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August 31, 2018

VIA eFILING

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

**Re: Pennsylvania Public Utility Commission v. Pennsylvania-American
Water Company – Water Division
Docket No. R-2018-3002502**

**Pennsylvania Public Utility Commission v. Pennsylvania-American
Water Company – Wastewater Division
Docket No. R-2018-3002504**

Dear Secretary Chiavetta:

Enclosed for filing in the above-referenced matters is the **Motion of Pennsylvania-American Water Company to Consolidate the Above-Referenced Proceedings**. The enclosed Motion is being e-filed at each docket. As explained in the Motion, all of the parties either support or do not oppose consolidation. Copies of the enclosed Motion have been served on presiding Administrative Law Judge Marta Guhl and all parties of record as indicated on the attached Certificate of Service.

Very truly yours,



Anthony C. DeCusatis

Enclosures

c: Per Certificate of Service (w/encls.)

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Respectfully submitted,



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*Counsel for
Pennsylvania-American Water Company*

Dated: August 31, 2018

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	DOCKET NO. R-2018-3002502
	:	
PENNSYLVANIA-AMERICAN WATER COMPANY – WATER DIVISION	:	
	:	
PENNSYLVANIA PUBIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	DOCKET NO. R-2018-3002504
	:	
PENNSYLVANIA-AMERICAN WATER COMPANY – WASTEWATER DIVISION	:	

NOTICE TO PLEAD

You are hereby notified that a written response to the attached Motion to Consolidate, if any, must be filed within twenty (20) days from the date of service of this Notice. If you do not file a written response denying or correcting the enclosed Motion within twenty (20) days of service, the facts set forth by Pennsylvania-American Water Company may be deemed to be true, thereby requiring no other proof, and judgment may be entered against you. All pleadings, such as responses to Motions, must be filed with the Secretary of the Pennsylvania Public Utility Commission:

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

You must also serve a copy of your response on the undersigned counsel for Pennsylvania-American Water Company. Failure to respond to this Motion in a timely manner could result in the Motion being granted even if you oppose the Motion.

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Counsel for Pennsylvania-American Water Company

Dated: August 31, 2018

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBIC UTILITY COMMISSION	:	
	:	
v.	:	DOCKET NO. R-2018-3002502
	:	
PENNSYLVANIA-AMERICAN WATER COMPANY – WATER DIVISION	:	
	:	
PENNSYLVANIA PUBIC UTILITY COMMISSION	:	
	:	
v.	:	DOCKET NO. R-2018-3002504
	:	
PENNSYLVANIA-AMERICAN WATER COMPANY – WASTEWATER DIVISION	:	

**MOTION OF PENNSYLVANIA-AMERICAN WATER COMPANY
TO CONSOLIDATE THE ABOVE-REFERENCED PROCEEDINGS,
WHICH INVOLVE AN ISSUE THAT IS COMMON TO BOTH THE
COMPANY’S WATER AND WASTEWATER TARIFFS**

Pursuant to 52 Pa. Code §§ 5.81 and 5.103(a), Pennsylvania-American Water Company (“PAWC” of the “Company”) hereby requests that the proceedings at Docket Nos. R-2018-3002502 (Water) and R-2018-3002504 (Wastewater) be consolidated for all purposes, including the submission of testimony, hearings, briefing and decision. Each case was initiated by the Company’s filing a supplement to its water tariff and wastewater tariff, respectively, to include identical language pertaining to the treatment of income taxes on customer advances for construction, customer contributions in aid of construction and customer deposits for construction (collectively, “Contributions and Advances”). The parties are the same in both cases; the issues raised by complainants/intervenors are the same in both cases; and all parties of record support, or do not oppose, consolidation. The cases involve common issues of law and fact and, therefore, satisfy the criteria of 52 Pa. Code § 5.81(a) for consolidation.

1. The Tax Cuts and Jobs Act (“TCJA”), which was enacted on December 22, 2017, changed the Federal income tax law to make Contributions and Advances taxable income to water and wastewater utilities that receive such payments. As a consequence, water and wastewater utilities incur, and must pay, Federal income tax on such payments in the year they are received. Because the Pennsylvania Corporate Net Income Tax is based on Federal taxable income, the change in Federal tax law made Contributions and Advances taxable income for Pennsylvania corporate income tax purposes as well.

2. On June 5, 2018, the Company filed Supplement No. 6 to Tariff Water-Pa. P.U.C. No. 5 (“Supplement No. 6 Water”) and Supplement No. 6 to Tariff Wastewater-Pa. P.U.C. No. 16 (“Supplement No. 6 Wastewater”). Copies of the filings were served on the Bureau of Investigation and Enforcement (“I&E”), the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”).

3. Both Supplement No. 6 Water and Supplement No. 6 Wastewater proposed a change to the Company’s water and wastewater tariffs, respectively, to include the following provision:

The Company will pay income taxes on any deposit, advance, contribution of other like amounts received from an applicant which shall constitute taxable income to the Company as defined by the Internal Revenue Code. 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.

4. Along with each of Supplement No. 6 Water and Supplement No. 6 Wastewater, the Company filed: (1) a transmittal letter; (2) responses to the Pennsylvania Public Utility Commission’s (“PUC” or the “Commission”) filing requirements at 52 Pa. Code § 53.52(a); and

a copy of the Company's responses to certain Data Requests issued with the Commission's February 12, 2018 Secretarial Letter at Docket No. M-2018-2641242 seeking comments on the treatment of Federal and state income taxes due on Contributions and Advances following the enactment of the TCJA. The Commission assigned Docket Nos. R-2018-3002502 and R-2018-3002504 to the Company's water and wastewater filings, respectively. Copies of the Company's filings are attached hereto as Appendix A (Water) and B (Wastewater).

5. On July 24, 2018, I&E filed formal Complaints at each of the above-referenced dockets. On July 25, 2018 and August 14, 2018, respectively, the OCA filed Notices of Intervention and Public Statements and the OSBA filed Notices of Appearance and Public Statements in each of the above-referenced dockets. On August 17, 2018, the Pennsylvania Builders Association ("Builders Association") filed Petitions to Intervene at both dockets. The pertinent averments made by the parties in their filings are the same in each of their respective pleadings at both dockets.

6. By its Opinions and Orders entered August 2, 2018, at each of the above-referenced dockets, the Commission deemed the Company's filings to have been made under Section 1308(a) of the Public Utility Code and initiated investigations of the identical tariff rule changes proposed in Supplement No. 6 Water and Supplement No. 6 Wastewater, respectively. Accordingly, the supplements were suspended for a period of six months, or until February 4, 2018, pursuant to Section 1308(b) of the Public Utility Code.

7. On August 8, 2018, the Company filed Supplement No. 8 to Tariff Water-Pa. P.U.C. No. 5 and Supplement No. 8 to Tariff Wastewater-Pa. P.U.C. No. 16 to suspend Supplement No. 6 Water and Supplement No. 6 Wastewater, respectively, until February 4, 2018. Additionally, on August 30, 2018, the Company filed Supplement No. 9 to Tariff Water-

Pa. P.U.C. No. 5 and Supplement No. 9 to Tariff Wastewater-Pa. P.U.C. No. 16 to voluntarily extend the suspension periods at each of the above-referenced dockets until February 9, 2018.

8. Prehearing conference memoranda were filed at both of the above-referenced dockets by all of the parties in this case on August 20, 2018. On August 29, 2018, contiguous telephonic Prehearing Conferences were held before Administrative Law Judge Marta Guhl at 2:00 PM and 3:00 PM with respect to the proceedings at Docket Nos. R-2018-3002502 and R-2018-3002504, respectively. At the Prehearing Conferences, procedural schedules were adopted, with all parties' agreement,¹ that anticipated the consolidation of the currently separately-docketed water and wastewater proceedings. At the Prehearing Conferences, all parties indicated that they either supported, or did not oppose, consolidation of the two dockets. Administrative Law Judge Guhl, therefore, asked that the Company file a Motion for consolidation pursuant to 52 Pa. Code § 5.81(a).

9. The Commission's regulation at 52 Pa. Code § 5.81(a) provides, as follows:

The Commission or presiding officer, with or without motion, may order proceedings involving a common question of law or fact to be consolidated. The Commission or presiding officer may make orders concerning the conduct of the proceeding as may avoid unnecessary costs or delay.

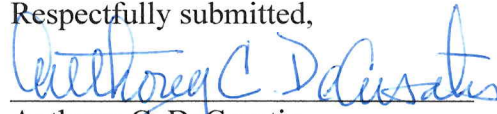
10. As previously explained, the same proposed tariff language has been set forth in each of Supplement No. 6 Water and Supplement No. 6 Wastewater. In their respective pleadings, the parties indicated that the issues they may raise with respect to the proposed tariff language would be the same at both dockets. Additionally, all parties supported, or did not

¹ At the Prehearing Conference, no party opposed the intervention of the Builders Association. Therefore, Administrative Law Judge Guhl granted the Builders Association's Petition to Intervene and noted that her decision would be memorialized in a forthcoming Prehearing Order.

oppose, consolidation of the water and wastewater dockets. Accordingly, the condition stated in Section 5.81(a) – common issues of law or fact – is fully satisfied. Additionally, consolidation will promote administrative efficiency and reduce the unnecessary expenditure of time, resources and costs to make duplicate filings and to conduct parallel and duplicative proceedings to address the same issue for each division of a single company. In short, consolidation of the above-referenced dockets will achieve the expressly stated goal of Section 5.81(a) to “avoid unnecessary costs or delay.”

WHEREFORE, for the foregoing reasons, the proceedings at Docket Nos. R-2018-3002502 and R-2018-3002504 satisfy the requirements of Section 5.81(a) of the Commission’s regulations and, therefore, the proceedings at those docket numbers should be consolidated.

Respectfully submitted,



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Dated: August 31, 2018

APPENDIX A
(WATER)



800 West Hershey Park Drive
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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 Water-Pa P.U.C. No. 5 ("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 water 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-



PENNSYLVANIA
AMERICAN WATER

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
(hereinafter referred to as the "Company")
D/B/A
Pennsylvania American Water

RATES, RULES AND REGULATIONS

GOVERNING THE DISTRIBUTION AND SALE OF
WATER SERVICE

IN CERTAIN MUNICIPALITIES AND TERRITORIES LOCATED ADJACENT THERETO IN:

ADAMS, ALLEGHENY, ARMSTRONG, BEAVER, BERKS, BUCKS,
BUTLER, CENTRE, CHESTER, CLARION, CLEARFIELD, CLINTON, COLUMBIA,
CUMBERLAND, DAUPHIN, FAYETTE, INDIANA, JEFFERSON, LACKAWANNA,
LANCASTER, LAWRENCE, LEBANON, LUZERNE, MCKEAN, MONROE, MONTGOMERY,
NORTHAMPTON, NORTHUMBERLAND, PIKE, SCHUYLKILL, SUSQUEHANNA,
UNION, WARREN, WASHINGTON, WAYNE, AND YORK COUNTIES.

Issued: June 5, 2018

Effective: August 4, 2018

Issued by:
Jeffrey 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 101)

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

PENNSYLVANIA-AMERICAN WATER COMPANY

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(C) means Change

PENNSYLVANIA-AMERICAN WATER COMPANY

RULES AND REGULATIONS

28. FLAT RATE SERVICE

28.1 Every Individual Dwelling, Apartment, Flat, Store, Shop, Office, etc. either in the same building or otherwise, occupied as a dwelling or business place either by the same party or different parties, shall be considered a separate occupancy and shall be charged for accordingly, for flat rate service.

28.2 No addition to or alteration of any pipe or fixture changing or affecting the use of water by flat rate consumer shall be made by any person without notice in writing to the Water Company.

28.3 The use of the hose or pave wash, except where metered, either from a pave wash or screw nozzle or spigot for sprinkling street, pavements, lawns and gardens or for window and porch washing, shall be permitted upon payment of the specified rate, for the season from the first of April to the first of November only and between the hours from **6 A.M. to 8 A.M.** and **6 P.M. to 8 P.M.** and must be confined to the premises on which it is located, and one-half of the width of the street in front thereof. Sprinkling without a nozzle will not be permitted. A screw nozzle or spigot on any hydrant or fixture located on any premises or on the ground floor in any building, except as a drain on a hot water boiler, will be considered a pave wash unless a pave wash is charged to the premises.

The charges for the use of the hose are for one season and no allowance or rebate will be made for portions of a season. The rate is based on a frontage of fifty (50) feet or less.

All hose must be held in the hand. AUTOMATIC sprinklers are subject to a special agreement. Setting hose in a stationary position or letting it run shall be considered AUTOMATIC SPRINKLING.

28.4 Where no meter is used, every fixture, whether used or not, will be deemed and held as used, and will be charged for at the established rate so long as it shall remain connected with the service pipes. Parties desiring to discontinue the use of any fixture must have the same disconnected, so that it cannot be used again without the aid of a plumber, and then the charge for their use (except for hose used for sprinkling, which is charged for by the season) will cease from the time when written notice of the same is left at the Company's office.

28.5 Flat rate consumers desiring a reduction from water bills for vacancies shall report in writing at the Offices of the Company at the beginning of and again at the end of each vacancy. Then an allowance may be made for the period reported, provided this period is continuous and not less than 30 days. A vacancy is defined to be premises from which the household goods, stock, equipment, etc., have been removed.

**29. TAXES ON DEPOSITS FOR CONSTRUCTION, CUSTOMER ADVANCES
AND CONTRIBUTIONS IN AID OF CONSTRUCTION (C)**

29.1 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 WATER - PA. P.U.C. NO. 5

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 water 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.

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

At April 30, 2018, PAWC provided water service to 659,519 water customers.

Residential	607,071
Commercial	45,242
Industrial	522
Municipal	2,381
Sale for Resale	22
Private Fire	3,870
Public Fire	411
Total	659,519

- (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. 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. 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-2018-3000724 did not address the issue.

The Commission has already determined the no-gross up 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.

APPENDIX B
(WASTEWATER)



800 West Hershey Park Drive
Hershey, Pa 17033

P 717-531-3258
F 717-531-3255

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

PENNSYLVANIA-AMERICAN WATER COMPANY

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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

Issued: June 5, 2018

Effective Date: August 4, 2018

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.