

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

RESPONSE TO REPLY TO OCA 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 Iowa-American Water Company's (Iowa-American or Company) Reply to OCA Response to Motion for Clarification filed with the Iowa Utilities Board (Board) by Iowa-American on July 28, 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. On July 23, 2021, OCA filed a Response to Iowa-American's motion. OCA disagreed with Iowa-American's full adjustment of rate base as proposed in its July 9 Motion; that being to remove the entire amount of the Company's EADIT credit obligation as a reduction to rate base at the beginning of the test year. Iowa-American's proposal treats the EADIT as if the full amount of the refund was sent to customers on the first day of the test year. In its Response, OCA argued that the return of EADIT funds to customers is required to occur over a three-year period, the first year being the test year, and therefore only the funds returned to customers *during the test year* should be removed from the ADIT offset to rate base. OCA asserted that its rate base calculation correctly increases Iowa-American's rate base by the portion of funds customers will receive during the test year.

4. On July 28, 2021, Iowa-American filed a Reply to OCA's Response restating its intention to remove the entire amount of unprotected EADIT funds as a reduction to rate base on the first day of the future test period and then return to its customers one-third of the EADIT regulatory liability credit in equal monthly installments for each year of the three-year return period. The Company also suggests an alternative methodology of reflecting all rate base effects caused by the return of the EADIT funds in the non-recurring item rider and subsequently roll them into base rates in a future rate case.

5. Both Iowa-American's original and alternative methodology proposals attempt to extend the concept of the test year two extra years to account for this very special and unique situation. This extension of the test year amounts to single issue ratemaking and is wholly inappropriate. The Board determined Iowa-American's rate base and revenue requirement based on a future test year, not multiple test years. Iowa-American's proposal attempts to increase rate base by removing the ADIT rate base offset for funds that customers will receive in the test year *and* in the two years following the test year. If the Board considers this adjustment to rate base for the subsequent two years outside of the test year, it should also consider any rate base reductions that will occur over that same period of time, including accumulated depreciation of assets. But, this is not the way ratemaking works.

6. The amount of EADIT to be refunded does not change regardless of the amount of time in which that refund takes place, be it in three years or forty. 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 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.

7. In its Reply, Iowa-American presented an alternative proposal where it would increase its base rates on the basis of its proposal with all EADIT offsets eliminated from the rate base calculation and then credit customers for the revenue effect of the effective outstanding balance each year. Essentially, this means in year one a credit would be issued to customers for the amount OCA has proposed, and in years two and three the credit will be reduced each year to reflect the higher rate base resulting from EADIT being refunded to customers. This alternative adds a rate base component to the non-recurring expense rider that was not considered during the rate case. The effect of this proposal is single issue ratemaking; no other rate base reduction is handled in this manner. Because this proposal was not litigated as part of the rate case and amounts to single issue ratemaking, it is not an appropriate option for treatment of EADIT and should not be considered.

8 OCA does not believe that a technical conference is necessary to discuss this issue. There is ample information in the record for the Board to clarify its intent regarding Iowa-American's return of the unprotected EADIT amount to customers. As Iowa-American noted in its Motion and its Reply, the issue of EADIT was the subject of much testimony in this case and OCA does not believe the issue should continue to be litigated now that the Board's Order has been issued.

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

Respectfully submitted,

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