

**STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD**

IN RE:	:	DOCKET NO. RPU-2020-0001
	:	TF-2020-0250
IOWA-AMERICAN WATER COMPANY	:	
	:	

MOTION FOR CLARIFICATION

COMES NOW Iowa-American Water Company (“Iowa-American” or “Company”) and files this, its Motion for Clarification of the Iowa Utilities Board’s (“Board”) Final Decision and Order issued in this matter on June 28, 2021 (“Order”), and in support thereof states:

I. Excess Accumulated Deferred Income Taxes

1. The Board’s Order approves Iowa-American’s plan to include unprotected Excess Accumulated Deferred Income Taxes (“EADIT”) in the Company’s non-recurring expense rider. The Order goes on to require that the Company flow that EADIT back to customers over a three-year amortization period.¹ The Company and OCA both agreed that, once the Board approved the EADIT amortization periods, the Board must approve corresponding adjustments to increase Iowa-American’s rate base and that the record should be updated to reflect the required adjustments prior to approval of final rates in this proceeding.² Iowa-American has recalculated the Company’s rate base and revenue requirement based on the three-year amortization period, and the Company now seeks the Board’s approval of those adjustments.

2. The parties agreed that flowing back the unprotected EADIT over an amortization period shorter than that produced by the Average Rate Assumption Method (“ARAM”) would

¹ “The Board will approve Iowa-American’s proposal to include EADIT as an item to be netted in the non-recurring expense rider; however, the Board will require that Iowa-American return the entire balance of unprotected EADIT over three years.” Order, p. 67.

² Order, p. 66.

result in an increase to the Company's rate base and revenue requirement.³ While Company witness Wilde provided various scenarios showing the effect on rate base of different EADIT flow-back periods – because it was unknown what amortization period the Board would select -- none of those schedules reflected the three-year amortization period ultimately ordered by the Board.⁴ As stated in testimony and at the hearing, the OCA acknowledges it did not make the full adjustment and only attempted to estimate, without Power Tax, one third of the ordered removal but recognized that it was likely additional calculations needed to be performed.⁵ The Board did not order a third of the unprotected EADIT removed and returned to customers; the Board ordered a full return over a three year period. Failure to fully adjust rate base is improper.

3. Accordingly, in compliance with the Board's Order, Iowa-American has included, with this filing, schedules that utilize the corrected PowerTax calculations and flow through the revenue requirement model all adjustments to the revenue requirement that result from a change in rate base to reflect the three-year amortization for unprotected EADIT. The schedules reflect that Iowa-American's rate base should be increased by \$3,749,416⁶ to \$148,429,283 and the Company's ordered revenue increase and requirement should be increased to \$2,665,290 and \$44,215,409, respectively, to recognize in rate base the immediate creation of the liability, the ordered three-year flow-back of unprotected EADIT to Iowa-American's customers and the interest synchronization correction discussed below. This represents an increase in revenue

³ Wilde Direct, p. 19; Wilde Reply, pp. 7-8; Tr. 353-54; see also Kruger Direct, pp. 28-29.

⁴ Wilde Reply, Exhibit 2.

⁵ See, *supra*, pp. 1-2. Hearing Transcript Part 2 starting at page 353.

⁶ The order directs the entire \$4,488,678 be returned to customers. The \$3,749,416 represents the amount contained in rate base in the original filing and is the difference between the ordered rate base of \$144,679,867 and the revised rate base of \$148,429,283. At filing, a "catch up" unprotected EADIT balance had already been removed from rate base to represent the period since tax changes in 2018.

requirement of \$402,209 when compared to the Order of which \$420,003 relates to unprotected EADIT's removal from rate base and (\$17,794) relates to interest synchronization.

4. In order to implement the return of the \$4,488,678 unprotected EADIT to customers, Iowa-American proposes that the \$4,488,678 be removed from accumulated deferred income taxes and placed in a regulatory liability account for return to customers over a three-year period through the non-recurring expense rider. At the end of the three-year period, and with any needed reconciliations, customers will have received the required credits, Iowa-American's rate base will appropriately reflect the necessary flow-back, and Iowa-American's tariff will contain accurate base rates. Iowa-American requests Board approval of the attached schedules documenting this methodology. The income tax effects of the Tax Cuts and Jobs Act have been resolved in this proceeding, and no longer require ongoing adjustments.⁷

5. Therefore, in order to comply with the Board's Order, Iowa-American seeks the Board's approval of the attached schedules and the methodology described herein to refund EADIT over three years.

II. Interest Synchronization

6. The Order acknowledges that the interest synchronization adjustment is performed using different methodologies between the parties.⁸ Iowa-American adjusted the interest **before** calculating taxes, as demonstrated at hearing, and OCA adjusted the interest **after** the fact using book interest. While interest synchronization is not an express filing requirement supported by direct testimony, all parties agree it was, and should, be performed.⁹ The Order states a preference

⁷ Iowa-American proposes this process addresses the Board's requirement that the Company "annually reconcile Iowa-American's actual taxes and EADIT." Order, p. 67.

⁸ Order, p. 15.

⁹ *Id.*

for the methodology employed by the OCA.¹⁰ However, said Order did not address the “doubled-up” application issue created by virtue of the fact that Iowa-American’s methodology varied from that of the OCA. Iowa-American seeks Board approval to, in its compliance filing, remove the interest synchronization adjustment it performed from its tax calculation, and instead rely only on the methodology contained in the Order. By utilizing the methodology contained in the Order, and reversing the Company method, Iowa-American’s revenue requirement will be slightly decreased.

7. Specifically, the Board found that it would adopt the interest synchronization found in OCA’s methodology.¹¹ The Board’s Schedule F provides \$3,880,011 as the amount of pro forma interest, and then shows the interest synchronization calculation favored by OCA. This portion of the Order and schedules requires clarification because the starting point utilized by the Board – \$3,880,011 – came from Iowa-American’s calculations, which *already included* an interest synchronization.¹² Thus, interest synchronization has been “doubled- up.”

9. Relying on the methodology contained in the Order, the proper pro forma interest amount that should be reflected in schedule F is \$3,980,562. This amount results in a decrease to the revenue requirement related to federal income tax of \$11,727, and state income taxes of \$6,067.¹³

10. The Company seeks approval to remove its methodology and only utilize the methodology contained in the Order with regard to the interest synchronization adjustment and to recalculate the interest synchronization with the revised pro forma interest of \$3,980,562.

¹⁰ *Id.*

¹¹ *Id.*

¹² Tr. 279-83; Wilde Direct Exhibit 1, Summary Schedule – State Income Tax, lines 13, 48-51; Wilde Direct Exhibit 2, Summary Schedule - Federal Income Tax, lines 13, 43-46.

¹³ Schedule C, p. 4, column L.

WHEREFORE, ABOVE PREMISES CONSIDERED, Iowa-American Water Company asks the Board for clarification of its Final Decision and Order as described herein.

Dated this 9th day of July 2021.

Respectfully submitted,

**BROWN, WINICK, GRAVES, GROSS &
BASKERVILLE, P.L.C.**

By /s/ Sheila K. Tipton

By /s/ Haley R. Van Loon

Sheila K. Tipton, AT0007943
Haley R. Van Loon, AT0008814
666 Grand Avenue, Suite 2000
Des Moines, IA 50309-2510
Tel.: (515) 242-2000
Fax: (515) 323-5838
sheila.tipton@brownwinick.com
haley.vanloon@brownwinick.com

**ATTORNEYS FOR
IOWA-AMERICAN WATER COMPANY**