

# OFFICIAL EXHIBITS

FILED  
October 23, 2018  
INDIANA UTILITY  
REGULATORY COMMISSION

## 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 L.M.H. UTILITIES )  
CORPORATION )

CAUSE NO. 45032 S17

IURC RESPONDENTS

~~PETITIONER'S~~

EXHIBIT NO. 3  
DATE 10-24-18 REPORTER AT

### RESPONDENT'S RESPONSE TO DOCKET ENTRY

On October 18, 2018, by way of its docket entry, the Commission asked that the Parties provide information relative to the prefiled evidence in this Cause. Set forth below are the Commission's specific questions and Respondent's response.

1 Q. THE "BEFORE REFORM" COLUMN ON MS. WYNE'S EXHIBIT TW-2, FILED WITH PETITIONER'S DIRECT TESTIMONY, REFLECTS A FEDERAL TAX RATE OF 35%. MS. STULL ADOPTS AN AMOUNT IN HER TESTIMONY WHICH IS BASED ON THE 35% FEDERAL TAX RATE. IN PETITIONER'S 30-DAY FILING (50166) RELATED TO THIS CAUSE, A REVISED EXHIBIT WAS FILED MAY 25, 2018 WHICH UTILIZES A FEDERAL TAX RATE OF 28.91%. PLEASE EXPLAIN WHETHER PETITIONER'S CALCULATION OF EXCESS ACCUMULATED DEFERRED INCOME TAX ("ADIT") IS BASED ON A 35% OR A 28.91% FEDERAL TAX RATE.

A. The Respondent's calculation of ADIT is based on a 35% federal tax rate. In the 30-day filing (50166) related to this cause, the revenue requirements from Cause No. 43431 used

what appears to be a blended federal tax rate of 28.91%. Since Sherman, Barber & Mullikin was not involved in the prior rate case, Ms. Wyne cannot explain why that blended federal tax rate, and not 35%, was built into the revenue requirements.

**2 Q. ON PAGE 13 OF MS. STULL'S TESTIMONY, SHE USES \$362,700 AS THE EXCESS ADIT AMOUNT TO BE REFUNDED TO RATEPAYERS. IT APPEARS THAT THIS AMOUNT IS TAKEN FROM PETITIONER'S EXHIBIT TW-2 AND REPRESENTS PETITIONER'S DEFERRED TAX ASSET RELATING TO ITS FEDERAL NET OPERATING LOSS CARRYOVERS BEFORE AND AFTER TAX REFORM. PLEASE EXPLAIN WHY IT IS APPROPRIATE TO USE THE DEFERRED TAX ASSET ASSOCIATED WITH NET OPERATING LOSS CARRYOVERS AS THE EXCESS ADIT AMOUNT.**

A. In Exhibit TW-2, the column labeled "Excess" would more appropriately be labeled as "Decrease Due to Tax Reform." The \$362,700 represents the reduction in the Federal Deferred Tax Asset for accumulated net operating losses as a result of reduction in the top federal tax rate. It is not appropriate to use the change in the deferred tax asset as the excess ADIT amount.

**3 Q. THE THIRD CALCULATION ON PETITIONER'S EXHIBIT TW-2 REPRESENTS PETITIONER'S DEFERRED TAX LIABILITY RELATING TO THE DIFFERENCE BETWEEN BOOK AND ACCELERATED TAX DEPRECIATION BEFORE AND AFTER TAX REFORM (\$185,500 BASED ON**

35%). ON PAGE 12 OF MS. STULL'S TESTIMONY, SHE STATES, "...ALL OF ITS EXCESS ADIT IS DUE TO ITS USE OF ACCELERATION DEPRECIATION." PLEASE EXPLAIN WHETHER IT WOULD BE MORE APPROPRIATE TO USE THIS DIFFERENCE AS THE EXCESS ADIT RATHER THAN THE ASSET BASED ON NET OPERATING LOSSES?

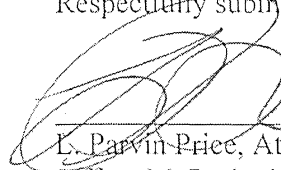
A. Respondent believes its position on excess ADIT is correct. However, between the choices posed in the question, Respondent believes it is more appropriate to calculate the excess ADIT as the reduction of the deferred federal tax liability of \$185,500.

4 Q. THE THIRD CALCULATION ON MS. WYNE'S EXHIBIT TW-2 REPRESENTS PETITIONER'S DEFERRED TAX LIABILITY RELATING TO THE DIFFERENCE BETWEEN BOOK AND ACCELERATED TAX DEPRECIATION BEFORE AND AFTER TAX REFORM (\$185,500 BASED ON 35%). IF THE COMMISSION WAS TO DISAGREE WITH MS. WYNE'S POSITION THAT THERE IS NO EXCESS ADIT TO RETURN, PLEASE EXPLAIN WHETHER PETITIONER BELIEVES IT WOULD BE REASONABLE TO TREAT THIS DIFFERENCE AS THE EXCESS ADIT TO BE RETURNED TO RATEPAYERS?

A. It is the Respondent's position that there is no excess ADIT to return to ratepayers because the net operating losses are so large that realization of the benefit of those losses is unlikely due to the lack of revenue as referenced in Respondent's rebuttal testimony. However, if the Commission were to reject this position, then the difference of the federal

deferred tax asset and the federal deferred tax liability (\$185,500) would be the appropriate calculation.

Respectfully submitted,



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L. Parvin Price, Attorney No. 5827-49

Jeffrey M. Peabody, Attorney No. 28000-53

Barnes & Thornburg LLP

11 South Meridian Street

Indianapolis, Indiana 46204

Price Telephone: (317) 231-7721

Peabody Telephone: (317) 231-6465

Facsimile: (317) 231-7433

Price Email: [parvin.price@btlaw.com](mailto:parvin.price@btlaw.com)

Peabody Email: [jpeabody@btlaw.com](mailto:jpeabody@btlaw.com)

COUNSEL FOR RESPONDENT,

L.M.H. UTILITIES CORPORATION

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing was served upon the following via electronic email, hand delivery or First Class, United States Mail, postage prepaid this 23rd day of October 2018 to:

Tiffany Murray  
Office of Utility Consumer Counselor  
PNC Center  
115 W. Washington St., Suite 1500 South  
Indianapolis, Indiana 46204  
[infomgt@oucc.in.gov](mailto:infomgt@oucc.in.gov)  
[timurray@oucc.in.gov](mailto:timurray@oucc.in.gov)

  
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L. Parvin Price

L. Parvin Price, Attorney No. 5827-49  
Jeffrey M. Peabody, Atty No. 28000-53  
Barnes & Thornburg LLP  
11 South Meridian Street  
Indianapolis, Indiana 46204  
Price Telephone: (317) 231-7721  
Peabody Telephone: (317) 231-6465  
Facsimile: (317) 231-7433  
Price Email: [parvin.price@btlaw.com](mailto:parvin.price@btlaw.com)  
Peabody Email: [jpeabody@btlaw.com](mailto:jpeabody@btlaw.com)

COUNSEL FOR RESPONDENT, L.M.H. UTILITIES CORPORATION