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VIA ELECTRONIC FILING
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Hon. Robin L. Morrison, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

RE: ***Tennessee-American Water Company's Response to Commission's Investigation of Impacts of Federal Tax Reform on the Public Utility Revenue Requirements*, TPUC Docket No. 18-00039**

Dear Chairman Morrison:

Attached for filing please find the *Supplemental Direct Testimony of John R. Wilde* in the above-captioned matter.

As required, an original of this filing, along with four (4) hard copies, will follow. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP

Melvin J. Malone

clw
Attachment
cc: Elaine K. Chambers, Tennessee-American Water Company
Daniel Whitaker, Assistant Attorney General, Consumer Advocate Unit
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TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 18-00039

SUPPLEMENTAL TESTIMONY

OF

JOHN R. WILDE

ON

TENNESSEE-AMERICAN WATER COMPANY'S CALCULATION OF IMPACTS OF THE FEDERAL TAX CUTS AND JOBS ACT OF 2017 ON ITS COST OF SERVICE AND REVENUE REQUIREMENT

Q. PLEASE STATE YOUR NAME.

A. My name is John R. Wilde.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by American Water Works Service Company, Inc. ("Service Company") as Vice President - Tax. The Service Company is a subsidiary of American Water Works Company, Inc. ("American Water") that provides services to American Water's subsidiaries, including Tennessee-American Water Company ("Tennessee-American," "TAWC" or the "Company").

Q. ARE YOU THE SAME JOHN R. WILDE WHO SUBMITTED WRITTEN DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. My prefiled direct testimony was filed on or about April 2, 2018 with the Company's response to the Commission's Order Opening an Investigation and Requiring Deferred Accounting Treatment (the "Order") in Docket No. 18-00001, *In re: Tennessee Public Utility Commission Investigation of Impacts of Federal Tax Reform on the Public Utility Revenue Requirements*.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

In my direct testimony I submitted and explained Tennessee-American's calculations of the tax effects of the federal Tax Cuts and Jobs Act of 2017 (the "TCJA" or the "Act"), including its effects on TAWC's Accumulated Deferred Income Taxes ("ADIT"). Although I provided the Company's estimates of the net excess ADIT ("EADIT") balance produced by the Act and the annual amounts that would be required to amortize that balance, I stressed that those estimates were not suitable for ratemaking purposes and would be revised as more information becomes available. In this supplemental direct

testimony, I present and discuss the Company's updated estimates of the EADIT balances produced by the federal tax reductions, the Company's proposed amortization of EADIT, and the breakdown of "protected" and "unprotected" plant-related EADIT used for the Company's updated balances and amortizations.

Q. Please describe the effect of the TCJA on Tennessee-American's ADIT balances.

A. At 12/31/2017 TAWC's ADIT balance was a credit or liability balance representing TAWC and its customers having temporarily benefited from accelerated tax deductions at a rate of 35% or more. As a result of the enactment of TCJA the tax rate was reduced to 21%, approximately 60% (21% / 35%) of the ADIT liability balance would be the result of a temporary tax benefit payable to the federal government, and 40% (14% / 35%) of the ADIT liability would be the result of a permanent tax benefit payable to customers. The ADIT balance in excess of the amount payable to the federal government that resulted from enactment of the TCJA is the EADIT or "excess" ADIT referred to in my testimony and the testimony of others.

Q. Should the "excess" component of the ADIT balances be treated differently in terms of the method of accounting and period used to provide for ADIT in customer rates?

A. No, for the following reasons. First, economically the same occurrence of the utility making an investment, incurring a cost, or receiving income resulted in the total tax benefit represented by the total ADIT balance including EADIT. It is reasonable to assume the total tax benefit or cost directly associated with the utility making an investment, incurring a cost, or receiving income would be factored into rates over the same period of time the underlying investment, cost, or income is factored into customer rates. Matching of the inclusion of the tax impact (cost or benefit) to inclusion of the

underlying investment, cost, or income in rates is consistent with a normalized method of accounting. Second, a portion of plant related ADIT balance would fall into a category of "ADIT" commonly referred to as "protected" and subject to a normalized method of accounting pursuant to the tax normalization rules as outlined in Internal Revenue Code and Regulations. The tax normalization rules require that the total "protected" ADIT balance including the EADIT component be factored into customer rates over the same period the underlying investment in utility plant is factored into rates. The consequence of not following the tax normalization rules are significant. Lastly, a 2010 consent decree issued by the IRS to the Company stated a normalized method of accounting should be used to account for ADIT related to tax repairs. The tax consequences of being found in violation of that consent decree would be significant.

Q. Please explain the methods available to amortize the EADIT created by the TCJA.

In terms of accounting for ADIT normalization is a method of accounting that matches when a tax impact is factored into customer rates related to making an investment, incurring a cost, or receiving income to when that underlying investment, cost, or income is factored into customer rates. Conversely, in terms of accounting for ADIT flow through is a method of accounting that disconnects when a tax impact is factored into customer rates related to making an investment, incurring a cost, or receiving income from when that underlying investment, cost, or income is factored into customer rates. As I noted previously in my testimony a normalization method of accounting should be used for certain plant related ADIT balances as laid out in tax code and regulation and the IRS Consent Decree.

With respect to "protected" EADIT balances, the TCJA as a general rule does not dictate a specific normalization ("amortization") method, but sets a limit on how fast the amounts can be factored into rates. Specifically, the amounts not be refunded any faster than the pattern created by using the average rate assumption method ("ARAM") to compute depreciation. That said, the TCJA recognizes that utilities that compute depreciation using composite methods may not have the records necessary to compute depreciation using ARAM. If qualified, those utilities may refund the EADIT using an alternate method commonly referred to as the reverse South Georgia method ("RSGM") to compute depreciation. In order to use this method, the TCJA states that the utility taxpayer must meet two conditions:

> "A) the taxpayer was required by a regulatory agency to compute depreciation for public utility property on the basis of an average life or composite rate method, and
>
> "(B) the taxpayer's books and underlying records did not contain the vintage account data necessary to apply the average rate assumption method."

In general, this is an acknowledgement that utilities that compute depreciation using composite methods might not have records needed to utilize ARAM. Notwithstanding that, utilities that have developed the records needed to utilize ARAM and/or put systems in place that can utilize ARAM, or have the ability to do so, must use ARAM; the use of RSGM is allowed only if the utility does not have the records or the systems necessary to utilize ARAM.

Q. Does Tennessee-American have the ability to use ARAM for plant related ADIT balances including ARAM?

A. Yes, with the reimplementation of PowerTax system completed in Q2 of 2019 it has that ability.

Q. Does Tennessee-American propose in this case to use ARAM to account for all plant related ADIT including EADIT?

A. Yes, using ARAM to account for all plant related ADIT including EADIT delivers the total tax benefit associated with investing in Utility Plant to the customers who will ultimately fund those investments. In addition, accounting for all plant related ADIT using ARAM is a method that is consistent with the requirements of the tax normalization rules, and the IRS Consent Decree, eliminating any potential consequence accruing from violation of either.

Q. Why does Tennessee-American treat EADIT related to its repairs deduction as subject to the tax normalization rules?

A. Tennessee-American's parent company, American Water Works Company, Inc. ("American Water") qualified for the repairs deduction through a Form 3115 Application for Change in Accounting Methods, which was filed for the taxable year ended December 31, 2008. That application resulted in a consent agreement with the Internal Revenue Service that was signed by the IRS on July 30, 2010 and by American Water on September 10, 2010 ("Consent Agreement"). (A copy of the Consent Agreement is provided as Exhibit JRW-1S.) That Consent Agreement is what directs Tennessee-American to use a normalized method of accounting as outlined in the Internal Revenue Code. Absent clear direction or guidance from the IRS to the contrary, Tennessee-

American believes it is required to comply with the Consent Agreement, or else risk the loss of all or part of the benefits it has achieved on behalf of customers in accelerating tax deductions by applying its tax repairs method of accounting.

Q. What does the Consent Agreement provide with respect to the repairs deduction?

A. The Consent Agreement approves the application for the change in accounting methods so as to implement the repairs deduction, but it does so conditionally. Paragraph 9 on page 6 is the condition which controls here:

> 9) If any item of property subject to the taxpayer's Form 3115 is public utility property within the meaning of [Internal Revenue Code] §168(i)(10) or former §167(I)(3)(A):
>
> (A) A normalization method of accounting (within the meaning of §168(i)(9), former §168(e)(3)(B), or former §167(I)(3)(G), as applicable) must be used for such public utility property.

Q. What does this condition mean with respect to the time period over which the EADIT associated with the repairs deduction must be returned?

A. Given that the repairs deduction that is the subject of the Consent Agreement relates to public utility property, we must utilize a normalization method of accounting within the meaning of the Internal Revenue Code. The TCJA provides that a normalization method is *not being used* if the taxpayer, in computing its cost of service for ratemaking purposes must reduce its excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under ARAM.[1] So if Tennessee-American's cost of service for ratemaking purposes is computed by reducing EADIT associated with the repairs deduction more rapidly than would occur using ARAM, then it would not be a

[1] TCJA, §13001(d)(1).

normalization method within the meaning of the Internal Revenue Code, and we would be in violation of the condition in the Consent Agreement. EADIT associated with the repairs deduction is thus "protected" by the Consent Agreement in the same manner as EADIT related to utility property is protected by the Internal Revenue Code.

Q. Does the fact that the Consent Agreement predates the enactment of the TCJA affect its application to the EADIT created by the TCJA's reduction of the federal income tax rate?

A. No. The Consent Agreement's requirement that a normalization method of accounting be used to account for tax repairs would include, in the case of a tax rate change, the EADIT benefit. The language of the Consent Agreement requires a normalization method "*within the meaning of §168(i)(9).*" The TCJA tells us precisely what does not qualify as such a normalization method:

> A normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of accounts, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method.[2]

This identical language is found in §203(e)(1) of the Tax Reform Act of 1986 and so was the law of the land when the IRS included this condition in the Consent Agreement. The language from the Consent Agreement brings within it these provisions of the TCJA and the Tax Reform Act of 1986. By using this language, the Consent Agreement contemplates what occurs if there is a tax rate change.

[2] TCJA, §13001(d)(1).

Q. Has any other state regulatory commission considered the question whether the Consent Agreement requires normalization of repairs-related EADIT after passage of the TCJA?

A. Yes, the Kentucky Public Service Commission and the Indiana Utilities Regulatory Commission. The Kentucky Public Service Commission recently held that the Consent Agreement requires normalization of repairs-related EADIT resulting from enactment of the TCJA:

> The Commission disagrees that the Consent Agreement is no longer applicable because the TCJA required a change in the law. When the Consent Agreement referred to a "normalization method of accounting" as defined in Section 168(i)(9), it was referring to 26 U.S.C.A. § 168(i)(9), which defines a normalization method of accounting in the tax code. Important here, the TCJA did not amend the definition of a normalization method of accounting in the tax code. In fact, despite several amendments to 26 U.S.C.A. § 168 since Kentucky-American entered into the Consent Agreement in 2010, the codified language defining a "normalization method of accounting" in Section 169(i)(9) has not been changed.
>
> The TCJA did add to the definition of a normalization method of accounting as used in 26 U.S.C.A § 168 by including a "note," stating:
>
> > A normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method [ARAM].
>
> *23 This note, which has the force of law, essentially creates the requirement at issue in this case: that a utility use ARAM to reduce excess ADIT created by the reduced tax rate and arising from certain book-tax timing differences for public utility property. However, there is no indication that this "change" modified the requirement in the Consent Agreement that Kentucky-American use a normalization method of accounting for public utility property. The Commission notes that the 1986 Tax Act contained a nearly identical note for excess ADIT generated by the reduction in tax rates.

> Absent a direct conflict between the Consent Agreement and the change in the law, of which there is none here, the Commission is unpersuaded that Kentucky-American does not remain subject to the Consent Agreement. In fact, the Consent Agreement appears to have been written in a manner that accounts for potential changes in the definition of a "normalization method of accounting" without affecting the requirement that Kentucky-American use that method.
>
> As noted above, the Consent Agreement states in relevant part that a "normalization method of accounting (within the meaning of § 168(i)(9) …)" must be used for public utility property. Section 168(i)(9)(A) first defines a "normalization method of accounting" by stating what a utility must do to use a normalization method of accounting. Section 168(i)(9)(B) then defines a normalization method of accounting by identifying things that are prohibited and, if done, will require the IRS to find that a utility is not using a normalization method of accounting. The TCJA simply adds to that definition, with language similar to 1986 Tax Act, by stating that "[a] normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168" if the ARAM is not used to reflect the amortization of excess ADIT.
>
> These requirements do not conflict and may all be applied pursuant to their plain language. Reading them together, they indicate that Kentucky-American must, among other things, apply the ARAM (or the RSGM if they cannot apply the ARAM) when determining the extent to which the excess ADIT arising from repair costs for public utility property subject to the 2010 Consent Agreement may be amortized to reduce rates.[3]

Q. How did the Indiana commission address the issue?

A. In TAWC's Indiana affiliate's recent rate case, the Indiana commission did not definitively resolve the question whether the Consent Agreement required repairs-related EADIT to be normalized. In that case, the commission approved a settlement whereby the company would amortize all plant-related EADIT pursuant to ARAM pending IRS

[3] *In the Matter of: Elec. Application of Kentucky-Am. Water Co. for an Adjustment of Rates*, No. 2018-00358, 2019 WL 2775544, at *22–23 (Ky. P.S.C. June 27, 2019)

resolution of a request for a private letter ruling ("PLR") on the question whether the company's repairs-related EADIT was subject to tax normalization.[4]

Q. Was Tennessee-American able to compute depreciation using ARAM when you filed your direct testimony in this proceeding?

A. No. This was not due to lack of records, but to the fact that the Company had not built those records out into an ARAM data set or set up systems to process ADIT balances pursuant to ARAM. Prior to the enactment of the TCJA, the Company was not required to utilize ARAM as a method for any regulatory, financial, or tax accounting reasons. In 1986, the last time the federal tax rate decreased, the company did not have the systems or the records compilations that it has today, so it was allowed to use the alternative method – RSGM. Like most other regulated utilities, the Company uses PowerPlant and PowerTax, and it has made the necessary changes to its data bases and settings to execute ARAM as part of an enterprise-wide project by American Water to upgrade and re-implement its PowerPlant and PowerTax systems, a project that was started just prior to enactment of the TCJA. The Company has now implemented the necessary computer software changes to compute ARAM, but doing so took time and was subject to other dependencies involved in the implementation of core systems like PowerPlant and PowerTax. These changes included formatting and aligning required vintage records into a data structure which American Water's tax accounting software (PowerTax) can utilize to compute ADIT balances and normalize amortization pursuant to ARAM. This was a

[4] *See In the matter of the Indiana Utility Regulatory Commission's Investigation Into the Impacts of the Tax Cuts and Jobs Act of 2017 and Possible Rate Implications Under Phase 1 and Phase 2 for Indiana-American Water Company, Inc.*, Cause No. 45032 S4, Phase 2 Order of the Commission, 2018 WL 2903632 (Indiana Util. Regulatory Comm'n June 26, 2019).

complicated and laborious process, which was not completed until the second quarter of 2019.

Q. Has Tennessee-American updated its estimates of the EADIT that resulted from the TCJA's reduction of the federal income tax rate?

A. Yes. The EADIT balance that resulted from the TCJA's reduction of the federal tax rate is now estimated to be $16,843,171, of which $17,273,004 is attributable to utility plant investments (plant related), and ($429,833) is attributable to other aspects of utility operations (non-plant related). These EADIT balances are shown on Exhibit JRW-2S attached to this testimony.

Q. Could these estimates change?

A. Yes. While these estimates are based on actual tax positions taken on tax returns for tax years before the dates the respective legislation was enacted, the taxing jurisdiction may issue guidance that would cause Tennessee-American to propose adjustments affecting the amount of EADIT accrued prior to the date of enactment. Similarly, the taxing jurisdiction may audit returns for those years and propose adjustments that would change the amount of accrued EADIT. Therefore, the underlying tax positions and EADIT balances are subject to change through the statute of limitations period, which is three years after the date the Company files its income tax return.

Q. Please describe how the Company proposes to normalize and amortize its EADIT.

A. The Company proposes the Average Rate Assumption Method ("ARAM") to determine the normalization periods for all federal EADIT related to plant in service as of the date of the enactment of the TCJA. The Company proposes a 20 year period to amortize EADIT related to all other items. In both cases, the normalization/amortization was

computed beginning January 1, 2018, the effective date of the TCJA. For the period from January 1, 2018 until the start of the credit (the "stub period"), the amortization/normalization was treated as deferred, and the Company's proposal to return this amount through the Capital Riders, as originally proposed, remains unchanged. Exhibit JRW-2S breaks down the EADIT balance based on the method and, where applicable, the life used to normalize or amortize that balance into cost of service.

Q. Has Tennessee-American broken down its balances into so-called "protected" and "unprotected" EADIT?

A. Yes. Subject to certain limitations due to lack of specific Internal Revenue Service ("IRS") tax guidance, the information has been provided. Exhibit JRW-2S contains a column that provides this information. Based on available tax guidance, the inventory indicates which of the EADIT balances should be treated as protected for tax purposes (that is, subject to tax normalization), and which should be treated as unprotected for tax purposes. "Protected" line items are identified as "Protected" or "Subject to Tax Normalization"; "unprotected" line items are identified as such; and where additional guidance is needed and expected to be issued in the future,[5] the qualifier "(Uncertain)" has been added.

The balance labeled "Method / Life" is the EADIT related to differences generated by applying book depreciation methods and life versus tax depreciation methods and life. IRS guidance is clear that this balance is to be treated as "protected," that is, subject to tax normalization, and Tennessee-American has coded this item accordingly.

[5] *See* Office of Tax Policy and Internal Revenue Service, 2018-2019 Priority Guidance Plan, 2nd Quarter Update, Part 1, No. 11 (rel. Apr. 5, 2019) (https://www.irs.gov/pub/irs-utl/2018-2019_pgp_2nd_quarter_update.pdf).

The balance labeled "Cost of Removal" is the EADIT related to the difference between how cost of removal is accounted for book purposes versus tax purposes. There is conflicting IRS guidance with respect to whether this item should be treated as "protected" or "unprotected".[6] Tennessee-American has coded this item as "subject to tax normalization," but has noted the need for additional guidance with the notation "(uncertain)."

The plant in service-related balances related to repairs (Repairs – M/L and Repairs Other) are the EADIT related to a book/tax difference arising from the Company's repair method of accounting. As discussed below, Tennessee-American believes it should, consistent with its reading of its IRS Consent Agreement, treat all repairs EADIT balances as protected. The balance labeled Repairs – M/L is the EADIT related to repair property for which the Company claimed accelerated (including bonus) depreciation prior to changing its method. This EADIT resulted from having originally claimed accelerated depreciation with respect to the subject property. Executing a method change recasting the property as a tax repair in a later year should not render that EADIT balance unprotected. Tennessee-American has therefore designated this item as "subject to tax normalization" without qualification. The Repairs Other balance has been designated "subject to tax normalization (uncertain)" to indicate the need for additional guidance from the IRS.

EADIT balance labeled "Federal NOL" is related to the net operating loss carryforward as of December 31, 2017, and while the IRS has consistently indicated that a taxpayer subject to the tax normalization rules must determine what portion of that

[6] IRC Section 168(i)(9)(A)(ii) – Question to be addressed is COR negative salvage subject to normalization pursuant to this clarifying section of the code.

balance is related to having claimed protected items and thus is also protected, Tennessee-American is unaware of IRS guidance specific to a rate change like what occurred in the context of the TCJA. Therefore, Tennessee-American coded this balance as "Protected / Unprotected (Uncertain)" to indicate that more guidance is needed with respect to this determination.

The line labeled "All Other" contains all other basis differences. The amounts on this line are regarded as unprotected. I would note that CIAC may be protected or unprotected pursuant to guidance in IRS notice 87-82. In general the determination of whether a CIAC is subject to normalization is determined by the existence of a gross up and by the accounting treatment of the gross up and tax on the CIAC. Finally, the remaining plant related items – Plant Customer Advances, Plant CWIP Plant 481 as well as the line labeled All Other Non-Plant are labeled "unprotected."

Q. Can you explain in more detail why TAWC proposes to use ARAM to normalize all EADIT related to plant in service (unprotected as well as protected) without a clear legal requirement to do so?

A. Tennessee-American believes it is the long-term best interest of its customers to use ARAM to normalize both "protected" and "unprotected" EADIT. All of this EADIT is a permanent tax benefit accrued as a result of the Company making investments in plant in service and claiming tax deductions in excess of book at a time when the federal corporate income tax rate was 35%, which as a result of the enactment of federal and state legislation will reverse as book depreciation is recovered as a cost from customers when the tax rate will be 21%. Tennessee-American believes this permanent difference, which relates to the deduction of costs not yet recovered in rates from customers, should

be returned to those customers ratably who will be required to pay the costs of the plant to which those permanent differences and associated tax benefits relate. The use of ARAM closely aligns the normalization of these permanent differences to the investments that gave rise to the benefits, and thus to the customers who will bear the cost of those investments over their lives. The use of ARAM will lower the total cost of capital recovered from customers over the underlying useful life of the plant in service investment. The use of ARAM also will add to the stability of cost of service rates over the useful life of the property. Alternatively, severing the amortization of EADIT from the related plant in service will increase cost of service recovered from customers over the life of the property, distribute a tax benefit to customers that is disproportionate to the cost to which the benefit relates, and thus benefit customers during the abbreviated amortization period to the detriment of customers who continue to pay for these investments over the property's remaining useful life. Using ARAM to normalize all EADIT related to plant in service, in contrast, promotes inter-generational equity.

Q. How does using ARAM to normalize EADIT promote inter-generational equity?

A. The normalization concept prevents the inter-generational inequity that can occur when the flow-through method is used. If Tennessee-American uses an immediate or close-to-immediate flow-through method, current customers receive the entire refund and disproportionally benefit. This occurs even if tax rates change again before the timing difference reverses. For example, assume an EADIT balance has been generated with respect to the tax benefits associated with an asset with a book depreciation life of 30 years. If a five-year amortization is used for the EADIT, customers who take service during the first five years see 100% of the benefit from the TCJA, whereas the customers

paying for the asset during the remainder of its life see none of the benefit. But the asset giving rise to the benefit will serve all of them. What is also inequitable for those later customers is the accelerated increase in rate base. The entirety of the EADIT will have already been returned over the first five years, resulting in a larger rate base and thus a greater revenue requirement for the remainder of the life of the asset giving rise to the benefit. Future customers are unfairly penalized, and doubly so, because they may not receive any refund, and yet pay for the cost of the utility asset over its remaining useful life. Even worse, if tax rates are raised in the future, future generations will have to pay for the deficient ADIT because any prior excess will have been refunded to prior customers. Normalization ensures that tax benefits are spread to all customers who benefit from Tennessee-American's long-lived assets and not just current customers. Tennessee-American therefore believes that the normalization concept should be applied to plant-related EADIT (including repairs-related EADIT) and its amortization should be calculated pursuant to ARAM without regard to its status as protected or unprotected.

Q. Why did the Company use a 20-year period to amortize EADIT balances not related plant in service?

A. A 20-year amortization period is consistent with the life of the underlying assets and liabilities. These EADIT balances are related to deductions claimed with respect to two primary types of assets and liabilities: regulated deferred assets and liabilities, and assets and liabilities related to providing employee benefit programs. The vast majority of the EADIT balance that falls into these categories would be associated with assets and liabilities that will reverse over periods greater than 20 years. Thus, it is reasonable to

match the reversal or recovery period of the incurred costs that gave rise to the EADIT to the period the EADIT is amortized.

Q. How would a normalization approach to the return of the EADIT associated with the repairs deduction affect the originally anticipated timing of ADIT amortization?

A. Under a policy of normalization for the return of excess deferred taxes, Tennessee-American would be required to pay the money no longer owed to the government to its customers instead, but in approximately the same time frame as Tennessee-American originally expected to pay it to the government. A shorter period of time would mean that Tennessee-American would have to secure the capital to pay back the funds more quickly. It is not as if EADIT is money that is on deposit in a bank. These are funds that have been invested in needed infrastructure to serve our customers. If Tennessee-American is required to pay the funds back more quickly than originally anticipated and the underlying investment is recovered, the Company must secure the capital to make those payments from other sources – either external capital or internally generated funds. All else being equal, the added need for capital will entail additional costs, driving up utility rates. In an era when water utilities need to attract capital for needed infrastructure, this would not be a prudent use of funds.

Q. Are current customers harmed by normalizing or amortizing EADIT over longer rather than shorter periods?

A. No. First, rate base is the sum of plant, less accumulated book depreciation, and less ADIT. EADIT is a component of the ADIT in rate base, and until it is repaid to the government or customer it thus provides the customer with a return equal to the utility's weighted average cost of capital. Second, as I have explained, EADIT is simply a portion

of a 35% benefit that was permanently forgiven by the federal government, but the cost that gave rise to it was a component of plant in service and relates specifically to the portion or plant in service that has not yet been paid for, consumed or used by current customers. The customer who will pay for and use the investment should receive the benefit that arose when the utility put the asset in place.

Mathematically rates are intended to provide a utility with an adequate after tax return on the portion of the utility's investment in plant financed with equity. The utility and regulator gross that after tax return up to its pre-tax equivalent to arrive at a pre-tax equivalent. That amount is the same regardless of if a portion of the tax will be deferred or not. The tax code allows some or all of the tax that would be otherwise be due of pre-tax earnings to be deferred as an incentive to the utility to invest, in some cases congress has explicitly acted to prevent flow through of a tax benefit intended to be an investment incentive and not a rate subsidy. Congress's intent behind providing certain tax incentives to utilities is inherent in the tax normalization rules.

Q. Please summarize the Company's position with respect to the amortization of Tennessee-American's EADIT.

A. For all of the reasons I have stated, Tennessee-American believes it is in the best long-term interest of our customers to use ARAM to calculate the amortization periods for all plant in service-related EADIT, to amortize all other plant-related EADIT proportional to ARAM, and to amortize non-plant-related EADIT over 20 years. If the Commission does not agree with the Company's position with respect to repairs-related EADIT other than Repairs – M/L EADIT (which is clearly "protected"), Tennessee-American nevertheless suggests the Commission as a matter of prudence approve the Company's

proposal to amortize all plant-related EADIT pursuant to ARAM pending resolution of the uncertainty by the IRS. Further, the Commission should not address EADIT related to tax repairs in isolation from other unprotected amounts; to do so could lead to an indirect violation of the tax normalization rules caused by leaving potentially unprotected EADIT items (such as Cost of Removal) in the ARAM calculation the Company has done and thus undermine the result ARAM would otherwise produce.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

STATE OF New Jersey)
)
COUNTY OF Camden)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared John R. Wilde, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Public Utility Commission, and if present before the Commission and duly sworn, his testimony would be as set forth in his pre-filed testimony in this matter.

John R. Wilde

Sworn to and subscribed before me
this 16 day of September, 2019.

Notary Public

My Commission Expires: 4/25/2022

SHARIFAH HILTON
NOTARY PUBLIC OF NEW JERSEY
My Commission Expires 4/25/2022

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Daniel P. Whitaker III
Karen H. Stachowski
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate Unit, Financial Division
P.O. Box 20207
Nashville, TN 37202-0207
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This the 16th day of September, 2019.

Melvin J. Malone

AMERICAN WATER

September 10, 2010

Courier's Desk
Internal Revenue Service
Attn: CC:ITA:B01- Innessa Glazman
1111 Constitution Avenue, N.W., Room 5336
Washington, DC 20224

18-00039

RE: American Water Works Company, Inc. & Subs.
EIN: 51-0063696
CAM-108421-09
CONSENT AGREEMENT

Dear Ms. Glazman:

This letter relates to a Form 3115, Application for Change in Accounting Method, filed by the above-mentioned Taxpayer on behalf of itself and various subsidiaries, requesting permission to change their method of accounting for (1) costs to repair and maintain tangible property, and (2) dispositions of certain tangible depreciable property, for the taxable year that ended December 31, 2008.

Please find enclosed a Consent Agreement dated July 30, 2010, and signed by the Taxpayer on September 10, 2010. However, we note that the EINs for two of the entities subject to the Form 3115 and enclosed Consent Agreement, American Water Engineering, Inc., and United Water Virginia, Inc., were incorrectly reflected in Appendix A to the Consent Agreement. In its information response to the IRS, by letter dated July 1, 2009, the Taxpayer provided the correct EINs of the two entities, American Water Engineering, Inc. (EIN: 76-0654501), and United Water Virginia, Inc. (EIN: 54-1016694). The Taxpayer will be effecting the change permitted in the Consent Agreement.

If you have any questions, please call the Taxpayer's authorized representative, Robert Weiss, at 202-414-1421.

Sincerely,

Mark Chesla
Vice President and Controller

Enclosures
Executed Consent Agreement

CONSENT AGREEMENT

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

American Water Works Company, Inc.
and Subs.
P.O. Box 5600
Cherry Hill, NJ 08003

Attn: Mark N. Chesla
VP and Controller

Person to Contact:
Innessa Glazman
Telephone Number:
(202) 622-7327
Refer Reply to:
CC:ITA:B01 CAM-108421-09
Employee Identification Number:
52-08393

EIN: 51-0063696

JUL 30 2010

In re: Application for Change of Accounting Method
Form 3115 - See Appendix A

Dear Mr. Chesla:

This letter refers to a Form 3115, Application for Change in Accounting Method, filed by American Water Works Company, Inc. & Subs., EIN:51-0063696, on behalf of thirty applicants (see Appendix A) (collectively "the taxpayer"), requesting permission to change the taxpayer's method of accounting for: (1) costs to repair and maintain tangible property, and (2) dispositions of certain tangible depreciable property. The change is requested for the taxable period beginning January 1, 2008 and ending December 31, 2008 ("year of change").

The Department of the Treasury has published proposed regulations that clarify the application of §§ 162 and 263 of the Internal Revenue Code to expenditures paid or incurred to repair, improve, or rehabilitate tangible property. See Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property, 73 FR 12838-01 (March 10, 2008), 2008-1 C.B. 871. A threshold issue in applying the rules under §§ 162 and 263 is determining the appropriate unit of property to which the rules should be applied. The proposed regulations reserve the rules for determining the appropriate unit of property for network assets, which are defined as railroad track, oil and gas pipelines, water and sewage pipelines, power transmission and distribution lines, and telephone and cable lines. See § 1.263(a)-3(d)(2)(iii)(C)(2) of the proposed regulations, 73 FR 12857. The preamble to the proposed regulations states that the unit of property for network assets should be addressed on an industry-by-industry basis in future Internal Revenue Bulletin guidance. See preamble discussion at 73 FR 12843.

Section 6.09 of Rev. Proc. 2010-1, 2010-1 I.R.B. 1, 16, provides that the Internal Revenue Service generally will not issue a letter ruling if the request presents an issue that cannot be readily resolved before a regulation or any other published guidance is issued. A letter ruling includes an Associate Office's response granting or denying a

request for a change in a taxpayer's accounting method. Section 2.01 of Rev. Proc. 2010-1. The unit of property determination for network assets is an issue that cannot be readily resolved before a regulation or other published guidance is issued. Further, because the taxpayer's proposed method of accounting is based on the unit of property determination, the propriety of the taxpayer's proposed method of accounting is also an issue that cannot be readily resolved. Thus, the Service declines to rule on whether the taxpayer's unit of property determination for its network asset is correct, and accordingly, whether its proposed method of accounting is a proper method of accounting.

Further, pursuant to section 4.02(1) of Rev. Proc. 2010-3, 2010-1 I.R.B. 110, 118, the Service will not ordinarily issue a letter ruling or determination letter on any matter in which the determination requested is primarily one of fact. The determination of the unit of property for dispositions of tangible depreciable property is a factual one. Thus, the Service declines to rule on whether the taxpayer is using the appropriate unit of property for determining dispositions of tangible depreciable property subject to its Form 3115 and, accordingly, whether its proposed method of accounting for determining dispositions of such property is a proper method of accounting.

FACTS

The taxpayer is a corporation that is in the business of operating as public water and wastewater utility company that pumps, treats, and distributes water to and from residential, commercial, and industrial customers in the United States. The taxpayer uses an overall accrual method of accounting. Its principal business activity code is 221300. The taxpayer is requesting permission to: (1) change its method of accounting for costs associated with the routine repair and maintenance of all of the taxpayer's network assets; and (2) change its units of property for determining dispositions of certain tangible depreciable property.

Routine repair and maintenance costs

The costs included in this request consist of costs associated with the routine repair and maintenance of taxpayer's tangible property. The taxpayer represents that these costs are incurred to keep the taxpayer's property in ordinarily efficient operating condition, and that they do not materially increase the value or substantially prolong the useful life of any unit of property compared to the value or useful life of the property before the general decline or event that led to the repairs or maintenance. The taxpayer represents that the repair and maintenance costs do not adapt any unit of property to a new or different use. The taxpayer represents that the repair and maintenance costs do not include costs to replace any unit of property or any major components or substantial

structural parts of any unit of property. The taxpayer represents that the repair and maintenance costs are not incurred as part of a plan of rehabilitation, modernization, or improvement to any unit of property. The taxpayer represents that the repair and maintenance costs do not result from any prior owner's use of any unit of property.

Section 162 allows a deduction for all the ordinary and necessary expenses paid during the taxable year in carrying on any trade or business.

Section 1.162-4 of the Income Tax Regulations allows a deduction for the cost of incidental repairs that neither materially add to the value of property nor appreciably prolong its useful life, but keep it in an ordinarily efficient operating condition.

Under the taxpayer's present method of accounting for repair and maintenance costs, the taxpayer capitalizes the repair and maintenance costs described above and recovers these costs using the appropriate method over the applicable recovery period and the applicable convention as prescribed by §168(a).

Under the taxpayer's proposed method of accounting for repair and maintenance costs, the taxpayer will treat the repair and maintenance costs as ordinary and necessary business expenses pursuant to §§ 162 and 1.162-4.

Disposition of certain tangible depreciable property

The items of tangible depreciable property subject to the taxpayer's request to change its units of property for determining dispositions are described as network assets. Such property is depreciated by the taxpayer under § 168.

The taxpayer represents that:

1. None of the assets that are the subject of the taxpayer's Form 3115 are leasehold improvements.

2. None of the assets subject to the taxpayer's Form 3115 is subject to a general asset account election under § 168(i)(4) and the regulations thereunder.

3. None of the assets subject to the taxpayer's Form 3115 is subject to a mass asset account election under former § 168(d)(2)(A).

4. Depreciation for all of the assets subject to the taxpayer's Form 3115 is not determined in accordance with § 1.167(a)-11 (regarding the Class Life Asset Depreciation Range System (ADR)).

5. None of the assets subject to the taxpayer's Form 3115 is subject to the repair allowance under § 1.167(a)-11(d)(2) (including expenditures incurred after December 31, 1980, that were for the repair, maintenance, rehabilitation, or improvement of property placed in service by the taxpayer before January 1, 1981).

6. None of the assets subject to the taxpayer's Form 3115 were disposed of in a transaction to which a nonrecognition section of the Code applies (for example, § 1031, transactions subject to § 168(i)(7)).

7. There is no building (and its structural components) that is the subject of the taxpayer's Form 3115.

Under the taxpayer's present method of accounting, the taxpayer uses a method other than the functional interdependence test to identify the unit of property for purposes of determining when a depreciable network asset is disposed of.

Under the taxpayer's proposed method of accounting, the taxpayer will use the functional interdependence test to identify the unit of property for purposes of determining when a depreciable network asset is disposed of. The taxpayer will use the same unit of property for purposes of determining when a depreciable network asset is placed in service (and when depreciation begins) and when the depreciable network asset is disposed of (and when depreciation ends).

The taxpayer has represented that, on the date the Form 3115 was filed, it was not under examination and it was not before an appeals office or a federal court with respect to any income tax issue. See sections 3.07, 3.08(2) and 3.08(3) of Rev. Proc. 97-27, 1997-1 C.B. 680, as modified by Rev. Proc. 2002-19, 2002-1 C.B. 696.

SECTION 481(a) ADJUSTMENT

The information provided indicates that, as of the beginning of the year of change, the required aggregate adjustment under § 481(a) (the § 481(a) adjustment) for the year of change is ($461,238,422). This amount represents a netting of the net negative § 481(a) adjustment for maintenance and repairs with the net positive § 481(a) adjustment for dispositions. The netting represents a one-time exception allowed the taxpayer for the year of change based on its particular situation. As a rule, the netting of the § 481(a) adjustment for maintenance and repairs with the § 481(a) adjustment for dispositions is not allowed under the provisions of Rev. Proc. 97-27. The § 481(a) adjustment for each applicant is shown in Appendix A. The net amount represents a decrease in computing taxable income.

American Water Works Company, Inc. & Subsidiaries
CAM-108421-09

CONSENT/TERMS AND CONDITIONS OF CONSENT

Based solely on the facts presented and representations made, permission is hereby granted the taxpayer to change its method of accounting from the present method to the proposed method, beginning with the year of change, provided that:

(1) The taxpayer takes the entire net § 481(a) adjustment into account in computing taxable income in the year of change. See section 2.02(1) of Rev. Proc. 2002-19, 2002-1 C.B. 696, as amplified and clarified by Rev. Proc. 2002-54, 2002-2 C.B. 432.

(2) The taxpayer keeps its books and records for the year of change and for subsequent taxable years (provided they are not closed on the date it receives this letter) on the method of accounting granted in this letter. This condition is considered satisfied if the taxpayer reconciles the results obtained under the method used in keeping its books and records and the method used for federal income tax purposes and maintains sufficient records to support such reconciliation; and

(3) No portion of any net operating loss that is attributable to a negative § 481(a) adjustment may be carried back to a taxable year prior to the year of change that is the subject of any pending or future criminal investigation or proceeding concerning (a) directly or indirectly, any issue relating to the taxpayer's federal tax liability, or (b) the possibility of false or fraudulent statements made by the taxpayer with respect to any issue relating to its federal tax liability. See section 5.02(4) of Rev. Proc. 97-27.

(4) None of the items of property subject to the taxpayer's Form 3115 is subject to a general asset account election under § 168(i)(4) and the regulations thereunder;

(5) None of the items of property subject to the taxpayer's Form 3115 is subject to a mass asset account election under former § 168(d)(2)(A);

(6) The taxpayer does not determine depreciation for any of the items of property subject to the taxpayer's Form 3115 in accordance with § 1.167(a)-11 (regarding the Class Life Asset Depreciation Range System (ADR));

(7) None of the items of property subject to the taxpayer's Form 3115 is subject to the repair allowance under § 1.167(a)-11(d)(2) (including expenditures incurred after December 31, 1980, for the repair, maintenance, rehabilitation, or improvement of property placed in service before January 1, 1981);

8) None of the cost (or a portion thereof) of the assets subject to the taxpayer's Form 3115 is expensed or amortized under any provision of the Code, regulations, or other published guidance in the Internal Revenue Bulletin (for example, § 179D, § 1400I); and,

9) If any item of property subject to the taxpayer's Form 3115 is public utility property within the meaning of § 168(i)(10) or former § 167(l)(3)(A):

(A) A normalization method of accounting (within the meaning of § 168(i)(9), former § 168(e)(3)(B), or former § 167(l)(3)(G), as applicable) must be used for such public utility property;

B) As of the beginning of the year of change, the taxpayer must adjust its deferred tax reserve account or similar reserve account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the § 481(a) adjustment applicable to such public utility property; and

C) Within 30 calendar days of filing the federal income tax return for the year of change or of receiving this letter ruling, whichever is later, the taxpayer must provide a copy of its Form 3115 (and any additional information submitted to the Service in connection with such Form 3115) to any regulatory body having jurisdiction over such public utility property.

EFFECT OF THIS ACCOUNTING METHOD CHANGE

The accounting method change granted in this letter is a letter ruling pursuant to § 601.204(c) of the Statement of Procedural Rules. See also section 2.01 of Rev. Proc. 2010-1, 2010-1 I.R.B. at 6 (or any successor). The taxpayer ordinarily may rely on this letter ruling subject to the conditions and limitations described in Rev. Proc. 97-27.

However, the consent granted under this letter ruling for the taxpayer's requested change is not a determination by the Commissioner that the taxpayer is using the appropriate unit of property for determining dispositions of tangible depreciable property and does not create any presumption that the proposed unit of property is permissible

for such purposes. The director will ascertain whether the taxpayer's determination of its unit of property for dispositions of tangible depreciable property is correct.

Further, the taxpayer should not infer approval of any tax treatment not specifically stated in this letter ruling. For example, this letter does not address the application of § 263A, which generally requires taxpayers to capitalize certain direct and indirect costs of property produced or acquired for resale, or the propriety of the taxpayer's classification of property under § 168(e) or Rev. Proc. 87-56, 1987-2 C.B. 678. Further, this letter ruling does not imply approval of any tax treatment (including amounts that are part of the § 481(a) adjustment) when the Code, the regulations, or other published guidance provides specific limitations and/or prohibitions. The Service expresses no opinion on the propriety of the unit(s) of property the taxpayer proposes to use in determining the deductibility of repair and maintenance costs. The unit of property determination is a factual one within the jurisdiction of the director.

The director must apply the ruling in determining the taxpayer's liability unless the director recommends that the ruling should be modified or revoked. The director will ascertain whether (1) the representations upon which this ruling was based reflect an accurate statement of the material facts, (2) the change in method of accounting was implemented as proposed in accordance with the terms and conditions of the Consent Agreement and Rev. Proc. 97-27, (3) there has been any change in the material facts upon which the ruling was based during the period the method of accounting was used, (4) there has been any change in the applicable law during the period the method of accounting was used, (5) the amount of the § 481(a) adjustment was properly determined, and (6) the taxpayer's determination of its unit of property is correct. In the case of (1), (2), (3), or (4) above, if the director recommends that the ruling should be modified or revoked, the director will forward the matter to the national office for consideration before any further action is taken. Such a referral to the national office will be treated as a request for technical advice, and the provisions of Rev. Proc. 2010-2, 2010-1 I.R.B. 90 (or any successor) will be followed. See section 11.01 of Rev. Proc. 97-27.

As noted above, the Department of the Treasury has published proposed regulations that clarify the application of §§ 162 and 263 to expenditures paid or incurred to repair, improve, or rehabilitate tangible property. See Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property, 73 FR 12838-01 (March 10, 2008), 2008-1 C.B. 871. If final or temporary regulations are adopted with positions that are inconsistent with the method of accounting that the taxpayer implements in accordance with this letter ruling, the taxpayer will be required to follow any instructions in those final or temporary regulations concerning methods of accounting for the repair, improvement, or rehabilitation of tangible property for future taxable years.

American Water Works Company, Inc. & Subsidiaries
CAM-108421-09

AUDIT PROTECTION

An examining agent may not propose that the taxpayer change the same method of accounting as the method changed by the taxpayer under this ruling for a year prior to the year of change provided the taxpayer implements the change as proposed, in accordance with the terms and conditions of this ruling and Rev. Proc. 97-27, and the ruling is not modified or revoked retroactively because there has been a misstatement or an omission of material facts. See sections 9.01 and 9.02(1) of Rev. Proc. 97-27.

However, the Service may change the taxpayer's method of accounting for the same item for taxable years prior to the requested year of change if there is any pending or future criminal investigation or proceeding concerning (a) directly or indirectly, any issue relating to the taxpayer's federal tax liability for any taxable year prior to the year of change, or (b) the possibility of false or fraudulent statements made by the taxpayer with respect to any issue relating to its federal tax liability for any taxable year prior to the year of change. See section 9.02(4) of Rev. Proc. 97-27.

CONSENT AGREEMENT

If the taxpayer agrees to the terms and conditions set forth above, an individual with the authority to bind the taxpayer in such matters must sign and date the attached copy and return it within 45 days from the date of this letter to:

Internal Revenue Service
Attention: Innessa Glazman, CC:ITA:B01
P.O. Box 14095
Benjamin Franklin Station
Washington, D.C. 20044

The signed copy constitutes an agreement regarding the terms and conditions under which the change is to be effected ("Consent Agreement") within the meaning of § 481(c) and as required by § 1.481-4(b). The Consent Agreement shall be binding on both parties except that it will not be binding upon a showing of fraud, malfeasance, or misrepresentation of a material fact. In addition, a copy of the executed Consent Agreement must be attached to the taxpayer's federal income tax return for the year of change. For further instructions, see section 8.11 of Rev. Proc. 97-27. Alternatively, a taxpayer that files its returns electronically may satisfy this requirement by attaching a statement to its return that provides the date and control number of this letter ruling.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

The accounting method change granted in this letter is directed only to the taxpayer and may not be used or cited as precedent. See section 11.02 of Rev. Proc. 2010-1, 2010-1 I.R.B. at 49. Final or temporary regulations under § 167 or § 168 pertaining to one or more of the issues addressed in this letter ruling have not yet been adopted. Therefore, if final or temporary regulations under § 167 or § 168 should be adopted with positions that are inconsistent with the conclusions reached in this letter ruling, the method of accounting utilized as a result of the letter ruling will no longer be regarded as a proper method of accounting and would be subject to change within the framework of §§ 446 and 481.

American Water Works Company, Inc. & Subsidiaries
CAM-108421-09

In accordance with the provisions of a power of attorney currently on file, we are sending a copy of the ruling letter to your authorized representatives.

Sincerely yours,

JOHN P. MORIARTY
Chief, Branch 1
Office of the Associate Chief Counsel
(Income Tax and Accounting)

cc: Internal Revenue Service
Industry Director, LM:NRC
Natural Resources and Construction
1919 Smith Street, Stop 1000HOU
Houston, TX 77083

Robert Weiss
PricewaterhouseCoopers LLP
1301 K Street, NW, Ste 800W
Washington, DC 20005

Gwynneth H. Stott, CPA
PricewaterhouseCoopers LLP
2001 Market Street, Ste 1700
Philadelphia, PA 19103

Signed this 10th day

of SEPTEMBER, 2010

AMERICAN WATER WORKS INC & SUBS,
(taxpayer)

By _____, VICE PRESIDENT AND CONTROLLER
(Name and corporate title of parent officer)

Tennessee American Water
Excess ADIT
Years 2018 and 2019

Exhibit JRW - 2S

		Total Net Excess	Protected / Unprotected	Non Plant / Non Power Tax Amortization Period		2018 Excess	2019 Excess	Total
Net Excess Amortization from Powertax (Rpt 259)								
Method / Life	ARAM	12,869,192	Subject to Tax Normalization					
Cost of Removal	ARAM	552,564	Subject to Tax Normalization (Uncertain)					
Repairs - M/L	ARAM	2,457,864	Subject to Tax Normalization					
Repairs Other	ARAM	2,588,057	Subject to Tax Normalization (Uncertain)					
All Other	ARAM	(49,171)	Unprotected					
Powertax		18,418,506						
Federal NOL	Proportional to ARAM	(801,599)	Protected / Unprotected (Uncertain)					
Plant Customer Advances	Proportional to ARAM	(460,203)	Unprotected					
Plant CWIP	Proportional to ARAM	11,763	Unprotected					
CIAC WIP	Proportional to ARAM	(5,619)	Unprotected					
Plant 481	Proportional to ARAM	110,156	Unprotected					
Total Subject to ARAM		**17,273,004**				**508,372**	**531,832**	**1,040,205**
All Other Non Plant	Amortization	(429,833)	Unprotected		20	(21,492)	(21,492)	(42,983)
Total Federal and State Excesses		**16,843,171**				**486,881**	**510,340**	**997,221**
				Gross-up		**660,206**	**692,017**	**1,352,224**

18-00039