

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On November 9, 2018, Kentucky-American Water Company (Kentucky-American) filed its Ordering Paragraph 2 Report (Report) on its progress in determining the amount of excess Accumulated Deferred Income Taxes (ADIT) to be returned to customers as a result of the Tax Cuts and Jobs Act (TCJA). The Report was filed in response to the Commission's August 30, 2018 Order approving reductions in water and sewer rates to reflect a decrease in tax expense due to the lowering of the corporate federal income tax (FIT) rate from 35 to 21 percent as part of the TCJA. That Order also found that the lower federal income tax rate results in excess ADIT, but Kentucky-American lacked sufficient information to determine whether the excess ADIT can be amortized using the Average Rate Assumption Method (ARAM) or the Reverse South Georgia Method (RSGM). Because using an estimate based on RSGM could result in a tax normalization rule violation, that Order directed Kentucky-American to file with the Commission, within 30 days of the earlier of the filings of its 2017 federal income tax return or its determination of which amortization methodology can be used, a plan for refunding the excess ADIT resulting from the TCJA since January 1, 2018.¹

¹ August 20, 2018 Order, Ordering Paragraph 2.

Kentucky-American's Report states that its federal tax return that it filed on October 12, 2018, describes the status of its efforts regarding the use of the ARAM or the RSGM methodology, and proposes a plan for refunding any excess ADIT. Kentucky-American believes that it must use ARAM as it has determined that its property records and software are sufficient to establish and maintain the ARAM calculation.² Kentucky-American states that ARAM will produce a fair and economical calculation because the excess ADIT that accumulated over the life of the assets will be amortized and refunded to customers over the remaining life of the assets.³

Kentucky-American updated the Commission on the progress towards populating the PowerPlant/Power Tax software to be used in the ARAM calculation, noting that the process is near completion and PowerPlant is now in the first testing phase.⁴ Kentucky-American stated that work towards aligning data and setting up the interfacing between the PowerPlan and PowerTax modules has begun so that the required data is available to be interfaced into the Deferred Tax module of PowerTax where the ARAM calculation will take place.⁵ Additionally, Kentucky-American stated that it is progressing in the setup of the book depreciation alignment to the tax records, which again is important for the ARAM calculation and for the analysis needed to quantify what is protected versus unprotected excess ADIT. Kentucky-American estimates that the entire process will be completed by the first or second quarter of 2019.

² Kentucky-American's Report at 2.

³ *Id.*

⁴ *Id.*

⁵ *Id.* at 2–3.

For its plan to refund the excess ADIT, Kentucky-American proposes addressing the issue in its next rate case. Kentucky-American states that it submitted a notice of intent to file a general adjustment of rates on October 26, 2018, and the Commission notes that the rate case application was filed as Case No. 2018-000358 on November 28, 2018.⁶ Kentucky-American's Report states that although the excess ADIT amounts will not be known with certainty at the time the rate case is filed, the issue of excess ADIT will be addressed in its direct testimony and the exact amounts of excess ADIT will be provided in the rate case as soon as they are known.⁷ Kentucky-American further states that if the exact amounts of excess ADIT cannot be determined in time to be incorporated into its rate case, the Commission can use the instant tax case to determine the excess ADIT amounts and the appropriate amount of refunds to customers.⁸

The only intervenor in this case, the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention, filed no response to Kentucky-American's proposal to determine the amounts of excess ADIT and the appropriate refunds in its pending rate case.

Based on a review of the Report and being otherwise sufficiently advised, the Commission finds that the determination of the amounts of excess ADIT and the rate issues in Case No. 2018-00358 present similar questions of fact and law arising under the TCJA and consolidation of the two cases will not prejudice the rights of any party or the public interest. Consolidating these two cases will provide a more thorough review of

⁶ Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates*, filed Nov. 28, 2018.

⁷ Kentucky-American's Report at 3.

⁸ *Id.* at 3–4.

all impacts that the excess ADIT will have on Kentucky-American's future revenue requirement and the amount of customer refunds resulting from the excess amounts of ADIT since January 1, 2018. To achieve administrative efficiencies and reduce the expenditure of resources, the Commission will consolidate Case No. 2018-00042 into Case No. 2018-00358. The record of Case No. 2018-00042 will be incorporated by reference into Case No. 2018-00358, and all future filings should be made in Case No. 2018-00358.

IT IS THEREFORE ORDERED that:

1. Case No. 2018-00042 is consolidated into Case No. 2018-00358, and all remaining issues in Case No. 2018-00042 related to determining the amounts of excess ADIT since January 1, 2018, and customer refunds for those amounts shall be adjudicated in Case No. 2018-00358.
2. The record of Case No. 2018-00042 is incorporated by reference into Case No. 2018-00358.
3. All documents related to Case No. 2018-00042 filed on and after the date of this Order shall be filed in Case No. 2018-00358.
4. Case No. 2018-00042 is closed and removed from the Commission's docket.

By the Commission

ENTERED
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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


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