STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

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

ORDER ADDRESSING COMPLIANCE FILING AND MOTION FOR CLARIFICATION

PROCEDURAL HISTORY

On June 28, 2021, the Utilities Board (Board) issued its Final Decision and Order in Iowa-American Water Company's (Iowa-American) rate case, which is identified as Docket No. RPU-2020-0001. The order approved an annual revenue requirement for Iowa-American of $43,813,200. In addition, the order required Iowa-American to submit its compliance filing implementing rates to recover the revenue requirement by July 19, 2021.

On July 9, 2021, Iowa-American filed a motion for clarification. In its motion, Iowa-American asserted the revenue requirement approved by the Board should be adjusted in order to properly implement the Board's decisions regarding excess accumulated deferred income taxes (EADIT) and interest synchronization. Iowa-American asserted the revenue requirement should be increased by $402,209 to $44,215,409. Iowa-American requested that the Board clarify that it approves the adjustments described by Iowa-American in the motion for clarification.

On July 16, 2021, Iowa-American submitted its compliance filing. The rates included in the proposed compliance tariff were based on a revenue requirement of

$44,215,409, as requested in Iowa-American's July 9, 2021 motion for clarification. Iowa-American stated it assumed the Board's treatment of the issues Iowa-American raised in its motion for clarification were oversights and unintentional and the compliance filing is adjusted based upon those revisions.

On July 23, 2021, the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, filed a response to Iowa-American's motion for clarification. In its reply, OCA stated it opposes Iowa-American's proposed adjustment to the revenue requirement related to unprotected EADIT. OCA stated it does not oppose Iowa-American's proposed adjustment to the revenue requirement related to interest synchronization, subject to Iowa-American's submittal of additional supporting documentation.

On July 28, 2021, Iowa-American filed a response to OCA's July 23, 2021 filing. Iowa-American reiterated its arguments in favor of an adjustment to the revenue requirement related to unprotected EADIT.

On August 3, 2021, OCA filed a response to Iowa-American's July 28, 2021 filing. OCA reiterated its opposition to an adjustment of the revenue requirement related to EADIT. On the same day, OCA filed a response to Iowa-American's July 16, 2021 compliance filing. OCA requested that the Board reject Iowa-American's compliance filing and order Iowa-American to resubmit the compliance filing after the Board has ruled on Iowa-American's July 9, 2021 motion for clarification.

On August 11, 2021, Iowa-American filed a revised report of rate case expenses. Iowa-American stated the revision was necessitated by Iowa-American's receipt on August 9, 2021, of an additional direct assessment from the Board in the amount of

$122,347. Iowa-American requested the Board approve recovery of the additional amount when it approves Iowa-American's compliance filing.

COMPLIANCE FILING AND MOTION

A. EADIT ADJUSTMENT

The Tax Cuts and Jobs Act of 2017 reduced the federal corporate income tax rate from 35 percent to 21 percent. This means accumulated deferred income taxes (ADIT) that were accrued at a 35 percent rate will come due at a 21 percent rate. The difference between the amount of ADIT accrued and the amount that will come due constitutes EADIT and must be returned to customers. EADIT is classified as either protected or unprotected. Protected EADIT generally arises from plant-related assets as a result of book versus tax timing differences associated with depreciation expense. Unprotected EADIT generally consists of all timing differences other than depreciation. Federal regulations prescribe the time period over which protected EADIT must be returned to customers. Unprotected EADIT may be returned to customers over any time period approved by the Board.

The Board's June 28, 2021 order approved Iowa-American's proposal to return its $4,488,678 balance of unprotected EADIT, prior to tax gross-up, to customers through the non-recurring expense rider; however, the Board required Iowa-American to return the balance over a period of three years instead of the much longer return period Iowa-American had proposed.

The Board recognized in its order that ADIT serves as an offset to rate base, and returning unprotected EADIT to customers over a shorter time period would reduce the

ADIT offset to rate base and therefore increase rate base, which would result in an increase in the revenue requirement. The Board found that returning unprotected EADIT to customers quickly was in the customers' best interest. Because the Board required unprotected EADIT to be returned over three years, with the first year being the test year, the Board reduced the ADIT balance by one-third of the total amount of unprotected EADIT. Because the ADIT balance is an offset to rate base, reducing the balance by one-third of the total amount of unprotected EADIT resulted in rate base being increased by the same amount, which is reflected in the revenue requirement approved by the Board.

1. Iowa-American Position

In its motion for clarification and its July 28, 2021 response to OCA, Iowa-American states the Board's rate base adjustment does not adequately compensate Iowa-American for the effect of the three-year unprotected EADIT return period. Iowa-American states the Board should have increased rate base by the entire amount of the unprotected EADIT balance, not by one-third of the balance. Iowa-American states that if rate base is increased by only one-third of the unprotected EADIT balance, then its rate base will be undervalued in the second and third years of the three-year return period.

According to Iowa-American, it will be returning the EADIT benefits to customers in the second and third years, but its rate base will be fixed based on the amount of EADIT being returned during the first year. Iowa-American states that, because it cannot file another rate case until the conclusion of the subsequent proceeding in this case, it will be precluded from ever recovering the revenues lost during the second and third years of the EADIT return period.

Iowa-American states the Board should accept its proposal to increase rate base by the full amount of the unprotected EADIT balance and increase the revenue requirement accordingly. Iowa-American recognizes that doing so would result in customers paying rates based on a rate base that is higher than it should be in light of the amount of EADIT actually being returned during the test year. Iowa-American proposes that this overpayment could be remedied through an annual reconciliation of the non-recurring expense rider. Under Iowa-American's proposal, customers would annually receive a credit for the amount they overpaid in base rates due to adding the entire EADIT balance to rate base. The amount of the annual credit would be the difference between what customers paid during the year and what they would have paid during the year if rate base had been increased by one-third of the unprotected EADIT balance in each year of the three-year return period. Iowa-American states that under this proposal, at the end of the fourth year, customers will have received the full unprotected EADIT credit and will have been made whole for any overpayment resulting from adding the full amount of the unprotected EADIT balance to rate base. Iowa-American states that if the Board prefers a more contemporaneous approach, Iowa-American could instead calculate an estimate of the overpayment credit and return it to customers beginning in year one instead of year two, subject to reconciliation.

2. OCA Position

OCA opposes Iowa-American's proposed adjustment. OCA states the Board properly increased rate base only by the amount of unprotected EADIT that will be returned to customers during the test year. OCA states Iowa-American's proposal to increase rate base by the entire amount of the unprotected EADIT balance is an attempt to extend the concept of the test year by two extra years. OCA states that such an extension of the test year in order to account for changes to one aspect of Iowa-American's costs and revenues would amount to single-issue ratemaking. OCA states that Iowa-American's proposal to make customers whole by issuing an annual credit through the non-recurring expense rider was not litigated as part of the rate case and should not be considered now.

3. Board Analysis

The use of a test year is a fundamental concept of ratemaking. Rates are set based on costs and revenues that occur during the test year. The Board ordered Iowa-American to return unprotected EADIT over a three-year period. The first year of the three-year period is the test year. The Board therefore increased rate base by one-third of the amount of the unprotected EADIT balance in order to reflect the fact that the offset to rate base would be reduced by that amount during the test year.

Iowa-American's proposal would increase rate base by the full amount of the unprotected EADIT balance, even though only one-third of the balance will be returned to customers during the test year. The proposal is at odds with the concept of test year ratemaking because it sets base rates based on expenses and revenues that will occur outside of the test year. It would result in customers paying base rates that are higher than they should be, in light of the amount of unprotected EADIT being returned to customers during the test year.

Iowa-American's proposal to make customers whole with an annual credit is problematic because it addresses only one element of rate base: the removal of the unprotected EADIT offset. Other changes to rate base also will occur outside of the test year, including increases in accumulated depreciation. Iowa-American's proposal does not address how customers would be made whole for those other changes to rate base that also would occur outside of the test year. In any event, Iowa-American's proposal was not litigated during the case and, as OCA pointed out, it is not appropriate for the Board to consider it now. The Board will deny Iowa-American's proposed increase to the revenue requirement related to unprotected EADIT.

B. INTEREST SYNCHRONIZATION ADJUSTMENT

In its July 9, 2021 motion for clarification, Iowa-American also requests that the Board clarify how its decision regarding interest synchronization should be implemented. During the rate case, Iowa-American and OCA agreed that interest should be synchronized, but they did it at different stages in the development of the revenue requirement. Iowa-American calculated its tax expense based on its proposed pro forma interest expense. OCA, on the other hand, calculated tax expense using book interest expense and then adjusted tax expense based on the difference between book interest and pro forma interest. In its June 28, 2021 order, the Board stated it would use OCA's methodology in conjunction with the rate base and cost of debt approved by the Board.

Iowa-American asserts that due to the way Iowa-American calculated its tax expense, the Board's implementation of its interest synchronization decision results in the interest synchronization adjustment being performed twice. Iowa-American requests that the Board clarify that the interest synchronization adjustment should be performed using recalculated tax expense numbers instead of the tax expense numbers Iowa-American included in its original schedules.

OCA states that it agrees with Iowa-American that interest synchronization should be calculated correctly to implement the June 28, 2021 order. OCA states that, assuming Iowa-American's calculation is done properly, the bifurcation of interest synchronization for the tax calculation would correct for the duplication of the interest synchronization issue. OCA states that the net effect of the correction would be to increase the revenue requirement approved by the Board by approximately $37,000, which would bring the total revenue deficiency to $2,300,651. OCA requests that Iowa-American be required to file updated schedules to substantiate the calculation.

The Board will revise its June 28, 2021 order by increasing the revenue requirement by $37,570. The revised revenue requirement is $43,850,770. Iowa-American and OCA agree there was a duplication in the calculation of interest synchronization. The increase in revenue requirement is consistent with the Board's June 28, 2021 order. The Board will not require Iowa-American to file updated schedules to support the revised interest synchronization revenue requirement. The amount of the justification is not significant enough to require additional filings.

C. RATE CASE EXPENSE

On August 11, 2021, Iowa-American filed a revised calculation of rate case expense based upon a new invoice Iowa-American received from the Board on August 9, 2021, that included Board and OCA expenses not previously billed. In the June 28, 2021 order, the Board approved rate case expense to be recovered through the non-recurring expense rider. The Board will approve including the additional $122,347 in Board and OCA expenses in rate case expense recovered in the rider. Board approval is required to include any additional rate case expense.

D. COMPLIANCE FILING

The Board has reviewed the July 16, 2021 compliance filing and will reject the filing based upon the Board's decision regarding EADIT. Iowa-American will be allowed to include in the revised compliance filing the $37,570 associated with interest synchronization.

In addition, Iowa-American will be required to file revisions to the compliance tariff as follows:

1. 4th Revised Sheet No. 4I: The Board's June 28, 2021 order, at page 47, describes the information and filing requirements for updating the five-year plan and the annual Qualified Infrastructure Plant (QIP) rider surcharge filing. Iowa-American filed language that is not entirely consistent with the Board's order. Iowa-American will be required to revise the tariff language in the revised compliance filing as follows. Language to be deleted is shown with strikethroughs and new language is underlined.

> If Iowa-American chooses to utilize the QIP tariff for a given QIP Period, the Company will file its QIP surcharge factors within 30 days of the conclusion of that QIP Period. ~~and the~~ The filing will include a report or reports summarizing the Company's efforts to obtain state revolving fund (SRF) financing, an annual update to the inventory, an annual update to the 5-year lead service line replacement ~~program~~ plan, a description of lead replacement activities over the last year, EPA lead compliance activities, if any, and Iowa-American's efforts to secure government or charitable funding for lead service line replacement.

2. Rate Schedule No. 1E – Non-Recurring Expense Rider (4th Revised Sheet No. 4K). The “Applicability” section on this tariff sheet lists the items included in the Non-Recurring Expense Rider. Item (3) on the list should be revised by including “Qualified Infrastructure Plant (QIP)” and by removing the year 2020. The QIP reconciliation balance for 2020 should not be recovered as part of this tariff. In the June 28, 2021 order, the Board only approved “Iowa-American’s recovery of $16,984 of QIP under recoveries from 2018 and 2019.” (Final Decision and Order, pp. 62-63). The appropriate place for Iowa-American to recover its over-collection in 2020 is through the reconciliation process in the QIP rider tariff filing.

Iowa-American included in Tariff Sheet No. 4K a table that the Board has found requires revisions. The table, identified as Attachment A, which is incorporated into this order by reference, shows the items to be deleted, by strikethroughs, and items to be added, which are underlined. The reasons for the revisions are listed in Attachment A.

In addition to the revisions described in Attachment A, Iowa-American will need to explain in the revised compliance filing how Iowa-American is proposing to return protected EADIT to Iowa-American’s customers.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The request for clarification filed by Iowa-American Water Company on July 9, 2021, is granted in part and denied in part as described in this order.

2. The compliance filing filed by Iowa-American Water Company on July 16, 2021, is rejected.

3. Iowa-American Water Company shall file a revised compliance filing based upon the granting in part and denying in part of the motion for clarification. The revised compliance requirements are described in Attachment A.

4. Iowa-American Water Company shall explain how it proposes to return protected Excess Accumulated Deferred Income Tax to customers.

5. The request to recover additional rate case expense based upon an invoice from the Utilities Board on August 9, 2021, filed by Iowa-American Water Company on August 11, 2021, is granted. Additional rate case expense may only be recovered with approval from the Utilities Board.

UTILITIES BOARD

Geri Huser Date: 2021.09.21 14:46:47 -05'00'

Richard Lozier Date: 2021.09.21 15:21:22 -05'00'

ATTEST:

Louis Vander Streek Louis Vander Streek 2021.09.21 15:56:37 -05'00'

Joshua J Byrnes Date: 2021.09.21 15:43:42 -05'00'

Dated at Des Moines, Iowa, this 21st day of September, 2021.

ATTACHMENT A
RPU-2020-0001

Iowa-American Water Company

Rate Schedule No. 1E – Non-Recurring Expense Rider (4th Revised Sheet No. 4K)

Iowa-American shall revise the table below as shown, with items to be deleted referenced by strikethroughs and items to be added shown underlined. The reasons for the revisions are explained below the table.

Description	Total	Year 1	Year 2	Year 3
Rate Case Expense Docket No. RPU-2020-0001	$1,454,239	$484,746	$484,746	$484,746
Rate Case Expense Docket No. RPU-2016-0002	19,472	6,491	6,491	6,491
Tax Cuts and Jobs Act – Current	(543,003)	(543,003)	-	-
QIP (O)/~~(~~U~~)~~ – 2018	(8,004)	(8,004)	-	-
QIP (O)/~~(~~U~~)~~ – 2019	24,988~~)~~	24,988	-	-
~~QIP O/(U) – 2020~~	~~(8,832)~~	~~(8,832)~~	-	-
Tax Cuts and Jobs Act – EADIT	(6,299,191)	(2,099,730)	(2,099,730)	(2,099,730)
COVID-19 ~~– June 2021~~	-	-	-	-
Total	($5,360,331)	($2,143,344)	($1,608,493)	($1,608,493)

a. Remove “QIP O/(U) – 2020” from this tariff sheet as recovery of 2020 QIP balances is not appropriate in this tariff.
b. The reference to Description “O/(U)” for the QIP is incorrect; revise the reference to “over-recovery” to “under-recovery” as is reflected in the record. The calculation of the amounts is correct.
c. The right part of the parentheses for the value for QIP O/(U) – 2019 in the “Total” column is to be deleted.
d. The right parenthesis for the value for Tax Cuts and Jobs Act- EADIT for the “Year 3” column is to be added.
e. Delete the language “June 2021” because the record does not include data for the time period ending June 30, 2021. The most recent information was filed in Iowa-American’s quarterly filing in Docket No. ARU-2020-0123. The remaining balance of ($10,867) will continue to be tracked in this account through December 31, 2021. The tariff will need to be updated at the end of the year to reflect the remaining balance in the COVID regulatory asset account.
f. Update the rate case expense to include the additional rate case expense approved by the Board, and recalculate the “Total” for each column reflecting this change and the removal of the QIP 2020 balance.