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VIA E-FILE AND FIRST CLASS MAIL

April 4, 2018

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
400 North Street
Harrisburg, PA 17120

RE: Docket No. M-2018-2641242 Request for Information

Dear Secretary Chiavetta:

Enclosed are the responses to the requests for information issued by the Pennsylvania Public Utility Commission in its Order in the above referenced docket.

Please do not hesitate to contact me if you have any questions or concerns.

Best regards,

James C. Cagle
Vice President, Rates and Regulatory Affairs

CC: Erin Laudenslager (via e-mail)
James Mullins (via e-mail)

SUEZ Water Pennsylvania Inc.

Responses to the Pennsylvania Public Utility Commission Data Request
Docket M-018-2641241

1. How does the reduction in the corporate Federal Income Tax rate from 35% to 21% affect your federal tax obligations for calendar year 2018 and subsequent tax years? Please quantify your response as to the effect on both current and deferred tax obligations.

Response:

As currently in place, and as related to SUEZ Water Pennsylvania ("SWPA"), the modification having the greatest direct impact is the immediate reduction of the corporate income tax rate from 35% to 21% ("The FIT rate"). This change reduces both current and deferred Federal Income Tax Expense for the Company and reduces the amount of Accumulated Deferred Income Tax ("ADIT") required to be recognized on the Company's balance sheet. In addition, the Tax Cuts and Jobs Act ("TCJA") eliminated the exemption for water and sewer utilities from recognizing Contributions in Aid of Construction ("CIAC") as taxable income.

The pro-forma effect on 2017 is included in Attachment 1 as calculated in the format requested by the Commission in its Order. While 2018 and following have not been calculated, the Company intends to file a base rate case in April 2018 which will incorporate the impacts of the TCJA.

At a minimum, the passage of the TCJA was highly partisan and, according to many projections will add substantially to the Federal deficit over time. SUEZ believes therefore that it is likely that in the near future, other substantive changes could again be made to the IRC which could additionally impact the Company. As a result, due to the ongoing level of uncertainty, the Company's responses to these information requests are made with an eye to future changes.

2. If a reduced tax obligation is passed through to ratepayers, explain the methodology to be used to compute the reduction, the rate mechanism to accomplish the reduction, and the allocation among customer classes.

Response: SWPA believes that changing rates outside of a base rate case constitutes single-issue ratemaking. With any such proceeding which considers a limited issue, due care should be taken such that any resulting change in rates fully considers the issue and does not impact other issues more appropriately determined in a full rate case. As mentioned in response to item 1 above, the Company intends to file a base rate case in April 2018 which will incorporate the impacts of the TCJA.

3. If any of the potential tax savings from the reduced federal corporate tax rate can be used for purposes other than to reduce customer rates, provide details on how and where those tax savings can be used.

Response: While the reduction in cost related to the change in the income tax rate will ultimately benefit customers, there are possible alternatives to an immediate rate reduction. One alternative to reducing rates immediately would be to utilize the savings to fund infrastructure projects thereby reducing the future cost to ratepayers.

4. Does the company have any Net Operating Losses (NOL) as of 12/31/17? Please quantify the impact of the Tax Cuts and Jobs Act (TCJA).

Response: SWPA currently has no NOLs.

5. Does the company have any Deferred Tax Liabilities as of 12/31/17? Please quantify the impact of the Tax Cuts and Jobs Act (TCJA).

Response: Yes. The effects from the TCJA have been deferred upon the books and records of the Company consistent with Generally Accepted Accounting Principles ("GAAP"), and consistently applied regulatory principles. GAAP requires that the Company reflect the effects of the change in ADIT in the 2017 financial statements resulting from the change in the FIT rate from 35% to 21%. Also, because the Company is rate regulated and subject to the jurisdiction of the Commission, that change in the total balance of ADIT has been reflected as a regulatory liability on the Company's balance sheets as of December, 31, 2017. The effects of the TCJA are neutral to the Company's balance sheet and rate base.

SWPA has included with this letter Attachment 2 showing the transactions and, referencing that attachment, the sum of the regulatory liability and post TCJA ADIT is equivalent to the pre-TCJA ADIT. For ratemaking purposes, ADIT is a reduction in the Company's rate base and the resultant regulatory liability would also be considered a reduction to rate base. Therefore, the impact of the TCJA for this entry is neutral to the Company's balance sheets and "per book" rate base as of December 31, 2017.

The change in ADIT related to certain items will change the related tax sensitive item if that tax sensitive item is grossed-up for income taxes. Consequently, the change in ADIT should not be included in the regulatory liability but should change the related tax sensitive item in the same amount. The schedule adjusts for such items.

The regulatory liabilities established (or portion thereof) which were contributed by customers should be returned to customers over an appropriate amortization period. This amortization period for the amount of the regulatory liability which arose from normalized ADIT amounts is considered "protected" and per the IRC, may be amortized no faster than over the period in which the related ADIT would have otherwise reversed. As this amount is amortized, the amortization should result in a decrease in current expenses and an incremental increase in rate base of the amount of the amortization (net of the ongoing income tax impacts). When rates are reset, the Company believes those impacts on rates must be taken into account regardless of the direction of the adjustment.

The amortization period for the amount of the regulatory liability which arose from amounts not considered normalized are "unprotected" and may be amortized over a period different from those protected. We believe that the Commission should consider carefully the appropriate amortization periods for this amount.

As noted in the response to item 1 above, while SWPA believes that significant changes could be made to the IRC reversing many of the impacts of the TCJA, it and the Commission must act consistent with their understanding of the IRC at this time, but should consider within that decision, ways to mitigate more radical impacts in the event future adjustments are made. A significant change impacting the level of ADIT required by GAAP and, particularly with the amount of the "unprotected" regulatory liability if amortized inappropriately quickly, could require a later charge to customers or create a further permanent regulatory asset.

The Company believes the disposition of the amortization of the regulatory liabilities are best addressed in a base rate filing. The decreasing nature of the regulatory liability calls into question the appropriate level of rate base adjustment needed over the period before the next base rate case. In the meantime, SWPA believes the regulatory liabilities should be held at their current levels effectively reducing rate base (net of the associated ADIT). To place context around the amounts, the amount of the amortization including the rate base impact is approximately 0.6% of current revenues.

6. Are there any impacts on riders/surcharges resultant from the TCJA? If so, please explain.

Response: The Company's DSIC surcharge includes an income tax component. However, the Company's surcharge is currently capped at 7.5% including the change in income tax rate.

7. Are there any other changes made in the TCJA that will impact the company? If so, please explain.

The TCJA eliminated the exemption for water and sewer utilities from recognizing Contributions in Aid of Construction ("CIAC") as taxable income. CIAC for both electric and gas utilities have been taxable since at the Tax Reform Act of 1986. As a result of the taxability of the contribution, utilities commonly required the contributor to pay for the income tax consequences of the taxability of the contribution so that the utility's customers would not subsidize the contributor. While water and Sewer utilities had been exempt from the "taxable CIAC" since 1996, the TCJA eliminated that exemption.

The Company has investigated how taxable CIAC has been addressed in other of SUEZ' regulatory jurisdictions and would propose that SWPA be authorized to gross-up the CIAC charged to developers at the net present value of cash flows resulting from the taxability of the CIAC and the future deductibility for income tax purposes of the resulting asset. Additionally, the Company would propose that the deferred income tax impact of such a transaction be held outside of the ratemaking process such that water service customers are not impacted. The Company would also propose to utilize the actual structure and debt cost rate of SUEZ Water Resources (SWPA's immediate parent) and the water proxy group return on equity amount in effect as of December 31 of each year. The Company proposes to update this calculation once per year.

The TCJA's elimination of the exemption of water and sewer companies does not impact either SWPA's regulatory liability or the ongoing change in total income tax expenses for ratemaking purposes resulting from the TCJA at this time.

8. What test year should be used to quantify the new the 21% federal corporate tax rate to be effective 1/1/18?

Response: The Company believes the changes resulting from the TCJA are best addressed in the Company's upcoming base rate case filing.

The application of provisions of the TCJA are complex. An example of the recognition of this complexity is Securities and Exchange Commission 17 CFR Part 211 [Release No. SAB 118] Staff Accounting Bulletin No. 118, which is applicable to publicly traded companies under the jurisdiction of the SEC, allows corrections up to one year from the date of implementation stating: "The measurement period begins in the reporting period that includes the Act's enactment date and ends when an entity has obtained, prepared, and analyzed the information that was needed in order to complete the accounting requirements under ASC Topic 740. During the measurement period, the staff expects that entities will be acting in good faith to complete the accounting

under ASC Topic 740. The staff believes that in no circumstances should the measurement period extend beyond one year from the enactment date."

Currently, the Company is continuing to review in detail its income tax records in order to verify the balances of the regulatory liabilities subject to continued normalization ("protected") as well as those that are not ("unprotected") and has engaged an outside accounting firm to assist in that review. The Company anticipates that some change could occur to the approximated amortization period, protected vs. unprotected amounts as well as possible changes in the regulatory liability itself once all analyses are complete and as the 2017 income tax returns are filed. SWPA anticipates the 2017 income tax returns will be filed by October 15, 2018.

The immediate change in the Federal Income Tax ("FIT") rate impacts the Company's ongoing income tax expenses beginning January 1, 2018. Consequently, the Company has, and will continue to, calculate the difference in income tax expense at the 35% vs. the 21% rates beginning January 1, 2018 and record this difference to a regulatory liability until such time as the Company's rates are updated to reflect the reduction in income tax rates. The SWPA is making this calculation based upon their actual monthly results.

9. Please provide the following information regarding your last Commission approved rate case:

   a. Docket Number:

      R-2015-2462723

   b. Date filed:
      January 28, 2015

   c. Approved Rate of Return:
      Not Stated

   d. Approved Increase in Annual Revenues:
      $7.1M

   e. Allocation of Approved Increase Among Major Customer Classes:
      Please see the proof of revenues from the last base rate case filing, Attachment 3.

   f. Effective Date of new rates:
      October 29, 2015

SUEZ Water Pennsylvania Inc.
Calculation of State and Federal Income Taxes

Line No.	DESCRIPTION	Last Commission Approved Rate Case	Actual Results 12/31/2017	Ratemaking Adjustments	Proposed Adjusted 12/31/2017
	(a)	(b)	(c)	(d)	(e)
1	Operating Revenues	$43,723,576	44,803,459		44,803,459
2	Less: O&M Expenses (Including Taxes, Other than Income Taxes		(17,174,697)	411,947	(16,762,749)
3	Book Depreciation		(7,392,183)		(7,392,183)
4	Interest Expense		(3,918,093)	(567,592)	(4,485,685)
5	Operating Income before Taxes Total		16,318,486		16,162,842
6	Add: Premature Property Losses/Amortizations				
7	Depr.- Straight Line- Remaining Life (Incl COR)		7,392,183		7,392,183
8	Taxable Meals & Entertainment and Other		27,288		27,288
9	Total		7,419,472		7,419,472
	Deduct				
10	Tax Depreciation		(10,349,569)		(10,349,569)
11	MACRS On Post 1986 Assets				
	Other		(1,627,620)	1,627,620	0
12	Cost of Removal		(300,728)		(300,728)
13	Total		(12,277,917)		(10,650,297)
14	State Taxable Income		11,460,041		12,932,016
15	State Income At:				
16	Historic, Future and Fully Projected at 9.99%		(1,144,858)		(1,291,908)
17	Taxable Income after State Income Tax		10,315,183		11,640,108
18	Add:Cost of Removal Non Adr Property				
19	ACRS on Post 1980 Assets				
20	MACRS on Post 1980 Assets - State				
21	Deduct SLRL on Powt 1980 Assets and Amortization				
	Additional Federal Tax Depreciation		215,659		215,659
22	Income Subject to Federal Income Tax		10,530,842		11,855,767
	Federal Income Tax at 35%		3,685,795		4,149,518
	CTA at 35%			(1,152,992)	(1,152,992)
23	Federal Income Tax at 35% after adjustment		3,685,795		2,996,526
	Federal Income tax at 21%		2,211,477		2,489,711
	CTA at 21%			(691,795)	(691,795)
24	Federal Income tax at 21% after adjustment		2,211,477		1,797,916
			1,474,318		1,198,611

Effect of Tax Cuts and Jobs Act (TCJA) on Rates

Pre-TCJA Taxes	Net Tax Effect
Federal - Current (Page 1, Column 4, Line 23	2,996,526
Federal - Deferred	1,369,431
Less: Post TCJA Taxes	
Federal - Current (Page 1, Column 4, Line 24	1,797,916
Federal - Deferred	821,659
Effect of TCJA on Income (A)	1,198,611
Change in ADIT	547,772
Commission Approved Rate of Return (Estimated)	7.65%
Effect of ADIT Change on Income (B)	41,905
Earnings Excess (Line A - Line B)	1,156,706
Complement of Tax Rate	0.711079
Revenue Excess	1,626,691
Commission Allowed Revenues	$ 43,705,045
Percent Decrease	-3.72%

Attachment 2

SUEZ Water Pennsylvania Inc.
Accumulated Deferred Income Tax and Excess Deferred Income Tax Regulatory Liability Balances
As of December 31, 2017

Line No.	Account	Description	ADIT Balance at 12/31/2017	Adjustments	Adjusted Balance at 12/31/2017	Rate Base Related ADIT	Protected @ 21% FIT Rate	Unprotected @ 21% FIT Rate
	(a)	(b)	[c]			[d]	[e]	[f]
1	19010	Def. Federal Inc Taxes- Other	$15,085		$15,085			
2	28203	Def. FIT-MACRS	15,997,032		$15,997,032	$15,997,032	$15,997,032	
3	28206	Def FIT Pens Reg Asset FAS158	2,314,595		$2,314,595			
4	28211	Def FIT PBOP Reg Asset FAS158	(637,134)		($637,134)			
5	28300	Def. FIT Benefit on DSIT	44,282		$44,282			
6	28301	Def. FIT-Other	93,930		$93,930			
8	28303	Def. FIT-Rate Expenses	36,775		$36,775			
9	28304	Def. FIT-Deferred Charges	7,343		$7,343			
11	28306	Def. FIT-M_S Fees	(336,771)		($336,771)			
12	28307	Def. FIT-Pensions	(1,644,755)		($1,644,755)			
13	28308	Def. FIT-PEBOP	977,923		$977,923			
14	28310	Def. FIT-Cost of Removal	707,850		$707,850	707,850	707,850	
15	28311	Def. FIT-Uncollectibles	(53,674)		($53,674)			
16	28312	Def. FIT-Injuries and Damages	(192,319)		($192,319)			
17	28313	Def. FIT - AFUDC Equity	1,209,317		$1,209,317	1,209,317	1,209,317	
19								
20		Total Deferred Tax before TCJA impact [1]	18,539,479		18,539,479			
21								
22	28405	Def FIT - New Federal Tax Rate	(7,415,788)		(7,415,792)	(7,165,680)	(7,165,680)	0
	28406	Def FIT-New Federal TaxRate GU	(3,013,135)		(3,013,136)	(2,911,512)	(2,911,512)	0
23		**283 Deferred Income taxes & ITC**	**$8,110,555**	**$0**	**$8,110,551**	**$7,837,007**	**$7,837,007**	**$0**
24								
25	25316	Regulatory Liab-Tax New Federal Rate	$10,428,924	$0	$10,428,928	$10,077,192	$10,077,192	$0
26								
27		**Total ADIT and Regulatory Liability after TCJA impact (line 26 plus line 29)**	$18,539,479		$18,539,479			
28								
29		**Amortization of the Rate Base Related Regulatory Liability amount utilizing the RSGM (estimated) over 40 years**				$251,930		

[1] Sum of Lines 1 through 22

Attachment 3

UNITED WATER PENNSYLVANIA
SUMMARY OF OPERATING REVENUES
FOR THE FULLY PROJECTED TEST YEAR ENDED OCTOBER 31, 2016

Line No.	Revenue Description	Company As-Filed FPFTY at Present Rates	Growth Adjustment (1)	Consumption Adjustment (2)	Stipulated FPFTY at Present Rates	Increase	Proposed Rates	Percent Increase
1	Residential	$ 20,296,578	$ 224,504	$ 221,098	$ 20,742,180	$ 6,015,637	$ 26,757,818	29.00%
2	Commercial	8,396,242	22,260	102,591	8,521,092	2,640,538	11,161,630	30.99%
3	Industrial Water	446,014		15,969	461,983	146,779	608,763	31.77%
4	Large Industrial	571,948		(9,799)	562,149	188,161	750,310	33.47%
5	Public Authority	1,299,279		74,373	1,373,652	380,725	1,754,376	27.72%
6	Total general Metered	31,010,061	246,764	404,232	31,661,057	9,371,840	41,032,897	29.60%
7	Private Fire Protection	1,394,129			1,394,129	56,160	1,450,289	4.03%
8	Public Fire Protection	913,650			913,650	570	914,220	0.06%
9	Misc. Service Revenue	297,725			297,725	28,230	325,955	9.48%
10	DSIC Surcharge Revenue	2,430,314			2,430,314	(2,430,314)	-	-100.00%
11	Surcharge	(73,299)			(73,299)	73,299	-	-100.00%
12	Total	$ 35,972,580	$ 246,764	$ 404,232	$ 36,623,576	$ 7,099,785	$ 43,723,361	19.39%
					$ 36,623,576	$ 7,100,000	$ 43,723,576	19.39%
	Revenue Target				Variance	$ 215	215	

VERIFICATION

I, James C. Cagle, Vice President, Rates and Regulatory Affairs of SUEZ Water Inc., hereby state that the facts set forth in my responses to the Attachment B and Attachment C information requests from the February 26, 2018 Secretarial Letter are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statement herein are made, subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

James C. Cagle
Vice President, Rates and Regulatory Affairs
SUEZ Water Inc.

Dated: April 4, 2018