INFORMATION

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER UTILITY SERVICE, (2) REVIEW OF ITS RATES AND CHARGES FOR WASTEWATER UTILITY SERVICE, (3) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE TO WATER AND WASTEWATER UTILITY SERVICE, AND (4) AUTHORITY TO IMPLEMENT A LOW INCOME PILOT PROGRAM.

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR’S MOTION FOR ADMINISTRATIVE NOTICE

The Indiana Office of Utility Consumer Counselor (“OUCC”), by counsel, pursuant to 170 I.A.C. 1-1.1-21, respectfully requests the Indiana Utility Regulatory Commission (“Commission”) take administrative notice of the Phase 2 testimony of OUCC witness Ralph Smith in Cause No. 45032 S4, including Confidential Attachment LA-4, all of which was filed in Indiana American Water Company’s (“Indiana American”) subdocket in the Commission’s investigation into the impacts of the Tax Cuts and Jobs Act of 2017 on August 24, 2018, Cause No. 45032 S4.

The OUCC notes Confidential Attachment LA-4 is not attached to this Motion, but was served on all parties with non-disclosure agreements with Indiana American. As part of this request, the OUCC seeks to leave to file Confidential Attachment LA-4 subsequent to Commission approval of a protective order granting confidential treatment of Indiana American’s income tax information contained therein.
All of the non-confidential portions of Mr. Smith's testimony and attachments in Phase 2 of Cause No. 45032 S4 are attached hereto.

Respectfully submitted,

[Signature]

Tiffany T. Murray
Attorney No. 28916-49
Deputy Consumer Counselor
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This is to certify that a copy of the foregoing **OUCC Motion for Administrative Notice** has been served upon the following parties of record in the captioned proceeding by electronic service, on December 21, 2018:

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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 POSSIBLE RATE IMPLICATIONS UNDER PHASE 2 FOR INDIANA AMERICAN WATER COMPANY, INC. CAUSE NO. 45032 S4

TESTIMONY

OF

RALPH C. SMITH - PUBLIC'S EXHIBIT NO. 2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

August 24, 2018

Respectfully Submitted,

Tiffany T. Murray, Atty. No. 28916-49
Deputy Consumer Counselor
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This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor Testimony of Ralph C. Smith* has been served upon the following counsel of record in the captioned proceeding by electronic service on August 24, 2018.

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IN THE MATTER OF THE INDIANA UTILITY
REGULATORY COMMISSION'S
INVESTIGATION INTO THE IMPACTS OF THE
TAX CUTS AND JOBS ACT OF 2017 AND
POSSIBLE RATE IMPLICATIONS UNDER
PHASE II FOR INDIANA AMERICAN WATER
COMPANY, INC

DIRECT TESTIMONY OF

RALPH C. SMITH

ON BEHALF OF
THE OFFICE OF THE INDIANA OFFICE
OF UTILITY CONSUMER COUNSELOR

August 24, 2018
DIRECT TESTIMONY OF RALPH C. SMITH

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ATTACHMENTS:
LA-1, Background and Qualifications

LA-2, Page from Cause No. 45032 S21 Vectren Settlement Agreement showing the classification of EADIT for Repairs as Non-Protected

LA-3, Selected Non-Confidential Indiana American Water Company Responses to Interrogatory Requests Referenced in the Testimony

LA-4, Selected Confidential Indiana American Water Company Responses to Interrogatory Requests Referenced in the Testimony (Copy of IAWC's Tax Basis Balance Sheet as of December 31, 2016, as provided in the Confidential Attachment to OUCC 06-002)
I. INTRODUCTION

Q. Please state your name, position and business address.
A. Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

Q. Please describe Larkin & Associates.
A. Larkin & Associates is a Certified Public Accounting and Regulatory Consulting firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings including numerous telephone, water and sewer, gas, and electric matters.

Q. Please summarize your educational background.
A. I received a Bachelor of Science degree in Business Administration (Accounting Major) with distinction from the University of Michigan - Dearborn, in April 1979. I passed all parts of the C.P.A. examination in my first sitting in 1979, received my CPA license in 1981, and received a certified financial planning certificate in 1983. I also have a Master of Science in Taxation from Walsh College, 1981, and a law degree (J.D.) cum laude from Wayne State University, 1986. In addition, I have attended a variety of continuing education courses in conjunction with maintaining my accountancy license. I am a licensed Certified Public Accountant and attorney in the State of Michigan. I am also a Certified Financial Planner™ professional and a
Certified Rate of Return Analyst (CRRA). Since 1981, I have been a member of the Michigan Association of Certified Public Accountants. I am also a member of the Michigan Bar Association and the Society of Utility and Regulatory Financial Analysts (SURFA). I have also been a member of the American Bar Association (ABA), and the ABA sections on Public Utility Law and Taxation.

Q. Please summarize your professional experience.
A. Subsequent to graduation from the University of Michigan, and after a short period of installing a computerized accounting system for a Southfield, Michigan realty management firm, I accepted a position as an auditor with the predecessor CPA firm to Larkin & Associates in July 1979. Before becoming involved in utility regulation where the majority of my time for the past 39 years has been spent, I performed audit, accounting, and tax work for a wide variety of businesses that were clients of the firm.

During my service in the regulatory section of our firm, I have been involved in rate cases and other regulatory matters concerning numerous electric, gas, telephone, water, and sewer utility companies. My present work consists primarily of analyzing rate case and regulatory filings of public utility companies before various regulatory commissions and, where appropriate, preparing testimony and schedules relating to the issues for presentation before these regulatory agencies.

I have performed work in the field of utility regulation on behalf of industry, state attorneys general, consumer groups, municipalities, and public service commission staffs concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida,
Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Maine,
Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico,
New York, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, Puerto Rico,
Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont,
Virginia, Washington, Washington D.C., West Virginia, and Canada as well as the
Federal Energy Regulatory Commission and various state and federal courts of law.
My prior testimony has included evaluations of numerous utility rate case filings and
revenue requirement determinations.

Q. Have you prepared an attachment summarizing your educational background
and regulatory experience?
A. Yes. This is provided in Attachment LA-1.

Q. On whose behalf are you appearing?
A. Larkin & Associates, PLLC, was retained by the Indiana Office of Utility Consumer
Counselor ("OUCC") to review income tax issues related to the Tax Cuts and Jobs
Act ("TCJA") of Indiana American Water Company, Inc. ("IAWC" or "Company").
Accordingly, I am appearing on behalf of the OUCC.

Q. Have you previously filed testimony before the Indiana Utility Regulatory
Commission ("IURC" or "Commission")?
A. Yes. I have previously filed testimony before the Indiana Utility Regulatory
Commission in Cause Nos. 37352, 37353, 37354, 38431, 37396, 37394 and 37399,
each of which involved gas cost adjustment reviews, as well as in Cause No. 44022
involving income tax issues in an Indiana-American Water Company rate case, in
Cause No. 43114 (various IGCC sub-dockets) involving Duke Energy Indiana's Edwardsport IGCC plant, and in Cause No. 43955 DSM-3 involving DEI demand side management ("DSM") issues.

Q. How will your testimony be organized?
A. I will address the organization and content of the attachments attached to my testimony. That discussion is then followed by a discussion of the TCJA and IAWC’s proposed regulatory treatment of the federal income tax savings and excess Accumulated Deferred Income Taxes ("ADIT").

Q. Does your direct testimony include any exhibits?
A. Yes, Attachments LA-1 through LA-4.

Q. What is contained in Attachment LA-1?
A. Attachment LA-1 provides details concerning my experience and qualifications.

Q. What is contained in Attachment LA-2?
A. Attachment LA-2 shows a page from the Cause No. 45032 S21 Vectren Settlement Agreement showing the classification of EADIT for Repairs as Non-Protected.

Q. What is contained in Attachment LA-3?
A. Attachment LA-3 contains copies of selected non-proprietary discovery responses and additional information supporting my testimony.
Q. **What is contained in Attachment LA-4?**

A. Attachment LA-4 contains copies of selected proprietary/confidential discovery responses supporting my testimony (copy of IAWC's Tax Basis Balance Sheet as of December 31, 2016, as provided in the Confidential Attachment to OUCC 06-002).

### II. THE TAX CUTS AND JOBS ACT OF 2017

Q. **Please describe some of the major impacts of the TCJA on public utilities such as IAWC.**

A. The major impacts of the TCJA on IAWC include the following:

- The reduction in the corporate federal income tax rate will reduce the Company’s income tax expense, which will reduce its cost of service and revenue requirements;
- Excess Accumulated Deferred Income Taxes ("EADIT") will result from the revaluation of the Accumulated Deferred Income Tax ("ADIT") balances as of December 31, 2017. The EADIT calculation would transfer the excess tax amounts from the ADIT accounts to net regulatory liability accounts, the amounts of which would be returned to customers over time;
- Some of the EADIT is subject to normalization requirements (the "protected" portion) and some is not subject to normalization requirements (the "unprotected" portion). The "protected" EADIT must follow a specified amortization to comply with the normalization requirements. The amortization of the "unprotected" EADIT is up to the discretion of the utility's regulator. For IAWC, the amortization of "unprotected" EADIT is up to the discretion of the IURC;
- Elimination of the Section 199 manufacturing deduction. This will not impact IAWC's current rates because of the Company's net operating loss ("NOL") carryforward position. Once the Company no longer has a loss carryforward position and it realizes net positive taxable income, the Section 199 deduction will no longer be available because it has been eliminated by the TCJA;
- Elimination of bonus depreciation, as well as the lower corporate income tax rate, will decrease the rate of build-up of ADIT balances in the future compared to what it would have been before the TCJA;
- The inclusion in taxable income of contributed utility assets (Contributions in Aid of Construction or "CIAC"), which is specific for water and sewer utilities, could put a strain on cash flow, depending on whether the income taxes in CIAC...
are collected from developers who contribute property. However, the impact on a utility’s cash flow is within its control as it can choose to have the contributor pay the income taxes. Further, some utilities welcome the ability to pay the income taxes and increase their rate base investment and return;

- Retention of net interest expense deductibility. Interest expense will continue to be deductible for public utilities such as IAWC. The TCJA has limited interest deductibility for other types of businesses.

III. INDIANA-AMERICAN WATER COMPANY PROPOSED REGULATORY TREATMENT OF TCJA-RELATED FEDERAL INCOME TAX SAVINGS

Q. What has been required in the Commission's Phase I Order?
A. On July 31, 2018, the Commission issued its Phase I Order that required IAWC to change its rates for the full impact of the new 21% tax rates on both its volumetric rates and fixed charges.

Q. What amount of TCJA-related annual federal income tax savings has IAWC identified as of May 31, 2018?
A. IAWC witness John Watkins discusses in his direct testimony on page 2 that, "as of May 31, 2018, the Company has deferred $4,529,322 related to the reduction in FIT rate from 35% to 21%.

Q. Has that amount been updated?
A. Yes. According to IAWC's response to OUCC 03-016, as of June 30, 2018, the amount of the Company's deferred TCJA related savings has increased to $5,458,177.

Q. Did IAWC record that amount as a regulatory liability?
A. Yes. Page 2 of Company witness Watkins direct testimony states that IAWC currently has a regulatory liability of that amount on its books, as of May 31, 2018, as a result

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of the accounting ordered in the January 3, 2018 order. As noted above, according to
IAWC's response to OUCC 03-016, as of June 30, 2018, the Company has recorded
on its books a regulatory liability for TCJA savings of $5,458,177.

Q. How does IAWC propose to apply the TCJA-related federal income tax savings?
A. Company witness Watkins states on page 3 of his direct testimony that IAWC is
proposing to use the deferred TCJA-related savings to "help fund and accelerate lead
service line replacements." He estimated that the amount per metered customer that
would be available for credit as a result of the deferral is approximately $14.98.
According to the Company's response to OUCC 03-016, this amount increased to
approximately $21.02 per metered customer based on TCJA-savings through June 30,
2018.

Q. Is another witness for OUCC addressing how that amount should be updated and
applied?
A. Yes. Another witness for the OUCC, Edward Kaufmann, addresses updating that
amount as well as IAWC's proposal to apply TCJA-related savings to a lead-service
line replacement program.

Q. What amount of EADIT has IAWC identified?
A. IAWC witness John Wilde identifies in his direct testimony at page 4, the amount of
EADIT net liability as $71,073,677 of December 31, 2017. He cautions that this is a
preliminary estimate. Mr. Wilde (at page 4) indicates that $71,378,794 is a liability
for EADIT that is "plant-related" and $305,118 is an asset for "non-plant related"
EADIT. The two amounts net to the $71,073,677 EADIT net liability that is mentioned in Mr. Wilde's direct testimony.

Q. What amount of "protected" EADIT has IAWC identified?
A. IAWC has indicated that it has not yet been able to accurately classify its EADIT between "protected" and "unprotected" amounts. IAWC has identified $71,378,394 as "plant-related" EADIT as of December 31, 2017. Mr. Wilde indicated this amount is preliminary and is still uncertain and subject to revision.

Q. Should the Commission require a further breakout of IAWC's "plant-based" EADIT between "protected" and "non-protected"?
A. Yes. IAWC's "plant-related" EADIT should be subject to classification into "protected" and "unprotected" categories, based upon whether an Internal Revenue Service ("IRS") normalization requirement applies.

Q. What amount of "unprotected" EADIT has IAWC identified?
A. IAWC has identified an asset of $305,118 as "unprotected/non-plant-related" EADIT as of December 31, 2017. IAWC indicated this amount is preliminary and is still uncertain and subject to revision.

Q. How does IAWC propose to amortize the "protected" portions of its EADIT?
A. According to pages 3 and 8 of Company witness John Wilde's Direct Testimony, the Company proposes to amortize its protected excess ADIT using the Average Rate Assumption Model ("ARAM"). However, he indicates that the Company is currently...
not able to calculate the precise impact of the TCJA on its ADIT balances or to determine the appropriate amortization periods consistent with federal normalization requirements due to the fact that the Company has not built those records out into an ARAM data set or set up systems to process ADIT balances pursuant to the ARAM. He states that the Company is currently working to implement the necessary computer software changes to compute ARAM. He estimates that an accurate ARAM calculation will not be available until the end of the first quarter of 2019. IAWC is planning on filing a general rate case later this summer and proposes that the determination and amortization of IAWC's EDAIT be considered in that upcoming rate case and that the amortization be incorporated into its new base rates in that rate case.

Q. How do you recommend that the Commission treat for regulatory purposes the "protected" portion of IAWC's EADIT resulting from the TCJA?

A. IAWC's appropriately classified "protected" EADIT should be amortized according to the ARAM or an acceptable alternative. Unfortunately, IAWC has not put forward an ARAM calculation as it claims it cannot yet calculate ARAM due to inadequate computer software, which means ratepayers will continue to be deprived of the benefit generated by the TCJA on EADIT. I note that other Indiana utilities have been able to resolve protected ADIT amortization in a manner that also acknowledges ARAM calculations are subject to further refinement. In Cause No. 45032 S21, the Vectren companies were continuing to work with Power Tax on an "IT-based solution that will perform the more precise and final ARAM calculations" while at the same time Vectren used "an Excel-based model that ... utilized high-level assumptions about ..."
applicable book depreciation rates due to the level of detail associated with a full-blown ARAM calculation" in order to calculate an ARAM-based amortization period for the return of protected EADIT to its customers. (Cause No. 45032 S21, Direct Testimony of Vectren witness Stephen A. Allamanno, page 7.)

If information is not available to compute the ARAM, an acceptable alternative would be to use the Reverse South Georgia Method, which essentially amortizes the "protected" EADIT over the remaining life of the related utility property. IAWC has indicated that they expect to be able to make the ARAM calculation, so an alternative to the ARAM is not expected to be needed for IAWC. Compliance with IRS normalization requirements is necessary to preserve the utility's ability to utilize accelerated tax depreciation.

Because IAWC has not offered a resolution that provides for the timely return of its EADIT to customers, I describe below in more detail the OUCC's recommendation to apply an interest rate to IAWC's EADIT for the period it is not amortizing the amount due to its ratepayers.

Q. How do you recommend that the Commission treat for regulatory purposes the "unprotected" portion of IAWC's ADIT resulting from the TCJA?

A. I describe IAWC's claims that deferred taxes generated from its use of the repairs deduction should be classified as "protected," while also stating that it cannot specify the amount of EADIT related to this purpose, in more detail below. I recommend that IAWC be required to prepare, justify, and support an appropriate classification of EADIT between "protected" (required to meet IRS normalization requirements that pertain to the use of accelerated tax depreciation) and "unprotected" (for which IRS
normalization requirements to not apply and hence for which disposition is up to the Commission's discretion). Classifying deferred taxes derived from IAWC’s use of the repairs deduction as “protected” is not appropriate. The level of EADIT that is unprotected by normalization requirements for IAWC should be appropriately identified and should be refunded or applied for the benefit of IAWC’s customers.

Appropriate customer benefits from applying the unprotected EADIT could include using it to offset known and verified regulatory asset balances (such as those that have a financing cost element that is being borne by customers) and/or by being amortized over an appropriate period to reduce or minimize the impact of other rate increases on customer rates. Ideally, setting this amortization period should be done in Phase 2 of this TCJA-oriented proceeding. The application of "unprotected" EADIT could be addressed in IAWC's rate case if, due to management decisions, IAWC is unable to provide reliable calculations in the current proceeding. However, IAWC should not be rewarded for management decisions that have delayed its identification of EADIT into "protected" and "unprotected" categories.

Q. How should the Company's responsibility for delays in appropriately classifying EADIT between protected and unprotected be addressed?
A. Because delays in returning EADIT balances to customers are occurring due to IAWC and its parent company needing to develop updated data sets to use with their PowerTax software, to the extent that such delays are caused by the Company, I recommend the Commission apply interest on EADIT balances during the period before the amortization commences, calculated at 6.598%, IAWC’s most recently authorized weighted average cost of capital in Cause No. 44450.
Q. What is your recommendation for the TCJA-related tax savings that IAWC have experienced from January 1, 2018 through the date when the TCJA impacts are effectively incorporated into IAWC's rates?

A. Consistent with the testimony of OUCC witness Kaufman, which addresses this issue in more detail, the actual TCJA-related tax savings from January 1, 2018 through the rate effective date should be reflected for the benefit of customers as a rate reduction or refund. In response to OUCC Data Request No. 03-016, Indiana American estimated that as of June 30, 2018, the impact of the reduction in the federal income tax rate is $5,458,177 (approximately $909,700 per month). As explained by OUCC witness Kaufman, if this liability grew by approximately $900,000 in July, while Respondent continued to collect excess taxes in its rates, its total regulatory liability should be roughly $6,358,000, or $24.50 per customer.

IV. REPAIRS DEDUCTIONS

Q. How is IAWC treating its excess ADIT related to its repairs deductions?

A. According to pages 6-7 of John Wilde's Direct Testimony, IAWC is treating the excess ADIT related to its repairs deduction as "protected."

Q. Why is IAWC treating its excess ADIT related to its repairs deductions as protected?

A. Mr. Wilde's Direct Testimony explains that IAWC's parent company, American Water Works Company, Inc. qualified for the repairs deduction through a Form 3115 Application for Change in Tax Accounting Methods, which was filed for the taxable year ended December 31, 2008. The application resulted in a Consent Agreement with the IRS, which was signed by the IRS on July 30, 2010, and by American Water Works.
Company, Inc. on September 10, 2010. Mr. Wilde claims that the Consent Agreement dictates how the excess ADIT related to the repairs deduction must be addressed.

Q. Do you agree that the excess ADIT related to the repairs deductions should be treated as protected?
A. No. The repairs deductions represent a basis difference, not a tax depreciation method/life difference. Amounts claimed as repairs deductions are not included in the tax basis of IAWC's utility assets, and no tax depreciation is claimed on amounts that have been deducted as repairs. Because the repairs deduction related EADIT is not part of accelerated tax depreciation (either bonus tax depreciation or Modified Accelerated Cost Recovery System (“MACRS”) tax depreciation), it is not subject to normalization requirements and is therefore properly classified as "unprotected."

Q. Have other Indiana Utilities classified the EADIT for repairs deductions as "unprotected"?
A. Yes. As one example, shown in Attachment LA-2, the EADIT summary page from Vectren (Cause No. 45032 S21) clearly shows that the EADIT amounts for Vectren South - Electric, Vectren South - Gas, and Vectren - North for Repairs is classified as "non-protected." This is shown on line 25 of the Vectren settlement page that is included in Exhibit LA-2. Additionally, Duke Energy's EADIT for repairs is also classified as "non-protected."

Q. Did you attempt to get IAWC to identify the amount of EADIT relating to repairs deductions?
A. Yes. Data Requests OUCC 04-007, OUCC 04-019, and OUCC 04-021, asked the Company to identify the federal income tax rate applied and the amount of ADIT recorded for repairs deductions. However, the Company replied that it cannot separate ADIT related to its repairs deductions. Additionally, Data Request OUCC 05-009 asked the Company how much EADIT it has relating to the $250,739,690 total amount of repairs deductions that was listed in IAWC's response to OUCC 04-004. IAWC responded that the amount listed in that response is not the sum of repairs deductions claimed on the Company's tax return. Further, IAWC states that the Company's tax accounting has not isolated repairs deductions claimed.

Data Requests OUCC 05-012 and OUCC 05-013 asked the Company if a reasonable estimate of the EADIT related to its repairs deductions could be obtained by taking the total amounts listed in OUCC 04-004 and OUCC 04-001 and multiplying them by the negative 13.31% difference in the federal and state blended income tax rates. The Company responded: no, for the reasons listed in OUCC 05-009. Data Requests OUCC 05-018 and 05-021 asked the Company about the line items "T103: Gains and Losses" and "T150: 481 Adjustment related to Repairs" and requested IAWC to provide the EADIT amounts related to those items. However, both responses to those data requests stated that that information is not available.

Additional efforts were made in OUCC's sixth set of discovery to IAWC to obtain information from IAWC to quantify the amount of EADIT at December 31, 2017 related to repairs deductions; however, IAWC was not able to provide such information, including even basic information such as the amount of repairs deductions that IAWC claimed on its tax return.
Q. What is a tax basis balance sheet?
A. A Tax Basis Balance Sheet reports the current tax basis of the Company's assets. It can be utilized as a tool to aid in tracking accumulated deferred income tax balances, which involve comparing book and tax differences and applying applicable income tax rates to derive reported ADIT amounts. A tax basis balance sheet will show different values for various assets than a balance sheet that is used for financial reporting. As an illustrative example, assume there is a fleet of ten vehicles purchased 9 years ago for $200,000. The financial balance sheet would report the assets at original cost, and accumulated depreciation would also be reflected. If the book life was ten years with no salvage, the financial balance sheet would show the property, plant and equipment amount at the original cost of $200,000, with accumulated depreciation of $180,000 and a net book value of $20,000.

In contrast, the tax basis balance sheet would show a remaining tax basis of zero as the vehicles would have been fully depreciated for income tax purposes. That is, accelerated tax depreciation deductions would have been claimed on the original purchase price of $200,000, so by the end of year 9 there is no remaining tax basis.

Q. Did the Company indicate that it has prepared tax basis balance sheets?
A. Yes. IAWC's response to OUCC 05-011 indicates that it has tax basis balance sheets for December 31, 2016.

Q. Did the Company provide any tax basis balance sheets?
In the Company's response to OUCC 06-002, as a confidential attachment to that response, IAWC provided its tax basis balance sheet as of December 31, 2016. A copy of that response and the confidential attachment is included in Exhibit LA-4. This shows that IAWC is tracking ADIT related to repairs deductions. Thus, if required by the Commission, IAWC should be able to derive an estimate of its EADIT related to repairs deductions, so that the amount of unprotected EADIT can be appropriately addressed in this proceeding.

Q. Is the Company aware of any investor-owned utilities that have classified excess ADIT related to repairs deductions as "unprotected"?
A. Yes. In response to OUCC 05-16, IAWC states that it is aware of investor-owned utilities that have classified excess ADIT related to repairs deductions as "unprotected." However, when asked to identify those utilities, IAWC's response to OUCC 06-009 indicated that the Company has no first-hand knowledge and has not compiled a list.

Q. Why are many other utilities classifying their EADIT related to repairs deductions as "unprotected"?
A. It appears that other utilities are classifying repairs deduction-related EADIT as "unprotected" because it is not based on the use of accelerated tax depreciation, and therefore, is not subject to normalization requirements that relate to the use of accelerated tax depreciation. In other words, the repairs deduction is a basis

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1 The repairs deduction reduces the Company's tax basis in utility assets, resulting in no tax depreciation being applied on those amounts. Because the repairs deductions reduce the tax basis of the assets, there is no accelerated tax depreciation (MACRS or bonus tax depreciation) applied.
difference, not a method/life difference, and thus the related EADIT is properly
classified as "unprotected."

V. OUCC RECOMMENDATIONS

Q. Please summarize your recommendations for the regulatory treatment of TCJA-related federal income tax savings.

A. I have reached the following general conclusions and recommendations in this case:

1. Because the federal tax reform was an extraordinary, one-time event that was beyond the control of utility management (and because single-issue ratemaking already occurs for other types of costs, typically ones that fluctuate or increase between utility rate cases, to the detriment of consumers), the fact that a particular utility may be under-earning its most recent authorized rate of return is not a sufficient reason to disregard any regulatory liabilities related to the accumulation of TCJA-based savings. Instead, the Commission should use its discretion to account for lower federal tax rates and to apply the savings in the best interest of consumers.

2. IAWC's current and deferred income tax expense should be reduced to reflect the impact of the lower 21% corporate federal income tax rate that will be in effect for 2018.

3. The revenue requirement reduction associated with the changes in current income tax expense on a prospective basis should be applied for the benefit of IAWC's utility ratepayers in a manner that is appropriate and in the best interest of consumers.

4. The Commission is addressing the utility TCJA-related savings in two phases. As noted by the February 16, 2018 Order, Phase 2 is intended to address all issues remaining after Phase 1, including: (1) the amount and amortization of normalized and non-normalized excess accumulated deferred income taxes and the regulatory accounting being used by Respondents as required by the Commission’s January 3, 2018 Order in this Cause for estimated impacts resulting from the Act, and (2) the timing and method for how these benefits will be realized by customers, whether directly or indirectly.

5. The revenue requirement reduction related to the 2018 income tax savings for the period from January 1, 2018 through the effective date for implementing the rate change (e.g., from January 1 through September 30, 2018) and the annual savings should be returned to customers as refunds or
rate reductions. OUCC witness Kaufman is addressing how to update the
estimated tax savings and show it should be applied.

Q: Please summarize your specific recommendations related to treatment of
IAWC's EADIT.

A: I have reached the following specific recommendations related to the appropriate
treatment of IAWC’s EADIT:

1. IAWC should be required to justify and support its classification of EADIT
between "protected" (required to meet IRS normalization requirements that
pertain to the use of accelerated tax depreciation) and "unprotected" (for
which IRS normalization requirements to not apply and hence for which
disposition is up to the Commission's discretion).

2. Based on the information reviewed to date, EADIT related to repairs
deductions should be classified as "unprotected" because the repairs
deductions are a basis difference, not a method/life difference, and thus are
not subject to the normalization requirements that apply to the use of
accelerated tax depreciation. The treatment of EADIT for repairs as
"unprotected" is also consistent with how other utilities, such as Vectren
and Duke, have classified it.

3. IAWC's appropriately classified "protected" EADIT should be amortized
according to the ARAM. Compliance with IRS normalization requirements
is necessary to preserve the utility's ability to utilize accelerated tax
depreciation.

4. The level of EADIT that is unprotected by IRS normalization rules for
IAWC should be appropriately identified and should be refunded or applied
for the benefit of IAWC's customers. The unprotected EADIT could be
applied to offset known and verified regulatory asset balances (such as
those that have a financing cost element that is being borne by customers).
Alternatively, or in addition, the unprotected EADIT could be amortized
over an appropriate period to reduce or minimize the impact of other rate
increases on customer rates.

5. Due to IAWC's delays in quantifying EADIT and properly classifying it
between "protected" and "unprotected," and providing the related EADIT
amortizations for 2018, interest calculated at IAWC's most recently
authorized weighted average cost of capital ("WACC") of 6.598% should
be applied on the EADIT balances from January 1, 2018 through the date
when such balances are flowed back to IAWC rate payers. The Final Order
from IAWC’s last rate case, Cause No. 44450, shows that the parties settled on a 6.598 percent WACC for IAWC.

Q. Does this conclude your direct testimony?

A. Yes, it does.
Accomplishments

Mr. Smith's professional credentials include being a Certified Financial Planner™ professional, a Certified Rate of Return Analyst, a licensed Certified Public Accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Washington DC, West Virginia, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Project manager in Larkin & Associates' review, on behalf of the Georgia Commission Staff, of the budget and planning activities of Georgia Power Company; supervised 13 professionals; coordinated over 200 interviews with Company budget center managers and executives; organized and edited voluminous audit report; presented testimony before the Commission. Functional areas covered included fossil plant O&M, headquarters and district operations, internal audit, legal, affiliated transactions, and responsibility reporting. All of our findings and recommendations were accepted by the Commission.

Key team member in the firm's management audit of the Anchorage Water and Wastewater Utility on behalf of the Alaska Commission Staff, which assessed the effectiveness of the Utility's operations in several areas; responsible for in-depth investigation and report writing in areas involving information systems, finance and accounting, affiliated relationships and transactions, and use of outside contractors. Testified before the Alaska Commission concerning certain areas of the audit report. AWWU concurred with each of Mr. Smith's 40 plus recommendations for improvement.

Co-consultant in the analysis of the issues surrounding gas transportation performed for the law firm of Cravath, Swaine & Moore in conjunction with the case of Reynolds Metals Co. vs. the Columbia Gas System, Inc.; drafted in-depth report concerning the regulatory treatment at both state and federal levels of issues such as flexible pricing and mandatory gas transportation.

Lead consultant and expert witness in the analysis of the rate increase request of the City of Austin - Electric Utility on behalf of the residential consumers. Among the numerous ratemaking issues addressed were the economies of the Utility's employment of outside services; provided both written and oral testimony outlining recommendations and their bases. Most of Mr. Smith's recommendations were adopted by the City Council and Utility in a settlement.
Key team member performing an analysis of the rate stabilization plan submitted by the Southern Bell Telephone & Telegraph Company to the Florida PSC; performed comprehensive analysis of the Company’s projections and budgets which were used as the basis for establishing rates.

Lead consultant in analyzing Southwestern Bell Telephone separations in Missouri; sponsored the complex technical analysis and calculations upon which the firm’s testimony in that case was based. He has also assisted in analyzing changes in depreciation methodology for setting telephone rates.

Lead consultant in the review of gas cost recovery reconciliation applications of Michigan Gas Utilities Company, Michigan Consolidated Gas Company, and Consumers Power Company. Drafted recommendations regarding the appropriate rate of interest to be applied to any over or under collections and the proper procedures and allocation methodology to be used to distribute any refunds to customer classes.

Lead consultant in the review of Consumers Power Company’s gas cost recovery refund plan. Addressed appropriate interest rate and compounding procedures and proper allocation methodology.

Project manager in the review of the request by Central Maine Power Company for an increase in rates. The major area addressed was the propriety of the Company’s ratemaking attrition adjustment in relation to its corporate budgets and projections.

Project manager in an engagement designed to address the impacts of the Tax Reform Act of 1986 on gas distribution utility operations of the Northern States Power Company. Analyzed the reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC, and timing of TRA-related impacts associated with the Company’s tax liability.

Project manager and expert witness in the determination of the impacts of the Tax Reform Act of 1986 on the operations of Connecticut Natural Gas Company on behalf of the Connecticut Department of Public Utility Control - Prosecutorial Division, Connecticut Attorney General, and Connecticut Department of Consumer Counsel.

Lead Consultant for The Minnesota Department of Public Service ("DPS") to review the Minnesota Incentive Plan ("Incentive Plan") proposal presented by Northwestern Bell Telephone Company ("NWB") doing business as US West Communications ("USWC"). Objective was to express an opinion as to whether current rates addressed by the plan were appropriate from a Minnesota intrastate revenue requirements and accounting perspective, and to assist in developing recommended modifications to NWB’s proposed Plan.

Performed a variety of analytical and review tasks related to our work effort on this project. Obtained and reviewed data and performed other procedures as necessary (1) to obtain an understanding of the Company’s Incentive Plan filing package as it relates to rate base, operating income, revenue requirements, and plan operation, and (2) to formulate an opinion concerning the reasonableness of current rates and of amounts included within the Company’s Incentive Plan filing. These procedures included requesting and reviewing extensive discovery, visiting the Company’s offices to review data, issuing follow-up information requests in many instances, telephone and on-site discussions with Company representatives, and frequent discussions with counsel and DPS Staff assigned to the project.
Lead Consultant in the regulatory analysis of Jersey Central Power & Light Company for the Department of the Public Advocate, Division of Rate Counsel. Tasks performed included on-site review and audit of Company, identification and analysis of specific issues, preparation of data requests, testimony, and cross examination questions. Testified in Hearings.

Assisted the NARUC Committee on Management Analysis with drafting the Consultant Standards for Management Audits.

Presented training seminars covering public utility accounting, tax reform, ratemaking, affiliated transaction auditing, rate case management, and regulatory policy in Maine, Georgia, Kentucky, and Pennsylvania. Seminars were presented to commission staffs and consumer interest groups.

Previous Positions

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.

Installed computerized accounting system for a realty management firm.

Education

Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.

Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.


Continuing education required to maintain CPA license and CFP® certificate.


Michigan Bar Association.

American Bar Association, sections on public utility law and taxation.
Partial list of utility cases participated in:

- 79-228-EL-FAC, Cincinnati Gas & Electric Company (Ohio PUC)
- 79-231-EL-FAC, Cleveland Electric Illuminating Company (Ohio PUC)
- 79-535-EL-AR, East Ohio Gas Company (Ohio PUC)
- 80-235-EL-FAC, Ohio Edison Company (Ohio PUC)
- 80-240-EL-FAC, Cleveland Electric Illuminating Company (Ohio PUC)
- U-1933, Tucson Electric Power Company (Arizona Corp. Commission)
- U-6794, Michigan Consolidated Gas Co. --16 Refunds (Michigan PSC)
- 81-0035TP, Southern Bell Telephone Company (Florida PSC)
- 81-0095TP, General Telephone Company of Florida (Florida PSC)
- 81-308-EL-EFC, Dayton Power & Light Co.- Fuel Adjustment Clause (Ohio PUC)
- 810136-EU, Gulf Power Company (Florida PSC)
- GR-81-342, Northern States Power Co. -- E-002/Minnesota (Minnesota PUC)
- Tr-81-208, Southwestern Bell Telephone Company (Missouri PSC)
- U-6949, Detroit Edison Company (Michigan PSC)
- 8400, East Kentucky Power Cooperative, Inc. (Kentucky PSC)
- 18328, Alabama Gas Corporation (Alabama PSC)
- 18416, Alabama Power Company (Alabama PSC)
- 820100-BU, Florida Power Corporation (Florida PSC)
- 8624, Kentucky Utilities (Kentucky PSC)
- 8648, East Kentucky Power Cooperative, Inc. (Kentucky PSC)
- U-7236, Detroit Edison - Burlington Northern Refund (Michigan PSC)
- U-6633-R, Detroit Edison - MRCS Program (Michigan PSC)
- U-6797-R, Consumers Power Company - MRCS Program (Michigan PSC)
- U-5510-R, Consumers Power Company - Energy conservation Finance Program (Michigan PSC)
- 82-240E, South Carolina Electric & Gas Company (South Carolina PSC)
- 7350, Generic Working Capital Hearing (Michigan PSC)
- RII-1-83, Westcoast Transmission Co., (National Energy Board of Canada)
- 820294-TP, Southern Bell Telephone & Telegraph Co. (Florida PSC)
- 82-165-EL-EFC, Toledo Edison Company (Ohio PUC)
- 82-168-EL-EFC, Cleveland Electric Illuminating Company (Ohio PUC)
- 830012-EU, Tampa Electric Company (Florida PSC)
- U-7065, The Detroit Edison Company - Fermi II (Michigan PSC)
- 8738, Columbia Gas of Kentucky, Inc. (Kentucky PSC)
- ER-83-206, Arkansas Power & Light Company (Missouri PSC)
- U-4758, The Detroit Edison Company – Refunds (Michigan PSC)
- 8836, Kentucky American Water Company (Kentucky PSC)
- 8839, Western Kentucky Gas Company (Kentucky PSC)
- 81-0485-WS, Palm Coast Utility Corporation (Florida PSC)
- U-7650, Consumers Power Co. (Michigan PSC)
- 83-662, Continental Telephone Company of California, (Nevada PSC)
- U-6488-R, Detroit Edison Co., FAC & PIPAC Reconciliation (Michigan PSC)
- U-15684, Louisiana Power & Light Company (Louisiana PSC)
- 7395 & U-7397, Campaign Ballot Proposals (Michigan PSC)
- 820013-WS, Seacoast Utilities (Florida PSC)
- U-7660, Detroit Edison Company (Michigan PSC)
- 83-1039, CP National Corporation (Nevada PSC)
- U-7802, Michigan Gas Utilities Company (Michigan PSC)
- 83-1226, Sierra Pacific Power Company (Nevada PSC)
- 830465-EI, Florida Power & Light Company (Florida PSC)
- U-7777, Michigan Consolidated Gas Company (Michigan PSC)
- U-7779, Consumers Power Company (Michigan PSC)

Attachment LA-1, Qualifications of Ralph C. Smith
Michigan Consolidated Gas Company (Michigan PSC)
Consumers Power Company — Gas (Michigan PSC)
Michigan Gas Utilities Company (Michigan PSC)
Detroit Edison Company (Michigan PSC)
Indiana & Michigan Electric Company (Michigan PSC)
Continental Telephone Co. of the South Alabama (Alabama PSC)
Duquesne Light Company (Pennsylvania PUC)
Pennsylvania Power Company (Pennsylvania PUC)
Tampa Electric Company (Florida PSC)
Louisiana Power & Light Company (Louisiana PSC)
Continental Telephone Co. of the South Alabama (Alabama PSC)
Detroit Edison - Refund - Appeal of U-4807 (Ingham County, Michigan Circuit Court)
Detroit Edison Refund - Appeal of U-4758 (Ingham County, Michigan Circuit Court)
Consumers Power Company - Gas Refunds (Michigan PSC)
United Telephone Company of Missouri (Missouri PSC)
Central Maine Power Company (Maine PSC)
New England Power Company (FERC)
Florida Power & Light Company (Florida PSC)
Duquesne Light Company (Pennsylvania PUC)
Pennsylvania Power Company (Pennsylvania PUC)
Florida Cities Water Company (Florida PSC)
Northern States Power Company (Minnesota PSC)
Gulf States Utilities Company (Texas PUC)
Connecticut Natural Gas Company (Connecticut PUC)
Southern New England Telephone Company (Connecticut Department of Public Utility Control)
Georgia Power Company (Georgia PSC)
Long Island Lighting Co. (New York Dept. of Public Service)
Consumers Power Company — Gas (Michigan PSC)
Austin Electric Utility (City of Austin, Texas)
Carolina Power & Light Company (North Carolina PUC)
Pennsylvania Gas and Water Company (Pennsylvania PUC)
Southern Bell Telephone Company (Florida PSC)
Citizens Utilities Rural Company, Inc. & Citizens Utilities
Company, Kingman Telephone Division (Arizona CC)
Illinois Bell Telephone Company (Illinois CC)
Puget Sound Power & Light Company (Washington UTC)
Philadelphia Electric Company (Pennsylvania PUC)
Potomac Electric Power Company (District of Columbia PSC)
Duquesne Light Company, et al, plaintiffs, against Gulf+Western, Inc. et al, defendants (Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
Florida Power & Light Company (Florida PSC)
Gulf Power Company (Florida PSC)
Jersey Central Power & Light Company (BPU)
Hawaiian Electric Company (Hawaii PUCs)
Equitable Gas Company (Pennsylvania Consumer Counsel)
Artesian Water Company (Delaware PSC)
Southern New England Telephone Company (Connecticut PUC)
Southern States Utilities, Inc. (Florida PSC)
Southern California Edison Company (California PUC)
Long Island Lighting Company (New York DPS)
Pennsylvania Gas & Water Company (Pennsylvania PUC)

(Investigation of OPEBs) Department of the Navy and all Other Federal Executive Agencies (California PUC)
Southwest Gas Corporation (Arizona CC)
Sun City Water Company (Arizona RUCO)
Havasu Water Company (Arizona RUCO)
Central Maine Power Company (Department of the Navy and all Other Federal Executive Agencies)
Southwest Gas Corporation - Rebuttal and PGA Audit (Arizona Corporation Commission)
Hawaiian Electric Company (Hawaii PUC)
Intrastate Access Charge Methodology, Pool and Rates
Local Exchange Carriers Association and South Dakota Independent Telephone Coalition
General Development Utilities - Port Malabar and
West Coast Divisions (Florida PSC)
The Peoples Natural Gas Company (Pennsylvania PUC)
Hawaiian Nonpension Postretirement Benefits (Hawaiian PUC)
Metropolitan Edison Company (Pennsylvania PUC)
Pennsylvania American Water Company (Pennsylvania PUC)
Citizens Utilities Company, Agua Fria Water Division (Arizona Corporation Commission)
Citizens Utilities Company (Electric Division), (Arizona CC)
Puget Sound Power and Light Company (Washington UTC)
Central Maine Power Company (Maine PUC)
Pennsylvania Gas & Water Company (Pennsylvania PUC)
Matanuska Telephone Association, Inc. (Alaska PUC)
Anchorage Telephone Utility (Alaska PUC)
PTI Communications (Alaska PUC)
Hawaiian Electric Company, Inc. (Hawaii PUC)
Citizens Utilities Company - Gas Division (Arizona Corporation Commission)
Citizens Utilities Company - Gas Division (Arizona Corporation Commission)
Pennsylvania American Water Company (Pennsylvania PUC)
Sale of Assets CC&N from Contel of the West, Inc. to Citizens Utilities Company (Arizona Corporation Commission)
Hawaiian Electric Company, Inc. (Hawaii PUC)
The East Ohio Gas Company (Ohio PUC)
Consolidated Edison Company (New York DFS)
Inter-State Water Company (Illinois Commerce Commission)
Citizens Utilities Company, Kauai Electric Division (Hawaii PUC)
Application for Transfer of Local Exchanges (North Dakota PSC)
Pacific Gas & Electric Company (California PUC)
UGI Utilities, Inc. - Gas Division (Pennsylvania PUC)
Southern New England Telephone Company (Connecticut PUC)
Consumer Illinois Water, Kankakee Water District (Illinois CC)
Ohio Power Company (Ohio PUC)
South Carolina Electric & Gas Company (South Carolina PSC)
Non-Docketed | Citizens Utility Company - Arizona Telephone Operations
---|---
Staff Investigation | (Arizona Corporation Commission)
E-1032-95-473 | Citizens Utility Co. - Northern Arizona Gas Division (Arizona CC)
E-1032-95-433 | Citizens Utility Co. - Arizona Electric Division (Arizona CC)
Collaborative Ratemaking Process | Columbia Gas of Pennsylvania (Pennsylvania PUC)
GR-96-285 | Missouri Gas Energy (Missouri PSC)
96-10-45 | Southern New England Telephone Company (Connecticut PUC)
A.96-08-001 et al. | California Utilities’ Applications to Identify Sunk Costs of Non-Nuclear Generation Assets, & Transition Costs for Electric Utility Restructuring, & Consolidated Proceedings (California PUC)
96-324 | Bell Atlantic - Delaware, Inc. (Delaware PSC)
97-05-12 | Connecticut Light & Power (Connecticut PUC)
R-00973953 | Application of PECO Energy Company for Approval of Its Restructuring Plan Under Section 2806 of the Public Utility Code (Pennsylvania PUC)
97-65 | Application of Delmarva Power & Light Co. for Application of a Cost Accounting Manual and a Code of Conduct (Delaware PSC)
16705 | Entergy Gulf States, Inc. (Cities Steering Committee)
E-1072-97-067 | Southwestern Telephone Co. (Arizona Corporation Commission)
Non-Docketed | Delaware - Estimate Impact of Universal Services Issues
Staff Investigation | (Delaware PSC)
PU-314-97-12 | US West Communications, Inc. Cost Studies (North Dakota PSC)
97-0351 | Consumer Illinois Water Company (Illinois CC)
97-8001 | Investigation of Issues to be Considered as a Result of Restructuring of Electric Industry (Nevada PSC)
U-0000-94-165 | Generic Docket to Consider Competition in the Provision of Retail Electric Service (Arizona Corporation Commission)
98-05-006-Phase I | San Diego Gas & Electric Co., Section 386 costs (California PUC)
9355-U | Georgia Power Company Rate Case (Georgia PUC)
97-12-020 - Phase I | Pacific Gas & Electric Company (California PUC)
Phase II of 97-SCCC-149-GIT | Southwestern Bell Telephone Company Cost Studies (Kansas CC)
PU-314-97-465 | US West Universal Service Cost Model (North Dakota PSC)
Non-docketed | Bell Atlantic - Delaware, Inc., Review of New Telecomm. Assistance and Tariff Filings (Delaware PSC)
Contract Dispute | City of Zeeland, MI - Water Contract with the City of Holland, MI (Before an arbitration panel)
Non-docketed Project | City of Danville, IL - Valuation of Water System (Danville, IL)
Non-docketed Project | Village of University Park, IL - Valuation of Water and Sewer System (Village of University Park, Illinois)
E-1032-95-417
Citizens Utility Co., Maricopa Water/Wastewater Companies et al. (Arizona Corporation Commission)

T-1051B-99-0497
Proposed Merger of the Parent Corporation of Qwest Communications Corporation, LCI International Telecom Corp., and US West Communications, Inc. (Arizona CC)

T-01051B-99-0105
US West Communications, Inc. Rate Case (Arizona CC)

A00-07-043
Pacific Gas & Electric - 2001 Attrition (California PUC)

T-01051B-99-0499
US West/Quest Broadband Asset Transfer (Arizona CC)

99-419/420
US West, Inc. Toll and Access Rebalancing (North Dakota PSC)

PU314-99-119
US West, Inc. Residential Rate Increase and Cost Study Review (North Dakota PSC)

98-0252
Ameritech - Illinois, Review of Alternative Regulation Plan (Illinois CUB)

00-108
Delmarva Billing System Investigation (Delaware PSC)

U-00-28
Matanuska Telephone Association (Alaska PUC)

Non-Docketed
Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation (California PUC)

00-11-038
Southern California Edison (California PUC)

00-11-056
Pacific Gas & Electric (California PUC)

00-10-028
The Utility Reform Network for Modification of Resolution E-3527 (California PUC)

98-479
Delmarva Power & Light Application for Approval of its Electric and Fuel Adjustments Costs (Delaware PSC)

99-457
Delmarva Electric Cooperative Restructuring Filing (Delaware PSC)

99-582
Delmarva Power & Light dba Conectiv Power Delivery Analysis of Code of Conduct and Cost Accounting Manual (Delaware PSC)

99-03-04
United Illuminating Company Recovery of Stranded Costs (Connecticut OCC)

99-03-36
Connecticut Light & Power (Connecticut OCC)

Civil Action No.

98-1117
West Penn Power Company vs. PA PUC (Pennsylvania PSC)

Case No. 12604
Upper Peninsula Power Company (Michigan AG)

Case No. 12613
Wisconsin Public Service Commission (Michigan AG)

41651
Northern Indiana Public Service Co Overearnings investigation (Indiana UCC)

13605-U
Savannah Electric & Power Company — FCR (Georgia PSC)

14000-U
Georgia Power Company Rate Case/M&S Review (Georgia PSC)

13196-U
Savannah Electric & Power Company Natural Gas Procurement and Risk Management/Hedging Proposal, Docket No. 13196-U (Georgia PSC)

Non-Docketed
Georgia Power Company & Savannah Electric & Power FPR Company Fuel Procurement Audit (Georgia PSC)

Non-Docketed
Transition Costs of Nevada Vertically Integrated Utilities (US Department of Navy)

Application No.

99-01-016,
Restructuring (US Department of Navy)

Phase I

99-02-05
Connecticut Light & Power (Connecticut OCC)

01-05-19-RE03
Yankee Gas Service Application for a Rate Increase, Phase I-2002-IERM (Connecticut OCC)

G-01551A-00-0309
Southwest Gas Corporation, Application to amend its rate Schedules (Arizona CC)

00-07-043
Pacific Gas & Electric Company Attrition & Application for a rate increase (California PUC)
97-12-020
Phase II
01-10-10
Pacific Gas & Electric Company Rate Case (California PUC)
13711-U
United Illuminating Company (Connecticut OCC)
02-001
Georgia Power FCR (Georgia PSC)
02-BLVT-377-AUD
Verizon Delaware § 271 (Delaware DPA)
02-S&TT-390-AUD
Blue Valley Telephone Company Audit/General Rate Investigation (Kansas CC)
01-SFLT-879-AUD
S&T Telephone Cooperative Audit/General Rate Investigation (Kansas CC)
01-BSTT-878-AUD
Sunflower Telephone Company Inc., Audit/General Rate Investigation (Kansas CC)
P404, 407, 520, 413
Bluestem Telephone Company, Inc. Audit/General Rate Investigation (Kansas CC)
426, 427, 430, 421/
CI-00-712
Sherburne County Rural Telephone Company, dba as Connections, Etc. (Minnesota DOC)
U-01-85
ACS of Alaska, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-34
ACS of Anchorage, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-83
ACS of Fairbanks, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-87
ACS of the Northland, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
96-324, Phase II
Verizon Delaware, Inc. UNE Rate Filing (Delaware PSC)
03-WHST-503-AUD
Wheat State Telephone Company (Kansas CC)
04-GNBT-130-AUD
Golden Belt Telephone Association (Kansas CC)
Docket 6914
Shoreham Telephone Company, Inc. (Vermont BPU)
Docket No.
E-01345A-06-009
Arizona Public Service Company (Arizona Corporation Commission)
Case No.
05-1278-E-PC-PW-42T
Appalachian Power Company and Wheeling Power Company both db/a American Electric Power (West Virginia PSC)
Docket No. 04-0113
Hawaiian Electric Company (Hawaii PUC)
Case No. U-14347
Consumers Energy Company (Michigan PSC)
Case No. 05-725-EL-UNC
Cincinnati Gas & Electric Company (PUC of Ohio)
Docket 21220-U
Savannah Electric & Power Company (Georgia PSC)
Docket No. 19142-U
Georgia Power Company (Georgia PSC)
Docket No.
03-07-01RE01
Connecticut Light & Power Company (CT DPUC)
Docket No. 19042-U
Savannah Electric & Power Company (Georgia PSC)
Docket No. 2004-178-E
South Carolina Electric & Gas Company (South Carolina PSC)
Docket No. 03-07-02
Connecticut Light & Power Company (CT DPUC)
Docket No. EX02060363,
Phases I & II
Rockland Electric Company (NJ BPU)
Docket No. U-00-88
ENSTAR Natural Gas Company and Alaska Pipeline Company (Regulatory Commission of Alaska)
Phase 1-2002 IERM,
Docket No. U-02-075
Interior Telephone Company, Inc. (Regulatory Commission of Alaska)
Docket No. 05-SCNT-1048-AUD
South Central Telephone Company (Kansas CC)
Docket No. 05-TRCT-607-KSF
Tri-County Telephone Company (Kansas CC)
Docket No. 05-KOKT-060-AUD
Kan Okla Telephone Company (Kansas CC)
Docket No. 2002-747
Northland Telephone Company of Maine (Maine PUC)
Docket No. 2003-34
Docket No. 2003-35
Docket No. 2003-36
Docket No. 2003-37
Docket Nos. U-04-022, U-04-023
Case 05-116-U/06-055-U
Case 04-137-U
Case No. 7109/7160
Case No. ER-2006-0315
Case No. ER-2006-0314
Docket No. U-05-043, 44
A-122250F5000
Docket No. 05-304
. 05-806-EL-UNC
U-06-45
03-93-EL-ATA,
06-1068-EL-UNC
PUE-2006-00065
G-04204A-06-0463 et. al
U-06-134
Docket No. 2006-0386
E-01933A-07-0402
G-01551A-07-0504
PUE-2008-00066
PUE-2008-00046
E-01345A-08-0172
A-2008-2063737
08-1783-G-42T
08-1761-G-PC
Docket No. 2008-0083
Docket No. 2008-0266
G-04024A-08-0571
Docket No. 09-29
Tidewater Utilities, Inc. (Delaware PSC)
Docket No. UB-090704
09-0878-G-42T
2009-UA-0014
Docket No. 09-0319
Docket No. 09-414
R-2009-2132019
Docket Nos. U-09-069, U-09-070
Docket Nos. U-04-023, U-04-024
W-01303A-09-0343 & SW-01303A-09-0343
09-872-EL-FAC & 09-873-EL-FAC
Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company - Audit I (Ohio PUC)
Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
Ameren Illinois Company (Illinois CC)
Commonwealth Edison Company (Illinois CC)
Southwest Gas Corporation (Public Utilities Commission of Nevada)
South Carolina Electric & Gas (South Carolina PSC)
Dominion North Carolina Power (North Carolina Utilities Commission)
North Shore Gas Company and The Peoples Gas Light and Coke Company (Illinois CC)
Tucson Electric Power Company (Arizona CC)
Potomac Electric Power Company (Maryland PSC)
Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
Georgia Power Company (Georgia PSC)
Columbia Gas of Maryland, Inc. (Maryland PSC)
Ameren Illinois Company (Illinois CC)
West Virginia-American Water Company (West Virginia PSC)
UNS Electric, Inc. (Arizona CC)
Virginia and Electric Power Company (Virginia SCC)
Dominion North Carolina Power (North Carolina Utilities Commission)
Chugach Electric Association, Inc. (The Regulatory Commission of Alaska)
Chugach Electric Association, Inc. (The Regulatory Commission of Alaska)
Financial, Management, and Performance Audit of the FAC for Dayton Power and Light – Audit 3 (Ohio PUC)
Georgia Power Company (Georgia PSC)
Investigation into Treatment of Pension Costs in Utility Rates (Oregon PUC)
Financial Audit of the FAC and ABR of the Ohio Power Company – Audit I (Ohio PUC)
Reorganization of UNS Energy Corporation with Fortis, Inc. (Arizona CC)
Regulatory Compliance Audit of the 2013 DIR of Ohio Power Company (Ohio PUC)
Alaska Power Company (The Regulatory Commission of Alaska)
Virginia Appalachian Power Company (Commonwealth of Virginia SCC)
Financial, Management, and Performance Audit of the FAC and Purchased Power Rider for Dayton Power and Light – Audit 1 (Ohio PUC)
Monongahela Power Company and The Potomac Edison Company (West Virginia PSC)
West Penn Power Company (Pennsylvania PUC)
Pennsylvania Electric Company (Pennsylvania PUC)
Pennsylvania Power Company (Pennsylvania PUC)
Metropolitan Edison Company (Pennsylvania PUC)
Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
Appalachian Power Company and Wheeling Power Company (West Virginia PSC)
EPCOR Water Arizona, Inc. (Arizona CC)
Kentucky Power Company (Kentucky PSC)
Iberdrola, S.A. et Al, and UIL Holdings Corporation merger (Connecticut PURA)
San Diego Gas & Electric Company (California PUC)
BNSTAR Natural Gas Company (Regulatory Commission of Alaska)
Atmos Energy Corporation (Mississippi PSC)
Mountaineer Gas Company (West Virginia PSC)
Virginia Electric and Power Company (Commonwealth of Virginia SCC)
West Virginia-American Water Company (West Virginia PSC)
Iberdrola, S.A. Et Al, and UIL Holdings Corporation merger (Connecticut PURA)
Iberdrola, S.A. Et Al, and UIL Holdings Corporation merger (Massachusetts DPU)
Management/Performance and Financial Audit of the FAC and Purchased Power Rider for Dayton Power and Light (Ohio PUC)
Mississippi Power Company (Mississippi PSC)
B&W Pipeline, LLC (Tennessee Regulatory Authority)
Missouri American Water Company (Missouri PSC)
Kingsport Power Company d/b/a AEP Appalachian Power (Tennessee Regulatory Authority)
Virginia-American Water Company (Commonwealth of Virginia SCC)
PTE Pipeline LLC (Regulatory Commission of Alaska)
Swanson River Oil Pipeline, LLC (Regulatory Commission of Alaska)
Georgia Power Company – Integrated Resource Plan (Georgia PSC)
Washington Gas Light Company (District of Columbia PSC)
Florida Power Company (Florida PSC)
Metropolitan Edison Company (Pennsylvania PUC)
Pennsylvania Electric Company (Pennsylvania PUC)
Pennsylvania Power Company (Pennsylvania PUC)
West Penn Power Company (Pennsylvania PUC)
Hope Gas, Inc., dba Dominion Hope (West Virginia PSC)
Florida Power Company (Florida PSC)
Puerto Rico Electric Power Authority (Puerto Rico Energy Commission)
Arizona Public Service Company (Arizona CC)
Water Supply Board (Rhode Island PUC)
Joint Report and Application of Oncor Electric Delivery Company LLC and NextEra Energy Inc. (Texas State Office of Administrative Hearings; Texas PUC)
ENSTAR Natural Gas Company (Regulatory Commission of Alaska)
Kentucky Utilities Company (Kentucky PSC)
Louisville Gas and Electric Company (Kentucky PSC)
Metropolitan Edison Company (Pennsylvania PUC)
Pennsylvania Electric Company (Pennsylvania PUC)
Pennsylvania Power Company (Pennsylvania PUC)
West Penn Power Company (Pennsylvania PUC)
UNS Electric, Inc. (Arizona CC)
Tucson Electric Power Company (Arizona CC)
Puget Sound Energy, Inc. (Washington UTC)
Consumers Energy Company (Michigan PSC)
DTE Electric Company (Michigan PSC)
Case No. 9449  Merger of AltaGas Ltd. and WGL Holdings (Maryland PSC)
Formal Case No. 1142  Merger of AltaGas Ltd. and WGL Holdings (District of Columbia PSC)
Case No. 2017-00179  Kentucky Power Company (Kentucky PSC)
Docket No. 29849  Georgia Power Plant Vogtle Units 3 and 4, VCM 17 (Georgia PSC)
Docket No. 2017-AD-112  Mississippi Power Company (Mississippi PSC)
Docket No. D2017.9.79  Montana-Dakota Utilities Co. (Montana PSC)
SW-01428A-17-0058 et al  Liberty Utilities (Litchfield Park Water & Sewer) Corp. (Arizona CC)

* Testimony filed, examination not completed
** Issues stipulated
*** Company withdrew case
^Testimony filed, case withdrawn after proposed decision issued
^* Issues stipulated before testimony was filed
## Document: Vectren Settlement Agreement

**Subject:** Vectren Utility Holdings, Inc. shows Repairs being classified as "non-protected" on Attachment 1, Page 1 of its Settlement Agreement (Cause No. 45032-S21)

<table>
<thead>
<tr>
<th>Confidential</th>
<th>No. of Pages</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

**Total Pages Including Content Pages:** 2
# Settlement Agreement

**Attachment 1**

**Page 1 of 6**

Vectren Utility Holdings, Inc.  
Federal Excess Deferred Liability  
As of December 31, 2017  
Asset (Liability)

<table>
<thead>
<tr>
<th>Component</th>
<th>Originalizing Vectren South-</th>
<th>Vectren South-</th>
<th>Vectren North</th>
<th>Ohio Valley Hub</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FERC Account</td>
<td>Electric</td>
<td>Gas</td>
<td></td>
</tr>
<tr>
<td>1 Un billed Revenue</td>
<td>$207,525</td>
<td>$66,739</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>2 Property Taxes</td>
<td>$651,238</td>
<td>$88,102</td>
<td>$657,110</td>
<td>$-</td>
</tr>
<tr>
<td>3 Bad Debts</td>
<td>$208,468</td>
<td>$68,933</td>
<td>$208,082</td>
<td>$-</td>
</tr>
<tr>
<td>4 Capitalized Gas Inventory In Lines</td>
<td>$-</td>
<td>$7,239</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>5 Record Sec. 263A CAP Costs</td>
<td>$-</td>
<td>$145,289</td>
<td>$-</td>
<td>$121,909</td>
</tr>
<tr>
<td>6 Refund Gas Costs Collected under GCA &amp; FAC</td>
<td>$2,775,621</td>
<td>$(682,069)</td>
<td>$(3,719,690)</td>
<td>$-</td>
</tr>
<tr>
<td>7 Coal Inventory</td>
<td>$1,970,113</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>8 Prepaid Insurance</td>
<td>$(180,329)</td>
<td>$(16,017)</td>
<td>$(157,310)</td>
<td>$-</td>
</tr>
<tr>
<td>9 Construction Deposits</td>
<td>$505,446</td>
<td>$107,001</td>
<td>$410,663</td>
<td>$-</td>
</tr>
<tr>
<td>10 FASB 106 Costs</td>
<td>$1,520,685</td>
<td>$333,803</td>
<td>$1,564,657</td>
<td>$-</td>
</tr>
<tr>
<td>11 MGP Reserve Net of Insurance</td>
<td>$-</td>
<td>$140,324</td>
<td>$(19,917)</td>
<td>$157,630</td>
</tr>
<tr>
<td>12 Reverse Exec Restr Stock Acr</td>
<td>$1,003,986</td>
<td>$170,916</td>
<td>$898,454</td>
<td>$-</td>
</tr>
<tr>
<td>13 Deferred Comp/Long-term Incentive Plan</td>
<td>$7,239</td>
<td>$332,167</td>
<td>$1,965,493</td>
<td>$-</td>
</tr>
<tr>
<td>14 Prepaid Ohio Excise Tax</td>
<td>$565,445</td>
<td>$107,001</td>
<td>$410,963</td>
<td>$-</td>
</tr>
<tr>
<td>15 Amortization of Debt Expense</td>
<td>$(549,810)</td>
<td>$(689,029)</td>
<td>$(530,309)</td>
<td>$-</td>
</tr>
<tr>
<td>16 Amortization of Premium or Reacquired Debt</td>
<td>$(540,810)</td>
<td>$(1,090,042)</td>
<td>$(4,678,600)</td>
<td>$-</td>
</tr>
<tr>
<td>17 Amortization of Rate Case Expense</td>
<td>$(7,513)</td>
<td>$(127,489)</td>
<td>$(524,284)</td>
<td>$-</td>
</tr>
<tr>
<td>18 Def Debts/Reg Assets</td>
<td>$(549,810)</td>
<td>$(1,090,042)</td>
<td>$(4,678,600)</td>
<td>$-</td>
</tr>
<tr>
<td>19 Amortization of Hedging Costs/Losses</td>
<td>$(203,105)</td>
<td>$(1,090,042)</td>
<td>$(4,678,600)</td>
<td>$-</td>
</tr>
<tr>
<td>20 Interest on prepaid OH Excise</td>
<td>$(6,095,692)</td>
<td>$(540,810)</td>
<td>$(1,090,042)</td>
<td>$(4,678,600)</td>
</tr>
<tr>
<td>21 Pension Expense in Excess of Tax</td>
<td>$(183,127)</td>
<td>$(1,090,042)</td>
<td>$(4,678,600)</td>
<td>$(4,678,600)</td>
</tr>
<tr>
<td>22 Cap Interest CWIP</td>
<td>$(1,016,912)</td>
<td>$(430,400)</td>
<td>$(1,703,582)</td>
<td>$-</td>
</tr>
<tr>
<td>23 AFUUC CWIP (non-protected)</td>
<td>$(10,178,449)</td>
<td>$(2,662,579)</td>
<td>$(14,990,004)</td>
<td>$-</td>
</tr>
<tr>
<td>24 Depreciation Related (protected)</td>
<td>$(10,204,769)</td>
<td>$(23,461,574)</td>
<td>$(78,950,627)</td>
<td>$(95,310)</td>
</tr>
<tr>
<td>25 Repairs (non-protected)</td>
<td>$(14,455,789)</td>
<td>$(2,662,579)</td>
<td>$(14,990,004)</td>
<td>$(95,310)</td>
</tr>
<tr>
<td>26 Total</td>
<td>$(122,003,215)</td>
<td>$(28,193,016)</td>
<td>$(105,912,492)</td>
<td>$(95,310)</td>
</tr>
<tr>
<td>27 FERC 190</td>
<td>$6,572,714</td>
<td>$1,480,197</td>
<td>$6,083,385</td>
<td>$-</td>
</tr>
<tr>
<td>28 FERC 282</td>
<td>$(118,397,480)</td>
<td>$(28,799,938)</td>
<td>$(97,595,734)</td>
<td>$(95,310)</td>
</tr>
<tr>
<td>29 FERC 283</td>
<td>$(10,178,449)</td>
<td>$(2,662,579)</td>
<td>$(14,990,004)</td>
<td>$-</td>
</tr>
<tr>
<td>30 Total</td>
<td>$(122,003,215)</td>
<td>$(28,193,016)</td>
<td>$(105,912,492)</td>
<td>$(95,310)</td>
</tr>
<tr>
<td>31 Protected</td>
<td>$(10,204,769)</td>
<td>$(23,461,574)</td>
<td>$(78,880,627)</td>
<td>$(95,310)</td>
</tr>
<tr>
<td>32 Unprotected</td>
<td>$(10,078,449)</td>
<td>$(4,731,444)</td>
<td>$(26,981,605)</td>
<td>$-</td>
</tr>
<tr>
<td>33 Total</td>
<td>$(122,003,215)</td>
<td>$(28,193,016)</td>
<td>$(105,912,492)</td>
<td>$(95,310)</td>
</tr>
</tbody>
</table>
Indiana-American Water Company  
Cause No. 45032-S4  
Attachment LA-3  
Copies of Non-Confidential Material Referenced in the  
Direct Testimony of  
Ralph C. Smith

<table>
<thead>
<tr>
<th>Document</th>
<th>Subject</th>
<th>Confidential</th>
<th>No. of Pages</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>OUCC 03-016</td>
<td>IAWC provides updated amounts for the value of the regulatory liability through June 30 2018 and the value per customer as of June 30, 2018</td>
<td>No</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>OUCC 04-003</td>
<td>IAWC provides breakout of ADIT and identifies each book-tax difference that produces the $71,378,794 liability amount and $305,118 asset amount</td>
<td>No</td>
<td>6</td>
<td>4-9</td>
</tr>
<tr>
<td>OUCC 04-004</td>
<td>IAWC identifies amount of repair deductions claimed</td>
<td>No</td>
<td>2</td>
<td>10-11</td>
</tr>
<tr>
<td>OUCC 04-005</td>
<td>IAWC identifies amount of repair deductions claimed in each year 2018-2017 under Section 162 of the Internal Revenue Code and Section 1.162-4 of the Income Tax Regulations</td>
<td>No</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>OUCC 04-006</td>
<td>Further information about the Internal Revenue Code and Income Tax Regulations pertaining to repair deductions</td>
<td>No</td>
<td>2</td>
<td>13-14</td>
</tr>
<tr>
<td>OUCC 04-007</td>
<td>Information regarding ADIT relating to AWC's repair deductions</td>
<td>No</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>OUCC 04-012</td>
<td>Information regarding whether Mr. Wilde or anyone at American Water Works or any subsidiaries knew how ADIT relating to repair deductions have been treated in other IRS rulings</td>
<td>No</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>OUCC 04-014</td>
<td>Information regarding whether Mr. Wilde or anyone at American Water Works are aware of other public utilities that are claiming that ADIT for repairs deductions as a &quot;protected&quot; item</td>
<td>No</td>
<td>2</td>
<td>17-18</td>
</tr>
<tr>
<td>OUCC 04-015</td>
<td>IAWC admits that a deduction for repairs is taken under Section 162 of the Internal Revenue Code, the amount of that repairs deduction (1) cannot be added to the tax basis of the property and (2) cannot be depreciated for federal income tax purposes under Section 168 of the Internal Revenue Code</td>
<td>No</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>OUCC 04-016</td>
<td>IAWC identifies the units of property that were used to determine deductibility of repair and maintenance costs and information regarding any &quot;safe harbor&quot; provisions that may apply</td>
<td>No</td>
<td>3</td>
<td>20-22</td>
</tr>
<tr>
<td>OUCC 04-019</td>
<td>Information regarding ADIT amounts relating to repairs deductions</td>
<td>No</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>OUCC 04-021</td>
<td>Information regarding whether American Water Works has been able to identify the ADIT balances at December 31, 2017 related to repairs in any of its jurisdictions</td>
<td>No</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>OUCC 04-024</td>
<td>IAWC provides an updated version of JMW-6 with information through June 30, 2018</td>
<td>No</td>
<td>2</td>
<td>25-26</td>
</tr>
<tr>
<td>OUCC 05-001</td>
<td>Information regarding the item: &quot;T105: Repairs&quot;</td>
<td>No</td>
<td>1</td>
<td>27</td>
</tr>
<tr>
<td>OUCC 05-002</td>
<td>Information regarding the item: &quot;T109: Pavement Repairs&quot;</td>
<td>No</td>
<td>1</td>
<td>28</td>
</tr>
<tr>
<td>OUCC 05-003</td>
<td>IAWC indicates whether or not the Company's affiliated water companies listed on the data information request are currently flowing back some or all of the benefits of the TCJA to their customers</td>
<td>No</td>
<td>1</td>
<td>29</td>
</tr>
<tr>
<td>OUCC 05-004</td>
<td>IAWC further explains how the affiliates in OUCC 05-003 are providing the TCJA benefits to the utility customers</td>
<td>No</td>
<td>1</td>
<td>30</td>
</tr>
<tr>
<td>OUCC 05-005</td>
<td>IAWC indicates whether or not there are other water utility affiliates that are not listed in OUCC 05-002 providing the cost savings resulting from the TCJA to their customers</td>
<td>No</td>
<td>1</td>
<td>31</td>
</tr>
<tr>
<td>OUCC 05-006</td>
<td>IAWC indicates whether or not the Company's affiliated water companies listed on the data information request are currently flowing back the &quot;stub period&quot; benefits of the TCJA to their customers</td>
<td>No</td>
<td>1</td>
<td>32</td>
</tr>
<tr>
<td>OUCC 05-008</td>
<td>Information regarding whether the repairs deductions listed in response to OUCC 4-4 is the same as the &quot;T105: Repairs&quot;</td>
<td>No</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>OUCC 05-009</td>
<td>Information regarding how much excess ADIT the Company has relating to the sum of repairs deductions listed in the response to OUCC 4-4</td>
<td>No</td>
<td>1</td>
<td>34</td>
</tr>
<tr>
<td>OUCC 05-011</td>
<td>Information regarding the Company's Tax Basis Balance Sheets</td>
<td>No</td>
<td>1</td>
<td>35</td>
</tr>
<tr>
<td>OUCC 05-012</td>
<td>IAWC states whether the excess ADIT related to the Company's repair deductions can be reasonably estimated by taking the sum total of repairs deductions listed in the response to OUCC 4-4 and multiplying it by the difference in the federal and stated blended income tax rates</td>
<td>No</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>OUCC 05-013</td>
<td>IAWC states whether the excess ADIT related to the Company's repair deductions can be reasonably estimated by taking the cumulative total of repairs deductions listed in the response to OUCC 4-4 and multiplying it by the difference in the federal and stated blended income tax rates</td>
<td>No</td>
<td>1</td>
<td>37</td>
</tr>
<tr>
<td>OUCC 05-014</td>
<td>Information regarding whether or not the Company is willing to seek a private letter ruling concerning whether the excess ADIT related to its repair deductions can be amortized over a period determined by the Commission that varies from the ARAM</td>
<td>No</td>
<td>2</td>
<td>38 - 39</td>
</tr>
<tr>
<td>OUCC 05-015</td>
<td>Information regarding whether or not the Company is willing to seek a private letter ruling concerning whether the amortization over a five-year period on a straight-line basis of the excess ADIT related to its repairs deductions would result in a normalization violation or in any way impede the Company's ability to use accelerated tax depreciation or claim repairs deductions</td>
<td>No</td>
<td>1</td>
<td>40</td>
</tr>
<tr>
<td>OUCC 05-016</td>
<td>IAWC admits that a number of other investor-owned utilities have classified the excess ADIT related to repairs deductions as &quot;unprotected&quot;</td>
<td>No</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td>OUCC 05-017</td>
<td>IAWC cannot make a blanket admission that none of the spending related to the repairs deductions that have been claimed by the Company that are listed on the response to OUCC 4-1 added to the value of the property or appreciably prolonged its useful life</td>
<td>No</td>
<td>2</td>
<td>42 - 43</td>
</tr>
<tr>
<td>OUCC 05-018</td>
<td>Information regarding the item: &quot;T103: Gains and Losses&quot;</td>
<td>No</td>
<td>1</td>
<td>44</td>
</tr>
<tr>
<td>OUCC 05-021</td>
<td>Information regarding the item: &quot;T150: 481 Adjustment related to Repairs&quot;</td>
<td>No</td>
<td>2</td>
<td>45 - 46</td>
</tr>
<tr>
<td>OUCC 05-022</td>
<td>IAWC explains why they start calculating their federal income tax savings from the TCJA on January 3, 2018 instead of January 1, 2018</td>
<td>No</td>
<td>1</td>
<td>47</td>
</tr>
<tr>
<td>OUCC 06-009</td>
<td>IAWC indicates that they do not have a list, and has no first-hand knowledge of investor-owned utilities that have classified EADIT related to tax repairs deductions as &quot;unprotected&quot;</td>
<td>No</td>
<td>1</td>
<td>48</td>
</tr>
</tbody>
</table>

Total Pages Including Content Pages: 48
Information Requested:

On page 2 of his testimony, Mr. Watkins states the current value of the regulatory liability through May 31 is approximately $4.5 million. He further states on page 3 of his testimony that the value is approximately $15.00 per customer. Please answer the following questions regarding Petitioner's assertion.

a. What is the current value of the regulatory liability through June 30, 2018?

b. What is the value per customer as of June 30, 2018?

Information Provided:

a. The regulatory liability is $5,458,177.14 at June 30, 2018.

b. The estimated amount per metered customer that would be available for credit as a result of the deferral is approximately $21.02 ($5,458,177.14/259,613) as of June 30, 2018.
Information Requested:

Refer to the testimony of John Wilde (Petitioner's Exhibit No. 3) at page 4.

a. Please identify and provide all journal entries that were recorded on the Company's books at the end of 2017 relating to identifying "excess" ADIT.
b. Please identify and provide all Excel files and workpapers related to identifying "excess" ADIT.
c. Please identify each book-tax difference that produced the $71,378,794 amount on line 18.
d. Please identify each book-tax difference that produced the $305,118 amount on line 19.

Information Provided:

a. Below is the journal entry booked by Indiana-American for the estimated excess ADIT. The number is grossed up.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (USD)</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>18050100 1.56</td>
<td>243,017.00</td>
<td>2017</td>
</tr>
<tr>
<td>25621000 2.54</td>
<td>94,355,170.00</td>
<td>2017</td>
</tr>
<tr>
<td>25311000 3.40</td>
<td>85,766,356.50</td>
<td>2017</td>
</tr>
<tr>
<td>25321000 4.40</td>
<td>4,818,063.00</td>
<td>2017</td>
</tr>
<tr>
<td>35511000 5.40</td>
<td>85,766,356.50</td>
<td>2017</td>
</tr>
<tr>
<td>35521000 6.40</td>
<td>4,818,063.00</td>
<td>2017</td>
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</table>

b, c & d. Our current deferred tax accounting system does not trace the reversal of originating plant related difference needed to separate the cumulative book tax difference or ADIT to be associated with that originating difference from other plant related differences.
Attachments:

OUCC 04-001 Attachment.xlsx
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<th>Reg &amp; FTC</th>
<th>TBBS Adjustments</th>
<th>Final Rebalances for</th>
<th>Current Activity</th>
<th>Reg &amp; FTC</th>
<th>Other Deferred</th>
<th>Other Deferred</th>
<th>Ending Balance</th>
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<td>TRS Adjustment</td>
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<td>(53,618,077)</td>
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OUCC Attachment LA-3
Cause No. 45032
Page 7 of 48

American Water Works Company, Inc.
Deferred Balances Report - Fiscal Year 2017 (Amended)
2017 Combined December YE Final 10K, 1015 Indiana American Water Co

Page 7 of 48
## Deferred Balances Report - Pre-Tax (Reporting)

**2017 Combined December YE Final 10K, 1010 Indiana American Water Co**

<table>
<thead>
<tr>
<th>Code</th>
<th>Name</th>
<th>Ending Balance</th>
<th>Federal Rate</th>
<th>State Def Rate</th>
<th>Blended Rate</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Advances &amp; Contributions</td>
<td>376,114,673</td>
<td>35.00%</td>
<td>21.00%</td>
<td>38.19%</td>
<td>-13.31%</td>
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<td>A4</td>
<td>Tax Losses and Credits</td>
<td>11,257,209</td>
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<td>4.90%</td>
<td>4.90%</td>
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<td>Pension Benefits</td>
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<td>Other</td>
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<tr>
<td>L5</td>
<td>Pension Benefits</td>
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<tr>
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<td>Total</td>
<td>(448,168,075)</td>
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</tr>
</tbody>
</table>

### Gross Temporary Differences on Plant only
- Change in blended tax rate: -13.31%
- DTL remeasurement related to Plant: 73,747,622

### Gross Temporary Differences on Tax Losses and Credits
- Change in federal tax rate: -14.00%
- DTA remeasurement related to Fed NOL: (1,820,050)

### State only plant temporary items
- Change in federal rate: -14.00%
- Remeasurement on federal benefit of state items: 1,018,476

### Gross Temporary Difference on Plant only
- Com/Def State rate difference: -1.23%
- State rate difference: 281,706

### Total
- Items not recoverable: (2,149,412)
- Total estimated Plant excess ADIT: 71,378,764

### Gross Temporary Differences non-plant related
- Change in blended tax rate: -1.23%
- DTL remeasurement related to non-Plant: (247,301)

### Fed only non-plant temporary items
- Change in federal rate: -14.00%
- Remeasurement on fed only items: 40,565

### State only non-plant temporary items
- Change in federal rate: -14.00%
- Remeasurement on federal benefit of state items: (144,821)

### Gross Temporary Difference on non-plant
- Com/Def State rate difference: -1.23%
- State rate difference: (41,663)

### Total
- Items not recoverable: 70,803
- Total estimated Non-Plant excess ADIT: 288,117

### Total estimated excess ADIT
- 73,673,477
Information Requested:

Please identify the amount of repairs deductions claimed by Indiana American Water Company (1) as the cumulative effect of the change in tax account method and (2) for each year subsequent to the original change in tax accounting method for repairs.

Information Provided:

See OUCC 04-004 Attachment for the cumulative repairs deductions taken by Indiana-American Water on its tax returns since 2008. Note that 2017 was provided but that the tax return has not been filed yet.

Our current deferred tax accounting system does not trace the reversal of originating plant related difference needed to separate the cumulative book tax difference or ADIT to be associated with that originating difference from other plant related differences. In addition 481(a) entries (Adjustments Required by Changes in Method of Accounting) contain both the originating deduction and the reversal that would have occurred to that point.

Attachments:

OUCC 04-004 Attachment.xlsx
### Summary of Repairs deductions

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Repairs deduction</td>
<td>$31,961,408</td>
<td>$37,349,343</td>
<td>$21,926,204</td>
<td>($17,260,304)</td>
<td>$17,820,530</td>
<td>$20,428,284</td>
<td>$29,009,620</td>
<td>$18,593,745</td>
<td>$26,433,571</td>
<td>$11,298,109</td>
<td>$22,339,095</td>
<td>$19,251,696</td>
<td></td>
</tr>
</tbody>
</table>

Note that 2017 tax return has not been filed yet.
Information Requested:

Please refer to Attachments JRW-1 and JRW-2 to the testimony of John Wilde (Petitioner's Exhibit No. 3). Identify the amounts of repairs deductions that Indiana American claimed in each year under Section 162 of the Internal Revenue Code and Section 1.162-4 of the Income Tax Regulations in each year 2008 through 2017.

Information Provided:

See response to OUCC 04-004.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Please refer to Attachment JRW-2 to the testimony of John Wilde (Petitioner's Exhibit No. 3).

a. Has Mr. Wilde ever read Section 162 of the Internal Revenue Code? If so, when was the last time? If not, explain fully why not.
b. Has Mr. Wilde ever read Section 1.162-4 of the Income Tax Regulations? If so, when was the last time? If not, explain fully why not.
c. Identify all provisions in Section 162 of the Internal Revenue Code and Section 1.162-4 of the Income Tax Regulations that address normalization requirements.
d. Is it the Company's position that there is a federal income tax normalization requirement for repairs deductions claimed on a federal income tax return under Section 162 of the Internal Revenue Code and Section 1.162-4 of the Income Tax Regulations?
e. Identify and explain all authority for the Company's position that there is a federal income tax normalization requirement for repairs deductions claimed on a federal income tax return under Section 162 of the Internal Revenue Code and Section 1.162-4 of the Income Tax Regulations.

Information Provided:

a. Yes. He read it for purposes of answering this question as well as recently in the context of answering another question in another rate proceeding.
b. Yes. See a.
c. Subsection b of Section 1.162-4 Repairs provides as follows:

\[(b)\text{Accounting method changes.}\]

A change to comply with this section is a change in method of accounting to which the provisions of sections 446 and 481 and the accompanying regulations apply. A taxpayer seeking to change to a method of accounting permitted in this section must secure the consent of the Commissioner in accordance with §1.446-1(c) and follow the administrative procedures issued under §1.446-1(e)(3)(ii) for obtaining the Commissioner's consent to change its accounting method.

The consent decree contains the normalization requirement.
d. No. The regulations simply impose a commissioner consent provision, which was given with the following condition:

9) If any item of property subject to the taxpayer’s Form 3115 is public utility property within the meaning of § 168(l)(10) or former § 167(l)(3)(A):

(A) A normalization method of accounting (within the meaning of § 168(l)(9), former § 168(e)(3)(B), or former § 167(l)(3)(G), as applicable) must be used for such public utility property;

e. See response to (d)
Information Requested:

Please refer to the testimony of John Wilde (Petitioner's Exhibit No. 3).

   a. Identify the federal income tax rate applied and amount of accumulated deferred income taxes recorded for repairs deductions in each year on an annual and cumulative basis through December 31, 2017.
   b. Show in detail how the December 31, 2017 balance of ADIT for repairs deductions for the Company was revaluated at the new 21 percent federal income tax rate.

Information Provided:

The Company cannot separate the ADIT related to its repairs deduction. Our current deferred tax accounting system does not trace the reversal of originating plant related difference needed to separate the cumulative book tax difference or ADIT to be associated with that originating difference from other plant related differences. In addition, 481(a) entries contain both the originating deduction and the reversal that would have occurred to that point.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Is Mr. Wilde or anyone else at American Water Works or its subsidiaries aware of any IRS rulings that have treated ADIT related to repairs deductions as an item that is subject to the normalization requirements of Internal Revenue Code sections 167 or 168? If so, identify and provide each such ruling.

Information Provided:

Neither Mr. Wilde nor anyone else at American Water or its subsidiaries is aware of any IRS rulings that have treated ADIT related to repairs deductions as an item subject to the normalization requirements of IRC 167 or 168. See also response to OUCC 04-014.
Information Requested:

Is Mr. Wilde or anyone at American Water Works aware of any other investor-owned regulated public utilities that are claiming that ADIT for repairs deductions taken under Section 162 or 263 of the Internal Revenue Code is a "protected" item (i.e., is subject to normalization requirements under sections 167 or 168 of the Internal Revenue Code)? If not, explain fully why not. If so, identify each other investor-owned regulated public utility of which Mr. Wilde and American Water is aware of that is claiming that ADIT for repairs deductions is a "protected" item that is subject to normalization requirements under sections 167 or 168 of the Internal Revenue Code.

Information Provided:

As a point of clarification, American Water is not saying repairs are “protected” if the term “protected” can only mean subject to IRS normalization rules. In other words, the Company has never said that repairs are subject to the normalization rules under 168. American Water’s position is that it would not be allowed to claim the repairs deductions that have been claimed if the company had not agreed to normalize the effects of the deductions pursuant to the consent decree it signed. In simple terms, if American Water is forced to flow back the tax effects of the repairs deductions faster than ARAM (i.e. in the same manner as normalized property), American Water would be in violation of its agreement with the IRS, and the change in accounting would no longer be valid. As a result, the excess deferred taxes would essentially be paid back to the government instead of customers.

With that in mind, it is American Water Works’ understanding that other regulated utilities in the process of filing a change in their accounting methods with similar timing and facts should have had to make a similar representation in their consent decree. However, electric utilities who did so, but subsequently changed their method to conform to the electric distribution or electric generation safe harbor methods in later IRS guidance, may have been able to eliminate that requirement. American Water Works has no way of knowing if gas distribution, water and wastewater utilities filed for a tax repairs method or if they are following their book method for most tax repairs because of the lack of a safe harbor method being available. American Water Works has no way of knowing which investor-owned utilities are similarly situated, meaning they would be subject to the same IRS requirements outlined in the American Water Works - IRS consent decree, who are also required to use ARAM to normalize tax repairs.
American Water believes that all investor owned utilities planning to use RSGM to normalize TCJA excess ADIT balances should be treating all plant related excess consistently under that method. This is simply because anyone using RSGM would lack the ability to break out tax repairs from plant related ADIT balances. In order to be able to break out repairs one must know the book depreciation by vintage for repair property. Therefore, any utility that can break out repairs would also have the ability and records to use ARAM. Thus, American Water believes all utilities that intend to use RSGM would treat tax repairs in exactly the same manner as protected differences, because they would have no records or ability to do otherwise. American Water Works has not maintained a list of those investor owned utilities that plan to use RSGM.
Information Requested:

Admit that once a deduction for repairs is taken under Section 162 of the Internal Revenue Code the amount of that repairs deduction (1) cannot be added to the tax basis of the property and (2) cannot be depreciated for federal income tax purposes under Section 168 of the Internal Revenue Code.

   a. If your answer is anything other than an unqualified admission, explain fully and provide citations to all authority relied upon.

Information Provided:

Admitted. A tax repairs deduction is a reduction to book basis in arriving at tax basis and not depreciated for tax purposes.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Refer to Attachment JRW-2, page 8.

a. Please identify and explain the unit(s) of property that American Water and Indiana American Water used to determine the deductibility of repair and maintenance costs.
b. Is Mr. Wilde or anyone at American Water Works or its subsidiaries aware of any "safe harbor" provisions for repairs deductions that apply to regulated public utilities? If so, identify the "safe harbor" provisions of which Mr. Wilde and/or others at American Water Works are aware.
c. Do any of the "safe harbor" provisions for regulated public utility repairs deductions apply to water utilities? If so, which ones?
d. Between 2008 when the tax accounting method for repairs deductions was adopted and December 31, 2017, have American Water and Indiana American Water used any "safe harbor" method for their repairs deductions? If not, explain fully why not. If so, identify and explain the "safe harbor" method used.

Information Provided:

a. American Water outlines the tax units of property used to determine a deductible repair.

Network or linear water property is broken down as follows:

Each contiguous and functionally interdependent length of transmission main - 12" or greater.

Each contiguous and functionally interdependent length of distribution main – 10"-12"

Each contiguous and functionally interdependent length of distribution circuit - 2"-8"

Note: Fixtures such as hydrants, services, valves are component parts of these units. Meters are a separate unit. A similar breakdown of waste water network or linear property is applied, just with different size distinctions. Water production property or water treatment is broken down between the collection, coagulation, sedimentation, filtration, and disinfection processes within that plant.
b. Below is a list of utility related safe harbors that American Water Works is aware have been issued. Of those American Water Works is most familiar with the safe-harbors related to Electric Transmission and Distribution and Power generation Assets.

**List of Utility related Safe Harbors**

**Capitalization of Cable Assets**
- **Revenue Procedure 2015-2** provides several safe harbor methods of accounting for certain property costs paid or incurred by cable system operators.
- **Directive LB&I 04-0415-003**, Examination of Taxpayers Using the Safe Harbor Methods of Accounting for Cable Network Assets, provides direction to the field in the examination of taxpayers using the safe harbor methods of accounting for cable network assets.

**Capitalization of Power Generation Assets**
- **Revenue Procedure 2013-24** provides definitions of units of property and major components taxpayers may use to determine whether expenditures to maintain, replace, or improve steam or electric power generation property must be capitalized under § 263(a) of the Internal Revenue Code.
- **Directive LB&I 04-0713-005** provides direction to the field in the examination of a taxpayer eligible to change to the method of accounting provided in Rev. Proc. 2013-24 for steam or electric generation property.

**Capitalization of Electric Transmission and Distribution Property**
- **Revenue Procedure 2011-42** provides taxpayers with guidance regarding the use and evaluation of statistical samples and sampling estimates.
- **Revenue Procedure 2011-43** provides a safe harbor method of accounting that taxpayers may use to determine whether expenditures to maintain, replace, or improve electric transmission and distribution property must be capitalized under § 263(a) of the Internal Revenue Code. The revenue procedure also provides procedures for obtaining automatic consent to change to the safe harbor method of accounting.

**Capitalization and depreciation of network assets in the telecommunications industry**
- **Revenue Procedure 2011-22** that provides a safe-harbor method for determining the recovery period for depreciation of certain tangible assets used by wireless telecommunications carriers.
- **Revenue Procedure 2011-28** for the wireless telecom sector providing two alternative safe-harbor methods for determining the amount of network asset repair and replacement expenditures that must be capitalized.
c. None of the safe harbors that have been issued relate to water or sewer property. To the best of American Water Works’ knowledge there is no process in place that will result in the issuance of a safe harbor for water and sewer property. The closest alignment may be what is expected to be issued for gas distribution and transmission property.

d. None. This is because no safe harbor has been issued related to Water or Wastewater Property.
Information Requested:

Refer to Attachment JRW-1.

a. Where are the ADIT amounts related to repairs deductions shown on that attachment?
b. If ADIT related to repairs deductions is not shown on Attachment JRW-1, show it before and after the change in federal income tax rate.

Information Provided:

a. The ADIT related to repairs is included under code L1 Utility plant.
b. See response to OUCC 04-007.
Information Requested:

Has American Water Works been able to identify the ADIT balances at December 31, 2017 related to repairs in any of its jurisdictions? If not, explain fully why not. If so, identify and explain how American Water Works was able to identify the ADIT related to repairs deductions as of December 31, 2017 in each jurisdiction in which such identification has been made.

Information Provided:

No, it has not been able to identify the ADIT balances at December 31, 2017 related to repairs for all its regulated companies. See response to OUCC 04-007.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Refer to the testimony of John Watkins (Petitioner's Exhibit No. 2) and to Attachment JMW-6.

a. Provide a copy of Attachment JMW-6 in Excel with formulas intact.
b. Provide information for June 2018 similar to that shown on Attachment JMW-6 for January through May 2018.
c. Provide budgeted June and July 2018 information similar to that shown on Attachment JMW-6 for January through May 2018.
d. Was the federal income tax rate was reduced to 21 percent effective on January 1, 2018? If your answer is anything other than an unqualified "yes", explain fully and provide the authority relied upon.
e. Did the Company began experiencing federal income tax savings effective on January 1, 2018? If your answer is anything other than an unqualified "yes", explain fully and provide the authority relied upon.
f. Do the calculations presented on Attachment JMW-6 reflect any TCJA savings for customers of Indiana American Water Company for the period January 1 through January 3, 2018?

Information Provided:

a. An Excel copy of the requested attachment was provided with the service copies of the Company's Phase 2 case in chief.
b. Please see the attachment labeled OUCC 04-024_Attachment.
c. The Company has not budgeted what the deferred amount would be.
d. Presuming the question intended is whether the federal income tax rate on January 1, 2018 was 21 percent, Yes.
e. If by "experiencing", the question intends to ask whether the Company was subject to a 21 percent federal income tax rate on January 1, 2018 which is less than the federal income tax rate on December 31, 2017, Yes.
### Indiana-American

#### YT une 2018

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DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Refer to the Company's response to OUCC 4-1.

a. Explain the following item: "T105: Repairs"

b. Has the $256,280,025 amount in the ending balance column been excluded from the tax basis of IAWC utility assets?
   i) If not, explain fully why not.

c. Has any federal income tax depreciation been claimed on the $256,280,025 or any portion of that amount?
   i) If so, identify the amount of federal income tax depreciation claimed on the $256,280,025 or any portion of that amount.
   ii) If not, explain fully why not.

d. What amount of excess ADIT relates to the $256,280,025 for "T105: Repairs"?

e. How was the amount of excess ADIT for the $256,280,025 of "T105: Repairs" calculated? Show details.

Information Provided:

a. This amount includes:
   - bonus depreciation deduction and accelerated tax depreciation deductions claimed prior to each change in the Company’s method of accounting that were included in 481(a) adjustment.

b. This amount is not isolated to tax repair deductions claimed, it is net bonus and accelerated tax depreciation deductions that were part of 481(a) adjustments. In practice, any tax repairs deduction claimed reduces tax basis so that tax depreciation is only calculated on the remaining basis.

c. See Company response to OUCC 5-001(b).

d. The Company has not computed the excess ADIT amount related to tax repairs in isolation of other plant related excess ADIT amounts. See Company response to OUCC 4-001 and OUCC 5-009.

e. See Company response to OUCC 5-001(d).
Information Requested:

Refer to the Company's response to OUCC 4-1.

a. Explain the following item: "T109: Pavement Repairs"

b. Why is the "T109: Pavement Repairs" ADIT classified as "Non Plant"?

Information Provided:

a. T109: Pavement Repairs is the tax effect of a short term temporary difference representing the difference between when the pavement repairs are accrued on the books vs when they are incurred for tax purposes.

b. It is considered non-plant because it is a short term accrual for future expenses and not related to the utility plant in service capitalized on the company books. This adjustment does not result in a change to tax basis in plant.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Are the Company's affiliated water utilities in each of the following jurisdictions currently flowing back some or all of the benefits of the TCJA to their customers:

a. Illinois-American Water Company?
b. Iowa-American Water Company?
c. Missouri-American Water Company?
d. New Jersey-American Water Company?
e. Virginia-American Water Company?
f. Pennsylvania-American Water Company?

Information Provided:

a. Yes, please see the response to OUCC 05-004 for more details.
b. Yes, please see the response to OUCC 05-004 for more details.
c. Yes, please see the response to OUCC 05-004 for more details.
d. Yes, please see the response to OUCC 05-004 for more details.
e. No.
f. Yes, please see the response to OUCC 05-004 for more details.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

If the answer to any parts of the previous request is "yes" briefly explain how the TCJA benefits for each affiliate are being provided to the utility customers.

Information Provided:

Illinois-American Water Company is flowing back the benefits of the reduction of the federal income tax rate from 35% to 21% through a percentage rate that is applied to the base rate portion of the bill and presented as a credit. This credit on the bill became effective on May 1, 2018.

Iowa-American Water Company is using a portion of the reduction in current federal income tax expense to issue customer credits to offset the QIP (accelerated infrastructure replacement) surcharge, and will use the rest of the reduction as an offset which will accelerate the amortization of the floodwall, and refund the excess (if any) by a customer credit.

The revenue requirement used to set Missouri-American Water Company’s current rates, which took effect on May 28, 2018, reflects the reduction in current federal income tax expense due to the TCJA.

New Jersey-American Water Company, reduced their water service rates, effective April 1, 2018, to account for the TC A’s reduction of the income tax rate from 35% to 21% as ordered by the Board of Public Utilities.

Pennsylvania-American Water Company implemented a negative TCJA surcharge, effective July 1, 2018, to reflect the costs savings associated with the TCJA’s reduction of the income tax rate from 35% to 21%. Pennsylvania-American Water Company is required to establish a deferred regulatory liability account to record on its books the tax savings associated with the TCJA for the January 1, 2018 through June 30, 2018 time period (stub period). The disposition of this regulatory liability will be determined in the company’s next base rate case or if the company does not file a base rate case within three (3) years the company must file a petition to propose how to distribute the funds in the regulatory liability account.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Are any other Company water utility affiliates besides those listed in Q-5-3 currently providing the cost savings resulting from TCJA to their customers? If so, which ones?

Information Provided:


Kentucky-American Water Company has filed to reduce their rates to reflect the reduction in income taxes from 5 to 21 and the stub period effective August 1, 2018.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:
Are the Company's affiliated water utilities in each of the following jurisdictions currently flowing back the "stub period" (January 1, 2018 the effective date of the 21% federal income tax rate and the date upon which the benefits were provided to TCJA customers) benefits of the TCJA to their customers:
   a. New Jersey-American Water Company?
   b. Pennsylvania-American Water Company?

Information Provided:
   a. No.
   b. No, as the response to OUCC 05-004 states, Pennsylvania-American Water Company will establish a regulatory liability to account for the stub period.
Information Requested:

Refer to the Company's responses to OUCC 4-1 and OUCC 4-4.

a. Are the repairs deductions listed in the response to OUCC 4-4 which sum to $250,738,690 the same thing as the "T105: Repairs" item on the response to OUCC 4-1 which is listed as $256,280,025?

b. If not, explain how those repairs deduction items are different.

c. If so, why are the amounts different?

Information Provided:

They are both repairs related. The $256,280,025 is the gross tax repair deduction, net of adjustments for bonus depreciation and accelerated tax depreciation. See response to OUCC 05-001a. The $250,738,690 is net further for two other 481(a) adjustments done in 2014 & 2015.
Information Requested:

How much excess ADIT does the Company have relating to the $250,738,690 sum of repairs deductions listed on the response to OUCC 4-4? Show calculations.

Information Provided:

The Company’s response to OUCC 4-4 is not the sum of repair deductions claimed on the Company’s tax return. The Company’s tax accounting has not isolated repair deductions claimed, nor has it isolated and tracked the reversal of tax repair deductions that results over time from book depreciation. It is in the process of isolating those amounts in its tax accounting as part of its PowerTax systems reimplementation project.

The $250,738,690 is a book to tax difference comprised of:

- Originating tax repair deductions in excess of book repair deduction claimed.
- 481(a) adjustments which are one-time book to tax adjustments or cumulative effect adjustments. Section 481 provides that where a taxpayer’s taxable income for a tax year is computed under a method of accounting different from that previously used, an adjustment will be made to prevent amounts from being duplicated or omitted solely by reason of the change in accounting method. Therefore, these 481(a) adjustments include both decreases and increases to accelerated tax depreciation and bonus depreciation deductions, and the ADIT balances related to increases in bonus deductions and accelerated tax depreciation would be "protected" pursuant to the tax normalization rules.
Information Requested:

Refer to the attachment to the Company's response to OUCC 4-17, where there is a column "TBBS Adjustments".

a. Does the Company have a Tax Basis Balance Sheet?
   b. If "yes" identify and provide it as of each of these dates: (1) 12/31/2017 and (2) 6/30/2018.
   c. If not, what does the "TBBS" refer to?

Information Provided:

a. Yes.
   b. As is the process with most companies, the TBBS is updated after the filing of the tax returns, so it is prepared on a one year lag. Therefore, we do not have a version relevant to 12/31/2017 or 6/30/2018. The last fully reviewed and tied in version addresses 12/31/2016 balances.
   c. N/A
Information Requested:

Can the excess ADIT related to the Company's repairs deductions be reasonably estimated by taking the sum total of the repairs deductions listed in the response to OUCC 4-4 which sum to $250,738,690 and multiplying it by the -13.31% difference in the federal and state blended income tax rates listed on Attachment JRW-1? If not, explain fully why not.

Information Provided:

No, see Company response to OUCC 5-009.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

**Information Requested:**

Can the excess ADIT related to the Company's repairs deductions be reasonably estimated by taking the cumulative total for repairs deductions listed in the response to OUCC 4-1 of $256,280,025 as "T105: Repairs" and multiplying it by the -13.31% difference in the federal and state blended income tax rates listed on Attachment JRW-1? If not, explain fully why not.

**Information Provided:**

No, see Company response to OUCC 5-009.
Information Requested:

Is the Company willing to seek a private letter ruling concerning whether the excess ADIT related to its repairs deductions can be amortized over a period determined by the Commission that varies from the ARAM such as straight-line amortization over a period? If not, explain fully why not.

Information Provided:

First, the tax normalization rules as a general matter do not direct a regulatory commission's actions, they simply outline the alternative tax treatment attributable to those actions. So the question to the IRS would need to address a question or concern the IRS would be willing to rule on.

However, if the Commission rules that a private letter ruling should be sought to determine if future acceleration of deductions would be at risk, then the Company would comply and seek a ruling.

The method proposed by the company to normalize plant related excess ADIT balances including tax repairs using ARAM is consistent with the tax normalization rules, so no ruling would be needed to eliminate that risk of loss.

Regardless of the tax normalization rules, the Company believes that all plant related excess ADIT balances should be normalized using consistent accounting methods into future rates over the remaining life of the underlying property for the following reasons:

- Using inconsistent methods and periods to normalize plant related ADIT balances results in cross-subsidization of tax expense between customers using the same utility plant in different periods and can create inequities between present and future generations of customers. Consistent normalization of the tax benefits of claiming deductions at a 35% federal income tax rate that in time will reverse over the plant’s useful life at 21% results in the proper allocation of tax expense between current and future customers while taking into account the time value of the savings resulting from deferred tax payments by including ADIT as a zero cost item in the capital structure. For ratemaking purposes, the sum of all the ADIT accounts is generally a liability balance and reflected in the capital structure at zero cost. This recognizes that
the temporary cash savings resulting from the deferred tax payments represents a
cost-free source of capital to the utility. The inclusion of the net ADIT liability
ensures that customers receive the benefit of this cost free capital.
• Using inconsistent methods and periods to normalize plant related ADIT balances
results in system and process complexities that must be built and maintained for the
life of the underlying property. Also, it adds complexity in financial and regulatory
reporting and ratemaking.
• Water utilities do not have a safe harbor method to follow in addressing tax repair
deductions with a high degree of certainty. To date, the Company’s tax repair method
of accounting has not been the subject of an IRS audit of the Company. Therefore,
the amount that was claimed at 35% that will turnaround at 21% is uncertain, and
returning the excess ADIT balance to customers too quickly could cause future
ratemaking issues should those uncertainties be realized.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Is the Company willing to seek a private letter ruling concerning whether the amortization over a five-year period on a straight-line basis of the excess ADIT related to its repairs deductions would result in a normalization violation or in any way impede the Company's ability to use accelerated tax depreciation or claim repairs deductions? If not, explain fully why not.

Information Provided:

See response to OUCC 05-014.
Information Requested:

Admit that a number of other investor-owned utilities have classified the excess ADIT related to repairs deductions as "unprotected" and have indicated that the application or amortization of their repairs-related excess ADIT is up to the discretion of their respective regulatory authority/commission and/or have indicated that the average rate assumption method (ARAM) does not need to be applied to repairs related excess ADIT.

Information Provided:

The Company is aware of investor owned utilities that have classified their balance of excess ADIT related to tax repairs deduction in excess of book as "unprotected". Some of those utilities have suggested the use of ARAM as the appropriate normalization method, some of those utilities have suggested an alternative method and period, and some of those utilities have left the method and period of normalization to their respective commission.

The Company is also aware of investor owned utilities that have indicated they would use RSGM to normalize all plant related ADIT balances, and therefore would inherently be treating tax repairs as "protected" or subject to that method and period of amortization as part of its plant related ADIT balances.

See the Company's response to OUCC DR 4-014.
Information Requested:

Admit that none of the spending related to the repairs deductions that have been claimed by the Company that are listed on the response to OUCC 1-4 added to the value of the property or appreciably prolonged its useful life.

Information Provided:

It is our assumption that the question is referring to OUCC 4-1 and not OUCC 1-4.

The company cannot make such a blanket admission. The answer to this question would be different as applied to the unit of property (UOP) and capitalization rules used for financial and regulatory ("book") accounting methods, versus as applied to the UOP and capitalization rules tax methods of accounting.

Inherent in the decision to capitalize an expenditure to utility plant for financial, regulatory, or tax accounting purposes is the belief that the useful life of the UOP is extended, but the UOP you are applying that standard to is often different for book and tax purposes so the outcome to the question of "Is its useful life prolonged" is often different.

To illustrate this, we look at the 2003 Federal Express Corp. (FedEx) case (FedEx Corp v United States, 291 F. Supp.2d 699 (W.D. Tenn, 2003). In this case, FedEx incurred costs of rebuilding the engines of its jets which were required regularly to keep the jet functional. The IRS proposed that the extensive cost of rebuilding an asset such as a jet engine should be capitalized and depreciated. Most looking at the type of asset and cost of the rebuild alone may agree with this, but FedEx contended that these costs were regular maintenance for the larger asset — the jet (as a whole). The court ultimately decided on this case in favor of FedEx agreeing that the asset in question is the jet, and rebuilding the engines should be treated as normal repair of the asset.

In addition to the definition of a UOP, one also has to look at the change in the capitalization rules, which are evolving as the IRS issues guidance on the subject of capitalization. These changes in guidance relate to the change in the definition of a UOP, but also include the following change to old and new rules as listed below:

Old Rules (You must capitalize expenditures for tax purposes that do one of the following):
- Materially increases the value of the property (the entire asset)
- Substantially prolongs the useful life of the property (the entire asset)
- Adapts the property (the entire asset) to a new or different use

New Rules (You must capitalize expenditures for tax purposes that do one of the following):
- Relates to the betterment of the unit of property
- Relates to the restoration of the unit of property
- Adapts the unit of property (or entire asset) to a new or different use
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Refer to the response to OUCC 4-1.

a. Explain the following item: "T103: Gains and Losses".

b. Does any of the $39,847,045 pre-tax amount or the related excess ADIT amount for Gains and Losses relate to repairs?
   i) If not, explain fully why not.
   ii) If so, provide an estimate of how much, and show and explain how the estimate was derived.

Information Provided:

a. T103: Gains and Losses represent book/tax differences from sales of property taken on the tax return over time.

b. It is possible that some of the pre-tax amount or the related excess ADIT amount for Gains and Losses relate to repairs because while something is considered a repair and a current deduction is taken for tax purposes, the book asset is still being capitalized and depreciated. If that asset is sold, there would be a gain/loss calculation done. Again, the detail of the individual line items is not available at this time.
Data Information Request
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Refer to the response to OUCC 4-1 Attachment.

a. Explain the following item: "T150: 481 Adjustment related to Repairs"

b. Has any federal income tax depreciation been claimed on the $8,884,722 or any portion of that amount?
   i) If so, identify the amount of federal income tax depreciation claimed on that amount or any portion of that amount.
   ii) If not, explain fully why not.

c. What amount of excess ADIT relates to the $8,884,722 for "T150: 481 Adjustment related to Repairs"?

d. Does the Company have an opinion as to whether the excess ADIT on the $8,884,722 for "T150: 481 Adjustment related to Repairs" can be amortized using an amortization period to be determined by the Commission? If so, state that opinion and explain in detail the basis for it, including any authority being relied upon.

e. Does the Company have an opinion as to whether the excess ADIT on the $8,884,722 for "T150: 481 Adjustment related to Repairs" will violate Internal Revenue Code normalization requirements if amortized more rapidly than would be the result of applying the average rate assumption method? If so, state that opinion and explain in detail the basis for it, including any authority being relied upon.

Information Provided:

a. T150: 481 Adjustment Related to Repairs was created to account for the company’s method change related to the repair expensing of meters. In 2015 the company changed its position regarding meters from expensing meter replacements as a repair to capitalizing all meter replacements, based on how the IRS responded in Rev Proc 2011-43 for the Electric T&D industry. IRC 481a is the code that specifies how to account for the change. The net adjustment to reverse the prior repair deductions taken for meters created a tax liability for the company. Per the Code, the company is allowed to spread the amount over four years, so it is tracked through T150.

b. In calculating a 481a adjustment, the gross repairs is identified, after which any bonus or accelerated depreciation that would have been allowed had the property always been treated as capital, would offset the gross amount. Therefore there is bonus and accelerated depreciation included in the net amount presented.
c. The Company has not computed the excess ADIT amount related to tax repairs in isolation of other plant related excess ADIT amounts. See Company response to OUCC 4-001 and OUCC 5-009.

d. The company believes it needs to be normalized and therefore ARAM used to calculate the amortization. The 481a amount is related to repairs and is a net number including bonus and accelerated depreciation. The Company also believes any 481a adjustment related to repairs should follow the same method used for Repairs. The 481a is only a partial reversal of the previous repairs deductions.

e. The Company believes it would violate the consent decree and agreement with the IRS that allowed the tax accounting method change for tax repairs.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Refer to the response to OUCC 4-24.

a. Is the Company attempting to deprive ratepayers of the federal income tax savings for the first two days of 2018?
   b. If the answer to part a is "yes" explain fully why.
   c. If it is determined that ratepayer should receive federal income tax savings commencing with January 1 (rather than January 3), can the Company's calculation presented in the OUCC 4.24 attachment be adjusted by using 31 days for January 2018 (rather than just 29)?
      i) If not, explain fully why not.

Information Provided:

a. No, the Company is complying with the Order in Cause No. 45032 which was approved and made effective on January 3, 2018, which provided, “the Commission finds it is appropriate and in the public interest for Respondents to immediately begin using regulatory accounting, such as the use of regulatory assets and liabilities, for all calculated differences resulting from the Act and what would have been recorded if the Act did not go into effect.”
   b. Not applicable.
   c. Yes.
      i. Not applicable.
DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Refer to the response to OUCC 5-16 which states that the Company is aware of investor-owned utilities that have classified EADIT related to tax repairs deductions as "unprotected." Identify each utility that has classified EADIT related to tax repairs deductions as "unprotected" of which the Company is aware.

Information Provided:

The Company has not compiled a list, and has no first-hand knowledge. The Company’s awareness is a general awareness based on publically available reports, conversations with peers and industry experts, and informal statements of those intervening in those rate cases. On numerous occasions the Company was alerted to the position of another company as outlined in summary, only to later learn via additional information that the publically available summary was incomplete. The Company has made no efforts to validate its position by comparison to what it generally understands others are proposing to do or have done with respect to computing or normalizing EADIT balances based on that company’s unique facts and circumstances. The Company’s position is based on its own set of unique facts and circumstances applied to relevant law and rule for computing and normalizing ADIT and EADIT.
"Excluded from public access per A.R. 9(G)."

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OUCC ATTACHMENT LA-4
CAUSE NO. 45032 S4