mr. Krohn applied C corporation income tax
11 rates is the return on investment the Commission authorized in Cause No. 44683.
12 As such, this is an after-tax net income amount, not taxable income. Instead of
13 multiplying this amount by the income tax rate to determine the amount of tax

1 expense embedded in current rates, it is necessary to “gross up” this amount to
2 determine the amount of net income before income taxes and then apply the
3 effective tax rate to calculate embedded income tax expense (or calculate the
4 difference between the two numbers).

5 **Q: What amount of tax expense do you calculate based on 2018 corporate income**
6 **tax rates?**

7 A: I calculate \$171,133 of income tax expense using 2018 corporate income tax rates.

8 This amount is based on net income before income tax of \$664,863 ($\$493,727 / (1 -$
9 $25.74\%)$)¹² and a 21.0% federal income tax rate and a 6.0% state income tax rate.

10 This amount is only \$984 less than the amount of income tax expense currently
11 embedded in rates, not the \$10,110 calculated by Mr. Krohn. The stated corporate
12 income tax rate (27.0%) is higher than the stated income tax rate currently
13 embedded in rates (26.82%) but the effective income tax rate is slightly lower –
14 25.74% compared to 25.83%.¹³

¹² The taxable income amount is determined by taking the required net income of \$493,727 and grossing it up using the effective tax rate of 25.74% ($1/(1 - .2574)$).

¹³ In Attachment OWK-1, Mr. Krohn calculates a combined income tax rate of 26.35% compared to the 27% I calculated (21% + 6%). Mr. Krohn does not explain how he arrived at his stated income tax rate of 26.35% and his results could not be replicated.

Table 4: Corporate Income Tax Expense

Net Income before Income Tax Expense	\$ 664,853	
Times: State Income Tax Rate	<u>6.0%</u>	
State Income Tax Expense		\$ 39,891
Net Income Before Income Tax Expense	664,853	
Less: State Income Tax Expense	<u>(39,891)</u>	
Federal Taxable Income	624,962	
Times: Federal Income Tax Rate	<u>21.0%</u>	
Federal Income Tax Expense		<u>131,242</u>
Total Corporate Income Tax Expense		<u>\$ 171,133</u>
Embedded Tax Expense		\$ 172,117
Difference		\$ 984

3. HSE's S Corporation Income Tax Expense Updated for TCJA Effects

HSE's Proposal

- 1 **Q: What income tax expenses does HSE propose based on S corporation tax**
2 **expense updated for TCJA effects?**
- 3 A: Neither Mr. Krohn nor Mr. Mares states HSE's proposed S corporation income tax
4 expense updated for TCJA effects. Mr. Mares calculated an updated combined
5 income tax rate of 28.84%, comprised of a 24.44% federal income tax rate and a
6 4.4% state income tax rate. The calculation of these income tax rates is shown in
7 Mr. Mares' Attachment ABM-1. Instead, HSE compared the income tax rate it
8 calculated using 2018 income tax rates applicable to C corporations (26.35%) to
9 the updated S corporation income tax rate calculated by Mr. Mares (28.84%) and
10 concluded the corporate income tax rate was significantly lower and, therefore,
11 should be the basis for its income tax expense for purposes of this Investigation.
12 According to Mr. Mares:

1 The 26.35% tax rate...represents a slight reduction to the 26.82%
2 tax rate applied to HSE's rates in Cause No. 44683. If you were to
3 apply the 28.84% tax rate to the Phase 1 rate analysis performed by
4 Mr. Krohn, there would be no reduction to HSE's rates because the
5 new tax rate would be higher than the tax rate approved in Cause
6 No. 44683." (Mares' Testimony at 5, lines 5-9.)

7 **Q: Do you agree with HSE's proposed S corporation income tax rates updated**
8 **for TCJA effects?**

9 A: No. HSE's calculation of its S corporation income tax rates under the TCJA are
10 inaccurate as its calculation does not conform with how income tax expense is
11 determined for ratemaking purposes in Indiana and it is inconsistent with how
12 income tax expense was determined in Cause No. 44683.

Determination of Income Tax Expense for Ratemaking Purposes

13 **Q: How is income tax expense determined for ratemaking purposes?**

14 A: For ratemaking purposes, there are two methods used to determine the amount of
15 income tax expense to be included in base rates: (1) tax normalization and (2) flow-
16 through or taxes paid. Under the tax normalization method, income tax expense
17 included in utility rates is based on the utility's treatment of revenues and expenses
18 for book purposes rather than tax purposes. Under tax normalization, deferred
19 income taxes are created to account for the differences between book and tax. These
20 deferred income taxes are also included in the determination of base rates either
21 through the inclusion of deferred income taxes in the capital structure as a zero-cost
22 source of capital or as a reduction to rate base.

23 Under the flow-through method, income tax expense included in utility
24 rates is based on the utility's treatment of revenues and expenses for tax purposes.

1 Under this methodology, there are no differences between book and tax and no
2 deferred taxes.

3 **Q: Which method is used in Indiana?**

4 A: Indiana is a tax normalization jurisdiction.

5 **Q: How was HSE's taxable income determined in Cause No. 44683?**

6 A: In Cause No. 44683, income tax expense was based on HSE's book taxable income
7 rather than HSE's taxable income for tax purposes. Although there may be other
8 differences, the primary difference between book and tax is the amount of
9 depreciation expense included. For book purposes, HSE calculates straight line
10 depreciation expense based on the Commission's 2.2% composite depreciation rate
11 for wastewater utilities without a treatment plant.¹⁴ However, for tax purposes, HSE
12 uses accelerated depreciation (Attachment MAS-2).

13 **Q: What is the ratemaking effect of the book/tax difference related to**
14 **depreciation expense?**

15 A: Using book depreciation expense for ratemaking purposes yields a lower tax
16 expense and, therefore, higher taxable income. Higher taxable income yields a
17 higher income tax expense to be recovered through rates. The difference between
18 the amount of income taxes recovered through rates and the amount of income taxes
19 paid to the IRS is recorded as ADIT and is considered to be a zero-cost source of

¹⁴ The actual book depreciation rates used, according to HSE's IURC annual reports, reflect different depreciation rates for each class of utility plant and average to a rate somewhat higher than the Commission's 2.2% composite rate used for ratemaking purposes.

1 capital for a utility. ADIT is either incorporated into the determination of a utility's
2 weighted cost of capital or its investment in rate base.

3 **Q: How is HSE's determination of taxable income not in conformance with how**
4 **income tax expense is determined for ratemaking purposes in Indiana?**

5 A: Due to the TCJA, contributions of cash and plant are now considered taxable
6 income for tax purposes. However, these same contributions are considered CIAC
7 for book purposes. Because taxable income for ratemaking purposes should be
8 based on book taxable income, HSE incorrectly included contributed cash and
9 property in its taxable income amount used to determine its S corporation income
10 tax rates in Attachment ABM-1.

11 **Q: How is HSE's determination of taxable income in this Cause inconsistent with**
12 **how taxable income was determined in Cause No. 44683?**

13 A: Calculating HSE's taxable income using contributions of cash and property is
14 inconsistent with how other book/tax differences were treated in the determination
15 of income tax expense in Cause No. 44683. In Cause No. 44683, income tax
16 expense was based on book depreciation expense rather than the accelerated
17 depreciation expense reported for tax purposes.

18 Because contributions of cash and property are now considered taxable
19 "revenues," the TCJA has created another difference between book and tax for
20 water and wastewater utilities – one that does not go in the utility's favor as
21 depreciation expense generally does. The treatment of book/tax differences should
22 not be based on whether the difference is to the benefit of the utility. In the interest
23 of regulatory consistency and fairness to both utilities and ratepayers, all book/tax

1 differences should be treated in the same way for ratemaking purposes – taxable
2 income should be based on book taxable income, not how an item is treated for tax
3 purposes.

OUC Recommendation

4 **Q: What does the OUC recommend regarding the calculation of updated S**
5 **corporation income tax rates?**

6 A: The calculation of updated S corporation income tax rates should be based on the
7 same taxable income used in Cause No. 44683 adjusted for updated income tax
8 expense and should exclude any CIAC revenues.

9 **Q: What amount of income tax expense do you calculate based on S corporation**
10 **income tax rates under the TCJA?**

11 A: I calculate \$108,374 of income tax expense using S corporation income tax rates
12 updated for the effects of the TCJA and excluding 20% of S corporation taxable
13 income. This amount is based on net income before income tax of \$481,681
14 (\$602,101 x 80%) and a combined income tax rate of 23.31% - 18.91% (federal)
15 and 4.40% (state) – compared to the 26.82% authorized by the Commission in
16 Cause No. 44683. The effective income tax rate before the 20% exclusion is
17 22.48% and 18.00% after the 20% exclusion. This compares to the 25.83%
18 effective income tax rate in Cause No. 44683. (See Attachment MAS-3.) This
19 represents a \$63,743 (\$172,117 - \$108,374) reduction to the amount of income tax
20 expense currently embedded in HSE's rates and charges.

1 **Q:** Why is net operating income before taxes in your recommendation different
 2 from the net operating income in the Commission Final Order in Cause No.
 3 44683?
 4 A: Net operating income before income taxes is different in my calculation because a
 5 different amount of income tax expense is embedded in rates. This reduction
 6 decreases the amount of additional revenues needed to provide HSE the opportunity
 7 to earn the 9.6% return ordered by the Commission in Cause No. 44683. Table 5
 8 presents the net operating income and income tax detail under the OUCC's
 9 recommendation. Table 6 presents the differences between the OUCC's proposal
 10 and the Final Order in Cause No. 44683.

Table 5: Updated Income Tax Expense Detail

	Present Rates	Adjustment	Proposed Rates
Operating Revenues	\$ 12,006,679	\$ 74,417	\$ 12,081,096
Operating Expenses	11,477,683	1,312	11,478,995
Net Operating Income	528,996	73,105	602,101
Income Tax Expense	95,126	13,248	108,374
Net Income	\$ 433,870	\$ 59,857	\$ 493,727
Federal Income Tax	\$ 76,505	\$ 10,675	\$ 87,180
State Income Tax	18,621	2,573	21,194
Total Income Tax	\$ 95,126	\$ 13,248	\$ 108,374

Table 6: Net Income and Income Tax Expense Comparison

	Final Order CN 44683	OUCC Updated	OUCC More (Less)
Operating Revenues	\$ 12,145,984	\$ 12,081,096	\$ (64,888)
Operating Expenses	11,480,140	11,478,995	(1,145)
Net Operating Income	665,844	602,101	(63,743)
Income Tax Expense	172,117	108,374	(63,743)
Net Income	\$ 493,727	\$ 493,727	\$ -
Federal Income Tax	\$ 142,734	\$ 87,180	\$ (55,554)
State Income Tax	29,383	21,194	(8,189)
Total Income Tax	\$ 172,117	\$ 108,374	\$ (63,743)

1 **Q: HSE asserted S corporation income tax rates increased under the TCJA. Why**
2 **do you calculate a rate decrease?**

3 A: HSE's calculation yielded an increased income tax rate because it included
4 \$989,081 (\$735,250 (cash) + \$253,831 (property)) of CIAC in its calculation of
5 taxable income upon which its income tax rates are based. This increased the
6 amount of income tax expense for each shareholder and this additional expense was
7 calculated using the higher tax rate blocks, thereby yielding increased income tax
8 rates overall. Based on my analysis, the income tax rates decreased slightly in most
9 cases and therefore I calculated a lower combined income tax rate (Attachment
10 MAS-4).

Qualified Business Income Deduction

11 **Q: Is the 20% exclusion of S corporation income a deduction taken by HSE or by**
12 **its shareholders?**

13 A: As S corporations are pass through entities for tax purposes, they are not eligible
14 for this 20% exclusion known as a qualified business income ("QBI") deduction.
15 However, S corporation shareholders are. An S corporation must provide the
16 necessary information to their shareholders to help them figure their deduction.
17 (See Attachment MAS-5A and 5B.)

18 **Q: What factors determine whether an HSE shareholder qualifies for this QBI**
19 **deduction?**

20 A: There are three key factors that determine (a) whether a shareholder is eligible for
21 this QBI deduction and (b) the amount of the deduction, if any. First, HSE's income
22 must be considered "qualified business income." Second, to receive the full 20%
23 deduction, a shareholder's taxable income must be less than \$321,400 if married

1 filing jointly. If the shareholders' taxable income is greater than the ceiling
2 (\$321,400 if married filing jointly), then the deduction could be partially or fully
3 reduced. Third, a shareholder's QBI deduction is limited to 20% of its total taxable
4 income before the deduction.

5 **Q: Is HSE's income considered "qualified business income" for purposes of this**
6 **deduction?**

7 A: Yes, I believe so. The IRS has defined "qualified business income" to include
8 qualified trades or businesses for which you are allowed a deduction for ordinary
9 and necessary business expenses. An activity qualifies as a trade or business if your
10 primary purpose for engaging in the activity is for income or profit and you are
11 involved in the activity with continuity and regulatory. For purposes of pass-
12 through entities, the trade or business determination is made at the entity's level,
13 not at the shareholder's level.

14 **Q: What tax year should be evaluated for purposes of determining whether the**
15 **QBI deduction is available for HSE shareholders?**

16 A: The tax year to be evaluated is the same tax year used in Cause No. 44683 – 2014.
17 While the QBI deduction did not become available until 2018 under the TCJA, the
18 purpose of this Investigation is to apply TCJA changes to the facts and
19 circumstances as they existed in the Respondent's last base rate case.

20 **Q: Do HSE shareholders qualify for the QBI deduction?**

21 A: HSE states it did not examine whether its shareholders qualify for the QBI
22 deduction (Attachment MAS-6). For purposes of evaluating its S corporation
23 income tax expense under the TCJA, choosing not to evaluate whether its

1 shareholders qualify for the QBI deduction is a material lapse in its case-in-chief
2 filing and supporting calculations. HSE should have reviewed its shareholders'
3 2014 income tax information to determine whether and how many of HSE's
4 shareholders would qualify for the QBI. Without this information, the Commission
5 and the OUCC do not have a complete and accurate depiction of HSE's TCJA S
6 corporation income tax expense. However, as described below, based on the
7 Commission's finding in HSE's 2010 rate case, Cause No. 43761, even without
8 HSE's 2014 shareholder information, it is still reasonable to conclude that the QBI
9 deduction would apply to HSE's shareholders' taxable income for ratemaking
10 purposes.

11 **Q: What did the Commission's Order in Cause No. 43761 state regarding how**
12 **shareholder taxes were to be determined for an S corporation?**

13 A: In its Final Order dated August 18, 2010, the Commission disagreed with HSE's
14 method of calculating actual federal income tax liability and found that S
15 corporation taxes should be considered in isolation from other shareholder income:

16 ...the tax on HSE's earnings should be considered in isolation from
17 other income earned by each shareholder. Therefore, the
18 Commission finds the appropriate method to determine actual
19 federal income taxes is based on the individual shareholder's rates
20 used by the IRS during the test year as if no other income is earned
21 by the shareholder. (Commission Final Order in Cause No. 43761,
22 paragraph 10(C), page 23.)

23 Based on this finding, while HSE should have examined whether the QBI
24 could be used by its shareholders to reduce its S corporation income tax expense
25 under the TCJA, it is still possible to conclude that the QBI applies without knowing

1 what the shareholder's total tax liability was in 2014 (when HSE's current rates and
2 charges were set). Considering only HSE's taxable income, the only way the QBI
3 deduction would not be available is if the shareholder's portion of HSE's taxable
4 income exceeded the income ceiling. As no shareholder's portion of HSE's taxable
5 income as determined in Cause No. 44683 exceed these income ceilings (see
6 Attachment ABM-1), I recommend the 20% QBI deduction be incorporated in the
7 calculation of S corporation income tax rates updated for TCJA effects.

8 **Q: What do you recommend as the income tax expense to be included in rates in**
9 **Phase 1 of this investigation?**

10 A: Based on the inclusion of the QBI deduction, I recommend an income tax expense
11 of \$108,374 based on an S corporation income tax rate updated for TCJA effects of
12 23.31%. This amount is based on net income before income tax of \$481,681
13 (\$602,101 x 80%) and a combined income tax rate of 23.31% - 18.91% (federal)
14 and 4.40% (state) This represents a revenue reduction of \$64,888 and a rate
15 reduction of 0.54%. The calculation of the ratemaking effects of the OUCC's Phase
16 1 recommendation is presented in Attachment MAS-7.

17 I also calculated HSE's income tax expense without the QBI deduction,
18 which would still result in a reduction in income tax expense, but not the full
19 reduction if all S corporation TCJA effects are used. Without the QBI deduction, I
20 calculate \$140,449 of income tax expense. This amount is based on net income
21 before income tax of \$645,725 and a combined income tax rate of 24.42% - 20.02%
22 (federal) and 4.40% (state) This represents a \$20,480 revenue reduction and a
23 0.17% rate reduction. (See Attachment MAS-8.) Again, the evidence shows that

1 HSE's shareholders would qualify for the QBI deduction, and in order for HSE's
2 ratepayers to receive the full benefits of the TCJA, this deduction should be applied
3 to HSE's income tax expense as shown above.

IV. PHASE 2

4 **Q: What issues are to be handled in Phase 2 of the Commission's Investigation?**

5 A: As discussed above, Phase 2 of the Commission's Investigation deals with two
6 issues: (1) the refund of the federal income tax expense over-collected by the utility
7 from January 1, 2018 until the federal income tax expense embedded in rates and
8 charges is reduced and (2) the reduction of federal income tax expense to reflect
9 the return of excess ADIT created when ADIT is revalued at the new TCJA rate.

A. Refund of Over-Collected Income Tax Expense

1. HSE's Proposal

10 **Q: What amount of over-collected income tax expense does HSE calculate?**

11 A: Mr. Krohn states \$42,734 has been over-collected from HSE's ratepayers during a
12 29-month period, from January 1, 2018 through May 31, 2020. The Commission
13 ordered a stay to the tax investigation in May 2018 pending the outcome of HSE's
14 appeal of Cause No. 44683 and this explains why there is such a long over-
15 collection period. The over-collection amount is based on HSE's proposed use of
16 its C corporation tax rates to calculate the updated income tax expense to be
17 included in its rates and charges in Phase 1 of the tax investigation. Attachment
18 OWK-4 presents the calculation of this over-collection amount.

1 **Q: What does HSE assert its over-collected income tax expense would be based**
2 **on updated S corporation income tax rates?**

3 A: According to Mr. Krohn, “there would be no regulatory liability [overcollection]
4 because HSE’s tax expense would be higher as a result of the Tax Act.” (See Krohn
5 testimony at 6, lines 7-8.)

6 **Q: How does HSE propose to refund its proposed over-collected income tax**
7 **expense to its customers?**

8 A: HSE did not make any proposal about when or how it will refund these over-
9 collections to its customers.

2. OUCC Recommendation

10 **Q: Do you agree with the amount of over-collected income tax expense HSE**
11 **calculated?**

12 A: No. HSE’s calculation of over-collected income tax expense is based on revising
13 its base rates because of a change that is not properly reflected between rate cases
14 – namely HSE’s post-order decision to change its corporate status from S
15 corporation to C corporation. Also, as I described above, there are several errors in
16 HSE’s calculation of tax expense embedded in its current rates and its calculation
17 of C corporation tax expense.

18 **Q: What amount of over-collected income tax expense do you estimate as of May**
19 **31, 2020 to be refunded to HSE customers?**

20 A: I calculate \$192,300 of income tax expense has been over-collected by HSE
21 through May 31, 2020. This amount is based on the OUCC’s proposal to use
22 updated S corporation tax rates to determine the amount of income tax expense to

1 be embedded in base rates and the same billing data HSE used to calculate its over-
2 collection amount. My calculation is presented in Attachment MAS-9.

3 **Q: How does the OUCC recommend this over-collection be refunded to**
4 **customers?**

5 A: The OUCC recommends this over-collection be refunded to customers over a
6 twelve (12) month period beginning the first month after HSE implements its
7 updated tariff approved in this Investigation.

8 **Q: Does the OUCC have any further recommendations regarding the refund of**
9 **over-collected income tax expense?**

10 A: Yes. The calculation of the amount to be refunded to customers should be updated
11 through the date HSE implements its updated base rates as a result of this Cause.
12 This updated calculation should be filed with the Commission and the OUCC
13 within one month of the implementation of updated base rates approved in this
14 Investigation.

15 **Q: Is the OUCC recommending carrying costs be added to the over-collected**
16 **amount being refunded to customers?**

17 A: No. While it could be argued that the delay in implementing customer refunds due
18 to the TCJA is a result of HSE's appeal of its base rate case order in Cause No.
19 44683, resulting in approximately three years of income tax over-collection before
20 any refunds are provided to customers, to reduce the number of contested issues in
21 this Cause, the OUCC is not requesting carrying costs be included in the amounts
22 to be refunded to customers.

B. Excess Accumulated Deferred Income Taxes

1 **Q: What did HSE propose regarding excess accumulated deferred income taxes?**

2 A: Mr. Krohn states accumulated deferred income taxes are a result of a utility's status
3 as a C corporation (Krohn Testimony at 6, lines 16-17). He further states "because
4 HSE was an S corporation prior to January 1, 2018, it has not historically had any
5 ADIT balances. Therefore, HSE does not have any excess ADIT amounts that
6 would be subject to refund to HSE's customers as a result of the Tax Act." (Krohn
7 Testimony at 6, lines 20-23.)

8 **Q: Do you agree with HSE's assertion that it has no excess ADIT?**

9 A: No. Contrary to Mr. Krohn's testimony, ADIT is not created because of a utility's
10 status as a C corporation. ADIT is the result of differences between book taxable
11 income and taxable income determined for tax purposes. As discussed above, the
12 primary ADIT driver for utilities is the difference between book and tax
13 depreciation expense caused by using accelerated depreciation expense for tax
14 purposes.

15 **Q: Do you agree that HSE would not have recorded deferred income tax expense**
16 **when it was an S corporation?**

17 A: Yes. As an S corporation, HSE was not a taxable entity and, therefore, did not
18 record income tax expense or ADIT.

19 **Q: If you agree HSE did not record ADIT balances when it was an S corporation,**
20 **why do you disagree with HSE's assertion that it had no ADIT balances prior**
21 **to January 1, 2018?**

22 A: The fact that HSE did not record any income tax expense or ADIT does not mean
23 there was no ADIT associated with HSE for ratemaking purposes. Instead of being

1 recorded at HSE's level, the income tax expense and associated deferred income
2 taxes were passed through to its shareholders. And because HSE received
3 authorization from the Commission to recover income tax expense through its
4 customer rates in Cause No. 43761, the ADIT and the excess ADIT for the period
5 prior to January 1, 2018 should be included in the determination of HSE's base
6 rates and in the resulting ratemaking treatment of TCJA changes in this
7 Investigation. HSE's shareholders have benefitted from the accelerated
8 depreciation expense taken for tax purposes through reduced taxable income and
9 reduced tax liability. That benefit should be considered in the determination of
10 HSE's base rates and the excess ADIT should be returned to HSE customers. All
11 other investor-owned utilities in Indiana that collected income tax expense through
12 its customer rates has similarly addressed excess ADIT as a respondent to this
13 Commission Investigation.

14 **Q: What amount of total ADIT does the OUCC calculate?**

15 A: From HSE's inception through December 31, 2017, the cumulative difference
16 between HSE's book and tax depreciation is \$2,466,060.¹⁵ This represents
17 \$661,000 of ADIT measured at HSE's authorized income tax rate of 26.82% in
18 Cause No. 44683. The excess ADIT that results when ADIT is revalued at the
19 current S corporation income tax rate of 23.31% is \$575,000 ($\$2,466,060 \times$
20 23.31%). Therefore, excess ADIT is \$86,000 ($\$661,000 - \$575,000$).

¹⁵ See HSE's response to OUCC Data request No. 1-16 (Attachment MAS-2).

1 **Q: Does the OUCC recommend that the excess ADIT based on the total ADIT**
2 **since HSE's inception be refunded to customers?**

3 A: No. While there is ADIT associated with HSE's operations from its inception,
4 ADIT was funded by ratepayers only when HSE began recovering income tax
5 expense for ratemaking purposes with the issuance of an order in Cause No. 43761
6 on August 18, 2010. Therefore, only the ADIT accumulated since September 2010
7 should be included in the calculation of excess ADIT for purposes of this
8 Investigation. Based on Mr. Smith's Attachment LA-2, the cumulative difference
9 between book and tax depreciation for the period September 2010 through
10 December 31, 2017 is \$578,074. This yields \$155,000 of ADIT measured at HSE's
11 authorized income tax rate of 26.82% in Cause No. 44683. The excess ADIT that
12 results when ADIT is revalued at the current S corporation income tax rate of
13 23.31% is \$135,000. Therefore, excess ADIT is \$20,000 (\$155,000 - \$135,000).

14 **Q: What is the annual amortization of this excess ADIT?**

15 A: The IRS normalization rules require that the average rate assumption method
16 ("ARAM") be used to amortize excess ADIT. If a utility does not have the
17 necessary property information to calculate ARAM, the reverse South Georgia
18 method ("RSG") may be used to calculate the amortization period. It is unknown
19 whether HSE has maintained the information necessary to calculate the
20 amortization period under ARAM. Using the RSG methodology, I calculated an
21 amortization period of 28 years (Attachment MAS-10). This yields an annual
22 excess ADIT amortization of \$715 (\$20,000 / 28).

1 **Q: What is the OUCC's recommendation regarding the amortization of excess**
2 **ADIT?**

3 Q: Because the \$715 annual amortization of excess ADIT is immaterial, the OUCC
4 recommends that amortization of HSE's excess ADIT not begin until HSE's next
5 base rate case. The IRS normalization rules require that excess ADIT be amortized
6 no more quickly than the remaining life of the underlying assets that created the
7 ADIT. But amortizing excess ADIT over a longer period is not a violation of the
8 IRS normalization rules.

9 **Q: How should ADIT be treated for ratemaking purposes in HSE's next base rate**
10 **case?**

11 A: There was no ADIT included in HSE's capital structure in Cause No. 44683.
12 However, proper ratemaking would require that ADIT be included as a zero-cost
13 source of capital in HSE's capital structure. This treatment will decrease the
14 weighted cost of capital to the extent ADIT is a net deferred tax liability and will
15 increase the weighted cost of capital to the extent ADIT is a net deferred tax asset.
16 Generally, ADIT is a deferred tax liability for most utilities but could be a deferred
17 tax asset for HSE due to the taxation of CIAC.¹⁶

18 **Q: Now that HSE has converted to a C corporation, is it recording ADIT?**

19 A: No. During my review of HSE's 2018 and 2019 IURC annual reports, I discovered
20 HSE does not reflect any ADIT in its balance sheet for either year. The need for
21 proper accounting of HSE's income taxes cannot be emphasized enough. It is
22 imperative that HSE maintain accurate books and records and accurately report its

¹⁶ The taxation of CIAC gives rise to a deferred tax asset.

1 financial information to the Commission. I recommend HSE be required to correct
2 its tax accounting and file corrected IURC annual reports with the Commission and
3 the OUCC for both 2018 and 2019 reflecting the appropriate deferred tax balances.
4 These reports should be filed within 60 days after the issuance of a final order in
5 this Cause.

V. RECOMMENDATIONS

6 **Q: Please summarize your recommendations.**

7 A: I recommend the Commission find HSE's income tax expense to be embedded in
8 base rates and charges is \$108,374 based on its S corporation combined income tax
9 rate updated for TCJA effects of 23.31%. I further recommend the Commission
10 find that HSE's base rates and charges be reduced by \$64,888 or 0.54% to reflect
11 the reduction in HSE's income tax expense as a result of TCJA.

12 I recommend the Commission require HSE to update the calculation of
13 over-collected revenues through the date on which HSE implements its updated
14 tariff and file this updated calculation with the Commission and the OUCC within
15 30 days after the date it implemented the updated tariff. I further recommend the
16 Commission require HSE to begin refunding over-collected revenues to customers
17 over a twelve-month period beginning with the next billing cycle after
18 implementing the updated tariff.

19 I recommend the Commission find there are accumulated deferred income
20 taxes resulting from HSE's use of accelerated depreciation expense for tax purposes

1 and, for ratemaking purposes, this ADIT should be calculated from the date an order
2 was issued in Cause No. 43761. I also recommend the Commission not require HSE
3 to begin amortizing the excess deferred income taxes until its next base rate case. I
4 further recommend the Commission require the inclusion of ADIT as a zero-cost
5 source of capital in the determination of HSE's weighted cost of capital in its next
6 base rate case.

7 Finally, I recommend the Commission require HSE to correct its 2018 and
8 2019 IURC reports to properly reflect its accumulated deferred income taxes and
9 file these corrected reports with the Commission and the OUCC within 60 days
10 after the issuance of an order in this Investigation.

11 **Q: Does this conclude your testimony?**

12 **A: Yes.**

APPENDIX A

1 **Q: Please describe your educational background and experience.**

2 A: I graduated from the University of Houston at Clear Lake City in August 1982 with
3 a Bachelor of Science degree in Accounting. From 1982 to 1985, I held the position
4 of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 to
5 2001, I worked for Enron in various positions of increasing responsibility and
6 authority. I began in gas pipeline accounting, was promoted to a position in
7 financial reporting and planning, for both the gas pipeline group and the
8 international group, and finally was promoted to a position providing accounting
9 support for infrastructure projects in Central and South America. In 2002, I moved
10 to Indiana, where I held non-utility accounting positions in Indianapolis. In August
11 2003, I accepted my current position with the OUCC. In 2011, I was promoted to
12 Senior Utility Analyst. In 2018, I was promoted to Chief Technical Advisor.

13 Since joining the OUCC I have attended the National Association of
14 Regulatory Utility Commissioners (“NARUC”) Eastern Utility Rate School in
15 Clearwater Beach, Florida, and the Institute of Public Utilities’ Advanced
16 Regulatory Studies Program in East Lansing, Michigan. I have also attended several
17 American Water Works Association and Indiana Rural Water Association
18 conferences as well as the National Association of Utility Consumer Advocates
19 (“NASUCA”) Water Committee Forums. I have participated in the NASUCA
20 Water Committee and the NASUCA Tax and Accounting Committee. In March
21 2016 I was appointed chair of the NASUCA Tax and Accounting Committee and
22 was reappointed to an additional two-year term in November 2019.

1 **Q: Have you previously testified before the Indiana Utility Regulatory**
2 **Commission?**

3 A: Yes. I have testified before the Commission as an accounting witness in various
4 causes involving water, wastewater, electric, and gas utilities.

5 **Q: Have you held any professional licenses?**

6 A: Yes. I passed the CPA exam in 1984 and was licensed as a CPA in the State of
7 Texas until I moved to Indiana in 2002.

APPENDIX B

- Attachment MAS-1** Final Order Accounting Schedules – Cause No. 44683
- Attachment MAS-2** HSE Response to OUCC Data Request Nos. 1-15 and 1-16
- Attachment MAS-3** OUCC calculation of HSE S corporation 24.43% combined income tax rate updated for effects of TCJA including QBI deduction.
- Attachment MAS-4** Comparison of 2014 and 2018 HSE shareholder income tax rates
- Attachment MAS-5A** Qualified Business Income Deduction – Instructions for IRS Form 8895
- Attachment MAS-5B** Qualified Business Income Deduction – IRS Form 8995
- Attachment MAS-6** HSE Response to OUCC Data Request No. 1-7
- Attachment MAS-7** Final Order Accounting Schedules updated for TCJA
- Attachment MAS-8** OUCC calculation of HSE S corporation 25.28% combined income tax rate updated for effects of TCJA excluding QBI deduction.
- Attachment MAS-9** OUCC calculation of excess income tax expense collected from HSE ratepayers through May 31, 2020.
- Attachment MAS-10** Calculation of excess ADIT amortization period using Reverse South Georgia method.

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

**Comparison of Petitioner's and OUCC's
Revenue Requirements**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>Final Order</u>	<u>Sch Ref</u>	<u>Final Order More (Less)</u>
1 Original Cost rate Base	\$ 5,844,301	\$ 5,843,692	\$ 5,142,991	5	\$ (701,310)
2 Times: Weighted Cost of Capital	11.74%	8.40%	9.60%		-2.14%
3 Net Operating Income Required for Return on Rate base	686,121	490,870	493,727		(192,394)
4 Less: Adjusted Net Operating Income	(32,928)	2,125,948	397,635	4	430,563
5 Net Revenue Requirement	719,049	(1,635,078)	96,092		(622,957)
6 Gross Revenue Conversion Factor	138.6611%	101.7958%	144.9702%	1	6.3091%
7 Recommended Revenue Increase	<u>\$ 997,041</u>	<u>\$ (1,664,441)</u>	<u>\$ 139,305</u>		<u>\$ (857,736)</u>
8 Recommended Percentage Increase	<u>8.4200%</u>	<u>-14.01%</u>	<u>1.17%</u>		<u>-7.25%</u>

	<u>Proposed</u>			<u>Final Order More (Less)</u>
<u>Current Monthly Flat Rate per EDU</u>	<u>Petitioner</u>	<u>OUCC</u>	<u>Final Order</u>	
10 Current Rate = \$34.63	\$ 37.55	29.78	\$ 35.04	\$ (2.51)

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Gross Revenue Conversion Factor

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>Final Order</u>	
1 Gross revenue Change	100.0000%	100.00000%	100.000000%	\$ 139,305
2 Less: Bad Debt Rate	<u>0.2600%</u>	<u>0.26000%</u>	<u>0.260000%</u>	362
3 Sub-total	99.7400%	99.74000%	99.740000%	
4 Less: IURC Fee	<u>0.2500%</u>	<u>0.10778%</u>	<u>0.107500%</u>	150
5 Income Before State Income taxes	99.4900%	99.63222%	99.632500%	
6 Less: State Income Tax	4.4000%	0.00000%	4.383830%	6,107
7 Utility Receipts Tax (1.4% of Line 3)	<u>1.4000%</u>	<u>1.39636%</u>	<u>1.396360%</u>	1,945
8 Income before Federal income Taxes	93.6900%	98.23586%	93.852310%	
9 Less: Federal income Tax	<u>21.5717%</u>	<u>0.00000%</u>	<u>24.872600%</u>	34,649
10 Change in Operating Income	<u>72.1183%</u>	<u>98.23586%</u>	<u>68.979710%</u>	<u>\$ 96,092</u>
11 Gross Revenue Conversion Factor	<u>138.6611%</u>	<u>101.7958%</u>	<u>144.97020%</u>	

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Present Rates

	<u>Per Petitioner</u>	<u>Per OUCG</u>	<u>Final Order</u>	<u>Final Order More (Less)</u>
1 Wastewater Flat Rate Revenues				
2 Residential	\$ 685,805	\$ 685,805	\$ 685,805	\$ -
3 Commercial	126,350	126,350	126,350	-
4 Public Authority	38,933	38,933	38,933	-
5 Multi-Family	87,827	87,827	87,827	-
Unbilled Revenues	-	(21,200)	(21,200)	(21,200)
6 FOG Charge	57,600	75,627	75,627	18,027
7 Penalties	-	-	4,837	4,837
8 Rental Income	-	-	-	-
9 Other	-	-	-	-
10 Total Operating Revenues	<u>996,515</u>	<u>993,342</u>	<u>998,179</u>	<u>1,664</u>
11 O&M Expense				
12 Salaries and Wages - Employees	31,387	31,387	31,387	-
14 Employee Benefits	5,662	5,662	5,662	-
Employee Retirement	3,766	(1,825)	(1,825)	(5,591)
15 Purchased Sewage Treatment	284,763	168,442	168,442	(116,321)
16 Purchased Power	-	-	-	-
17 Materials and Supplies	-	(266,880)	-	-
18 Contractual Services				
19 Engineering	54,728	(967,720)	(1,490)	(56,218)
20 Accounting	-	-	-	-
21 Legal	-	(122,562)	(1,500)	(1,500)
22 Other	60,770	(308,189)	(22,025)	(82,795)
23 Rent Expense	(66,539)	(66,539)	(66,539)	-
24 Insurance Expense	8,294	7,360	7,360	(934)
25 Bad Debt Expense	2,494	2,494	2,494	-
26 Rate Case Expense	87,500	(43,583)	43,750	(43,750)
27 IURC Fee	2,491	(51)	(51)	(2,542)
28 Miscellaneous Expense	-	(10,216)	(48,834)	(48,834)
				-
29 Depreciation Expense	-	32,260	32,260	32,260
30 Amortization Expense	-	(51,765)	(139,098)	(139,098)
31 Taxes Other than Income:				
32 Payroll Tax	2,338	2,338	2,338	-
33 Property Tax	971	971	971	-
34 Utility Receipts Tax	20,902	15,225	15,296	(5,606)
35 Utility Receipts Tax Judgment	89,331	-	-	(89,331)
36 State & Federal Income Taxes	-	-	131,361	131,361
37 Total Operating Expenses	<u>588,858</u>	<u>(1,573,191)</u>	<u>159,959</u>	<u>(428,899)</u>
38 Net Operating Income	<u>\$ 407,657</u>	<u>\$ 2,566,533</u>	<u>\$ 838,220</u>	<u>\$ 430,563</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

COMPARATIVE BALANCE SHEET
As of December 31,

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
1 Utility Plant			
2 Utility Plant in Service	\$ 92,671,846	\$ 91,829,505	\$ 91,300,504
3 Construction Work in Progress	-	-	-
4 Gross Utility Plant in Service	<u>92,671,846</u>	<u>91,829,505</u>	<u>91,300,504</u>
5 Less: Accumulated Depreciation	(16,848,935)	(14,998,677)	(13,196,655)
6 Accumulated Amortization	<u>(1,379,329)</u>	<u>(1,240,231)</u>	<u>(1,039,881)</u>
7 Net Utility Plant in Service	<u>74,443,582</u>	<u>75,590,597</u>	<u>77,063,968</u>
	(829,660)		
8 Other Long-term Assets			
9 Future Project Contribution Fee	1,935,482	1,732,480	126,602
10 Lift Station & Line Maintenance Funds	92,147	92,171	92,195
11 Total Other Long-term Assets	<u>2,027,629</u>	<u>1,824,651</u>	<u>218,797</u>
12 Current Assets			
13 Cash and Cash Equivalents	877,318	2,011,981	699,929
14 Investments - Certificates of Deposit			
15 Accounts Receivable - Sewer	1,607,449	1,573,552	1,559,485
16 Accounts Receivable - Other			
17 Prepaid Rents			
18 Total Current Assets	<u>2,484,767</u>	<u>3,585,533</u>	<u>2,259,414</u>
19 Deferred Debits	827,260		
20 Miscellaneous Deferred Debits	<u>592,544</u>	<u>591,667</u>	<u>591,667</u>
21 Total Assets	<u>\$ 79,548,522</u>	<u>\$ 81,592,448</u>	<u>\$ 80,133,846</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

COMPARATIVE BALANCE SHEET
As of December 31,

<u>LIABILITIES</u>		<u>2014</u>	<u>2013</u>	<u>2012</u>
1	Equity			
2	Common Stock	\$ 1,171,250	\$ 1,171,250	\$ 1,171,250
3	Retained Earnings	3,869,791	4,457,113	3,824,700
4	Total Equity	<u>5,041,041</u>	<u>5,628,363</u>	<u>4,995,950</u>
5	Contributions in Aid of Construction	86,243,029	85,233,698	83,160,384
6	Less: Accumulated Amortization of CIAC	<u>(15,722,358)</u>	<u>(14,009,993)</u>	<u>(12,337,549)</u>
7	Net Contributions in Aid of Construction	<u>70,520,671</u>	<u>71,223,705</u>	<u>70,822,835</u>
8	Current Liabilities			
9	Accounts Payable	1,063,856	1,038,914	1,159,372
10	Accrued Taxes	1,457,625	1,507,664	1,428,491
11	Accrued Retirement Contributions	47,000	42,000	42,000
12	Accrued Wages	6,229	-	51
13	Payable to Towns of Fishers & Indianapolis	1,259,456	1,922,006	1,338,206
14	Miscellaneous Liabilities			
15	Total Current Liabilities	<u>3,834,166</u>	<u>4,510,584</u>	<u>3,968,120</u>
16	Deferred Credits			
17	Flatfork Contingent Acquisition Liability	144,892	191,615	288,159
18	Unearned Income	<u>7,752</u>	<u>38,181</u>	<u>58,782</u>
19	Total Deferred Credits	<u>152,644</u>	<u>229,796</u>	<u>346,941</u>
20	Total Liabilities	<u>\$ 79,548,522</u>	<u>\$ 81,592,448</u>	<u>\$ 80,133,846</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

COMPARATIVE INCOME STATEMENT
Twelve Months Ended December 31,

	<u>2014</u>	<u>2013</u>	<u>2012</u>
1 Operating Revenues			
2 Operating Revenue	\$ 10,902,782	\$ 10,509,093	\$ 10,234,557
3 Penalties	57,469	56,649	53,286
4 Rental Income	32,652	32,652	32,652
5 Other	15,597	22,528	19,778
6 Total Operating Revenues	<u>11,008,500</u>	<u>10,620,922</u>	<u>10,340,273</u>
			71,063
7 Operating & Maintenance Expenses			
8 Salaries and Wages - Employees	294,087	258,853	259,682
9 Salaries and Wages - Officers	105,786	89,236	88,005
10 Employee Benefits	125,587	148,100	149,319
11 Purchased Sewage Treatment	3,307,353	3,145,959	3,414,432
12 Purchased Power	181,044	167,459	150,312
13 Materials and Supplies	1,111,613	960,970	1,276,478
14 Contractual Services			
15 Engineering	1,824,252	1,211,105	1,295,602
16 Accounting	55,766	188,613	58,340
17 Legal	226,333	51,727	94,800
18 Other	2,025,674	1,350,250	1,536,443
19 Rental of Building/Real Property	66,539	64,707	62,832
20 Insurance	40,517	29,837	51,917
21 Bad Debt Expense	28,972	25,717	15,802
22 Rate Case Expense	-	-	-
23 IURC Fee	12,757	11,935	13,590
24 Miscellaneous Expense	306,940	264,483	274,497
25 Total O&M Expenses	<u>9,713,220</u>	<u>7,968,951</u>	<u>8,742,051</u>
26 Depreciation Expense (net of CIAC Amortizatio	137,893	129,578	130,232
27 Amortization Expense	139,098	200,350	204,079
28 Taxes Other than Income:			
29 Payroll Tax	29,782	25,879	25,827
30 Property Tax	1,276,746	1,424,517	1,321,160
31 Utility Receipts Tax	152,346	146,817	140,106
32 Total Operating Expenses	<u>11,449,085</u>	<u>9,896,092</u>	<u>10,563,455</u>
33 Net Operating Income	(440,585)	724,830	(223,182)
34 Other Income (Expense)			
35 Interest and Dividend Income	-	1	150
36 Contribution Fees Due to Fishers	80	-	-
37 Connection Fees	227,860	402,275	233,680
38 Inspection Fee (Connection) Costs	(240,800)	(201,888)	(162,617)
39 Interest Expense	(38,877)	(88,005)	(45,232)
40 Total Other Income (Expense)	<u>(51,737)</u>	<u>112,383</u>	<u>25,981</u>
41 Net Income	<u>\$ (492,322)</u>	<u>\$ 837,213</u>	<u>\$ (197,201)</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Pro forma Net Operating Income Statement

A	B Year Ended 12/31/2014	C Adjustments	D Sch Ref	E <i>Pro forma</i> Present Rates	F Adjustments	G Sch Ref	H <i>Pro forma</i> Proposed Rates
1 Operating Revenues							
2 Wastewater Revenues							
3 Residential	\$ 7,963,633	\$ 685,805		8,649,438	101,475	1	\$ 8,750,913
4 Commercial	1,467,194	126,350		1,593,544	18,644	1	1,612,188
5 Public Authority	452,095	38,933		491,028	5,745	1	496,773
6 Multi-Family	1,019,860	87,827		1,107,687	12,960	1	1,120,647
Unbilled Revenues		(21,200)		(21,200)	(248)	1	(21,448)
7 Penalties	57,469	4,837		62,306	729	1	63,035
8 FOG Charge	-	75,627		75,627			75,627
9 Rental Income	32,652			32,652			32,652
10 Other	15,597			15,597			15,597
11 Total Operating Revenues	<u>11,008,500</u>	<u>998,179</u>		<u>12,006,679</u>	<u>139,305</u>		<u>12,145,984</u>
12 O&M Expense							
13 Salaries and Wages - Employees	294,087	31,387		325,474			325,474
14 Salaries and Wages - Officers	105,786			105,786			105,786
15 Employee Benefits	125,587	3,837		129,424			129,424
16 Purchased Sewage Treatment	3,307,353	168,442		3,475,795			3,475,795
17 Purchased Power	181,044			181,044			181,044
18 Materials and Supplies	1,111,613			1,111,613			1,111,613
19 Contractual Services							
20 Engineering	1,824,252	(1,490)		1,822,762			1,822,762
21 Accounting	55,766			55,766			55,766
22 Legal	226,333	(1,500)		224,833			224,833
23 Other	2,025,674	(22,025)		2,003,649			2,003,649
24 Rent Expense	66,539	(66,539)		-			-
25 Insurance Expense	40,517	7,360		47,877			47,877
26 Bad Debt Expense	28,972	2,494		31,466	362	1	31,828
27 Rate Case Expense	-	43,750		43,750			43,750
28 IURC Fee	12,757	(51)		12,706	150	1	12,856
29 Miscellaneous Expense	306,940	(9,770)		258,106			258,106
		(39,064)					
30 Depreciation Expense	137,893	32,260		170,153			170,153
31 Amortization Expense	139,098	(139,098)		-			-
32 Taxes Other than Income:							
33 Payroll Tax	29,782	2,338		32,120			32,120
34 Property Tax	1,276,746	971		1,277,717			1,277,717
35 Utility Receipts Tax	152,346	15,296		167,642	1,945	1	169,587
36 Utility Receipts Tax Judgment	-	-					
37 Income Taxes:							
38 State Income Tax	-	108,085		108,085	34,649	1	142,734
39 Federal Income Tax	-	23,276		23,276	6,107	1	29,383
40 Total Operating Expenses	<u>11,449,085</u>	<u>159,959</u>		<u>11,609,044</u>	<u>43,213</u>		<u>11,652,257</u>
41 Net Operating Income	<u>\$ (440,585)</u>	<u>\$ 838,220</u>		<u>\$ 397,635</u>	<u>\$ 96,092</u>		<u>\$ 493,727</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Calculation of Rate Base

	<u>Per Petitioner</u>	<u>Per OUCG</u>	<u>Final Order</u>	<u>OUCG More (Less)</u>
Utility Plant in Service at 12/31/14	\$ 92,671,846	\$ 92,671,846	\$ 92,671,846	\$ -
Add: Utility Additions subsequent to TY	5,874,561	-	-	(5,874,561)
Test Year Expenses that are Capital in Nature (less 10% SAMCO Fee)	-	58,473	-	-
Test Year Engineering Fees that are e Capital in Nature (80% Fee)	-	580,958	-	-
Test Year Legal Fees that are e Capital in Nature	-	121,061	-	-
Less Eliminate SAMCO 10% Management Fee Included in Test Year Capitalized Costs	-	(44,745)	-	-
Disallowed CTA Costs per Cause No .43761	(2,042,350)	(2,042,350)	(2,042,350)	-
Total Utility Plant in Service	<u>96,504,057</u>	<u>91,345,243</u>	<u>90,629,496</u>	<u>(5,874,561)</u>
Accumulated Depreciation at 12/31/14	(16,848,935)	(16,848,935)	(16,848,935)	-
Accumulated Amortization at 12/31/14	(1,379,329)	(787,609)	(787,609)	591,720
Less: Amortization of CTA Costs 15 12/31/14	1,215,169	623,449	623,449	(591,720)
Total Accumulated Depreciation Nd Amortization	<u>(17,013,095)</u>	<u>(17,013,095)</u>	<u>(17,013,095)</u>	<u>-</u>
Contributions in Aid of Construction	(86,243,029)	(86,243,029)	(86,243,029)	-
Add: Utility Additions Subsequent to Test Year	(5,874,561)	-	-	5,874,561
Less Contribution Fees Designated for Future Projects	1,935,482	1,935,482	1,935,482	-
Amortization of CIAC	15,722,358	15,722,358	15,722,358	-
	<u>(74,459,750)</u>	<u>(68,585,189)</u>	<u>(68,585,189)</u>	<u>5,874,561</u>
Net Utility Plant in Service	5,031,212	5,746,959	5,031,212	-
Add: Materials & Supplies	-	-	-	-
Working Capital (see below)	813,089	96,733	111,779	(701,310)
Total Original Cost Rate Base	<u>\$ 5,844,301</u>	<u>\$ 5,843,692</u>	<u>\$ 5,142,991</u>	<u>\$ (701,310)</u>

Q-1-16: Please state the following information for each calendar year during the period 1990 through 2019:

- a. Income before income taxes;
- b. Taxable Income;
- c. Book Depreciation Expense; and
- d. Tax Depreciation Expense.

Objection: HSE objects to the Data Request on the basis of the foregoing general objections.

Response: The information is included with this data response as Attachment 1-16.

[REDACTED]

As to objections only,



Michael T. Griffiths

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Attorneys for Hamilton Southeastern
Utilities, Inc.

Hamilton Southeastern Utilities, Inc.
IURC Cause No. 45032 S16
OUCC Data Request Set No 1
Q-1-16

	Information Provided by HSE				Columns Added By OUCC	
	Income Before Income Taxes	Taxable Income	Book Depreciation Expense	Tax Depreciation Expense	Difference	Cumulative Difference
1990	(484,790)	(136,531)	1,396	1,396	-	
1991	(54,754)	184,092	1,804	23,833	22,029	22,029
1992	273,144	201,435	10,118	67,215	57,097	79,126
1993	1,106,888	953,340	29,943	92,784	62,841	141,967
1994	1,506,784	1,725,186	33,531	101,013	67,482	209,449
1995	1,915,276	3,272,413	27,788	156,214	128,426	337,875
1996	1,038,330	840,624	33,657	210,584	176,927	514,802
1997	2,839,545	2,386,141	37,164	233,143	195,979	710,781
1998	3,399,358	2,900,382	28,249	274,067	245,818	956,599
1999	933,616	667,330	46,147	301,915	255,768	1,212,367
2000	988,752	1,032,586	40,435	196,153	155,718	1,368,085
2001	718,215	491,342	39,053	226,094	187,041	1,555,126
2002	524,130	410,950	28,664	64,077	35,413	1,590,539
2003	600,624	504,208	34,575	71,750	37,175	1,627,714
2004	1,176,446	1,161,891	34,660	20,325	(14,335)	1,613,379
2005	1,326,694	1,264,270	34,211	77,420	43,209	1,656,588
2006	1,364,046	1,227,981	33,176	71,351	38,175	1,694,763
2007	1,554,350	1,400,658	32,677	69,404	36,727	1,731,490
2008	1,144,502	835,130	32,573	69,904	37,331	1,768,821
2009	524,151	460,275	39,585	70,873	31,288	1,800,109
2010	557,205	609,921	114,711	246,526	131,815	1,931,924
2011	393,611	388,021	130,257	222,275	92,018	2,023,942
2012	(197,200)	(196,657)	130,231	216,171	85,940	2,109,882
2013	837,212	825,240	129,579	226,712	97,133	2,207,015
2014	(492,322)	(521,205)	137,893	208,644	70,751	2,277,766
2015	(347,383)	(479,687)	148,993	220,100	71,107	2,348,873
2016	363,246	97,995	151,025	207,779	56,754	2,405,627
2017	1,673,074	1,701,750	146,143	206,576	60,433	2,466,060
2018	2,443,032	2,103,791	143,641	196,472	52,831	2,518,891
2019	1,243,495	3,322,818	129,804	198,000	68,196	2,587,087
			1,961,683	4,548,770	2,587,087	

HSE Federal and State Tax Rate Used in Determining Income Tax Allowance

Calculated Based on S corporation Filing Status Using Respective 2018 Tax Rates including QBI deduction

Proposed Net Income Before Income Tax Expense	\$ 602,101	State Income Tax Expense	\$ 21,194	Effective Tax Rate**	3.52%
Less: 20% QBI Deduction	120,420	Federal Income Tax Expense	87,180		14.49%
Taxable Income	<u>\$ 481,681</u>	Total Income Tax Expense	108,374		18.00%
		Less: Current Embedded Income Tax Expense	(172,117)		
		Income Tax Expense Reduction	<u>\$ (63,743)</u>		

** After QBI Deduction

Actual filing status from 2018 tax return>>>>	MFJ	MFJ	MFJ	HOH	MFJ	MFJ	Trust	Trust	
Allocated income %'s >>>>	25.00%	25.00%	6.25%	6.25%	6.25%	6.25%	12.50%	12.50%	
	Shareholder 1	Shareholder 2	Shareholder 3	Shareholder 4	Shareholder 5	Shareholder 6	Shareholder 7	Shareholder 8	Total - All Shareholders
Pro forma net utility operating income before income tax	\$ 120,420	\$ 120,420	\$ 30,105	\$ 30,105	\$ 30,105	\$ 30,105	\$ 60,210	\$ 60,210	\$ 481,681
Calculated federal tax using 2014 applicable tax rates	\$ 18,371	\$ 18,371	\$ 3,232	\$ 3,341	\$ 3,232	\$ 3,232	\$ 20,665	\$ 20,665	\$ 91,109
Federal Income Tax Rate	15.26%	15.26%	10.74%	11.10%	10.74%	10.74%	34.32%	34.32%	18.91%
							State Income Tax Rate		4.4%
							Stated Combined Income Tax Rate		23.31%

Federal 2018 Tax Rates - Married filing joint										
\$0 to \$19,050 - 10% tax rate	\$ 1,905	\$ 1,905	\$ 1,905	\$ -	\$ 1,905	\$ 1,905	\$ -	\$ -		22.48% ***
\$19,050 to \$77,400 - 12% tax rate	7,002	7,002	1,327	-	1,327	1,327	-	-		
\$77,400 to \$165,000 - 22% tax rate	9,464	9,464	-	-	-	-	-	-		***Effective Income Tax Rate Before QBI Deduction
\$165,000 to \$315,000 - 24% tax rate	-	-	-	-	-	-	-	-		
\$315,000 to \$400,000 - 32% tax rate	-	-	-	-	-	-	-	-		
\$400,000 to \$600,000 - 35% tax rate	-	-	-	-	-	-	-	-		
\$600,000 and up - 37% tax rate	-	-	-	-	-	-	-	-		
	\$ 18,371	\$ 18,371	\$ 3,232	\$ -	\$ 3,232	\$ 3,232	\$ -	\$ -		
Federal 2018 Tax Rates - Heads of households										
\$0 to \$13,600 - 10% tax rate	\$ -	\$ -	\$ -	\$ 1,360	\$ -	\$ -	\$ -	\$ -		
\$13,600 to \$51,800 - 12% tax rate	-	-	-	1,981	-	-	-	-		
\$51,800 to \$82,500 - 22% tax rate	-	-	-	-	-	-	-	-		
\$82,500 to \$157,500 - 24% tax rate	-	-	-	-	-	-	-	-		
\$157,500 to \$200,000 - 32% tax rate	-	-	-	-	-	-	-	-		
\$200,000 to \$500,000 - 35% tax rate	-	-	-	-	-	-	-	-		
\$500,000 and up - 37% tax rate	-	-	-	-	-	-	-	-		
	\$ -	\$ -	\$ -	\$ 3,341	\$ -	\$ -	\$ -	\$ -		
Federal 2018 Tax Rates - Trusts										
\$0 to \$2,550 - 10% tax rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 255	\$ 255		
\$2,550 to \$9,150 - 24% tax rate	-	-	-	-	-	-	1,584	1,584		
\$9,150 to \$12,500 - 35% tax rate	-	-	-	-	-	-	1,173	1,173		
\$12,500 and up - 37% tax rate	-	-	-	-	-	-	17,653	17,653		
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,665	\$ 20,665		

Hamilton Southeastern Utilities, Inc.
Cause No. 45032-S16
Comparison of Federal Income Tax Rates

OUCG
Attachment MAS-4
Page 1 of 1

		2014 Rates				2018 Rates		2018 More (less)		
<u>Married Filing Jointly</u>										
\$	-	\$	18,150	10.00%	\$	-	\$	19,050	10.00%	0.00%
	18,150		73,800	15.00%		19,050		77,400	12.00%	-3.00%
	73,800		148,850	25.00%		77,400		165,000	22.00%	-3.00%
	148,850		226,850	28.00%		165,000		315,000	24.00%	-4.00%
	226,850		405,100	33.00%		315,000		400,000	32.00%	-1.00%
	405,100		457,600	35.00%		400,000		600,000	35.00%	0.00%
	Over		457,600	39.60%		Over		600,000	37.00%	-2.60%
<u>Head of Household</u>										
\$	-	\$	12,950	10.00%		-		13,600	10.00%	0.00%
	12,950		49,400	15.00%		13,600		51,800	12.00%	-3.00%
	49,400		127,550	25.00%		51,800		82,500	22.00%	-3.00%
	127,550		206,600	28.00%		82,500		157,500	24.00%	-4.00%
	206,600		405,100	33.00%		157,500		200,000	32.00%	-1.00%
	405,100		432,200	35.00%		200,000		500,000	35.00%	0.00%
	Over		432,200	39.60%		Over		500,000	37.00%	-2.60%
<u>Trust</u>										
\$	-	\$	2,500	15.00%		-		2,550	10.00%	-5.00%
	2,500		5,800	25.00%						
	5,800		8,900	28.00%		2,550		9,150	24.00%	-4.00%
	8,900		12,150	33.00%		9,150		12,500	35.00%	2.00%
	Over		12,150	39.60%		Over		12,500	37.00%	-2.60%

2014 Tax Rate Schedules



The Tax Rate Schedules are shown so you can see the tax rate that applies to all levels of taxable income. Do not use them to figure your tax. Instead, see the instructions for line 44.

Schedule X—If your filing status is **Single**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$9,075	10%	\$0
9,075	36,900	\$907.50 + 15%	9,075
36,900	89,350	5,081.25 + 25%	36,900
89,350	186,350	18,193.75 + 28%	89,350
186,350	405,100	45,353.75 + 33%	186,350
405,100	406,750	117,541.25 + 35%	405,100
406,750	-----	118,118.75 + 39.6%	406,750

Schedule Y-1—If your filing status is **Married filing jointly** or **Qualifying widow(er)**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$18,150	10%	\$0
18,150	73,800	\$1,815.00 + 15%	18,150
73,800	148,850	10,162.50 + 25%	73,800
148,850	226,850	28,925.00 + 28%	148,850
226,850	405,100	50,765.00 + 33%	226,850
405,100	457,600	109,587.50 + 35%	405,100
457,600	-----	127,962.50 + 39.6%	457,600

Schedule Y-2—If your filing status is **Married filing separately**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$9,075	10%	\$0
9,075	36,900	\$907.50 + 15%	9,075
36,900	74,425	5,081.25 + 25%	36,900
74,425	113,425	14,462.50 + 28%	74,425
113,425	202,550	25,382.50 + 33%	113,425
202,550	228,800	54,793.75 + 35%	202,550
228,800	-----	63,981.25 + 39.6%	228,800

Schedule Z—If your filing status is **Head of household**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$12,950	10%	\$0
12,950	49,400	\$1,295.00 + 15%	12,950
49,400	127,550	6,762.50 + 25%	49,400
127,550	206,600	26,300.00 + 28%	127,550
206,600	405,100	48,434.00 + 33%	206,600
405,100	432,200	113,939.00 + 35%	405,100
432,200	-----	123,424.00 + 39.6%	432,200

the DNI, and figure the adjustment by multiplying line 2 by a fraction, the numerator of which is the total distributions (line 11), and the denominator of which is the DNI (line 7). Enter the result on line 12.

If line 11 includes tax-exempt income other than tax-exempt interest, figure line 12 by subtracting the total of the following from tax-exempt income included on line 11:

1. The charitable contribution deduction allocable to such tax-exempt income, and
2. Expenses allocable to tax-exempt income.

Expenses that are directly allocable to tax-exempt income are allocated only to tax-exempt income. A reasonable proportion of expenses indirectly allocable to both tax-exempt income and other income must be allocated to each class of income.

Schedule G—Tax Computation

Line 1a

2014 tax rate schedule. For tax years beginning in 2014, figure the tax using the Tax Rate Schedule below and enter the tax on line 1a. However, see the Instructions for Schedule D (Form 1041) and the *Qualified Dividends Tax Worksheet* later.

2014 Tax Rate Schedule			
If taxable income is:	Over—	But not over—	Of the amount over—
	\$0	\$2,500	\$0
	2,500	5,800	15%
	5,800	8,900	\$375 + 25%
	8,900	12,150	2,068.00 + 28%
	12,150	-----	3,140.50 + 33.6%
			5,800
			8,900
			12,150

Schedule D (Form 1041) and Schedule D Tax Worksheet. Use Part V of Schedule D (Form 1041) or the *Schedule D Tax Worksheet*, whichever is applicable, to figure the estate's or trust's tax if the estate or trust files Schedule D (Form 1041) and has:

- A net capital gain and any taxable income, or
- Qualified dividends on line 2b(2) of Form 1041 and any taxable income.

Qualified Dividends Tax Worksheet. If you do not have to complete Part I or

Part II of Schedule D and the estate or trust has an amount entered on line 2b(2) of Form 1041 and any taxable income (line 22), then figure the estate's or trust's tax using the worksheet, later, and enter the tax on line 1a.

Note. You must reduce the amount you enter on line 2b(2) of Form 1041 by the portion of the section 691(c) deduction claimed on line 19 of Form 1041 if the estate or trust received qualified dividends that were IRD.

Line 1c—AMT. Attach Schedule I (Form 1041) if:


- The estate or trust must complete Schedule B.
- The estate or trust claims a credit on line 2b, 2c, or 2d of Schedule G.
- The estate's or trust's share of alternative minimum taxable income (line 29 of Schedule I (Form 1041)) exceeds \$23,500.

Enter the amount from line 56 of Schedule I (Form 1041) on line 1c.

Line 2a—Foreign Tax Credit

Attach Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), if you elect to claim credit for income or profits taxes paid or accrued to a foreign country or a U.S. possession. The estate or trust may claim credit for that part of the foreign taxes not allocable to the beneficiaries (including charitable beneficiaries). Enter the estate's or trust's share of the credit on line 2a. See Pub. 514, Foreign Tax Credit for Individuals, for details.

Line 2b—General Business Credit

 Do not include any amounts that are allocated to a beneficiary. Credits that are allocated between the estate or trust and the beneficiaries are listed in the instructions for Schedule K-1, box 13, later. Generally, these credits are apportioned on the basis of the income allocable to the estate or trust and the beneficiaries.

Enter on line 2b the estate's or trust's total general business credit allowed for the current year from Form 3800. The estate or trust must file Form 3800 to claim any of the general business credits. Generally, if the estate's or trust's only source of a credit is from a pass-through entity and the beneficiary is not entitled to an allocable share of a credit, you are not required to complete the source form for that credit. However, certain credits have limitations and special computations that may require

you to complete the source form. See the Instructions for Form 3800 for more information.

Line 2c—Credit for Prior Year Minimum Tax

An estate or trust that paid AMT in a previous year may be eligible for a minimum tax credit in 2014. See Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts.

Line 2d—Bond Credits

Complete and attach Form 8912, Credit to Holders of Tax Credit Bonds, if the estate or trust claims a credit for holding a tax credit bond. Also, be sure to include the credit in interest income.

Line 2e—Total Credits

To claim a credit allowable to the estate or trust other than the credits entered on lines 2a through 2d, include the allowable credit in the total for line 2e. Complete and attach the appropriate form and write the form number and amount of the allowable credit on the dotted line to the left of the entry space.

Line 4—Net Investment Income Tax

Enter the amount of net investment income tax calculated and attach Form 8960. See the Instructions for Form 8960 to calculate the tax and *Net Investment Income Tax*, later, for more information.

Line 5—Recapture Taxes

Recapture of investment credit. If the estate or trust disposed of investment credit property or changed its use before the end of the recapture period, see Form 4255, Recapture of Investment Credit, to figure the recapture tax allocable to the estate or trust. Include the tax on line 5 and write "ICR" on the dotted line to the left of the entry space.

Recapture of low-income housing credit. If the estate or trust disposed of property (or there was a reduction in the qualified basis of the property) on which the low-income housing credit was claimed, see Form 8611, Recapture of Low-Income Housing Credit, to figure any recapture tax allocable to the estate or trust. Include the tax on line 5 and write "LIHCR" on the dotted line to the left of the entry space.

Recapture of qualified electric vehicle credit. If the estate or trust claimed the qualified electric vehicle credit in a prior tax year for a vehicle that ceased to qualify for the credit, part or all of the

2018 Tax Rate Schedules



The Tax Rate Schedules are shown so you can see the tax rate that applies to all levels of taxable income. Don't use them to figure your tax. Instead, see the instructions for line 11a.

Schedule X—If your filing status is **Single**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$9,525	10%	\$0
9,525	38,700	\$952.50 + 12%	9,525
38,700	82,500	4,453.50 + 22%	38,700
82,500	157,500	14,089.50 + 24%	82,500
157,500	200,000	32,089.50 + 32%	157,500
200,000	500,000	45,689.50 + 35%	200,000
500,000	.....	150,689.50 + 37%	500,000

Schedule Y-1—If your filing status is **Married filing jointly** or **Qualifying widow(er)**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$19,050	10%	\$0
19,050	77,400	\$1,905.00 + 12%	19,050
77,400	165,000	8,907.00 + 22%	77,400
165,000	315,000	28,179.00 + 24%	165,000
315,000	400,000	64,179.00 + 32%	315,000
400,000	600,000	91,379.00 + 35%	400,000
600,000	.....	161,379.00 + 37%	600,000

Schedule Y-2—If your filing status is **Married filing separately**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$9,525	10%	\$0
9,525	38,700	\$952.50 + 12%	9,525
38,700	82,500	4,453.50 + 22%	38,700
82,500	157,500	14,089.50 + 24%	82,500
157,500	200,000	32,089.50 + 32%	157,500
200,000	300,000	45,689.50 + 35%	200,000
300,000	.....	80,689.50 + 37%	300,000

Schedule Z—If your filing status is **Head of household**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$13,600	10%	\$0
13,600	51,800	\$1,360.00 + 12%	13,600
51,800	82,500	5,944.00 + 22%	51,800
82,500	157,500	12,698.00 + 24%	82,500
157,500	200,000	30,698.00 + 32%	157,500
200,000	500,000	44,298.00 + 35%	200,000
500,000	.....	149,298.00 + 37%	500,000

amount paid or credited to a beneficiary within 65 days following the close of the tax year as being paid or credited on the last day of that tax year. To make this election, see the instructions for Question 6, later.

The beneficiary includes the amounts on line 10 in his or her income only to the extent of his or her proportionate share of the DNI.

Complex trusts. If the second tier distributions exceed the DNI allocable to the second tier, the trust may have an accumulation distribution. See the line 11 instructions below.

Line 11—Total Distributions

If line 11 is more than line 8, and you are filing for a complex trust that has previously accumulated income, see the instructions for Schedule J, later, to see if you must complete Schedule J (Form 1041).

Line 12—Adjustment for Tax-Exempt Income

In figuring the income distribution deduction, the estate or trust isn't allowed a deduction for any item of the DNI that isn't included in the gross income of the estate or trust. Thus, for purposes of figuring the allowable income distribution deduction, the DNI (line 7) is figured without regard to any tax-exempt interest.

If tax-exempt interest is the only tax-exempt income included in the total distributions (line 11), and the DNI (line 7) is less than or equal to line 11, then enter on line 12 the amount from line 2.

If tax-exempt interest is the only tax-exempt income included in the total distributions (line 11), and the DNI is more than line 11 (that is, the estate or trust made a distribution that is less than the DNI), then figure the adjustment by multiplying line 2 by a fraction, the numerator of which is the total distributions (line 11), and the denominator of which is the DNI (line 7). Enter the result on line 12.

If line 11 includes tax-exempt income other than tax-exempt interest, figure line 12 by subtracting the total of the following from tax-exempt income included on line 11:

1. The charitable contribution deduction allocable to such tax-exempt income, and

2. Expenses allocable to tax-exempt income.

Expenses that are directly allocable to tax-exempt income are allocated only to tax-exempt income. A reasonable proportion of expenses indirectly allocable to both tax-exempt income and other income must be allocated to each class of income.

Schedule G—Tax Computation

Line 1a

2018 tax rate schedule. For tax years beginning in 2018, figure the tax using the following Tax Rate Schedule and enter the tax on line 1a. However, see the Instructions for Schedule D (Form 1041) and the *Qualified Dividends Tax Worksheet*, later.

2018 Tax Rate Schedule			
If taxable income is:	But not over—	Its tax is:	Of the amount over—
Over—	\$0	10%	\$0
2,550	\$2,550	\$255 + 24%	2,550
9,150	9,150	1,839 + 35%	9,150
12,500	12,500	3,011.50 + 37%	12,500

Schedule D (Form 1041) and Schedule D Tax Worksheet.

Use Part V of Schedule D (Form 1041) or the *Schedule D Tax Worksheet*, whichever is applicable, to figure the estate's or trust's tax if the estate or trust files Schedule D (Form 1041) and has:

- A net capital gain and any taxable income, or
- Qualified dividends on line 2b(2) of Form 1041 and any taxable income.

Qualified Dividends Tax Worksheet.

If you don't have to complete Part I or Part II of Schedule D and the estate or trust has an amount entered on line 2b(2) of Form 1041 and any taxable income (line 22), then figure the estate's or trust's tax using the worksheet, later, and enter the tax on line 1a.

Note. You must reduce the amount you enter on line 2b(2) of Form 1041 by the portion of the section 691(c) deduction claimed on line 19 of Form 1041 if the estate or trust received qualified dividends that were IRD.

Line 1c—AMT. Attach Schedule I (Form 1041) if any of the following apply.

- The estate or trust must complete Schedule B.
- The estate or trust claims a credit on line 2b, 2c, or 2d of Schedule G.
- The estate's or trust's share of alternative minimum taxable income (line 29 of Schedule I (Form 1041)) exceeds \$24,600. Enter the amount from line 56 of Schedule I (Form 1041) on line 1c.

Line 2a—Foreign Tax Credit

Attach Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), if you elect to claim credit for income or profits taxes paid or accrued to a foreign country or a U.S. possession. The estate or trust may claim credit for that part of the foreign taxes not allocable to the beneficiaries (including charitable beneficiaries). Enter the estate's or trust's share of the credit on line 2a. See Pub. 514, Foreign Tax Credit for Individuals, for details.

Line 2b—General Business Credit



Don't include any amounts that are allocated to a beneficiary. Credits that are allocated between the estate or trust and the beneficiaries are listed in the instructions for Schedule K-1, box 13, later. Generally, these credits are apportioned on the basis of the income allocable to the estate or trust and the beneficiaries.

Enter on line 2b the estate's or trust's total general business credit allowed for the current year from Form 3800. The estate or trust must file Form 3800 to claim any of the general business credits. Generally, if the estate's or trust's only source of a credit is from a pass-through entity and the beneficiary isn't entitled to an allocable share of a credit, you aren't required to complete the source form for that credit. However, certain credits have limitations and special computations that may require you to complete the source form. See the Instructions for Form 3800 for more information.

Line 2c—Credit for Prior Year Minimum Tax

An estate or trust that paid AMT in a previous year may be eligible for a minimum tax credit in 2018. See Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts.

Line 2d—Bond Credits

Complete and attach Form 8912, Credit to Holders of Tax Credit Bonds, if the estate or trust claims a credit for holding

Form **8995**

Qualified Business Income Deduction Simplified Computation

OMB No. 1545-0123

2019

Attachment
Sequence No. **55**

Department of the Treasury
Internal Revenue Service

▶ **Attach to your tax return.**

▶ **Go to www.irs.gov/Form8995 for instructions and the latest information.**

Name(s) shown on return

Your taxpayer identification number

1	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i			
ii			
iii			
iv			
v			
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2	
3	Qualified business net (loss) carryforward from the prior year	3 ()	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4	
5	Qualified business income component. Multiply line 4 by 20% (0.20)		5
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6	
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7 ()	
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8	
9	REIT and PTP component. Multiply line 8 by 20% (0.20)		9
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		10
11	Taxable income before qualified business income deduction	11	
12	Net capital gain (see instructions)	12	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13	
14	Income limitation. Multiply line 13 by 20% (0.20)		14
15	Qualified business income deduction. Enter the lesser of line 10 or line 14. Also enter this amount on the applicable line of your return ▶		15
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-		16 ()
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-		17 ()

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Cat. No. 37806C

Form **8995** (2019)



2019

Instructions for Form 8995

Qualified Business Income Deduction Simplified Computation

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Form 8995 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8995](https://www.irs.gov/Form8995).

General Instructions

Purpose of Form

Use Form 8995 to figure your qualified business income (QBI) deduction. Individual taxpayers and some trusts and estates may be entitled to a deduction of up to 20% of their net QBI from a trade or business, including income from a pass-through entity, but not from a C corporation, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. However, your total QBI deduction is limited to 20% of your taxable income, calculated before the QBI deduction, minus net capital gain.

Who Can Take the Deduction

Individuals and eligible estates and trusts that have QBI use Form 8995 to figure the QBI deduction if:

- You have QBI, qualified REIT dividends, or qualified PTP income or loss (all defined later),
- Your 2019 taxable income before your QBI deduction is less than or equal to \$160,700 (\$160,725 if married filing separately or a married nonresident alien; \$321,400 if married filing jointly), and
- You aren't a patron in a specified agricultural or horticultural cooperative.

Otherwise, use Form 8995-A, Qualified Business Income Deduction, to figure your QBI deduction.

S corporations and partnerships. S corporations and partnerships aren't eligible for the deduction, but must pass through to their shareholders or partners the necessary information on an attachment to Schedule K-1 to help them figure their deduction. See the Instructions for Form 1120-S, U.S. Income Tax Return for an S Corporation, and Form 1065, U.S. Return of Partnership Income.

Cooperatives. Cooperatives aren't eligible for the deduction. Instead,

cooperatives must provide the necessary information to their patrons on Form 1099-PATR or an attachment to help eligible patrons figure their deduction. See the Instructions for Form 1120-C, U.S. Income Tax Return for Cooperative Associations, for rules applicable to agricultural and horticultural cooperatives.

Estates and trusts. To the extent that a grantor or another person is treated as owning all or part of a trust or estate, the owner will compute its QBI for the owned part of the trust as if that QBI had been received directly by the owner. Generally, a non-grantor trust or estate may either claim the QBI deduction or provide information to their beneficiaries to help the beneficiaries figure their deduction. In determining the QBI deduction or the information that must be provided to beneficiaries, the estate or trust allocates QBI items based on the relative proportion of the estate's or trust's distributable net income (DNI) for the tax year distributed (or required to be distributed) to the beneficiary or retained by the estate or trust. If the estate or trust has no DNI for the tax year, QBI, W-2 wages, and unadjusted basis immediately after acquisition (UBIA) of qualified property are allocated entirely to the estate or trust.

Although estates and trusts may compute their own QBI deduction, to the extent QBI, W-2 wages, and UBIA of qualified property is allocable to the trust, QBI, W-2 wages, and UBIA of qualified property allocated to beneficiaries aren't includible in the estate's or trust's QBI computation. See the Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts.

Electing Small Business Trusts (ESBT). An ESBT must compute the QBI deduction separately for the S and non-S portions of the trust. Form 8995 used to compute the S portion's QBI deduction must be attached as a PDF to the ESBT tax worksheet filed with Form 1041. When attached to the ESBT tax worksheet, the trust must show that the information is applicable to the S portion only, by writing "ESBT" in the top margin of the Form 8995. See the Instructions for Form 1041.

Determining Your Qualified Trades or Businesses

Your qualified trades and businesses include your trades or businesses for which you're allowed a deduction for ordinary and necessary business expenses under section 162. However, trades or businesses conducted by corporations and the performance of services as an employee aren't qualified trades or businesses. Generally, specified service trades or businesses (SSTBs) aren't qualified trades or businesses. However, all or a part of the SSTB may be qualified trade or business if your taxable income is at or below the threshold or within the phase-in range.

An activity qualifies as a trade or business if your primary purpose for engaging in the activity is for income or profit and you're involved in the activity with continuity and regularity. If you own an interest in a pass-through entity, the trade or business determination is made at that entity's level. Material participation under section 469 isn't required for the QBI deduction. Eligible taxpayers with income from a trade or business may be entitled to the QBI deduction if they otherwise satisfy the requirements of section 199A.

The ownership and rental of real property may constitute a trade or business if it meets the standard described above. Also, [Revenue Procedure 2019-38](#) provides a safe harbor under which a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. Rental real estate that doesn't meet the requirements of the safe harbor may still be treated as a trade or business for purposes of the QBI deduction if it's a section 162 trade or business.

The rental or licensing of property to a commonly controlled trade or business operated by an individual or a pass-through entity is considered a trade or business under section 199A.

Services performed as an employee excluded from qualified trades or businesses. The trade or business of performing services as an employee isn't a trade or business for purposes of section 199A. Therefore, any amounts reported on Form W-2, box 1, other than amounts reported in box 1 if "Statutory Employee"

on Form W-2, box 13, is checked, aren't QBI. If you were previously an employee of a business and continue to provide substantially the same services to that business after you're no longer treated as an employee, there is a presumption that you're providing services as an employee for purposes of section 199A for the 3-year period after ceasing to be an employee. You may rebut this presumption on notice from the IRS by providing records such as contracts or partnership agreements that corroborate your status as a non-employee.

For more information on if you're an employee or an independent contractor, see Pub. 15-A, Employer's Supplemental Tax Guide, and Pub. 1779, Independent Contractor or Employee.

SSTBs excluded from your qualified trades or businesses. A SSTB is generally excluded from the definition of qualified trade or business.

An SSTB is any trade or business providing services in the fields of:

- Health;
- Law;
- Accounting;
- Actuarial science;
- Performing arts;
- Consulting;
- Athletics;
- Financial services;
- Brokerage services;
- Investing and investment management;
- Trading or dealing in securities;
- Partnership interests;
- Commodities;
- Any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners, as demonstrated by:

- Receiving fees, compensation, or other income for endorsing products or services;
- Licensing or receiving fees, compensation or other income for the use of taxpayer's image, likeness, name, signature, voice, trademark, or any other symbols associated with the individual's identity; or
- Receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.

Exception 1: If your 2019 taxable income before the QBI deduction is less than or equal to \$160,700 (\$160,725 if married filing separately or a married nonresident alien; \$321,400 if married filing jointly), your SSTB is treated as a qualified trade or business.

Exception 2: If your taxable income before the QBI deduction is more than \$160,700 but not \$210,700 (\$160,725 and \$210,725 if married filing separately or a married nonresident alien; \$321,400 and \$421,400 if married filing jointly), an

applicable percentage of your SSTB is treated as a qualified trade or business.

Aggregation. If you're engaged in more than one trade or business, each trade or business is a separate trade or business for purposes of section 199A. However, you may choose to aggregate multiple trades or businesses into a single trade or business for purposes of figuring deduction, if you meet the following requirements.

1. You or a group of persons directly or indirectly own 50% or more of each trade or business for majority of the tax year, including the last day of the tax year, and all trades or businesses use the same tax year end,

2. None of the trades or businesses are an SSTB, and

3. The trades or businesses meet at least two of the following factors.

a. They provide products, property, or services that are the same or that are customarily offered together.

b. They share facilities or share significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.

c. They are operated in coordination with, or reliance on, one or more of the businesses in the aggregated group.

If a relevant pass-through entity (RPE) aggregates multiple trades or businesses, you must attach the RPE's aggregations to your return. You may not separate the trades or businesses aggregated by the RPE, but you may add additional trades or businesses to the aggregation, assuming the rules above are met.

If you choose to aggregate multiple trades or businesses, a statement similar to Schedule B (Form 8995-A) must be completed each year to show your trade or business aggregations and must include any aggregation of an RPE in which you hold a direct or indirect interest. Failure to disclose these aggregations may cause them to be disaggregated.

Your aggregations must be reported consistently for all subsequent years, unless there is a significant change in facts and circumstances that disqualify the aggregation.

Note. You must combine the QBI, W-2 wages, and UBIA of qualified property for all aggregated trades or businesses, for purposes of applying the W-2 wages and UBIA of qualified property limits. However, these limits won't apply until your income, before the QBI deduction, is more than the threshold. If your income is more than the threshold, you must use Form 8995-A.

Determining Your Qualified Business Income

Your QBI includes items of income, gain, deduction, and loss from your trades or businesses that are effectively connected with the conduct of a trade or business in the United States. This includes income from partnerships (other than PTPs), S corporations, sole proprietorships, certain estates and trusts that are included or allowed in figuring your taxable income for the year. To figure the total amount of QBI, you must consider all items that are related to the trade or business. This includes, but isn't limited to, charitable contributions, unreimbursed partnership expenses, business interest expense, deductible part of self-employment tax, self-employment health insurance deduction, and contributions to qualified retirement plans. QBI doesn't include any of the following.

- Items that aren't properly included in income.
- Income that isn't effectively connected with the conduct of a trade or business within the United States (go to [IRS.gov/efc](https://www.irs.gov/efc)).
- Wage income (except "Statutory Employees" where Form W-2, box 13 is checked).
- Amounts received as reasonable compensation from an S corporation.
- Amounts received as guaranteed payments.
- Amounts received as payments by a partner for services other than in a capacity as a partner.
- Items treated as capital gains or losses under any provision of the Internal Revenue Code (Code).
- Dividends and dividend equivalents.
- Interest income not properly allocable to a trade or business.
- Commodities transactions or foreign currency gains or losses.
- Income, loss, or deductions from notional principal contracts.
- Annuities (unless received in connection with the trade or business).
- Qualified REIT dividends.
- Qualified PTP income.

See the [QBI Flow Chart](#), later to figure if an item of income, gain, deduction, or loss is included in QBI.

Note. Your QBI doesn't include any losses or deductions that are limited or suspended and not included or allowed in determining your taxable income for the year. Examples include, but aren't limited to, section 179 deduction limitations and losses limited by basis, at-risk, passive loss, or section 461(l), and excess business loss limitations. Instead, these losses and deductions are taken into account in the tax year they're included in determining your taxable income. Loss and deduction items that were generated

prior to 2018, that are included in income during the year, aren't included in QBI.

When losses or deductions from a trade or business are suspended under any provision of the Code and not available for use in calculating taxable income in the year generated, you must determine the portion of the losses includible in QBI in subsequent years. If your trade or business is an SSTB, the determination of whether it's a qualified trade or business based on your taxable income is made in the year the loss is incurred. If your income is within the phase-in range in that year, you must determine the applicable percentage of suspended losses or deductions includible in QBI. The losses continue their status as either items of QBI or non-QBI for all subsequent years. Therefore, you must track each category of loss or deduction (for example, section 465, 469, 1366, etc.) from year to year until the loss is included in taxable income. Each category's portion of loss allowed in calculating taxable income is treated as qualified business net loss carryforward (Form 8995, line 3, or Schedule C (Form 8995-A), line 2) in calculating the current year's QBI deduction.

Any suspended qualified business loss carryforward from an SSTB, when allowed in subsequent years, won't be included on the Schedule A (Form 8995-A).

Determining if items included on Schedule K-1 are included in QBI. The amounts reported on your Schedule K-1 as "QBI/Qualified PTP Items Subject to Taxpayer-Specific Determinations" from a partnership, S corporation, estate, or trust aren't automatically included in your QBI. To figure if the item of income, gain, deduction, or loss is included in QBI, you must look to how it's reported on your federal income tax return. For example, ordinary business income or loss is generally included in QBI if it was used in computing your taxable income, not excluded, suspended, or disallowed under any other section of the Code. Also, a section 1231 gain or loss is only includible in QBI if it isn't capital gain or loss. See the [QBI Flow Chart](#), below to figure if an item of income, gain, deduction, or loss is included in QBI.

Determining if information reported on your Form 1099-PATR is included in QBI. The amounts reported to you as your share of patronage dividends and similar payments on Form 1099-PATR aren't automatically included in your QBI. Payments may be included in QBI to the extent they are (1) related to your trade or business, (2) reported to you by the cooperative as qualified income items on an attachment to Form 1099-PATR, and (3) not payments reported as from an SSTB, unless your taxable income is at or

below the threshold in which case payments from SSTBs are included in your QBI.

If you received qualified payments reported to you on Form 1099-PATR from a specified agricultural or horticultural cooperative, you must reduce your QBI by the patron reduction and use Form 8995-A to compute your QBI deduction.

Determining if items on Schedule C (Form 1040 or 1040-SR) are included in QBI. The net gain or loss reported on your Schedule C (Form 1040 or 1040-SR) isn't automatically included in your QBI. See the [QBI Flow Chart](#), later to figure if an item of income, gain, deduction, or loss is included in QBI.

Determining Your Qualified REIT Dividends and Qualified PTP Income/Loss

Qualified REIT dividends include any dividends you received from a REIT held for more than 45 days and for which the payment isn't obligated to someone else and that isn't a capital gain dividend or qualified dividend, plus your qualified REIT dividends received from a regulated investment company (RIC). This amount is reported to you on Form 1099-DIV, line 5.

Qualified PTP income or loss includes your share of qualified items of income, gain, deduction, and loss from a PTP. It also may include gain or loss recognized on the disposition of your partnership interest that isn't treated as a capital gain or loss.

Note. PTP income generated by an SSTB may be limited to the applicable percentage or excluded if your taxable income exceeds the threshold, in which case you may need to complete Part II of Schedule A (Form 8995-A). See the instructions for Form 8995-A for more information.

Specific Instructions

Line 1

If you aggregated multiple trades or businesses into a single business, enter the aggregation group name. For example, Aggregation 1, 2, 3, etc., instead of entering the business name, and leave line 1(b) blank.

Note. If you aggregated trades or businesses, you must attach Schedule B (Form 8995-A) or similar schedule.

If you are relying on the safe harbor contained in [Revenue Procedure 2019-38](#), enter each enterprise as identified on the statement required for use on the safe harbor. For example, Enterprise 1, 2, 3, etc.

Enter on line 1 (b) the employer identification number (EIN). If you don't have an EIN, enter your social security number (SSN) or individual taxpayer identification number (ITIN). If you're the sole owner of an LLC that isn't treated as a separate entity for federal income tax purposes, enter the EIN given to the LLC. If you don't have an EIN, enter the owner's name, and tax identification number.

Line 2

If you have more than five trades or businesses, attach a statement with the name and taxpayer identification number of the trade(s) or business(es) and include the income and loss from those trade(s) or business(es) in the total for line 2.

Line 3

Include prior year qualified loss carryforwards even if the loss was unreported or the trade or business that generated the loss is no longer in existence. Also, include the QBI portion of losses or deductions suspended from use in calculating taxable income in the year generated that are included in taxable income in the current year. See [Determining Your Qualified Business Income](#), earlier.

Line 4

If you have a qualified business net loss for the year, you don't qualify for the QBI deduction unless you have qualified REIT dividends or PTP income. The loss will be carried forward to next year. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

Line 6

Enter income as a positive number and losses as a negative number.

Line 8

Any negative amount will be carried forward to the next year. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

Line 11

Enter your taxable income figured before any QBI deduction, computed as follows.

- Form 1040 or 1040-SR filers: Form 1040 or 1040-SR, line 8b, minus Form 1040 or 1040-SR, line 9.
- Form 1040-NR filers: Form 1040-NR, line 35, minus Form 1040-NR, line 37.
- Form 1041 filers: Form 1041, line 23, plus Form 1041, line 20.
- Form 1041-N filers: Form 1041-N, line 13, plus qualified income deduction reported on Form 1041-N, line 9.
- Form 990-T filers: Form 990-T, line 39, plus qualified business income deduction reported on Form 990-T, line 38.

- S-corporation portion of an ESBT filers: ESBT Tax Worksheet, line 13, plus ESBT Tax Worksheet, line 11.

Line 12

Enter the amount from your tax return as follows.

- Form 1040 or 1040-SR, line 3a, plus your net capital gain. If you're not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040 or 1040-SR, line 6. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16, unless line 15 or 16 is zero or less, in which case nothing is added to the qualified dividends.
- Form 1040-NR, line 10b, plus your net capital gain. If you're not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040-NR, line 14. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16, unless line 15 or 16 is zero

or less, in which case nothing is added to the qualified dividends.

- Form 1041, line 2b(2), plus your net capital gain. For estates or trusts required to file Schedule D (Form 1041), add the qualified dividends to the smaller of Schedule D (Form 1041), line 18a(2), or line 19(2), unless either line 18a(2) or 19(2) is zero or less, in which case nothing is added to the qualified dividends.
- Form 1041-N, line 2b, plus the smaller of Form 1041-N, Schedule D, line 10 or 11, unless line 10 or 11 is zero or less, in which case nothing is added to the qualified dividends.
- Form 990-T filers who are trusts, Schedule D (Form 1041), the smaller of line 18(a)(2) or 19(2), unless either line 18(a)(2) or 19(2) is zero or less, in which case the net capital gain for purposes of section 199A is zero.
- S-corporation portion of an ESBT, your ESBT Tax Worksheet, line 2b, plus the smaller of your ESBT's Schedule D (Form 1041), line 18a(2) or 19(2) is zero or less, in which case nothing is added to your qualified dividends.

Line 15

Enter this amount on your Form 1040 or 1040-SR, line 10; Form 1040-NR, line 38; Form 1041, line 20; Form 1041-N, line 9; Form 990-T, line 39; S-corporation portion of an ESBT, line 11.

Line 16

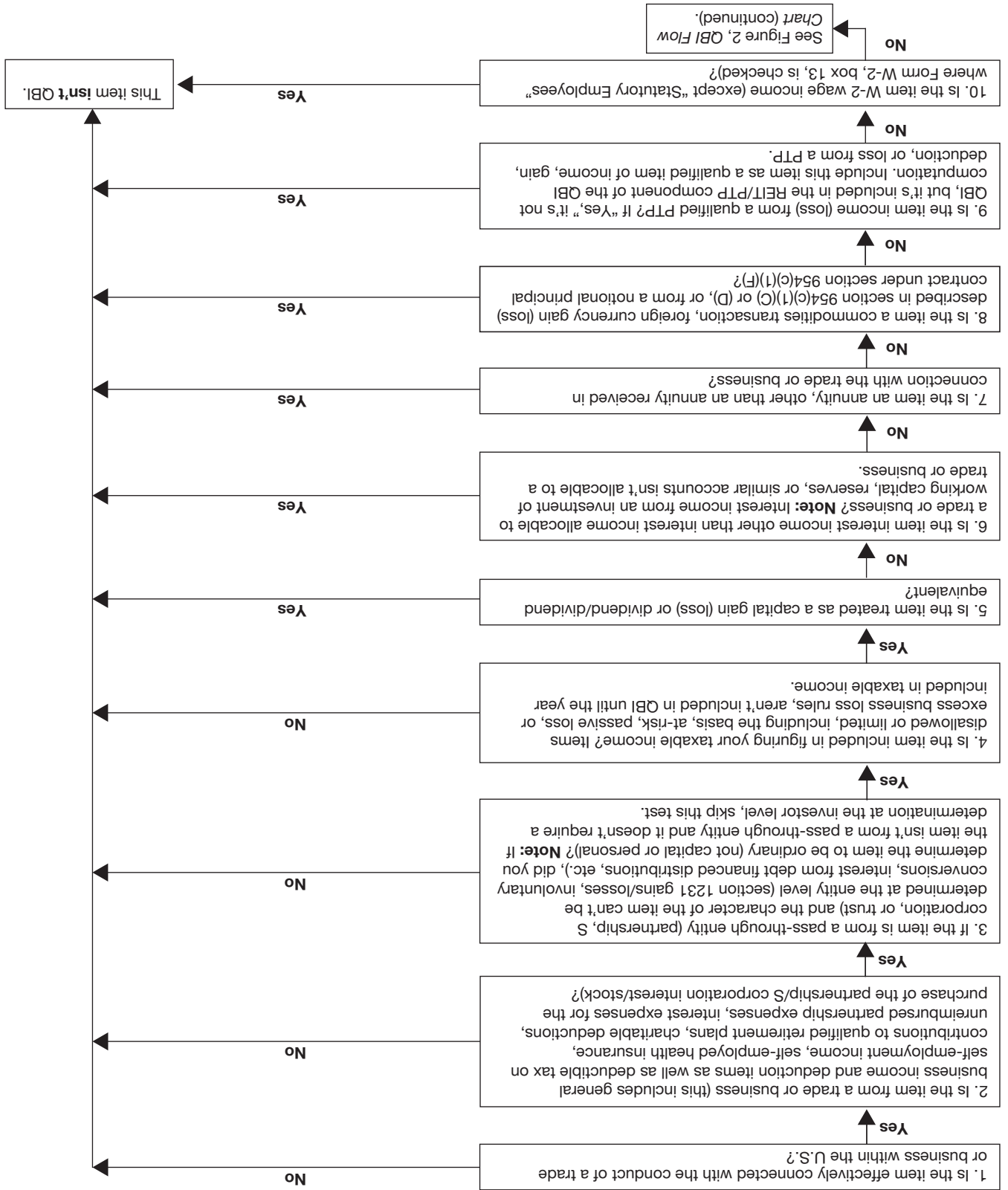
This is the amount to be carried forward to the next year. This amount will offset QBI in later tax years regardless of whether it's reported and the trade or business that generated the loss is still in existence. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

Line 17

If the amount is more than zero, the loss must be carried forward to next year. This amount will offset REIT/PTP income in later tax years regardless of whether it's reported and the trade or business that generated the loss is still in existence. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

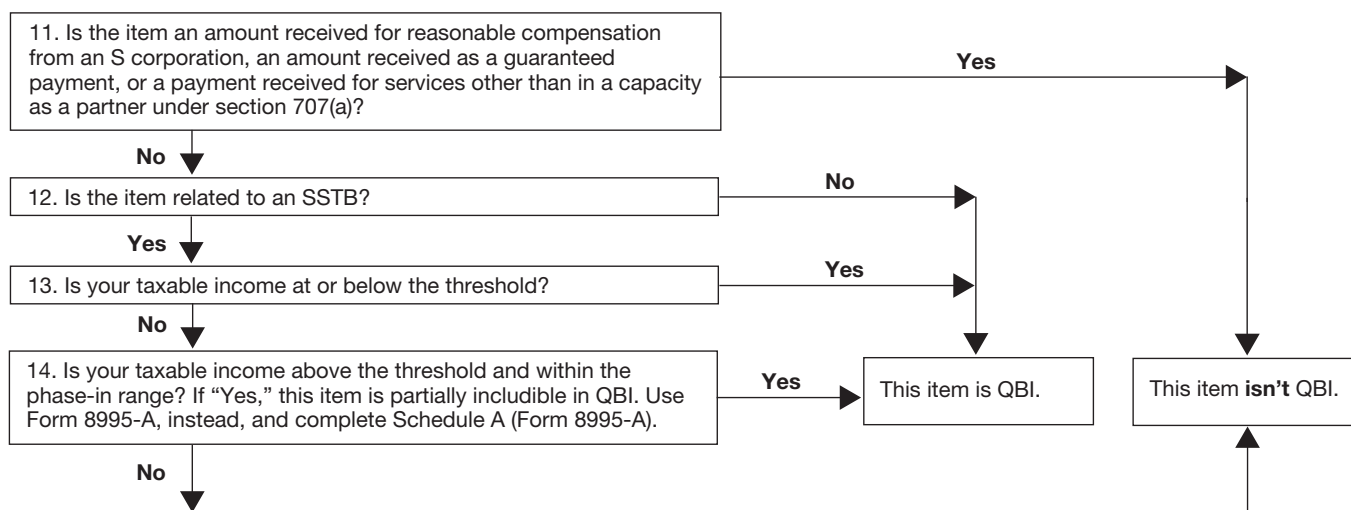
QBI Flow Chart

Figure 1. Use this chart to determine if an item of income, gain, deduction, or loss is included in QBI.



QBI Flow Chart (continued)

Figure 2. Use this chart to determine if an item of income, gain, deduction, or loss is included in QBI.



Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax

returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.

Q-1-7: Mr. Mares states that individual shareholder rates did not decrease as a result of the TCJA and the combined federal and state tax rate increased to 28.84% from the 26.82% included in current rates.

- a. Please state the federal tax rate and the state tax rate that make up the combined 28.84%.
- b. Please state the federal tax rate and the state tax rate that make up the combined 26.82% as found by the Commission in Cause No. 44683.
- c. Is the 28.84% based on all the same factors (revenues, deductions, etc.) as the 26.82%, other than the actual federal tax rate used? Please explain.
- d. Does the determination of the 28.84% tax rate reflect the exclusion of 20% of an S-Corp's taxable income per the TCJA? Please explain.

Objection: HSE objects to the Data Request on the basis of the foregoing general objections.

Response:

- a. The federal rate is 24.44% and the state rate is 4.4%. See Mr. Mares' Attachment ABM-1 for the calculation of the federal rate.
- b. The Commission calculated the 26.82% rate in Cause No. 44683. It is unclear from the Commission's Order in that Cause what the breakdown of the 26.82% rate is.
- c. Mr. Mares used the same methodology that the Commission used in Cause No. 44683 to calculate the tax rate of 28.84%. The calculation uses a higher pro forma net utility operating income before taxes amount of \$1,663,756 due to the inclusion of 2014 CIAC as income. In Cause No. 44683, Mr. Mares calculated a combined federal and state tax rate of 27.43% based on pro forma net income of \$945,672, which excludes CIAC due to it not being taxable income at the time. The 28.84% calculation uses 2018 tax rates based on the shareholder's actual filing status (e.g., married filed jointly), while the 27.43% calculation performed by Mr. Mares in Cause No. 44683 used 2015 tax rates based on a shareholder filing status of single.
- d. No. The TCJA added a qualified business income deduction (QBID) which is taken on an individual's tax return, not at the corporate level. At the individual level, the QBID is subject to various limitations, which are unknown because HSE did not file a 2018 tax return as an S-Corporation. Therefore, the QBID may or may not be available on the individual shareholder's tax return and was not considered in Mr. Mares' calculation.

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

**Comparison of Petitioner's and OUCC's
Revenue Requirements**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>Final Order</u>	<u>Updated Final Order</u>	<u>Sch Ref</u>	<u>Updated Final Order More (Less)</u>
1 Original Cost rate Base	\$ 5,844,301	\$ 5,843,692	\$ 5,142,991	\$ 5,142,991	5	\$ -
2 Times: Weighted Cost of Capital	11.74%	8.40%	9.60%	9.60%		0.00%
3 Net Operating Income Required for Return on Rate base	686,121	490,870	493,727	493,727		-
4 Less: Adjusted Net Operating Income	(32,928)	2,125,948	397,635	433,870	4	36,235
5 Net Revenue Requirement	719,049	(1,635,078)	96,092	59,857		(36,235)
6 Gross Revenue Conversion Factor	138.6611%	101.7958%	144.9702%	124.3251%	1	-20.6451%
7 Recommended Revenue Increase	<u>\$ 997,041</u>	<u>\$ (1,664,441)</u>	<u>\$ 139,305</u>	<u>\$ 74,417</u>		<u>\$ (64,888)</u>
8 Recommended Percentage Increase	<u>8.4200%</u>	<u>-14.01%</u>	<u>1.17%</u>	<u>0.63%</u>		<u>-0.54%</u>

		<u>Proposed</u>				<u>Updated Final Order More (Less)</u>
<u>Current Monthly Flat Rate per EDU</u>		<u>Petitioner</u>	<u>OUCC</u>	<u>Final Order</u>	<u>Updated Final Order</u>	
10						
11	Current Rate = \$34.63	\$ 37.55	29.78	35.04	\$ 34.85	\$ (0.19)

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Gross Revenue Conversion Factor

	Per Petitioner	Per OUCC	Final Order	Updated Final Order	
1 Gross revenue Change	100.0000%	100.00000%	100.000000%	100.000000%	\$ 74,417
2 Less: Bad Debt Rate	<u>0.2600%</u>	<u>0.26000%</u>	<u>0.260000%</u>	<u>0.260000%</u>	193
3 Sub-total	99.7400%	99.74000%	99.740000%	99.740000%	
4 Less: IURC Fee	<u>0.2500%</u>	<u>0.10778%</u>	<u>0.107500%</u>	<u>0.107500%</u>	80
5 Income Before State Income taxes	99.4900%	99.63222%	99.632500%	99.632500%	
6 Less: State Income Tax	4.4000%	0.00000%	4.383830%	3.457030%	2,573
7 Utility Receipts Tax (1.4% of Line 3)	<u>1.4000%</u>	<u>1.39636%</u>	<u>1.396360%</u>	<u>1.396360%</u>	1,039
8 Income before Federal income Taxes	93.6900%	98.23586%	93.852310%	94.779110%	
9 Less: Federal income Tax	<u>21.5717%</u>	<u>0.00000%</u>	<u>24.872600%</u>	<u>14.344841%</u>	10,675
10 Change in Operating Income	<u>72.1183%</u>	<u>98.23586%</u>	<u>68.979710%</u>	<u>80.434270%</u>	<u>\$ 59,857</u>
11 Gross Revenue Conversion Factor	<u>138.6611%</u>	<u>101.7958%</u>	<u>144.97020%</u>	<u>124.32510%</u>	

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Present Rates

	Per Petitioner	Per OUCG	Final Order	Updated Final Order	Updated Final Order More (Less)
1 Wastewater Flat Rate Revenues					
2 Residential	\$ 685,805	\$ 685,805	\$ 685,805	\$ 685,805	\$ -
3 Commercial	126,350	126,350	126,350	126,350	-
4 Public Authority	38,933	38,933	38,933	38,933	-
5 Multi-Family	87,827	87,827	87,827	87,827	-
Unbilled Revenues	-	(21,200)	(21,200)	(21,200)	-
6 FOG Charge	57,600	75,627	75,627	75,627	-
7 Penalties	-	-	4,837	4,837	-
8 Rental Income	-	-	-	-	-
9 Other	-	-	-	-	-
10 Total Operating Revenues	<u>996,515</u>	<u>993,342</u>	<u>998,179</u>	<u>998,179</u>	<u>-</u>
11 O&M Expense					
12 Salaries and Wages - Employees	31,387	31,387	31,387	31,387	-
14 Employee Benefits	5,662	5,662	5,662	5,662	-
Employee Retirement	3,766	(1,825)	(1,825)	(1,825)	-
15 Purchased Sewage Treatment	284,763	168,442	168,442	168,442	-
16 Purchased Power	-	-	-	-	-
17 Materials and Supplies	-	(266,880)	-	-	-
18 Contractual Services					
19 Engineering	54,728	(967,720)	(1,490)	(1,490)	-
20 Accounting	-	-	-	-	-
21 Legal	-	(122,562)	(1,500)	(1,500)	-
22 Other	60,770	(308,189)	(22,025)	(22,025)	-
23 Rent Expense	(66,539)	(66,539)	(66,539)	(66,539)	-
24 Insurance Expense	8,294	7,360	7,360	7,360	-
25 Bad Debt Expense	2,494	2,494	2,494	2,494	-
26 Rate Case Expense	87,500	(43,583)	43,750	43,750	-
27 IURC Fee	2,491	(51)	(51)	(51)	-
28 Miscellaneous Expense	-	(10,216)	(48,834)	(48,834)	-
29 Depreciation Expense	-	32,260	32,260	32,260	-
30 Amortization Expense	-	(51,765)	(139,098)	(139,098)	-
31 Taxes Other than Income:					
32 Payroll Tax	2,338	2,338	2,338	2,338	-
33 Property Tax	971	971	971	971	-
34 Utility Receipts Tax	20,902	15,225	15,296	15,296	-
35 Utility Receipts Tax Judgment	89,331	-	-	-	-
36 State & Federal Income Taxes	-	-	131,361	95,126	(36,235)
37 Total Operating Expenses	<u>588,858</u>	<u>(1,573,191)</u>	<u>159,959</u>	<u>123,724</u>	<u>(36,235)</u>
38 Net Operating Income	<u>\$ 407,657</u>	<u>\$ 2,566,533</u>	<u>\$ 838,220</u>	<u>\$ 874,455</u>	<u>\$ 36,235</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

COMPARATIVE BALANCE SHEET
As of December 31,

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
1 Utility Plant			
2 Utility Plant in Service	\$ 92,671,846	\$ 91,829,505	\$ 91,300,504
3 Construction Work in Progress	-	-	-
4 Gross Utility Plant in Service	<u>92,671,846</u>	<u>91,829,505</u>	<u>91,300,504</u>
5 Less: Accumulated Depreciation	(16,848,935)	(14,998,677)	(13,196,655)
6 Accumulated Amortization	<u>(1,379,329)</u>	<u>(1,240,231)</u>	<u>(1,039,881)</u>
7 Net Utility Plant in Service	<u>74,443,582</u> (829,660)	<u>75,590,597</u>	<u>77,063,968</u>
8 Other Long-term Assets			
9 Future Project Contribution Fee	1,935,482	1,732,480	126,602
10 Lift Station & Line Maintenance Funds	92,147	92,171	92,195
11 Total Other Long-term Assets	<u>2,027,629</u>	<u>1,824,651</u>	<u>218,797</u>
12 Current Assets			
13 Cash and Cash Equivalents	877,318	2,011,981	699,929
14 Investments - Certificates of Deposit			
15 Accounts Receivable - Sewer	1,607,449	1,573,552	1,559,485
16 Accounts Receivable - Other			
17 Prepaid Rents			
18 Total Current Assets	<u>2,484,767</u>	<u>3,585,533</u>	<u>2,259,414</u>
19 Deferred Debits	827,260		
20 Miscellaneous Deferred Debits	<u>592,544</u>	<u>591,667</u>	<u>591,667</u>
21 Total Assets	<u>\$ 79,548,522</u>	<u>\$ 81,592,448</u>	<u>\$ 80,133,846</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

COMPARATIVE BALANCE SHEET
As of December 31,

<u>LIABILITIES</u>		<u>2014</u>	<u>2013</u>	<u>2012</u>
1	Equity			
2	Common Stock	\$ 1,171,250	\$ 1,171,250	\$ 1,171,250
3	Retained Earnings	3,869,791	4,457,113	3,824,700
4	Total Equity	<u>5,041,041</u>	<u>5,628,363</u>	<u>4,995,950</u>
5	Contributions in Aid of Construction	86,243,029	85,233,698	83,160,384
6	Less: Accumulated Amortization of CIAC	<u>(15,722,358)</u>	<u>(14,009,993)</u>	<u>(12,337,549)</u>
7	Net Contributions in Aid of Construction	<u>70,520,671</u>	<u>71,223,705</u>	<u>70,822,835</u>
8	Current Liabilities			
9	Accounts Payable	1,063,856	1,038,914	1,159,372
10	Accrued Taxes	1,457,625	1,507,664	1,428,491
11	Accrued Retirement Contributions	47,000	42,000	42,000
12	Accrued Wages	6,229	-	51
13	Payable to Towns of Fishers & Indianapolis	1,259,456	1,922,006	1,338,206
14	Miscellaneous Liabilities			
15	Total Current Liabilities	<u>3,834,166</u>	<u>4,510,584</u>	<u>3,968,120</u>
16	Deferred Credits			
17	Flatfork Contingent Acquisition Liability	144,892	191,615	288,159
18	Unearned Income	<u>7,752</u>	<u>38,181</u>	<u>58,782</u>
19	Total Deferred Credits	<u>152,644</u>	<u>229,796</u>	<u>346,941</u>
20	Total Liabilities	<u>\$ 79,548,522</u>	<u>\$ 81,592,448</u>	<u>\$ 80,133,846</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

COMPARATIVE INCOME STATEMENT
Twelve Months Ended December 31,

	<u>2014</u>	<u>2013</u>	<u>2012</u>
1 Operating Revenues			
2 Operating Revenue	\$ 10,902,782	\$ 10,509,093	\$ 10,234,557
3 Penalties	57,469	56,649	53,286
4 Rental Income	32,652	32,652	32,652
5 Other	15,597	22,528	19,778
6 Total Operating Revenues	<u>11,008,500</u>	<u>10,620,922</u>	<u>10,340,273</u>
			71,063
7 Operating & Maintenance Expenses			
8 Salaries and Wages - Employees	294,087	258,853	259,682
9 Salaries and Wages - Officers	105,786	89,236	88,005
10 Employee Benefits	125,587	148,100	149,319
11 Purchased Sewage Treatment	3,307,353	3,145,959	3,414,432
12 Purchased Power	181,044	167,459	150,312
13 Materials and Supplies	1,111,613	960,970	1,276,478
14 Contractual Services			
15 Engineering	1,824,252	1,211,105	1,295,602
16 Accounting	55,766	188,613	58,340
17 Legal	226,333	51,727	94,800
18 Other	2,025,674	1,350,250	1,536,443
19 Rental of Building/Real Property	66,539	64,707	62,832
20 Insurance	40,517	29,837	51,917
21 Bad Debt Expense	28,972	25,717	15,802
22 Rate Case Expense	-	-	-
23 IURC Fee	12,757	11,935	13,590
24 Miscellaneous Expense	306,940	264,483	274,497
25 Total O&M Expenses	<u>9,713,220</u>	<u>7,968,951</u>	<u>8,742,051</u>
26 Depreciation Expense (net of CIAC Amortizatio	137,893	129,578	130,232
27 Amortization Expense	139,098	200,350	204,079
28 Taxes Other than Income:			
29 Payroll Tax	29,782	25,879	25,827
30 Property Tax	1,276,746	1,424,517	1,321,160
31 Utility Receipts Tax	152,346	146,817	140,106
32 Total Operating Expenses	<u>11,449,085</u>	<u>9,896,092</u>	<u>10,563,455</u>
33 Net Operating Income	(440,585)	724,830	(223,182)
34 Other Income (Expense)			
35 Interest and Dividend Income	-	1	150
36 Contribution Fees Due to Fishers	80	-	-
37 Connection Fees	227,860	402,275	233,680
38 Inspection Fee (Connection) Costs	(240,800)	(201,888)	(162,617)
39 Interest Expense	(38,877)	(88,005)	(45,232)
40 Total Other Income (Expense)	<u>(51,737)</u>	<u>112,383</u>	<u>25,981</u>
41 Net Income	<u>\$ (492,322)</u>	<u>\$ 837,213</u>	<u>\$ (197,201)</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Pro forma Net Operating Income Statement

A	B Year Ended 12/31/2014	C Adjustments	D Sch Ref	E <i>Pro forma</i> Present Rates	F Adjustments	G Sch Ref	H <i>Pro forma</i> Proposed Rates
1 Operating Revenues							
2 Wastewater Revenues							
3 Residential	\$ 7,963,633	\$ 685,805		8,649,438	54,048	1	\$ 8,703,486
4 Commercial	1,467,194	126,350		1,593,544	10,039	1	1,603,583
5 Public Authority	452,095	38,933		491,028	3,093	1	494,121
6 Multi-Family	1,019,860	87,827		1,107,687	6,978	1	1,114,665
Unbilled Revenues		(21,200)		(21,200)	(134)	1	(21,334)
7 Penalties	57,469	4,837		62,306	393	1	62,699
8 FOG Charge	-	75,627		75,627			75,627
9 Rental Income	32,652			32,652			32,652
10 Other	15,597			15,597			15,597
11 Total Operating Revenues	<u>11,008,500</u>	<u>998,179</u>		<u>12,006,679</u>	<u>74,417</u>		<u>12,081,096</u>
12 O&M Expense							
13 Salaries and Wages - Employees	294,087	31,387		325,474			325,474
14 Salaries and Wages - Officers	105,786			105,786			105,786
15 Employee Benefits	125,587	3,837		129,424			129,424
16 Purchased Sewage Treatment	3,307,353	168,442		3,475,795			3,475,795
17 Purchased Power	181,044			181,044			181,044
18 Materials and Supplies	1,111,613			1,111,613			1,111,613
19 Contractual Services							
20 Engineering	1,824,252	(1,490)		1,822,762			1,822,762
21 Accounting	55,766			55,766			55,766
22 Legal	226,333	(1,500)		224,833			224,833
23 Other	2,025,674	(22,025)		2,003,649			2,003,649
24 Rent Expense	66,539	(66,539)		-			-
25 Insurance Expense	40,517	7,360		47,877			47,877
26 Bad Debt Expense	28,972	2,494		31,466	193	1	31,659
27 Rate Case Expense	-	43,750		43,750			43,750
28 IURC Fee	12,757	(51)		12,706	80	1	12,786
29 Miscellaneous Expense	306,940	(9,770)		258,106			258,106
		(39,064)					
30 Depreciation Expense	137,893	32,260		170,153			170,153
31 Amortization Expense	139,098	(139,098)		-			-
32 Taxes Other than Income:							
33 Payroll Tax	29,782	2,338		32,120			32,120
34 Property Tax	1,276,746	971		1,277,717			1,277,717
35 Utility Receipts Tax	152,346	15,296		167,642	1,039	1	168,681
36 Utility Receipts Tax Judgment	-	-					
37 Income Taxes:							
38 State Income Tax	-	76,505		76,505	10,675	1	87,180
39 Federal Income Tax	-	18,621		18,621	2,573	1	21,194
40 Total Operating Expenses	<u>11,449,085</u>	<u>123,724</u>		<u>11,572,809</u>	<u>14,560</u>		<u>11,587,369</u>
41 Net Operating Income	<u>\$ (440,585)</u>	<u>\$ 874,455</u>		<u>\$ 433,870</u>	<u>\$ 59,857</u>		<u>\$ 493,727</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Calculation of Rate Base

	<u>Per Petitioner</u>	<u>Per OUCG</u>	<u>Final Order</u>	<u>OUCG More (Less)</u>
Utility Plant in Service at 12/31/14	\$ 92,671,846	\$ 92,671,846	\$ 92,671,846	\$ -
Add: Utility Additions subsequent to TY	5,874,561	-	-	(5,874,561)
Test Year Expenses that are Capital in Nature (less 10% SAMCO Fee)	-	58,473	-	-
Test Year Engineering Fees that are Capital in Nature (80%) Fee	-	580,958	-	-
Test Year Legal Fees that are Capital in Nature	-	121,061	-	-
Less Eliminate SAMCO 10% Management Fee Included in Test Year Capitalized Costs	-	(44,745)	-	-
Disallowed CTA Costs per Cause No .43761	(2,042,350)	(2,042,350)	(2,042,350)	-
Total Utility Plant in Service	<u>96,504,057</u>	<u>91,345,243</u>	<u>90,629,496</u>	<u>(5,874,561)</u>
Accumulated Depreciation at 12/31/14	(16,848,935)	(16,848,935)	(16,848,935)	-
Accumulated Amortization at 12/31/14	(1,379,329)	(787,609)	(787,609)	591,720
Less: Amortization of CTA Costs 15 12/31/14	1,215,169	623,449	623,449	(591,720)
Total Accumulated Depreciation and Amortization	<u>(17,013,095)</u>	<u>(17,013,095)</u>	<u>(17,013,095)</u>	<u>-</u>
Contributions in Aid of Construction	(86,243,029)	(86,243,029)	(86,243,029)	-
Add: Utility Additions Subsequent to Test Year	(5,874,561)	-	-	5,874,561
Less	1,935,482	1,935,482	1,935,482	-
Contribution Fees Designated for Future Projects Amortization of CIAC	15,722,358	15,722,358	15,722,358	-
	<u>(74,459,750)</u>	<u>(68,585,189)</u>	<u>(68,585,189)</u>	<u>5,874,561</u>
Net Utility Plant in Service	5,031,212	5,746,959	5,031,212	-
Add: Materials & Supplies	-	-	-	-
Working Capital (see below)	813,089	96,733	111,779	(701,310)
Total Original Cost Rate Base	<u>\$ 5,844,301</u>	<u>\$ 5,843,692</u>	<u>\$ 5,142,991</u>	<u>\$ (701,310)</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Income Tax Expense Detail

	<u>Present Rates</u>	<u>Adjustment</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 12,006,679	\$ 74,417	\$ 12,081,096
Operating Expenses	11,477,683	1,312	11,478,995
Net Operating Income	528,996	73,105	602,101
Income Tax Expense	95,126	13,248	108,374
Net Income	<u>\$ 433,870</u>	<u>\$ 59,857</u>	<u>\$ 493,727</u>
Federal Income Tax	\$ 76,505	\$ 10,675	\$ 87,180
State Income Tax	18,621	2,573	21,194
Total Income Tax	<u>\$ 95,126</u>	<u>\$ 13,248</u>	<u>\$ 108,374</u>
Effective Tax Rate	17.98%	18.12%	18.00%

Change in Rate Increase

	<u>Final Order</u>	<u>Updated</u>	<u>Difference</u>
Revenue Increase	\$ 139,305	\$ 74,417	\$ (64,888)
Percentage increase	1.17%	0.63%	-0.54%
Monthly Flat Rate per EDU	\$ 35.04	\$ 34.85	\$ (0.19)

HSE Federal and State Tax Rate Used in Determining Income Tax Allowance

Calculated Based on S corporation Filing Status Using Respective 2018 Tax Rates including OBI deduction

Proposed Net Income Before Income Tax Expense	\$ 645,725	State Income Tax Expense	\$ 28,412	Effective Tax Rate	4.40%
Less: 20% QBI Deduction	-	Federal Income Tax Expense	123,586		19.14%
Taxable Income	<u>\$ 645,725</u>	Total Income Tax Expense	151,998		23.54%
		Less: Current Embedded Income Tax Expense	(172,117)		
		Income Tax Expense Reduction	<u>\$ (20,119)</u>		

Actual filing status from 2018 tax return>>>>	MFJ	MFJ	MFJ	HOH	MFJ	MFJ	Trust	Trust	
Allocated income %'s >>>>	25.00%	25.00%	6.25%	6.25%	6.25%	6.25%	12.50%	12.50%	
	Shareholder 1	Shareholder 2	Shareholder 3	Shareholder 4	Shareholder 5	Shareholder 6	Shareholder 7	Shareholder 8	Total - All Shareholders
Pro forma net utility operating income before income tax	\$ 161,431	\$ 161,431	\$ 40,358	\$ 40,358	\$ 40,358	\$ 40,358	\$ 80,716	\$ 80,716	\$ 645,725
Calculated federal tax using 2014 applicable tax rates	\$ 27,394	\$ 27,394	\$ 4,462	\$ 4,571	\$ 4,462	\$ 4,462	\$ 28,252	\$ 28,252	\$ 129,249
Federal Income Tax Rate	16.97%	16.97%	11.06%	11.33%	11.06%	11.06%	35.00%	35.00%	20.02%
							State Income Tax Rate		4.4%
							Stated Combined Income Tax Rate		24.42%

Federal 2018 Tax Rates - Married filing joint									
\$0 to \$19,050 - 10% tax rate	\$ 1,905	\$ 1,905	\$ 1,905	\$ -	\$ 1,905	\$ 1,905	\$ -	\$ -	23.54%
\$19,050 to \$77,400 - 12% tax rate	7,002	7,002	2,557	-	2,557	2,557	-	-	
\$77,400 to \$165,000 - 22% tax rate	18,487	18,487	-	-	-	-	-	-	
\$165,000 to \$315,000 - 24% tax rate	-	-	-	-	-	-	-	-	
\$315,000 to \$400,000 - 32% tax rate	-	-	-	-	-	-	-	-	
\$400,000 to \$600,000 - 35% tax rate	-	-	-	-	-	-	-	-	
\$600,000 and up - 37% tax rate	-	-	-	-	-	-	-	-	
	\$ 27,394	\$ 27,394	\$ 4,462	\$ -	\$ 4,462	\$ 4,462	\$ -	\$ -	
Federal 2018 Tax Rates - Heads of households									
\$0 to \$13,600 - 10% tax rate	\$ -	\$ -	\$ -	\$ 1,360	\$ -	\$ -	\$ -	\$ -	
\$13,600 to \$51,800 - 12% tax rate	-	-	-	3,211	-	-	-	-	
\$51,800 to \$82,500 - 22% tax rate	-	-	-	-	-	-	-	-	
\$82,500 to \$157,500 - 24% tax rate	-	-	-	-	-	-	-	-	
\$157,500 to \$200,000 - 32% tax rate	-	-	-	-	-	-	-	-	
\$200,000 to \$500,000 - 35% tax rate	-	-	-	-	-	-	-	-	
\$500,000 and up - 37% tax rate	-	-	-	-	-	-	-	-	
	\$ -	\$ -	\$ -	\$ 4,571	\$ -	\$ -	\$ -	\$ -	
Federal 2018 Tax Rates - Trusts									
\$0 to \$2,550 - 10% tax rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 255	\$ 255	
\$2,550 to \$9,150 - 24% tax rate	-	-	-	-	-	-	1,584	1,584	
\$9,150 to \$12,500 - 35% tax rate	-	-	-	-	-	-	1,173	1,173	
\$12,500 and up - 37% tax rate	-	-	-	-	-	-	25,240	25,240	
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,252	\$ 28,252	

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

**Comparison of Petitioner's and OUCC's
Revenue Requirements**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>Final Order</u>	<u>Updated Final Order</u>	<u>Sch Ref</u>	<u>Updated Final Order More (Less)</u>
1 Original Cost rate Base	\$ 5,844,301	\$ 5,843,692	\$ 5,142,991	\$ 5,142,991	5	\$ -
2 Times: Weighted Cost of Capital	11.74%	8.40%	9.60%	9.60%		0.00%
3 Net Operating Income Required for Return on Rate base	686,121	490,870	493,727	493,727		-
4 Less: Adjusted Net Operating Income	(32,928)	2,125,948	397,635	404,475	4	6,840
5 Net Revenue Requirement	719,049	(1,635,078)	96,092	89,252		(6,840)
6 Gross Revenue Conversion Factor	138.6611%	101.7958%	144.9702%	133.1345%	1	-11.8357%
7 Recommended Revenue Increase	<u>\$ 997,041</u>	<u>\$ (1,664,441)</u>	<u>\$ 139,305</u>	<u>\$ 118,825</u>		<u>\$ (20,480)</u>
8 Recommended Percentage Increase	<u>8.4200%</u>	<u>-14.01%</u>	<u>1.17%</u>	<u>1.00%</u>		<u>-0.17%</u>

		<u>Proposed</u>				<u>Updated Final Order More (Less)</u>
<u>Current Monthly Flat Rate per EDU</u>		<u>Petitioner</u>	<u>OUCC</u>	<u>Final Order</u>	<u>Updated Final Order</u>	
10						
11	Current Rate = \$34.63	\$ 37.55	29.78	35.04	\$ 34.98	\$ (0.06)

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Gross Revenue Conversion Factor

	Per Petitioner	Per OUCC	Final Order	Updated Final Order	
1 Gross revenue Change	100.0000%	100.00000%	100.000000%	100.000000%	\$ 118,825
2 Less: Bad Debt Rate	<u>0.2600%</u>	<u>0.26000%</u>	<u>0.260000%</u>	<u>0.260000%</u>	309
3 Sub-total	99.7400%	99.74000%	99.740000%	99.740000%	
4 Less: IURC Fee	<u>0.2500%</u>	<u>0.10778%</u>	<u>0.107500%</u>	<u>0.107500%</u>	128
5 Income Before State Income taxes	99.4900%	99.63222%	99.632500%	99.632500%	
6 Less: State Income Tax	4.4000%	0.00000%	4.383830%	4.322212%	5,136
7 Utility Receipts Tax (1.4% of Line 3)	<u>1.4000%</u>	<u>1.39636%</u>	<u>1.396360%</u>	<u>1.396360%</u>	1,659
8 Income before Federal income Taxes	93.6900%	98.23586%	93.852310%	93.913930%	
9 Less: Federal income Tax	<u>21.5717%</u>	<u>0.00000%</u>	<u>24.872600%</u>	<u>18.801897%</u>	22,341
10 Change in Operating Income	<u>72.1183%</u>	<u>98.23586%</u>	<u>68.979710%</u>	<u>75.112030%</u>	<u>\$ 89,252</u>
11 Gross Revenue Conversion Factor	<u>138.6611%</u>	<u>101.7958%</u>	<u>144.97020%</u>	<u>133.13450%</u>	

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Present Rates

	Per Petitioner	Per OUCG	Final Order	Updated Final Order	Updated Final Order More (Less)
1 Wastewater Flat Rate Revenues					
2 Residential	\$ 685,805	\$ 685,805	\$ 685,805	\$ 685,805	\$ -
3 Commercial	126,350	126,350	126,350	126,350	-
4 Public Authority	38,933	38,933	38,933	38,933	-
5 Multi-Family	87,827	87,827	87,827	87,827	-
Unbilled Revenues	-	(21,200)	(21,200)	(21,200)	-
6 FOG Charge	57,600	75,627	75,627	75,627	-
7 Penalties	-	-	4,837	4,837	-
8 Rental Income	-	-	-	-	-
9 Other	-	-	-	-	-
10 Total Operating Revenues	<u>996,515</u>	<u>993,342</u>	<u>998,179</u>	<u>998,179</u>	<u>-</u>
11 O&M Expense					
12 Salaries and Wages - Employees	31,387	31,387	31,387	31,387	-
14 Employee Benefits	5,662	5,662	5,662	5,662	-
Employee Retirement	3,766	(1,825)	(1,825)	(1,825)	-
15 Purchased Sewage Treatment	284,763	168,442	168,442	168,442	-
16 Purchased Power	-	-	-	-	-
17 Materials and Supplies	-	(266,880)	-	-	-
18 Contractual Services					
19 Engineering	54,728	(967,720)	(1,490)	(1,490)	-
20 Accounting	-	-	-	-	-
21 Legal	-	(122,562)	(1,500)	(1,500)	-
22 Other	60,770	(308,189)	(22,025)	(22,025)	-
23 Rent Expense	(66,539)	(66,539)	(66,539)	(66,539)	-
24 Insurance Expense	8,294	7,360	7,360	7,360	-
25 Bad Debt Expense	2,494	2,494	2,494	2,494	-
26 Rate Case Expense	87,500	(43,583)	43,750	43,750	-
27 IURC Fee	2,491	(51)	(51)	(51)	-
28 Miscellaneous Expense	-	(10,216)	(48,834)	(48,834)	-
29 Depreciation Expense	-	32,260	32,260	32,260	-
30 Amortization Expense	-	(51,765)	(139,098)	(139,098)	-
31 Taxes Other than Income:					
32 Payroll Tax	2,338	2,338	2,338	2,338	-
33 Property Tax	971	971	971	971	-
34 Utility Receipts Tax	20,902	15,225	15,296	15,296	-
35 Utility Receipts Tax Judgment	89,331	-	-	-	-
36 State & Federal Income Taxes	-	-	131,361	124,521	(6,840)
37 Total Operating Expenses	<u>588,858</u>	<u>(1,573,191)</u>	<u>159,959</u>	<u>153,119</u>	<u>(6,840)</u>
38 Net Operating Income	<u>\$ 407,657</u>	<u>\$ 2,566,533</u>	<u>\$ 838,220</u>	<u>\$ 845,060</u>	<u>\$ 6,840</u>

Effective Tax Rate
HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Pro forma Net Operating Income Statement

A	B Year Ended 12/31/2014	C Adjustments	D Sch Ref	E <i>Pro forma</i> Present Rates	F Adjustments	G Sch Ref	H <i>Pro forma</i> Proposed Rates
1 Operating Revenues							
2 Wastewater Revenues							
3 Residential	\$ 7,963,633	\$ 685,805		8,649,438	86,492	1	\$ 8,735,930
4 Commercial	1,467,194	126,350		1,593,544	15,935	1	1,609,479
5 Public Authority	452,095	38,933		491,028	4,910	1	495,938
6 Multi-Family	1,019,860	87,827		1,107,687	11,077	1	1,118,764
Unbilled Revenues		(21,200)		(21,200)	(212)	1	(21,412)
7 Penalties	57,469	4,837		62,306	623	1	62,929
8 FOG Charge	-	75,627		75,627			75,627
9 Rental Income	32,652			32,652			32,652
10 Other	15,597			15,597			15,597
11 Total Operating Revenues	<u>11,008,500</u>	<u>998,179</u>		<u>12,006,679</u>	<u>118,825</u>		<u>12,125,504</u>
12 O&M Expense							
13 Salaries and Wages - Employees	294,087	31,387		325,474			325,474
14 Salaries and Wages - Officers	105,786			105,786			105,786
15 Employee Benefits	125,587	3,837		129,424			129,424
16 Purchased Sewage Treatment	3,307,353	168,442		3,475,795			3,475,795
17 Purchased Power	181,044			181,044			181,044
18 Materials and Supplies	1,111,613			1,111,613			1,111,613
19 Contractual Services							
20 Engineering	1,824,252	(1,490)		1,822,762			1,822,762
21 Accounting	55,766			55,766			55,766
22 Legal	226,333	(1,500)		224,833			224,833
23 Other	2,025,674	(22,025)		2,003,649			2,003,649
24 Rent Expense	66,539	(66,539)		-			-
25 Insurance Expense	40,517	7,360		47,877			47,877
26 Bad Debt Expense	28,972	2,494		31,466	309	1	31,775
27 Rate Case Expense	-	43,750		43,750			43,750
28 IURC Fee	12,757	(51)		12,706	128	1	12,834
29 Miscellaneous Expense	306,940	(9,770)		258,106			258,106
		(39,064)					
30 Depreciation Expense	137,893	32,260		170,153			170,153
31 Amortization Expense	139,098	(139,098)		-			-
32 Taxes Other than Income:							
33 Payroll Tax	29,782	2,338		32,120			32,120
34 Property Tax	1,276,746	971		1,277,717			1,277,717
35 Utility Receipts Tax	152,346	15,296		167,642	1,659	1	169,301
36 Utility Receipts Tax Judgment	-	-					
37 Income Taxes:							
38 State Income Tax	-	101,245		101,245	22,341	1	123,586
39 Federal Income Tax	-	23,276		23,276	5,136	1	28,412
40 Total Operating Expenses	<u>11,449,085</u>	<u>153,119</u>		<u>11,602,204</u>	<u>29,573</u>		<u>11,631,777</u>
41 Net Operating Income	<u>\$ (440,585)</u>	<u>\$ 845,060</u>		<u>\$ 404,475</u>	<u>\$ 89,252</u>		<u>\$ 493,727</u>

HAMILTON SOUTHEASTERN UTILITIES, INC.
CAUSE NUMBER 44683

Income Tax Expense Detail

	<u>Present Rates</u>	<u>Adjustment</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 12,006,679	\$ 118,825	\$ 12,125,504
Operating Expenses	11,477,683	2,096	11,479,779
Net Operating Income	528,996	116,729	645,725
Income Tax Expense	124,521	27,477	151,998
Net Income	<u>\$ 404,475</u>	<u>\$ 89,252</u>	<u>\$ 493,727</u>
Federal Income Tax	\$ 101,245	\$ 22,341	\$ 123,586
State Income Tax	23,276	5,136	28,412
Total Income Tax	<u>\$ 124,521</u>	<u>\$ 27,477</u>	<u>\$ 151,998</u>
Effective Tax Rate	23.54%	23.54%	23.54%

Change in Rate Increase

	<u>Final Order</u>	<u>Updated</u>	<u>Difference</u>
Revenue Increase	\$ 139,305	\$ 118,825	\$ (20,480)
Percentage increase	1.17%	1.00%	-0.17%
Monthly Flat Rate per EDU	\$ 35.04	\$ 34.98	\$ (0.06)

HSE Utilities, Inc.

Attachment MAS-9

Revenue Reduction for Change in Federal Income Tax Rate

Page 1 of 1

	Single Family			Non-Residential and Special User			Multi-Family			Total Revenues	Rate Reduction %	Revenue Reduction
	# Customers	# EDUs	Revenues	# Customers	# EDUs	Revenues	# Customers	# EDUs	Revenues			
18-Jan	21,575	21,575	\$ 846,379.99	721	5,559	\$ 221,175.26	516	3,140	\$ 124,204.83	\$ 1,191,760.08	-0.54%	\$ (6,435.50)
18-Feb	21,547	21,547	848,538.29	720	5,557	221,116.51	516	3,140	124,204.83	1,193,859.63	-0.54%	(6,446.84)
18-Mar	21,633	21,633	850,413.45	722	5,560	221,248.42	516	3,140	124,204.83	1,195,866.70	-0.54%	(6,457.68)
18-Apr	21,755	21,755	852,318.90	723	5,566	221,470.84	475	3,037	124,131.78	1,197,921.52	-0.54%	(6,468.78)
18-May	21,866	21,866	851,665.05	737	5,833	232,105.30	444	2,911	115,818.93	1,199,589.28	-0.54%	(6,477.78)
18-Jun	22,065	22,065	855,480.12	743	5,860	233,162.95	445	2,913	115,818.93	1,204,462.00	-0.54%	(6,504.09)
18-Jul	22,150	22,150	859,814.80	743	5,860	233,186.05	446	2,915	115,898.51	1,208,899.36	-0.54%	(6,528.06)
18-Aug	22,200	22,200	862,916.74	742	5,854	232,940.48	447	2,917	115,898.51	1,211,755.73	-0.54%	(6,543.48)
18-Sep	22,249	22,249	864,436.69	748	5,887	234,037.75	447	2,917	115,898.51	1,214,372.95	-0.54%	(6,557.61)
18-Oct	22,270	22,270	867,312.37	747	5,887	234,240.48	447	2,917	115,898.51	1,217,451.36	-0.54%	(6,574.24)
18-Nov	22,298	22,298	869,781.08	743	5,878	233,703.00	448	2,919	115,940.95	1,219,425.03	-0.54%	(6,584.90)
18-Dec	22,314	22,314	870,658.70	766	5,907	235,407.64	448	2,919	115,977.95	1,222,044.29	-0.54%	(6,599.04)
Totals			10,299,716.18			2,753,794.68			1,423,897.07	14,477,407.93		(78,178.00)
19-Jan	22,357	22,357	870,539.09	762	5,933	236,054.82	450	2,885	116,781.60	1,223,375.51	-0.54%	(6,606.23)
19-Feb	22,297	22,297	874,368.85	759	5,928	235,895.17	451	2,895	115,978.09	1,226,242.11	-0.54%	(6,621.71)
19-Mar	22,344	22,344	876,894.38	755	5,922	235,628.46	451	2,895	115,978.09	1,228,500.93	-0.54%	(6,633.91)
19-Apr	22,434	22,434	877,929.13	764	5,940	236,352.08	451	2,895	115,938.30	1,230,219.51	-0.54%	(6,643.19)
19-May	22,515	22,515	879,055.36	770	5,958	237,067.25	451	2,895	116,301.72	1,232,424.33	-0.54%	(6,655.09)
19-Jun	22,577	22,577	882,091.49	766	5,918	235,484.12	450	2,885	116,256.62	1,233,832.23	-0.54%	(6,662.69)
19-Jul	22,659	22,659	879,767.20	787	6,020	239,551.44	450	2,885	116,256.62	1,235,575.26	-0.54%	(6,672.11)
19-Aug	22,748	22,748	883,099.59	788	6,049	240,671.70	450	2,885	116,387.54	1,240,158.83	-0.54%	(6,696.86)
19-Sep	22,785	22,785	888,181.92	778	6,009	239,097.69	450	2,885	116,561.68	1,243,841.29	-0.54%	(6,716.74)
19-Oct	22,787	22,787	889,926.29	785	6,015	239,328.28	450	2,885	116,588.20	1,245,842.77	-0.54%	(6,727.55)
19-Nov	22,849	22,849	891,539.86	793	6,036	240,165.17	450	2,885	116,574.94	1,248,279.97	-0.54%	(6,740.71)
19-Dec	22,874	22,874	893,345.79	793	6,036	240,425.11	452	2,897	116,574.94	1,250,345.84	-0.54%	(6,751.87)
Totals			10,586,738.95			2,855,721.29			1,396,178.34	14,838,638.58		(80,128.65)
20-Jan	22,920	22,920	895,374.82	795	6,057	240,993.83	452	2,897	116,574.94	1,252,943.59	-0.54%	(6,765.90)
20-Feb	22,852	22,852	896,398.40	810	6,115	243,327.10	452	2,897	116,455.54	1,256,181.04	-0.54%	(6,783.38)
20-Mar	22,961	22,961	900,355.49	805	6,104	242,874.19	452	2,926	116,415.75	1,259,645.43	-0.54%	(6,802.09)
20-Apr	23,088	23,088	902,801.74	805	6,104	242,659.10	452	2,926	116,455.54	1,261,916.38	-0.54%	(6,814.35)
20-May	23,161	23,161	905,321.45	805	6,104	242,737.39	452	2,926	116,455.54	1,264,514.38	-0.54%	(6,828.38)
Totals			4,500,251.90			1,212,591.61			582,357.31	6,295,200.82		(33,994.08)
TOTAL REGULATORY LIABILITY AMOUNT												\$ (192,300.74)

Hamilton Southeastern Utilities, Inc.
Cause No. 45032-S16

Attachmnet MAS-10

Calcualtion of Excess ADIT Amortization Period - Reverse South Georgia Method

	<u>December 31,</u> <u>2017</u>			
UPIS	\$ 104,544,744		UPIS	\$ 104,544,744
Accumualted Depreciation	(22,922,092)		CIAC	(97,949,234)
Accumualted Amortizaiton	(1,721,457)		Unspent CIAC	1,843,862
Net UPIS	<u>\$ 79,901,195</u>	(A)	Net Utiplity Plant	8,439,372
			Times: Composite Depreciation Rate	2.20%
CIAC	\$ (97,949,234)		Annual Depreciation Expense	<u>\$ 185,666</u>
Accumualted Amortization	21,395,681			
Unspent CIAC	1,843,862			
Net CIAC as Adjusted	<u>\$ (74,709,691)</u>	(B)		
Net Plant Investment	\$ 5,191,504	(A) - (B) = (C)		
Annual Depreciaiton Expense	185,666	(D)		
Remaining Useful Life (years)	<u>28.00</u>	(C) / (D)		

Hamilton Southeastern Utilities, Inc.

YEAR OF REPORT

NAME OF UTILITY

December 31, 2017

INSTRUCTION: Do Not Enter data on this page until all reference pages are complete.

COMPARATIVE BALANCE SHEET - ASSETS AND OTHER DEBITS

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	CURRENT YEAR (d)	PREVIOUS YEAR (e)
UTILITY PLANT				
101-106	Utility Plant	F-5	\$104,544,744	\$102,824,879
108	Less: Accumulated Depreciation of Utility Plant	F-6	22,922,092	20,812,369
110	Accumulated Amortization of Utility Plant	F-6	1,721,457	1,506,707
	Net Plant		79,901,195	80,505,803
114-115	Utility Plant Acquisition Adjustment (Net)	F-5		
116	Other Utility Plant Adjustments			
	<i>Total Net Utility Plant</i>		79,901,195	80,505,803
OTHER PROPERTY AND INVESTMENTS				
121	Nonutility Property	F-7		
122	Less: Accumulated Depreciation and Amortization of Nonutility Property			
	<i>Net Nonutility Property</i>			
123	Investment In Associated Companies	F-8		
124	Utility Investments	F-8		
125	Other Investments	F-8		
126-127	Special Funds	F-8	1,843,862	1,349,943
	<i>Total Other Property and Investments</i>		1,843,862	1,349,943
CURRENT AND ACCRUED ASSETS				
131	Cash		1,485,396	306,545
132	Special Deposits	F-7		
133	Other Special Deposits	F-7		
134	Working Funds			
135	Temporary Cash Investments			
141-144	Accounts and Notes Receivable, Less Accumulated Provision for Uncollectible Accounts	F-9	1,956,896	2,027,766
145	Accounts Receivable from Associated Companies	F-10		
146	Notes Receivable from Associated Companies	F-10		
151-153	Materials and Supplies Inventory	F-11		
161	Stores Expense			
162	Prepayments	F-11		39,401
171	Accrued Interest and Dividends Receivable			
172	Rents Receivable			
173	Accrued Utility Revenues			
174	Miscellaneous Current and Accrued Assets			
	<i>Total Current and Accrued Assets</i>		\$3,442,292	\$2,373,712

Hamilton Southeastern Utilities, Inc.

YEAR OF REPORT December 31, 2017

NAME OF UTILITY

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COMPARATIVE BALANCE SHEET - ASSETS AND OTHER DEBITS

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	CURRENT YEAR (d)	PREVIOUS YEAR (e)
	DEFERRED DEBITS			
181	Unamortized Debt Discount and Expense	F-12		
182	Extraordinary Property Losses	F-12		
183	Preliminary Survey and Investigation Charges			
184	Clearing Accounts			
185	Temporary Facilities			
186	Miscellaneous Deferred Debits	F-11	1,672,504	1,439,692
187	Research and Development Expenditures			
190	Accumulated Deferred Income Taxes			
	<i>Total Deferred Debits</i>		1,672,504	1,439,692
	TOTAL ASSETS AND OTHER DEBITS		\$86,859,853	\$85,669,150

NOTES TO THE BALANCE SHEET

The space below is provided for important notes regarding the balance sheet.

[This section contains multiple horizontal lines for entering notes to the balance sheet.]

Hamilton Southeastern Utilities, Inc.

YEAR OF REPORT

NAME OF UTILITY

December 31, 2017

INSTRUCTION: Do Not Enter data on this page until all reference pages are complete.

COMPARATIVE BALANCE SHEET - EQUITY CAPITAL AND LIABILITIES

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	CURRENT YEAR (d)	PREVIOUS YEAR (e)
EQUITY CAPITAL				
201	Common Stock Issued	F-14	\$1,171,250	\$1,171,250
204	Preferred Stock Issued	F-14		
202,205	Capital Stock Subscribed			
203,206	Capital Stock Liability for Conversion			
207	Premium on Capital Stock			
209	Reduction in Par or Stated Value of Capital Stock			
210	Gain on Resale or Cancellation of Reacquired Capital Stock			
211	Other Paid-In Capital			
212	Discount on Capital Stock			
213	Capital Stock Expense			
214-215	Retained Earnings	F-15	4,614,628	3,885,654
216	Reacquired Capital Stock			
218	Proprietary Capital (Proprietorship and Partnership Only)			
	<i>Total Equity Capital</i>		\$5,785,878	\$5,056,904
LONG-TERM DEBT				
221	Bonds	F-16		
222	Reacquired Bonds			
223	Advances from Associated Companies	F-16		
224	Other Long-Term Debt	F-14		
	<i>Total Long-Term Debt</i>			
CURRENT AND ACCRUED LIABILITIES				
231	Accounts Payable		1,609,168	1,750,171
232	Notes Payable	F-13		
233	Accounts Payable to Associated Companies	F-13		
234	Notes Payable to Associated Companies	F-13		
235	Customer Deposits			
236	Accrued Taxes	F-17	1,295,840	1,190,232
237	Accrued Interest	F-18		
238	Accrued Dividends			
239	Matured Long-Term Debt			
240	Matured Interest			
241	Miscellaneous Current and Accrued Liabilities	F-19	1,570,035	1,307,736
	<i>Total Current and Accrued Liabilities</i>		\$4,475,043	\$4,248,139

Hamilton Southeastern Utilities, Inc.

YEAR OF REPORT

NAME OF UTILITY

December 31, 2017

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COMPARATIVE BALANCE SHEET - EQUITY CAPITAL AND LIABILITIES

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	CURRENT YEAR (d)	PREVIOUS YEAR (e)
DEFERRED CREDITS				
251	Unamortized Premium on Debt	F-12		
252	Advances for Construction	F-19		
253	Other Deferred Credits (A)		45,379	51,528
255	Accumulated Deferred Investment Tax Credits			
	<i>Total Deferred Credits</i>		45,379	51,528
OPERATING RESERVES				
261	Property Insurance Reserve			
262	Injuries and Damages Reserve			
263	Pensions and Benefits Reserve			
265	Miscellaneous Operating Reserves			
	<i>Total Operating Reserves</i>			
CONTRIBUTIONS IN AID OF CONSTRUCTION				
271	Contributions In Aid of Construction	F-20	97,949,234	95,726,742
272	Accumulated Amortization of Contributions In Aid of Construction	F-21	21,395,681	19,414,163
	<i>Total Net Contributions In Aid of Construction</i>		76,553,553	76,312,579
ACCUMULATED DEFERRED INCOME TAXES				
281	Accumulated Deferred Income Taxes - Accelerated Amortization			
282	Accumulated Deferred Income Taxes - Liberalized Depreciation			
283	Accumulated Deferred Income Taxes - Other			
	<i>Total Accumulated Deferred Income Taxes</i>			
TOTAL EQUITY CAPITAL AND LIABILITIES			\$86,859,853	\$85,669,150

(A) The Company made payments to Flatfork Utility, which are contingent on the issuance of permits for lots specified in the purchase agreement of Flatfork Utility, in the amount of \$6,149 and \$3,132 during 2017 and 2016, respectfully, leaving a cash balance due to Flatfork Utility at December 31, 2017 of \$6,325. Other Deferred Credits also include waived system development charges associated with the lots specified in the purchase agreement, the balance of which is \$39,054 at December 31 2017.