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June 5, 2018

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg PA 17105-3265

Dear Secretary Chiavetta,

Attached please find Supplement No. 6 to Tariff Wastewater Pa P.U.C. No. 16 ("Supplement No. 6") for Pennsylvania American Water Company ("PAWC"), which bears the issue date of June 5, 2018 and effective date of August 4, 2018. As required the Company is supplying responses to filing requirements § 53.52 part (a). Supplement No. 6 is being filed to affirm and memorialize how customer contributions, customer advances and certain customer deposits (hereafter, collectively, "Contributions and Advances") will be calculated in light of changes in federal tax law made by the Tax Cuts and Jobs Act ("TCJA"). Specifically, from and after December 22, 2017, Contribution and Advances are deemed to be federal taxable income to wastewater utilities and, therefore, under Pennsylvania's Corporate Net Income Tax, are state taxable income as well.

In its comments filed in response to the Pennsylvania Public Utility Commission's ("PUC" or the "Commission") February 12, 2018 Secretarial Letter at Docket Number M-2018-2641242, PAWC stated its intent to adopt the "no gross-up" method of billing and accounting to calculate Contributions and Advances and to state its rate base claims in future rate base proceedings. The Company's full articulation of the "no gross-up" method as set forth in its response to Question No. 7 of the Commission's Secretarial letter is incorporated herein by reference, and a copy of the relevant portion of PAWC's Comments is attached as Appendix A. Supplement No. 6 incorporates and implements the no-gross method, as PAWC stated it would do in its aforementioned comments.

Supplement No. 6 should be approved because it provides a reasonable approach to addressing the changes in taxability of Contributions and Advances under the TCJA. Significantly, the Commission has already determined the no-



gross method to be just, reasonable, lawful and nondiscriminatory in approving its use by:

- a. Gas utilities, for which Contributions and Advances were taxable even prior to the enactment of the TCJA. See, e.g., Columbia Gas of Pennsylvania, Inc., Tariff Gas - Pa. P.U.C. No 9, Rule 8.2.5 Taxes on Deposits for Construction & Customer Advances, page 49a.
- b. York Water Company. See e.g., The York Water Company, Tariff Water-Pa. P.U.C. No 14, Rule 3.11.8 Taxes on Deposits for Construction & Customer Advances, page 15.

In short, PAWC is proposing to follow the procedure for billing, accounting and determining its rate base claims in subsequent base rate cases that has been used, with Commission approval, by other utilities with taxable Contributions and Advances.

Because the Company is receiving requests for facility extensions that necessarily implicate how it must calculate Contributions and Advances, and the customers and applicants making those requests, like PAWC itself, are looking for certainty on how Contributions and Advances should be calculated following the enactment of the TCJA, Supplement No. 6 should be permitted to go into effect at the conclusion of the statutory notice period without suspension.

Sincerely,

John Cox
Director of Rates and Regulations

- cc. Office of Consumer Advocate
Bureau of Investigation and Enforcement
Office of Small Business Advocate
Marie Intrieri
Audit Bureau
Bureau of Technical Utility Services

PENNSYLVANIA-AMERICAN WATER COMPANY
Wastewater Division
(hereinafter referred to as the "Company")
D/B/A
Pennsylvania American Water

RATES, RULES AND REGULATIONS

GOVERNING THE FURNISHINGS OF

WASTEWATER COLLECTION AND DISPOSAL SERVICE

IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED IN:

ADAMS COUNTY, ALLEGHENY COUNTY, BEAVER COUNTY, CHESTER COUNTY,
CLARION COUNTY, CUMBERLAND COUNTY, LACKAWANNA COUNTY, MONROE COUNTY,
NORTHUMBERLAND COUNTY, PIKE COUNTY, WASHINGTON COUNTY AND YORK COUNTY

ALL IN THE COMMONWEALTH OF PENNSYLVANIA

Issued: June 5, 2018

Effective: August 4, 2018

Issued by:
Jeffery McIntyre, President
Pennsylvania American Water
800 West Hersheypark Drive
Hershey, PA 17033

<https://www.amwater.com/paaw/>

NOTICE

This Tariff supplement defines how the Company will record taxes on deposits for construction, customer advances and contributions in aid of construction resulting from the impact of the Tax Cuts and Jobs Act of 2017.

(Refer to page 66)

In accordance with Commission Order at Docket No. M-2018-2641242 adopted and entered on March 15, 2018, the current rates and riders are declared to be temporary rates pursuant to Section 1310 (d) of the Public Utility Code, 66 Pa. C.S. § 1310(d) for a trial period ending September 15, 2018.

PENNSYLVANIA-AMERICAN WATER COMPANY

LIST OF CHANGES

This Tariff supplement defines how the Company will record taxes on deposits for construction, customer advances and contributions in aid of construction resulting from the impact of the Tax Cuts and Jobs Act of 2017.

PENNSYLVANIA-AMERICAN WATER COMPANY

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(C) means Change

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(C) means Change

PENNSYLVANIA-AMERICAN WATER COMPANY

RULES AND REGULATIONS

**Section W – TAXES ON DEPOSITS FOR CONSTRUCTION, CUSTOMER ADVANCES
AND CONTRIBUTIONS IN AID OF CONSTRUCTION (C)**

The Company will pay income taxes on any deposit, advance, contribution or other like amounts received from an applicant which shall constitute taxable income to the Company as defined by the Internal Revenue Service. Such income taxes shall be segregated in a deferred account for inclusion in rate base in a future rate case proceeding. Such income tax associated with a deposit, advance or contribution will not be charged to the specific depositor / contributor of the capital.

(C) means Change

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
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**

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.

SUPPLEMENT No. 6 TO TARIFF WASTEWATER PA P.U.C. NO. 16

RESPONSES TO FILING REQUIREMENTS

§ 53.52. APPLICABILITY; PUBLIC UTILITIES OTHER THAN CANAL, TURNPIKE, TUNNEL, BRIDGE AND WHARF COMPANIES

(a) Whenever a public utility, other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement effecting changes in the terms and conditions of service rendered or to be rendered, it shall submit to the Commission, with the tariff, revision or supplement, statements showing all of the following:

(1) The specific reasons for each change.

Supplement No. 6 is being filed to affirm and memorialize how customer contributions, customer advances and certain customer deposits (hereafter, collectively, "Contributions and Advances") will be calculated in light of changes in federal tax law made by the Tax Cuts and Jobs Act ("TCJA"). Specifically, from and after December 22, 2017, Contribution and Advances are deemed to be federal taxable income to wastewater utilities and, therefore, under Pennsylvania's Corporate Net Income Tax, are state taxable income as well.

Pennsylvania American Water Company's ("The Company") intent is to adopt the "no gross-up" method of billing and accounting to calculate Contributions and Advances and to state its rate base claims in future rate base proceedings for its wastewater operations.

(2) The total number of customers served by the utility.

At April 30, 2018, PAWC provided wastewater service to 65,177 wastewater customers.

Residential	60,033
Commercial	4,911
Industrial	33
Municipal	189
Bulk	11
Total	65,177

- (3) A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.**

No customer's bill will be affected by this change.

- (4) The effect of the change on the utility's customers.**

The Commission approval of this tariff supplement will enable Pennsylvania American Water Company to continue to accept Contributions and Advances from governmental and non-governmental institutions for its wastewater operations. Contributions, which do not require Company investment, provide our customers with additional / upgraded utility plant and enhance the Company's ability to provide service at a reasonable cost. Contributions and advances result in additional customers and these additional customers provide a larger basis on which the Company can spread its overall cost of service.

- (5) The direct or indirect effect of the proposed change on the utility's revenue and expenses.**

The Company will initially fund the cost of paying the income taxes associated with contributions and advances. In a future base rate case these taxes payments will be included in rate base. The cost associated with rate base will be offset by the additional revenue generated from the additional customers and ability of the Company to continue to receive contributions in aid of construction.

- (6) The effect of the change on the service rendered by the utility.**

There will be no change to the level of service rendered by the utility.

- (7) A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308 (relating to voluntary changes in rates).**

Please refer to the Company's response to question No. 4.

- (8) Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308.**

No studies were undertaken.

- (9) Customer polls taken and other documents which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided.**

The Company is receiving requests for facility extensions that necessarily implicate how it must calculate Contributions and Advances, and the customers and applicants making those requests, like PAWC itself, are looking for certainty on how Contributions and Advances should be calculated following the enactment of the TCJA.

- (10) Plans the utility has for introducing or implementing the changes with respect to its ratepayers.**

Upon Commission approval of Supplement No. 6 the Company will notify customers and applicants requesting service, through the use of contributions or advances, that the amount of the deposit will not be a grossed-up for income taxes.

- (11) FCC, FERC or Commission orders or rulings applicable to the filing.**

In the Company's comments filed in response to the Pennsylvania Public Utility Commission's ("PUC" or the "Commission") February 12, 2018 Secretarial Letter at Docket Number M-2018-2641242, PAWC stated its intent to adopt the "no gross-up" method of billing and accounting to calculate Contributions and Advances and to state its rate base claims in future rate base proceedings. The Company's full articulation of the "no gross-up" method as set forth in its response to Question No. 7 of the Commission's Secretarial letter is incorporated herein by reference, and a copy of the relevant portion of PAWC's Comments is attached as Appendix A. The Commission's order at Docket No. R-2018-3000725 did not address the issue.

The Commission has already determined the no-gross method to be just, reasonable, lawful and nondiscriminatory in approving its use by:

- a. Gas utilities, for which Contributions and Advances were taxable even prior to the enactment of the TCJA. See, e.g., Columbia Gas of Pennsylvania, Inc., Tariff Gas - Pa. P.U.C. No 9, Rule 8.2.5 Taxes on Deposits for Construction & Customer Advances, page 49a.
- b. York Water Company. See e.g., The York Water Company, Tariff Water-Pa. P.U.C. No 14, Rule 3.11.8 Taxes on Deposits for Construction & Customer Advances, page 15.