REQUEST:

1. On page 10 of her direct testimony, Jennifer Story states that WKG Storage's effective federal tax rate for its current fiscal year ending September 30, 2018, is 24.5 percent. However, in its response to Item 4, Attachment 1 of the Commission Staff's First Request for Information (Staff's First Request), Ms. Story uses a blended federal income tax rate of 27.0751 percent to estimate the excess deferred liability of $820,929.

a. Provide a detailed explanation for the discrepancy between the two blended federal income tax rates for the fiscal year ending September 30, 2018, and identify the correct rate.

b. Provide the calculation of the correct blended federal income tax rate for the fiscal year ending September 30, 2018.

c. If the correct blended federal income tax rate is 24.5, percent provide a corrected schedule calculating the excess Accumulated Deferred Income Taxes (ADIT) and amortization.

d. Provide a copy of WKG Storage's response to Items 1.b and 1.c in Excel spreadsheet format with all formulas unprotected and all rows and columns fully accessible.

RESPONSE:

a. The "discrepancy" between the two numbers (24.5% and 27.08%) arises because the numbers are for two different things. 24.5% is the Company's statutory federal tax rate for its fiscal year ending September 30, 2018. 27.08% is the Company's blended deferred tax rate for the same period. Because the blended rate reflects the federal income tax rate <u>and</u> the state income tax rate, it will always be higher than just the federal income tax rate by itself.

b. The "blended federal income tax rate" for the fiscal year ending September 30 2018 is 24.5% = (35%) (3/12) + (21%) (9/12). That federal rate is the weighted average of 3 months of a 35% tax rate and 9 months of a 21% tax rate.

However, when remeasuring the Company's ADIT balance, the Company must consider the effective state income tax rate in addition to the effective federal income tax rate. Accordingly, the calculation previously provided in response to Item 4 of the Commission Staff's first Request for Information is correctly calculated using the 27.08% rate. Please note that the tax rate used prior to tax reform was 40%, since it included <u>both</u> the then-effective federal income tax rate of 35% and the state's income tax rate.

c. Not applicable, please see response to part b.

d. Not applicable, please see response to part b.

REQUEST:

2. a. Provide the calculation of the blended federal income tax rate for the fiscal year ending September 30, 2019.

   b. Provide an estimate of the impact the blended federal income tax rate for the fiscal year ending September 30, 2019, will have on the annual amortization of the excess ADIT. Provide a copy of this response in Excel spreadsheet format with all formulas unprotected and all rows and columns fully accessible.

RESPONSE:

a. Since the Company expects to have the same effective tax rate for the entire fiscal year, no calculation is required and there is no "blended" federal income tax rate. The federal income tax rate is 21%.

b. Please see attachment 1 WKG EDIT 9-30-18. This reflects the Company's excess deferred income tax balance as of September 30, 2018. The final EDIT regulatory liability amount will be determined when the Company files its tax return in July, 2019. The EDIT liability calculated as of September 30, 2018 reflects the remeasurement of deferred taxes to the new federal statutory rate of 21%. Therefore, there will be no additional rate change resulting in a remeasurement of deferred taxes during the company's fiscal year ended September 30, 2019.

ATTACHMENT:

Staff_2-02_Att1 - WKG EDIT 9-30-18.xlsx