

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF THE)	
IMPACT OF THE TAX CUTS AND JOB)	CASE NO
ACT ON THE RATES OF KENTUCKY-)	2018-00042
AMERICAN WATER COMPANY)	

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION TO
KENTUCKY-AMERICAN WATER COMPANY

Kentucky-American Water Company ("Kentucky-American"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before April 20, 2018. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky-American shall make timely amendment to any prior response if it obtains information that indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Kentucky-American fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, Kentucky-American shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Kentucky-American's response to Commission Staff's First Request for Information ("Staff's First Request") and its supplemental responses submitted on March 29, 2018 ("Supplemental Responses"), in general, where Kentucky-American largely declined to calculate the impact of the Tax Cuts and Jobs Act ("TCJA") on income tax expense and accumulated deferred income taxes ("ADIT"). State whether Kentucky-American agrees that the normalization requirements in the TCJA and Income Tax Code ("ITC") permit the use of estimates and projections in establishing utility rates and determining the impact of federal taxes on rates. State whether it would be reasonable for the Commission to rely solely on its own estimates and projections and those of intervenors in determining how to address the impact of the TCJA in a manner consistent with Kentucky and federal law in the event that Kentucky-American fails and/or refuses to estimate the impact on rates.

2. Using Kentucky-American's Supplemental Responses submitted March 29, 2018 ("Supplemental Responses"), and the table below, provide the revenue reduction

for Kentucky-American’s sewer division resulting from the decrease in the Federal Income Tax (“FIT”) rate from 35 percent to 21 percent.

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Operating Expenses Net of Income Taxes			
2	Divide by: 88% Operating Ratio			
3				
4	Required Annual Operating Income Before Income Taxes (Line 1 / Line 2)			
5	Multiplied by Income Tax Gross-up Factor			
6				
7	Required Operating Income After Taxes (Line 4 x Line 5)	\$ -	\$ -	\$ -

3. Refer to Kentucky-American’s response to Commission Staff’s First Request for Information (“Staff’s First Request”), Item 9. This response was nonresponsive. Kentucky-American stated that it would not complete the requested template computing a reduction in revenue requirements, because it believes that doing so would be imprudent, because of the possibility of violating tax normalization rules. However, Kentucky-American did not directly explain why it would be considered a violation of the normalization rules to compute the impact of the FIT rate reduction on the current income tax expense. Using the Rate Base for the calendar year ended December 31, 2017 provided in the response to Staff’s First Request, Item 2, the Weighted Average Cost of Capital’s (“WACC”) Kentucky-American calculated in the Supplemental Responses, Item 7, and the table below, provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Rate Base Allocated to Kentucky Jurisdiction			
2	Required Rate of Return Adjusted for Income Taxes			
3				
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	\$ -	\$ -	\$ -

4. Refer to Kentucky-American’s response to Staff’s First Request, Item 10. This response was nonresponsive. Using the Capital Structure for the calendar year ended December 31, 2017 provided in the response to Staff’s First Request, Item 2, the WACC’s Kentucky-American calculated in the Supplemental Responses, Item 7, and the

table below, provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Capitalization Allocated to Kentucky Jurisdiction			
2	Required Rate of Return Adjusted for Income Taxes			
3				
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	\$ -	\$ -	\$ -

5. Refer to Kentucky-American’s responses to Staff First Request, Item 2, Attachment 1, KAW_R_PSCDR1_NUM002_032718_Attachment_1, Tab TB.

a. For each general ledger account listed in the table below, provide the complete account title and a detailed description of what is recorded in each account.

G/L Account	Account	NARUC	December-17
RA-ITRtR-Plant F/T	18504000	C1863	0.38
RA-ITRtR-Other	18504500	C1863	(236,237.27)
Def FIT LiabNormProp	25310000	C283	(11,936.00)
Def FIT Liab-Other	25311000	C283	(38,266,672.09)
Def SIT Liab-Other	25321000	C283	(8,231,840.14)
RL-ITRR-ExcDef FIT	25621000	C2531	(44,003,167.00)
RL-ITRR-ExcDefDprFIT	25621200	C2531	(17,567.23)
RL-ITRR-Deficit Def	25622000	C2531	3,267.84
RL-ITRR-ExcDefDpSIT	25623200	C2531	(1,131,040.55)
RL-ITRR-ITC GrUp3%	25626000	C2531	(17,144.75)
RL-ITRR-ITC GrUp4%	25626100	C2531	0.15
RL-ITRR-ITC GrUp10%	25626200	C2531	(190,858.34)

b. For each federal ADIT account listed in the table in 4.a. identify and explain if the TCJA would classify it as protected or unprotected.

c. Identify each and every federal ADIT account listed in the table in 4.a. in which the ADIT or any portion thereof was generated or arose from accelerated or bonus federal tax depreciation of “public utility property,” assuming that “public utility property” is defined as property used predominantly in the trade or business of furnishing or sale of water or sewage disposal services for which the rates for such furnishing or sale were set by the Kentucky Public Service Commission or another regulatory entity.

d. Identify any and all other accounts not identified in response to Item 4.c., if any, that represent federal ADIT in which the ADIT or any portion thereof was generated or arose from accelerated or bonus federal tax depreciation of “public utility property,” assuming that “public utility property” is defined as property used predominantly in the trade or business of furnishing or sale of water or sewage disposal services for which the rates for such furnishing or sale were set by the Kentucky Public Service Commission or another regulatory entity, by providing the same information included in the table in Item 4.a.

e. For each account identified in response to Item 4.c. and Item 4.d., state whether all of the ADIT was generated by, or arose from, accelerated or bonus federal tax depreciation of “public utility property” as that term is defined in Item 4.c. and 4.d. If all of the federal ADIT identified in those accounts did not arise from accelerated or bonus federal tax depreciation of “public utility property,” please identify and describe in detail the source of ADIT, including a description of all assets and property related to the ADIT and any tax provision and treatment that generated or gave rise to the ADIT. If all of the federal ADIT identified in those accounts did not arise from accelerated or bonus federal tax depreciation of “public utility property,” calculate, based on estimates and projections if necessary, any and all of the ADIT that was generated by or arose from accelerated or bonus federal tax depreciation of “public utility property” as that terms is defined in Item 4.c. and 4.d. If estimates and projections were made to calculate the amounts herein, please identify and describe any estimates and projections used and explain why Kentucky-American contends that those estimates and projections are reasonable.

f. For each account identified in response to Item 4.c. and Item 4.d. as containing ADIT generated by or arising from the accelerated or bonus depreciation of public utility property, state what portion of the ADIT represented in those accounts has been assigned or attributed to Kentucky-American's regulated water business in Kentucky; what portion has been assigned or attributed to Kentucky-American's regulate sewage disposal business in Kentucky; and describe what business or other entity to which Kentucky-American has assigned or attributed other portions, if any, of the ADIT represented in those accounts, the amounts of ADIT assigned or attributed to each such entity, and why the ADIT was assigned or attributed to that entity.

6. Identify and described any and all assets, accounts and property that Kentucky-American contends, based on current information and knowledge, meet the definition of "public utility property," as used in the TCJA, the depreciation of which generated or gave rise to ADIT by providing the description of the "public utility property" as used by Kentucky-American for the purpose of identifying the property in its records of regulated book depreciation; providing the description of the "public utility property" as used by Kentucky-American for the purpose of identifying the property in its records of tax depreciation; identifying the ADIT (without any offsets if any) generated from the accelerated or bonus tax depreciation of each property as of December 31, 2017; identifying any offsets that Kentucky-American contends should be applied to the ADIT and why; identifying the tax basis for each property as of December 31, 2017; identifying the date at which the property was placed in service; identifying the original tax basis for each property before it was depreciated in any manner for tax purposes; identifying the remaining useful life of the property as of December 31, 2017 based on the regulatory

depreciation schedule currently used by Kentucky-American as established in its last rate case (if unknown, then provide the remaining useful life based on the depreciation schedule used by Kentucky-American in its regulated books as of December 31, 2017); and identifying the value of the property as used in Kentucky-American's regulated books as of December 31, 2017. If Kentucky-American contends that there is uncertainty regarding whether a particular asset, account or property would meet the definition of "public utility property," as used in the TCJA, provide the information requested hereinabove and explain in detail as to each such asset, account, or property why there is uncertainty and if so how that uncertainty may be resolved, including a description of what the property is used for. To the extent any of the information requested herein may be provided in an excel or other spreadsheet, please provide the spreadsheet.

7. Kentucky-American stated in Case No. 2012-00520 that by the end of the forecasted test year, it would have booked \$3,922,247 to the Financial Accounting Standards Interpretation No. 48 ("FIN 48") liability account.¹ Identify the account where Kentucky-American books the FIN 48 liability and the FIN 48 liability balance as of December 31, 2017.

8. In Case No. 2012-00520 Kentucky-American stated that the ratepayers would benefit if the IRS allows the FIN 48 deductions or the statute of limitations expires. Identify the date the statute of limitations will expire on the FIN 48 deductions.

9. Refer to the responses to the Staff's First Request, Item 9.

¹ Case No. 2012-00520, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year*, (Ky. PSC Oct. 25, 2013) at 19.

a. Kentucky-American provided for purposes of discussion excess ADIT related to plant of \$30,163,661 and the excess for non-plant of \$2,618,551. Confirm that the non-plant is the unprotected ADIT and the Plant is the protected. If this cannot be confirmed, provide an explanation.

b. Provide copies of the work papers, assumptions, and the calculations Kentucky-American used to estimate the excess ADIT's referenced in Item 7.a.

c. Identify the amount of excess ADIT that is associated with the FIN 48 liability and if it is reported in the protected or the unprotected estimates.

d. Kentucky-American states that it has developed a reasonable estimate to simulate an amortization period for the protected ADIT pursuant to Reverse South Georgia Method ("RSGM"). Provide the Kentucky-American's estimated RSGM amortization period.

e. Calculate Kentucky-American's estimate of the amortization of excess protected ADIT using RSGM.

f. Explain why the 2008 consent decree with the IRS, requiring Kentucky-American to use a normalized method of accounting for tax repairs, would affect the amortization of the protected ADIT.

g. Kentucky-American states that it requires greater precision to be able to estimate excess ADIT for rate purposes and that it will be able to do so in the first or second quarter of 2019. Provide a detailed explanation of what Kentucky-American will know in 2019 that will enable it to calculate a more accurate estimate of excess ADIT

than it can calculate now and the degree to which the 2019 estimate will be more accurate than a current estimate.

10. Explain if the majority of the 2017 unprotected ADIT is recorded in Kentucky-American's "FIN" 48 liability Account.

11. In its response to Item 17 of Staff's First Request, Kentucky-American states that it is using the software package PowerTax. In responding to a Commission Staff Post Hearing Request, Item 22.a. in Case No. 2017-00321 on March 23, 2018, Duke Energy Kentucky Inc. ("Duke Kentucky") provided a file that contains every record maintained in Duke Kentucky's PowerTax system that supports the PP&E Deferred Taxes and includes a pivot table that helps to summarize the details into Protected vs. Unprotected excess deferred taxes. Provide the same file or a file that contains the same information to the extent that Kentucky American's PowerTax system will allow. If Kentucky-American is physically or technologically not able to produce or does not have some of the information contained in Duke Kentucky's file, provide a similar file with any and all other information that Kentucky-American is able to provide and explain why Kentucky-American is not able to provide the information included in the file produced by Duke Kentucky and not included in the file produced by Kentucky-American. Define any column or category heading in any document produced.

12. Please admit or deny that the TCJA permits excess federal ADIT that arose from accelerated or bonus tax depreciation of public utility property to be amortized in computing a utilities cost of service for ratemaking purposes using the alternative method, also known as the Reverse South Georgia Method, if the utility lacks the information necessary to apply ARAM. Explain the basis for your response.

13. State whether Kentucky-American has the information necessary to calculate the rate at which excess federal ADIT may be amortized using ARAM such that it could perform the calculation as of the date of its response to this Item. If Kentucky-American currently does not have the information necessary to calculate ARAM, describe all information that it lacks in detail as of the date of its response to this Item, state whether or not it currently knows if it will be able to obtain that information, describe what it is currently doing to obtain that information, and state when it contends it will know whether or not it is able to obtain each item of information and why it will take until then to make that determination as to each item of information.

14. State whether Kentucky-American agrees that it was required by the Kentucky Public Service Commission to compute depreciation for public utility property on the basis of either an average life or composite life. If you do not agree, please explain the basis for your response.

15. Refer to Kentucky-American's response to Item 9 of the Staff's First Request in which Kentucky American states "while the question may contemplate that the necessary offsets in revenue requirements would be addressed pursuant to setting rates." Identify any and all offsets you are referring to therein by describing the offsets; providing the amount of each offset that Kentucky-American contends should apply, why Kentucky American contends that each offset should apply; and the effect that Kentucky-American contends each offset should have on the revenue requirements.

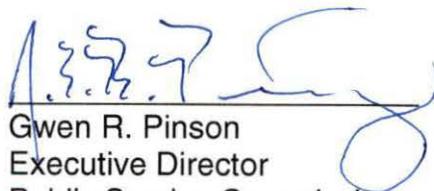
16. Refer to the definition of "excess tax reserve" in the TCJA. State whether Kentucky-American agrees that the definition of "excess tax reserve" as used in the TCJA

contemplates calculating the “excess tax reverse” using historical data available as of December 31, 2017. Explain the basis for your response in detail.

17. Refer to Kentucky-American’s response to Item 1 of the Staff’s First Request in which Kentucky American refers to “a one-time land sale.” Describe the property that Kentucky-American is referring to therein.

18. Provide all supporting schedules, calculations and documentation in Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible.

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for 
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Public Service Commission
P.O. Box 615
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DATED APR 06 2018

cc: Parties of Record

Case No. 2018-00042

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