PENNSYLVANIA
AMERICAN WATER

Susan Simms Marsh
Deputy General Counsel
800 West Hersheypark Drive
Hershey, PA 17033

P 717-531-3208
F 717-531-3399
E susan.marsh@amwater.com
I www.amwater.com

March 9, 2018

e-File

Rosemary Chiavetta, Secretary
Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Tax Cuts and Jobs Act of 2017 ("TCJA")
M-2018-2641242

Dear Secretary Chiavetta:

Pennsylvania-American Water Company (the "Company") received the Secretarial Letter dated February 12, 2018 ("Secretarial Letter"), wherein the Commission is determining the effects of the TCJA on the tax liabilities of Commission-regulated public utilities for 2018 and future years and the feasibility of reflecting such impacts in the rates charged to Pennsylvania utility ratepayers.

The Company is submitting the enclosed responses to the data requests that accompanied the Secretarial Letter.

Sincerely,

Susan Simms Marsh

Susan Simms Marsh

Enclosure

PENNSYLVANIA-AMERICAN WATER COMPANY'S COMMENTS AND RESPONSES TO DATA REQUESTS SUBMITTED IN RESPONSE TO THE COMMISSION'S SECRETARIAL LETTER ISSUED FEBRUARY 12, 2018 REGARDING THE IMPACT OF THE TAX CUTS AND JOBS ACT OF 2017

Pennsylvania-American Water Company's Comments On The Issues Presented For Comment In The Commission's February 12, 2018 Secretarial Letter at Docket Number M-2018-2641242

(1) Whether the Commission should adjust current customer rates to reflect the reduced annual state and federal income tax expenses of public utilities due to the tax rate changes in the TCJA.

Response:

The Commission should not impose a single, "one-size-fits-all" solution on all utilities. There are significant differences among utility sectors, and between utilities within each sector, that should be considered in determining the manner in which changes in revenue requirement resulting from the reduction in the Federal corporate income tax rate made by the Tax Cuts and Jobs Act ("TCJA") should be used to benefit customers. As the Commission is aware, utilities in general are highly capital intensive, and water utilities are among the most capital-intensive companies in the utility industry because of their high rate of replacement and rehabilitation of aging infrastructure and their high levels of capital investment needed to enhance reliability, assure high-quality customer service (given that water utilities provide a commodity for human consumption), meet new and evolving drinking water and environmental mandates and assist the Commission in dealing with the state-wide problems of troubled and non-viable water and wastewater systems. The dimensions of Pennsylvania-American Water Company's ("PAWC" or the "Company") levels of annual capital investment are illuminated by the fact that, between the end of the fully projected future test year ("FPFTY") in its 2013 base rate case (December 31, 2014) through the end of the FPFTY in its last base rate (December 31, 2018), the Company will have invested over $1.26 billion in new plant and equipment.[1] Financing such high levels of annual plant additions has been an on-going challenge for water utilities, including PAWC. One of the consequences for regulated utilities of a direct and immediate pass-through of the TCJA's Federal income tax rate reduction is to reduce cash flow, reduce internally-generated funds available for new investments and stress various financial metrics that directly bear on credit ratings (and interest rates) for new and refunding debt issuances. And, it should be noted that the TCJA, in addition to reducing the Federal corporate income tax rate, eliminated "bonus" depreciation for public utility property. Moody's Investors Services recognized the adverse effects of the TCJA on public utilities in its Rating Action report issued on January 19, 2018,[2] where it expressed the general view of credit rating agencies that "tax reform is credit negative for US regulated utilities." In Data Request No. 3, the Commission appears to recognize that utility customers may receive a more

[1] *See* PAWC St. 1, p. 5, and PAWC St. 3, pp. 3-36 and 41-50 at Docket No. R-2017-2595853, et al.

[2] www.moodys.com/research/Moodys-changes-outlooks-on-25-US-regulated-utilities.

significant, substantial and lasting benefit by using the TCJA's reduction in tax expense to fund important reliability and service-related capital investments rather than providing a temporary rate reduction through a direct pass-through of tax savings to be followed by significant rate increases. As explained in more detail in the Company's response to Data Request No. 3, there are one or more specific programs that could be funded by the tax reduction created by the TCJA that would produce longer-term savings to customers, provide immediate service-related benefits and reduce the risk of adverse impacts on financing costs that otherwise could result from the stress on the Company's financial metrics created by the TCJA. Accordingly, the Commission should not adjust PAWC's current base rates to reflect the estimated effects of the TCJA's tax law changes and, instead, should adopt the Company's proposal for the use of any TCJA differential in the manner set forth in the Company's response to Data Request No. 3. The Company's proposal will provide direct benefits to customers, including enhancements in service and reliability, and stabilize rates by avoiding a temporary decrease followed by incrementally higher increases in the near-term future.

(2) If so, the appropriate negative surcharge or other methodologies that would permit immediate modifications to consumer rates.

Response:

See the Company's response to Issue No. 1, above.

(3) Whether the surcharge or other methodology should provide that any refunds to customers due to these reduced taxes be effective as of January 1, 2018.

Response:

With respect to the manner in which the tax rate reduction should be recognized and applied to benefit customers, see the Company's response to Issue No. 1, above. The attempt to require utilities to make "refunds" of amounts collected under their Commission-approved rates since January 1, 2018 would violate the principle of "Commission-made rates" and the prohibition against retroactive ratemaking. Any calculation of the tax benefit to which customers are entitled (either as applied to funds used for new investments, as the Company proposes, or as a reduction in current rates) must start on the date that the Commission, after notice and a hearing, determines that existing rates are not just and reasonable, and may be effective only on a prospective basis.

Pennsylvania American Water Company's
Verified Responses (Consolidated With Respect To Water and Wastewater Operations) To The Commission's Data Requests In Attachment B To The February 12, 2018 Secretarial Letter at Docket Number M-2018-2641242

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:

Please refer to Exhibit No. 1, which shows the calculation of the impact on the Company's revenue requirement of the change to the corporate Federal income tax rate from 35% to 21% based on the spreadsheet template provided as Attachment C to the Commission's Secretarial Letter. This calculation is based on data from the Company's most recent base rate case at Docket No. R-2017-2595853, where base rates were established for water and wastewater service utilizing calendar year 2018 as the Company's FPFTY.

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:

Although the Company does not support an immediate pass-through to customers of the reduction in tax expense created by the TCJA (see the Company's responses to Issue No. 1, above, and Data Request No. 3), if the Commission were to require such a pass-through to customers, the amount of the pass-through should be based on the calculation provide by the Company in Exhibit No. 1 to these responses. The rate mechanism to accomplish the pass-through, if that approach is required, should be a negative surcharge to customers' bills that is expressed as a percentage, similar to the State Tax Adjustment Surcharge. The allocation of the reduced revenue requirement among rate classes would be based on the level of revenues by class agreed to in the Commission-approved settlement of the Company's 2017 base rate case.

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:

Pennsylvania American Water is recommending that any projected TCJA differential created by the change in the corporate federal income tax rate from 35% to 21% be deferred into a regulatory liability account and used as a balancing account for the following items:

1. Offset future customer increases associated with the Company's DSIC program. The Company's would not implement water or wastewater DSIC charges until after its next base rate case. The DSIC revenue that would have been recovered by DSIC charges imposed on customers' bills beginning in April 2019 would still be recorded as revenue but will be offset by the regulatory liability/balancing account established with the projected TCJA differential. In this way, rate stability can be maintained and the Company can avoid the potential customer confusion and potential issues for customers trying to budget their utility costs that would be created by providing a temporary bill credit followed by bill increases that would be incrementally higher because of the expiration of that bill credit.

2. Offset tax liabilities the Company will incur based on the change in the taxability of contributions and advances. Please refer to the Company's response to Data Request No. 7.

3. Offset the cost of the "Customer Side Lead Service Line Replacement Program." (Docket No. P-2017-2606100)

4. Any remaining balance in the regulatory liability account at the time of the Company's next base rate case will be flowed back to customers and reduce the resulting base rate increase.

Please refer to Exhibit No. 2 for an example of how the balancing account would function.

Deferral of the revenue excess would directly benefit the customers of PAWC by ensuring stable rates for the next few years, proactively addressing customer side lead service lines, increasing the customer base and offsetting future rate increases associated with continued investments to upgrade the system.

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:

In the Company's most recent base rate case at Docket No. R-2017-2595853, which established base rates that become effective January 1, 2018, the Company, in the calculation of its claimed income tax expense through the end of the FPFTY (December 31, 2018), provided to customers the benefit of all NOLs that existed as of December 31, 2017. However, because the FPFTY has not yet ended, the Company is still showing an NOL on its books of account. The estimated federal NOL is $85.3 million at December 31, 2017, and the estimated State NOL is $18.7 million at that date.

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).

Yes, the Company had deferred tax liabilities, as well as deferred tax assets, on its books of account as of December 31, 2017. The Company recognizes that the deferred tax liabilities and deferred tax assets will need to be re-measured based on the change in the Federal corporate income tax rate. The Company's initial estimate of the excess accumulated deferred income tax ("ADIT") that will result from the rate reduction enacted under the TCJA is $318.7 million. The Company is unable at this time to calculate with the appropriate degree of precision the re-measurement, including methods and amortization periods, of net ADIT, and, therefore, the estimate provided above is subject to change. As utilities and accounting professionals work through the impact of the TCJA, some tax changes may not be fully recognized for some time in the future because accounting and tax guidance is still being developed by Congress and the Internal Revenue Service that is needed to clarify how various provisions of the new law should be interpreted and applied. As a consequence, any December 31, 2017 estimates will need to be modified when the Company files its 2017 tax returns. Therefore, any impacts resulting from the re-measurement of the Company's ADIT at December 31, 2017 should be deferred till the Company next base rate case. It should be noted that customers are receiving the benefit of the higher level of ADIT as reduction to rate base because that higher level of ADIT was already reflected in setting the Company's existing rates. The flow-back of re-measured ADIT would have to be accompanied by a ratable increase in rate base to reflect the resulting reduction in the ADIT rate-base offset.

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

RESPONSE:

There is no effect on any Company riders or surcharges because the Company is not currently charging any rider-based charge or surcharge. Any future Distribution System Improvement Charge ("DSIC") filing to reflect new DSIC-eligible investment made in 2019 in excess of levels reflected in the FPFTY plant in service included in its 2017 base rate case will be calculated at the 21% Federal corporate federal income tax rate that became effective on January 1, 2018.

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

RESPONSE:

Yes. In addition to the change in the federal income tax rate, the TCJA also made the following changes:

- Bonus depreciation has been eliminated for regulated utilities' capital projects that commence after September 27, 2017.
- Contributions in Aid of Construction ("CIAC") and Customer Advances for Construction ("CAC") received after January 1, 2018 will be taxable to water and wastewater utilities.
- The deduction for domestic manufacturing activities has been eliminated.
- Limitations are imposed on interest deductibility, from which regulated utilities have been exempted.
- Further limitations have been imposed on deductions for meals and for compensation in excess of $1 million, effective as of January 1, 2018.

The most significant of the items identified above are the elimination of bonus depreciation and the provisions making CIAC and CAC taxable when received by water and wastewater utilities.

As previously note, upon the effective date of the TCJA, CIAC and CAC received by the Company will be treated as taxable income. CIAC includes, in addition to developer payments for main extensions, payments received from the Pennsylvania Department of Transportation for main relocations required by highway construction. CAC is driven by payments made for the extension of utility facilities to furnish service and are subject to refund. The Company plans to adopt the "no gross-up" method of billing and accounting for CIAC and CAC. Under this method, the income taxes associated with CIAC and CAC will be recorded in a deferral account equivalent to recording a deferred tax asset and, as such, will reduce ADIT liabilities in future base rate cases. The future tax depreciation on plant additions funded by non-grossed-up CIAC and CAC will cause the deferred tax asset to reverse over the tax life of such plant additions, thus increasing net ADIT liabilities as the tax benefit of the additional tax depreciation is realized. Such future tax depreciation will not be reflected in calculating tax expense for ratemaking purposes in future base rate cases. Under the no gross-up method, the income taxes paid by the Company on CIAC/CAC are not charged to the party paying the CIAC/CAC nor are they included in revenue requirement used to establish rates for service to other customers. Future tax depreciation on such contributed property will provide a tax benefit (through depreciation deductions) that equals the nominal amount of the income tax paid by the Company when the CIAC/CAC was included in its taxable income in the year such CIAC/CAC was received. The time value associated with the lag between the Company's payment of income taxes on CIAC/CAC and future recovery of those amounts through depreciation deductions is recognized by the increase in rate base that results from treating the deferred amount as a deferred tax asset that offsets ADIT. When the no gross-up method is employed, the Internal Revenue Service's regulations require the tax-book timing difference to be normalized by reflecting the deferred amount in rate base.

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

RESPONSE:

For PAWC, the test year used to quantify the impact of the 21% Federal corporate tax rate should be the FPFTY (2018) employed in the Company's most recent base rate case at Docket No. R-

2017-2595853. Any calculation of the tax benefit based on the projected TCJA differential to which customers are entitled (either as applied to funds used for new investments, as the Company proposes, or as a reduction in current rates) must start on the date that the Commission, after notice and a hearing, determines that existing rates are not just and reasonable, and may be effective only on a prospective basis.

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

   a. Docket Number

      RESPONSE:R-2017-2595853

   b. Date filed

      RESPONSE: April 28, 2017

   c. Approved Rate ofReturn

      RESPONSE:

      This rate case was resolved by a black box settlement. To calculate the scale-back of the revenue increase among water operations, wastewater operations excluding the Scranton wastewater system and the Scranton wastewater operations, an overall rate of return of 7.54% was used for water operations and 6.91% for the Scranton and non-Scranton wastewater operations. (The difference in overall rates of return reflected differences in capitalization ratios and long-term debt costs for the Company's water and wastewater operations.)

   d. Approved Increase in Annual Revenues

      RESPONSE:

      Total - $61,850,000

      Water - $56,281,588

      Wastewater Excluding Scranton - $2,907,194

      Scranton Wastewater - $2,661,218

   e. Allocation of Approved Increase Among Major Customer Classes

      RESPONSE: Please refer to Exhibit No. 3

f. Effective Date of new rates

RESPONSE: January 1, 2018

Pennsylvanian American Water
M-2018-2641242

Summary - Projected TCJA Differential
Based on a fully projected future test year ending 12/31/18
Docket No. R-2017-2595853

	Projected TCJA Differential	Commission Allowed Revenues *	Projected Percentage Differential
Water	$ 44,159,256	$ 650,770,004	6.79%
Wastewater Excluding Scranton	2,008,087	26,162,255	7.68%
Scranton Wastewater	1,333,856	24,624,943	5.42%
TCJA Impact	$ 47,501,199	$ 701,557,202	6.77%

* Adjusted to eliminate contract sales and other water revenue

Pennsylvania American Water Company

Calculation of State and Federal Income Taxes

Water Operations
M-2018-2641242

Line No.	DESCRIPTION	Last Commission Approved Rate Case R-2017-2595853 FPFTY 12/31/18	Actual Results 12/31/17 *	Ratemaking Adjustments	Proposed Adjusted R-2017-2595853 FPFTY 12/31/18
1	Operating Revenues	$ 662,886,312	$ 615,794,390	$ 47,091,922	$ 662,886,312
2	Less: O&M Expenses & Taxes Other than Income	215,705,163	187,516,144	28,189,019	215,705,163
3	Book Depreciation	122,156,965	104,927,806	17,229,159	122,156,965
4	Interest Expense	66,627,519	63,877,480	2,750,039	66,627,519
				-	-
	Operating Income before Taxes Total	$ 258,396,665	$ 259,472,960	$ (1,076,295)	$ 258,396,665
6	Add: Premature Property Losses/ Amortizations	801,037	931,027	(129,990)	801,037
7	Depr- Straight Line- Remaining Life (Incl COR)	121,355,928	103,996,779	17,359,149	121,355,928
8	Taxable Meals & Entertainment	211,347	159,671	51,677	211,347
9	Total	$ 122,368,312	$ 105,087,477	$ 17,280,836	$ 122,368,312
	Deduct				
10	Tax Depreciation	351,730	393,813	(42,083)	351,730
11	MACRS On Post 1986 Assets	108,232,062	102,130,814	6,101,248	108,232,062
12	Cost of Removal	10,118,367	10,276,471	(158,104)	10,118,367
13	Total	$ 118,702,159	$ 112,801,098	$ 5,901,061	$ 118,702,159
14	State Taxable Income	$ 262,062,818	$ 251,759,339	$ 10,303,479	$ 262,062,818
15	State Income At:				
16	Historic, Future and Fully Projected At 9.99%	$ 26,180,076	$ 25,150,758	1,029,318	26,180,076
17	Taxable Income after State Income Tax	235,882,742	226,608,581	9,274,162	235,882,742
18	Add: Cost Of Removal Non Adr Property				
19	ACRS On Post 1980 Assets	-	-	-	-
20	MACRS On Post 1980 Assets- State	108,232,062	102,130,814	6,101,248	108,232,062
21	Deduct: SLRL On Post 1980 Assets & Amortization	108,879,411	91,078,057	17,801,354	108,879,411
22	Income Subject To Federal Income Tax	$ 235,235,393	$ 237,661,338	$ (2,425,944)	$ 235,235,393
23	Federal Income Tax at 35%	$ 82,332,388	$ 83,181,468	$ (849,081)	$ 82,332,388
24	Federal Income Tax at 21%	$ 49,399,433	$ 49,908,881	$ (509,448)	$ 49,399,433

*Unaudited

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

Water Operations
M-2018-2641242

Pre TCJA Taxes		Net Tax Effect	
Federal- Current (Page 1, Column 4, Line 23)	$	82,332,388	
Federal- Deferred	$	28,779,563	
Less: Post TCJA Taxes			
Federal- Current (Page 1, Column 4, Line 24)	$	49,399,433	
Federal- Deferred	$	8,458,135	
Effect of TCJA On Income (A)	$	32,932,955	
Change in ADIT	$	20,321,428	
Commission Approved Rate of Return		7.54%	*
Effect of ADIT Change on Income (B)	$	1,532,236	
Earnings Excess (Line A - Line B)	$	31,400,719	
Complement of Tax Rate		0.711079	
Revenue Excess	$	44,159,256	
Commission Allowed Revenues	$	650,770,004	**
Percent Decrease Per Bill		-6.79%	

* Base rate case resulted in a black box settlement, ROR of 7.54% was used to scale back initial filing to settlement amount

**			
**	Operating Revenues Page 1	$	662,886,312
	Plus: Act 11 Transfer of Wastewater Rev. Requirement to Water		4,700,000
	Commission Allowed Revenues		667,586,312
	Less: Industrial Contract Sales		2,867,888
	Resale Contract Sales		1,652,978
	Other Operating Revenues		12,295,442
	Commission Allowed Revenues (Water Sales excluding contract customers)	$	650,770,004

Pennsylvania American Water Company

Calculation of State and Federal Income Taxes

Wastewater Operations Excluding Scranton
M-2018-2641242

Line No.	DESCRIPTION	Approved Rate Case R-2017-2595853 FPFTY 12/31/18	Actual Results 12/31/17 *	Ratemaking Adjustments	Proposed Adjusted R-2017-2595853 FPFTY 12/31/18
1	Operating Revenues	$ 29,318,091	$ 23,395,164	$ 5,922,927	$ 29,318,091
2	Less: O&M Expenses	7,737,936	7,629,536	108,400	7,737,936
3	Book Depreciation	5,471,462	6,509,312	(1,037,850)	5,471,462
4	Interest Expense	4,714,083	4,519,510	194,573	4,714,083
				-	-
	Operating Income before Taxes Total	$ 11,394,610	$ 4,736,806	$ 6,657,804	$ 11,394,610
6	Add: Premature Property Losses/ Amortizations	73,785	50,477	23,308	73,785
7	Depr- Straight Line- Remaining Life (Incl COR)	5,397,677	6,458,835	(1,061,158)	5,397,677
8	Taxable Meals & Entertainment	2,754	2,134	620	2,754
9	Total	$ 5,474,216	$ 6,511,446	$ (1,037,230)	$ 5,474,216
	Deduct				
10	Tax Depreciation	-		-	-
11	MACRS On Post 1986 Assets	8,886,469	6,752,948	2,133,521	8,886,469
12	Cost of Removal	42,007	482,303	(440,296)	42,007
13	Total	$ 8,928,476	$ 7,235,251	$ 1,693,225	$ 8,928,476
14	State Taxable Income	$ 7,940,350	$ 4,013,001	$ 3,927,349	$ 7,940,350
15	State Income At:				
16	Historic, Future and Fully Projected At 9.99%	$ 793,241	$ 400,899	392,342	793,241
17	Taxable Income after State Income Tax	7,147,109	3,612,102	3,535,007	7,147,109
18	Add: Cost Of Removal Non Adr Property				
19	ACRS On Post 1980 Assets	-	-	-	-
20	MACRS On Post 1980 Assets- State	8,886,469	6,752,948	2,133,521	8,886,469
21	Deduct: SLRL On Post 1980 Assets & Amortization	5,429,455	6,027,009	(597,554)	5,429,455
22	Income Subject To Federal Income Tax	$ 10,604,123	$ 4,338,041	$ 6,266,082	$ 10,604,123
23	Federal Income Tax at 35%	$ 3,711,443	$ 1,518,314	$ 2,193,129	$ 3,711,443
24	Federal Income Tax at 21%	$ 2,226,866	$ 910,989	$ 1,315,877	$ 2,226,866

*Unaudited

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

Wastewater Operations Excluding Scranton
M-2018-2641242

		Net Tax Effect	
Pre TCJA Taxes			
Federal- Current (Page 1, Column 4, Line 23)	$	3,711,443	
Federal- Deferred	$	1,786,016	
Less: Post TCJA Taxes			
Federal- Current (Page 1, Column 4, Line 24)	$	2,226,866	
Federal- Deferred	$	965,921	
Effect of TCJA On Income (A)	$	1,484,577	
Change in ADIT	$	820,095	
Commission Approved Rate of Return		6.91%	*
Effect of ADIT Change on Income (B)	$	56,669	
Earnings Excess (Line A - Line B)	$	1,427,909	
Complement of Tax Rate		0.711079	
Revenue Excess	$	2,008,087	
Commission Allowed Revenues (WW Sales)	$	26,162,255	**
Percent Decrease Per Bill		-7.68%	

* Base rate case resulted in a black box settlement, ROR of 6.91% was used to scale back initial filing to settlement amount

**			
	Operating Revenues Page 1	$	29,318,091
	Less: Act 11 Transfer of Wastewater Rev. Requirement to		2,383,000
	Commission Allowed Revenues		26,935,091
	Less: Other Operating Revenues		772,836
	Commission Allowed Revenues (Wastewater Sales)	$	26,162,255

Pennsylvania American Water Company

Calculation of State and Federal Income Taxes

Scranton Wastewater Operations
M-2018-2641242

Line No.	DESCRIPTION	Approved Rate Case R-2017-2595853 FPFTY 12/31/18	Actual Results 12/31/17 *	Ratemaking Adjustments	Proposed Adjusted R-2017-2595853 FPFTY 12/31/18
1	Operating Revenues	$ 26,941,943	$ 21,471,029	$ 5,470,914	$ 26,941,943
2	Less: O&M Expenses	12,046,868	9,839,877	2,206,991	12,046,868
3	Book Depreciation	3,542,446	3,195,972	346,474	3,542,446
4	Interest Expense	3,319,161	3,182,163	136,998	3,319,161
				-	-
	Operating Income before Taxes Total	$ 8,033,468	$ 5,253,017	$ 2,780,451	$ 8,033,468
6	Add: Premature Property Losses/ Amortizations	74,436	-	74,436	74,436
7	Depr- Straight Line- Remaining Life (Incl COR)	3,468,010	3,195,972	272,038	3,468,010
8	Taxable Meals & Entertainment	-	4,217	(4,217)	-
9	Total	$ 3,542,446	$ 3,200,189	$ 342,258	$ 3,542,446
	Deduct				
10	Tax Depreciation	-		-	-
11	MACRS On Post 1986 Assets	5,855,284	4,700,722	1,154,562	5,855,284
12	Cost of Removal	13,466		13,466	13,466
13	Total	$ 5,868,750	$ 4,700,722	$ 1,168,028	$ 5,868,750
14	State Taxable Income	$ 5,707,164	$ 3,752,483	$ 1,954,681	$ 5,707,164
15	State Income At:				
16	Historic, Future and Fully Projected At 9.99%	$ 570,146	$ 374,873	195,273	570,146
17	Taxable Income after State Income Tax	5,137,018	3,377,610	1,759,408	5,137,018
18	Add: Cost Of Removal Non Adr Property				
19	ACRS On Post 1980 Assets	-	-	-	-
20	MACRS On Post 1980 Assets- State	5,855,284	4,700,722	1,154,562	5,855,284
21	Deduct: SLRL On Post 1980 Assets & Amortization	3,528,980	3,195,972	333,008	3,528,980
22	Income Subject To Federal Income Tax	$ 7,463,322	$ 4,882,360	$ 2,580,962	$ 7,463,322
23	Federal Income Tax at 35%	$ 2,612,163	$ 1,708,826	$ 903,337	$ 2,612,163
24	Federal Income Tax at 21%	$ 1,567,298	$ 1,025,296	$ 542,002	$ 1,567,298

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

Wastewater Operations Excluding Scranton
M-2018-2641242

Pre TCJA Taxes		Net Tax Effect	
Federal- Current (Page 1, Column 4, Line 23)	$	2,612,163	
Federal- Deferred		2,174,009	
Less: Post TCJA Taxes			
Federal- Current (Page 1, Column 4, Line 24)	$	1,567,298	
Federal- Deferred		779,106	
Effect of TCJA On Income (A)	$	1,044,865	
Change in ADIT	$	1,394,904	
Comission Approved Rate of Return		6.91%	*
Effect of ADIT Change on Income (B)	$	96,388	
Earnings Excess (Line A - Line B)	$	948,477	
Complement of Tax Rate		0.711079	
Revenue Excess	$	1,333,856	
Commission Allowed Revenues	$	24,624,943	**
Percent Decrease Per Bill		-5.42%	

* Base rate case resulted in a black box settlement, ROR of 6.91% was used to scale back initial filing to settlement amount

**			
**	Operating Revenues Page 1	$	26,941,943
	Less: Act 11 Transfer of Wastewater Rev. Requirement to Water		2,317,000
	Commission Allowed Revenues		24,624,943
	Less: Other Operating Revenues		237,426
	Commission Allowed Revenues (Wastewater Sales)	$	24,387,517

Statutory State Tax Rate	9.99%
Statutory Federal Tax Rate	21%
1 minus State Tax Rate	0.9001
Federal Rate multiplied by (1 minus State Tax Rate)	0.189021
Effective Tax Rate	0.288921
1 minus Effective Tax Rate (Complement Tax Rate)	0.711079
Reciprocal	1.406314

Pennsylvania American Water

Docket No. M-2018-2641242

Regulatory Liability / Balancing Account - Function ($000s)

Example based on next rate case effective 1/1/21

Regulatory Liability / Balancing Account	2018	2019	2020	2021	Total
Deferral of Projected TCJA Adjustment (Beginning 7/1/18)	$ 23,751	$ 47,502	$ 47,502		$ 118,755
DSIC Surcharge Offset		(6,000)	(33,000)		(39,000)
Offset income tax associated with taxable CIAC and CAC		(2,975)	(2,750)		(5,725)
Transfer to Liability - customer lead service line account	(20,000)	(20,000)	(20,000)		(60,000)
Offset Future Rate Increase				(14,030)	(14,030)
Regulatory Liability / Balancing Account	$ 3,751	$ 18,527	$ (8,248)	$ (14,030)	$ -

Liability - Customer Side Lead Service Line Account	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Deferral of Projected TCJA Adjustment (Beginning 7/1/18)	$ 20,000	$ 20,000	$ 20,000								
Funding by the Company of customer side line replacement	(3,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(3,000)
Balance in Regulatory Liability - Customer Side Lead Service Line	17,000	$ 31,000	$ 45,000	$ 39,000	$ 33,000	$ 27,000	$ 21,000	$ 15,000	$ 9,000	$ 3,000	$ -

Pennsylvania American Water Company

M-2018-2641242

R-2017-2595853 (Rates Effective 1/1/18)

Water Operations

Customer Classification	Rate Increase Approved	Total Revenues Approved
Residential	$35,543,498	$427,223,887
Commercial	16,288,901	162,340,355
Industrial	2,563,687	26,938,397
Industrial - Contract Sales	28,427	2,867,888
Public (Municipal)	857,882	20,614,653
Resale	56,356	812,587
Resale - Contract Sales	16,792	1,652,978
Private Fire Protection	334,884	4,160,354
Public Fire Protection	214,186	8,679,321
Total Sales of Water	$55,904,613	$655,290,420
Other Water Revenues	376,477	12,295,442
Total	$56,281,090	$667,585,862

Wastewater Operations Excluding Scranton

Customer Classification	Rate Increase Approved	Total Revenues Approved
Residential	$2,094,128	$15,896,551
Commercial	358,651	3,736,328
Industrial	63,899	1,232,258
Municipal	97,881	719,595
Bulk Sales - Coatesville	267,538	4,577,629
Total Sales WW	$2,882,097	$26,162,361
Other Operating Revenues	25,203	772,836
Total	$2,907,300	$26,935,197

Scranton Wastewater Operations

Customer Classification	Rate Increase Approved	Total Revenues Approved
Residential	$1,560,747	$15,299,787
Commercial	848,865	7,279,078
Industrial	177,343	1,401,813
Municipal	50,881	406,514
Total Sales	$2,637,836	$24,387,192
Other Operating Revenues	23,057	237,426
Total	$2,660,893	$24,624,618
Total	$61,849,283	$719,145,677

Based on Proof of Revenues

Exhibit No. 3

VERIFICATION

I, John Cox, hereby declare that I am the Director Rates & Regulatory for Pennsylvania-American Water Company; that, as such, I am authorized to make this verification on its behalf; that the facts set forth in the foregoing responses to Tax Cuts and Jobs Act of 2017 Data Requests are true and correct to the best of my knowledge, information and belief; and that I make this verification subject to the penalties of 18 Pa. C.S. §4904 pertaining to false statements to authorities.

Dated: March 9, 2018

John Cox

John Cox