

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE: IOWA-AMERICAN WATER COMPANY	DOCKET NOS. RPU-2020-0001 TF-2020-0250
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RESPONSE TO MOTION FOR CLARIFICATION

COMES NOW the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, and submits this Response to the “Motion for Clarification” (Motion) filed with the Iowa Utilities Board (“Board”) by Iowa-American Water Company (“Iowa-American” or “Company”) on July 9, 2021.

1. On June 28, 2021, the Board issued its “Final Decision and Order” (“Order”) regarding the application for rate increase filed by Iowa-American on August 28, 2020, authorizing Iowa-American an overall revenue requirement of \$43,813,200, based on a rate base of \$144,679,867. Also, as part of that Order, the Board authorized Iowa-American to include unprotected Excess Accumulated Deferred Income Tax (EADIT) as an item to be netted in the Company’s non-recurring expense rider and required Iowa-American to return the entire balance of unprotected EADIT to customers over a three-year period. (Order, p. 67).

2. On July 9, 2021, Iowa-American filed a “Motion for Clarification” seeking the Board’s approval of the methodology the Company implemented to refund the EADIT amount to customers over the required three-year period. Iowa-American asserts that the Board’s calculation of the adjusted balance for Accumulated Deferred Income Tax (ADIT) is incorrect; the balance should be increased by \$3,749,416. Iowa-American also asks the Board to approve increases to the ordered revenue increase and revenue requirement to \$2,665,290 and

\$44,215,409, respectively, to recognize the immediate creation of the liability, the ordered three-year flow-back of EADIT to customers, and an interest synchronization correction.

3. Iowa-American and OCA agreed during this proceeding that returning the unprotected EADIT to customers over a shorter time period than the Company proposed would result in an increase to the Company's rate base and revenue requirement. However, OCA disagrees with Iowa-American's full adjustment of rate base as proposed in its July 9 Motion. The return of EADIT funds to customers is required to occur over a three-year period, the first year being the test year. Only the funds returned to customers during the test year should be removed from the ADIT offset to rate base. In response to OCA Data Request No. 230, Iowa-American contemplates transferring the full balance of unprotected EADIT "from ADIT to a regulatory liability account for the non-recurring expense rider effective as of the beginning of the test year, July 1, 2021." *See* OCA Attachment 1. Essentially, Iowa-American's proposal treats the EADIT as if the full amount of proceeds were disposed on the first day of the test year, which would increase rate base by the amount Iowa-American is requesting.

4. Iowa-American's proposal fails to recognize the regulatory liability as an offset to rate base, which is inappropriate and harmful to ratepayers. OCA's rate base calculation is correct because it increases rate base by the portion of funds customers will receive during the test year. Iowa-American's proposal seeks to increase rate base for funds customers will receive in the test year and in the two years following the test year. Iowa-American's approach to transfer the ADIT to a regulatory liability is only appropriate if and only if the regulatory liability is recognized as an offset to rate base. The Company's calculation does not recognize the offset to rate base for the newly created regulatory liability. Accumulated Deferred Income Taxes are an offset to rate base because customers paid rates based on income taxes the Company did not

immediately pay due to Iowa-American deferring the taxes to a later period. Because Iowa-American’s customers contributed these funds, the balance of ADIT offsets rate base. Iowa-American’s customers will not receive all of the EADIT funds in the first year, so it is only appropriate to reflect the 13-month average of the balance of EADIT returned in the test year, or the first of the three years. For example, if the total balance of \$4,488,678 is returned evenly over 36 months, Iowa-American will refund \$124,685 of principal over 36 months. The following table shows how the principal balance will be depleted over the test year:

	Principal Balance	Principal Refunded
Beginning balance	\$ 4,488,678	\$ 124,685.50
Month 1	\$ 4,363,993	\$ 124,685.50
Month 2	\$ 4,239,307	\$ 124,685.50
Month 3	\$ 4,114,622	\$ 124,685.50
Month 4	\$ 3,989,936	\$ 124,685.50
Month 5	\$ 3,865,251	\$ 124,685.50
Month 6	\$ 3,740,565	\$ 124,685.50
Month 7	\$ 3,615,880	\$ 124,685.50
Month 8	\$ 3,491,194	\$ 124,685.50
Month 9	\$ 3,366,509	\$ 124,685.50
Month 10	\$ 3,241,823	\$ 124,685.50
Month 11	\$ 3,117,138	\$ 124,685.50
End Test Year Balance	\$ 2,992,452	\$ 124,685.50
13 month average	\$ 3,740,565	

5. As shown in the table above, the 13-month average balance of \$3,740,565 represents the 13-month average offset to rate base after evenly refunding the money to customers over the test year. This illustration also estimates the amount Iowa-American asserts should increase rate base. The Company’s motion for clarification requests an increase to rate base in the amount of approximately \$3.7 million dollars, the 13-month average of the EADIT balance after evenly refunding the balance over the test year. Iowa-American’s ratepayers are entitled to a rate base offset of \$3.7 million for the test year because the full amount will not have

been refunded to them at the end of the test year. It is irrelevant that Iowa-American remains obligated to refund the remaining balance in years 2 and 3; the rate base adjustment should only pertain to the test year. OCA's calculation, as shown in OCA Kruger Rebuttal and Direct Schedule D, properly estimates the rate base reduction on a prorated basis to restate the ADIT balance after reflecting the return of EADIT during the test year. OCA's Schedule D properly computes the difference between the amount of ADIT adjustment included by Iowa-American in its schedule and the amount calculated by using a three-year return of EADIT funds. This adjustment properly adjusts rate base for the amount of EADIT returned to customers in the test year while ensuring rate base reflects the amount of outstanding EADIT not returned to customers as an offset to rate base for the test year.

6. Iowa-American also seeks Board approval to utilize the methodology identified 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.

7. OCA agrees with Iowa-American that the interest synchronization calculation should be done correctly in the manner consistent with the Board's Order. OCA has spoken with IAWC and understands IAWC's July 9 schedules to bifurcate the interest synchronization adjustment from the tax adjustment which reduces the tax adjustment that refers to Wilde Exhibits 1, 2. IAWC originally included an interest synchronization calculation within its tax calculation, but that calculation did not account for the changes in rate base that OCA recommended and the Board ultimately accepted. IAWC also did not provide updated schedules of Wilde 1, 2 in support of the new tax adjustment to illustrate the transfer of the interest synchronization from the tax calculation to the interest synchronization schedule. IAWC should provide Wilde's

updated schedules to substantiate the calculation provided in its Motion for Clarification. Assuming IAWC's calculation is done properly, the bifurcation of the interest synchronization from the tax calculation would correct for the duplication of the interest synchronization issue. The net effect would be an increase to the revenue requirement in the amount of approximately \$37,000 bringing the total revenue deficiency to \$2,300,651.

WHEREFORE, OCA asks for clarification of its Final Decision and Order as described by OCA in this Response.

Respectfully submitted,

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OFFICE OF CONSUMER ADVOCATE

**IOWA-AMERICAN WATER COMPANY RESPONSE TO
OFFICE OF CONSUMER ADVOCATE
DATA REQUEST 230**

OCA DR No 230
Page 1 of 1

DATE OF RESPONSE : July 20, 2021
DOCKET NO. : RPU-2020-0001
COMPANY : Iowa-American Water Company (IAWC)
WITNESS : Cade Simmons
SUBJECT : Regulatory Liability
REFERENCE : Motion for Clarification

230. On page 3 of the Motion for Clarification, IAWC states “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.”
- A. In IAWC’s calculation for rate base, on what date(s) does IAWC assume the transfer from ADIT to regulatory liability will occur? Please include the amount of the transfer for each date.
- B. What is the 13-month average balance of the regulatory liability for the component of the liability related to unprotected EADIT during the future test year?

Response:

- A. The calculation contemplates the unprotected EADIT in the amount of \$6,299,191 is transferred from ADIT to a regulatory liability for the non-recurring expense rider effective as of the beginning of the test year, July 1, 2021.
- B. It would be extremely difficult for the Company to calculate the 13-month average balance of the regulatory liability throughout the future test year. The regulatory liability related to the unprotected EADIT at the beginning of the future test year will be \$6,299,191, calculated as of 7/1/2021, and it is anticipated that it will be reduced by approximately one-third by the end of the future test year but will vary depending actual sales.

The undersigned affirms that the foregoing data response was prepared by me and is true and correct to the best of my knowledge, information and belief.

Witness Cade Simmons

Signature: /s/ Cade Simmons

Date: July 20, 2021