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CASE MANAGEMENT

MAR 16 2018

BOARD OF PUBLIC UTILITIES  
TRENTON, NJ

PHIL MURPHY  
Governor

SHEILA OLIVER  
Lt. Governor

*Handwritten:*  
3/19/18



State of New Jersey  
DIVISION OF RATE COUNSEL  
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MAR 16 2018

BOARD OF PUBLIC UTILITIES  
TRENTON, NJ

STEFANIE A. BRAND  
Director

March 14, 2018

Via Email & First Class Mail

Ira G. Megdal, Esquire  
Cozen O'Connor  
457 Haddonfield Road, P.O. Box 5459 Suite 300, Liberty View  
Cherry Hill, NJ 08002-2220

**Re: I/M/O the New Jersey Board of Public Utilities' Consideration of the Tax Cuts and Jobs Act of 2017 - BPU Docket No. AX18010001  
New Jersey American Water Company Tax Cuts and Jobs Act of 2017 ("TCJA") Filing for the Adjustments of Base Rates and Refunds  
BPU Docket No. WR18030233**

Dear Mr. Megdal:

Enclosed please find the Division of Rate Counsel's discovery requests **RCR-NJAWC-A-1 through RCR-NJAWC-A-13** in connection with the above referenced matter.

Pursuant to N.J.A.C. 1:1-10.4, please respond to the discovery requests and submit copies of the documents requested herein within fifteen (15) days or submit a schedule of reasonable compliance within fifteen (15) days from receipt of this letter.

Please note that all discovery requests are of a continuing nature and should be updated or corrected, if necessary, over the course of the proceeding as soon as the information becomes available. Also, provide a designation on each response identifying the witness sponsoring the answer. Please provide the responses on three-hole punched paper.

Please update your service list in this matter by adding the following attorneys and consultant on behalf of the Division of Rate Counsel:

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Thank you for your attention to this matter.

Very truly yours,

Stefanie A. Brand, Esq.  
Director, Division of Rate Counsel

By: 

\_\_\_\_\_  
Susan E. McClure, Esq.  
Assistant Deputy Rate Counsel

SEM/kah  
cc: Service list

\*Receives all correspondence except discovery.

**I/M/O the New Jersey Board of Public  
Utilities' Consideration of The Tax Cuts  
and Jobs Act of 2017**

**BPU Docket No. AX18010001**

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**NEW JERSEY AMERICAN WATER  
COMPANY TAX CUTS AND JOBS ACT  
OF 2017 ("TCJA") FILING  
FOR THE ADJUSTMENTS OF BASE  
RATES AND REFUNDS**

**BPU DOCKET NO. WR18030233**

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I/M/O the New Jersey Board of Public Utilities'  
Consideration of The Tax Cuts and Jobs Act of 2017  
BPU Docket No. AX18010001

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NEW JERSEY AMERICAN WATER COMPANY  
TAX CUTS AND JOBS ACT OF 2017 ("TCJA") FILING  
FOR THE ADJUSTMENTS OF BASE RATES AND REFUNDS  
BPU DOCKET NO. WR18030233

MAR 16 2018  
BOARD OF PUBLIC UTILITIES  
TRENTON, NJ

**Rate Counsel Requests For Information (Accounting)**

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RCR-NJAWC-A-1 With regard to Exhibit D, page 2, please provide the following information:

- a. Please provide the actual January and February 2018 revenues that are equivalent to the January and February 2017 revenues currently shown on Exhibit D, page 2.
- b. In the same format and detail as currently shown on Exhibit D, page 2, please provide the 2015-2017 3-year average profile factors for each month of the year based on MG water sales volumes rather than based on operating revenues.
- c. Please provide the actual January and February 2018 MG water sales volumes.

RCR-NJAWC-A-2 With regard to Exhibit D, pages 1 and 2, please provide the following information:

- a. The FIT rate used for January 2018 in the "FIT" column is calculated at a rate of 21% but for the months of February through June an FIT rate of 40% is used. Please explain the reason for this and, if needed, provide the necessary corrections.
- b. Provide the actual short term debt rates for the months of January and February 2018 and the projected rate for March 2018 based on actual results to date.
- c. Will the Company be updating the stub period deferral and interest data based on actual sales volumes in the months of January through March 2018? If not why not?
- d. Explain why the Company has calculated interest on the deferred over-collection balances through the month of June 2018. Is this because the Company intends to start the proposed monthly customer bill credits on July 1, 2018? If not, please explain.
- e. If the Company proposes to implement the monthly customer bill credit on July 1, 2018, is it also the Company's proposal that it will continue to accrue interest at its short term debt rate on the remaining unrefunded



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**Rate Counsel Requests For Information (Accounting)**

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deferred rate over-recovery balances after June 2018 up to the final 12th bill credit refund month? If not, explain why not and what alternative rate treatment the Company proposes.

- f. Please explain why the Company could not return the deferred stub period over-collection and interest to the ratepayers by way of a one-time bill credit effective May 1, June 1, or July 1, 2018 consistent with the approach chosen by other NJ utilities.

RCR-NJAWC-A-3 On page 5 of its Petition, the Company states: "NJAWC has remeasured its ADIT balance as of December 31, 2018 [*should be 2017*] at an estimated level for financial accounting purposes using the now federally enacted rate of 21%." In this regard, please provide the following information:

- a. Please provide the most recent estimate of the re-measurement of the ADIT broken down as (a) the Protected excess ADIT balance; (b) the Unprotected excess ADIT balance; and (c) the net excess ADIT balance.
- b. If the balances to be provided in response to (a) above are different from the remeasured excess ADIT balances provided by the Company in response to RCR-209(a)(b) in the Company's pending base rate case, please provide a detailed reconciliation.

RCR-NJAWC-A-4 With regard to the remeasured Unprotected excess ADIT balance to be provided in response to the preceding data request RCR-NJAWC-A-3 above, please provide the following information:

- a. Provide a detailed explanatory narrative, as well as workpapers showing all calculations and assumptions made to determine the estimated Unprotected excess ADIT balance as of December 31, 2017.
- b. Provide a worksheet showing the various Unprotected excess ADIT components making up the total excess ADIT balance.

**I/M/O the New Jersey Board of Public Utilities'  
Consideration of The Tax Cuts and Jobs Act of 2017  
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**Rate Counsel Requests For Information (Accounting)**

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- c. For each component of the Unprotected excess ADIT balance, please provide (1) a brief description of the cost giving rise to the deferred taxes; and (2) all assumptions, workpapers, and calculations supporting the amount of the excess balance at December 31, 2017, and (3) whether the excess ADIT is a regulatory asset or liability.
- d. Please provide all reasons exactly why "the Company cannot adequately calculate its unprotected ADIT balance at this time without violating normalization rules," particularly as the Unprotected excess ADIT balances are not subject to IRS regulation and are not restricted by normalization rules.

RCR-NJAWC-A-5 With regard to the remeasured Protected excess ADIT balance to be provided in response to the preceding data request RCR-NJAWC-A-3 above, please provide a detailed explanatory narrative, as well as workpapers showing all calculations and assumptions made to determine the estimated Protected excess ADIT balance as of December 31, 2017.

RCR-NJAWC-A-6 On page 6 of its Petition, the Company states that it would determine the timing of the reversal using the Average Rate Assumption Method ("ARAM"). Does the Company have the accounting systems and software in place to accommodate the amortization process? If not, explain in detail why not and indicate at what point in time the accounting system to support the amortization method will be in place.

RCR-NJAWC-A-7 In RCR-A-210(b) in the Company's pending base rate case, the Company was asked what would be the impact on the revenue requirement in the base rate case of "delivering to the ratepayers the tax savings from the excess ADIT flow-back." In its response, the Company stated that this would impact the annual revenue requirement by \$9,931,326 based on a 33-year amortization of the remeasured net excess ADIT balance at 12/31/17 of \$327,733,758. In this regard, please provide the following information:

**I/M/O the New Jersey Board of Public Utilities'  
Consideration of The Tax Cuts and Jobs Act of 2017  
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**Rate Counsel Requests For Information (Accounting)**

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- a. Why is it that the Company has been able to estimate a flow-back period of 33 years and what is the basis for this amortization period, e.g., was it based on the estimated results of the ARAM method or some other flow-back method?
- b. Why is it that the Company has been able to determine (albeit on a high level estimated basis) a net excess ADIT balance of \$327.7 million as a result of its re-measurement efforts?

RCR-NJAWC-A-8     At the top of page 6 of the Petition, the Company states that "At this time, NJAWC cannot possibly provide the *exact* amount of the tax savings due to remeasurement of ADIT resulting from the Act." [emphasis supplied]. While the *exact* amount of the excess deferred ADIT as of 12/31/17 may not be known at this time, please confirm that an estimated amount of excess deferred ADIT as of 12/31/17 is known at this time as identified in the Company's response to RCR-A-209 in the Company's pending base rate case.

RCR-NJAWC-A-9     On page 6 of its Petition, the Company states that it cannot begin flowing the benefits of the Act related to protected ADIT until the Company completes the ARAM calculations to mitigate the risk of violating normalization rules. In this regard, please provide the following information:

- a. How far has the Company advanced at this time in the completion of the ARAM calculations and by what month in 2018 does the Company expect the calculations to be completed?
- b. Why wouldn't it be possible for the Company to make a conservative estimate of the flow-back period for its Protected excess ADIT that would have reasonable assurance to not result in a normalization violation and then flow the excess to the ratepayers through a credit rider that can be trued up on an annual basis? Please comment in detail.

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- RCR-NJAWC-A-10 In the last paragraph on page 6 of the Petition, the Company states "The Company also proposes to "play catch up" for the amount not returned to ratepayers beginning July 1, 2018 up until the time of the next rate case when the amortization amount is known, the Company will begin to pass back that amount to ratepayers. In addition to that amount, "the catch up amount" will be divided by five years and added to the passback amount." Please provide a more detailed explanation of this proposal, including an illustrative example based on hypothetical data.
- RCR-NJAWC-A-11 With regard to the Company's current cash flow condition, please provide the following information:
- a. Confirm that the \$42.6 million rate reduction effective April 1, 2018 and the \$9.4 million 12-month customer refund effective July 1, 2018 are income and cash flow neutral as these actions merely return to the ratepayers what is being over-collected in the Company's rates since January 1, 2018.
  - b. Provide a schedule showing in detail the Company's current cash flow condition and why this current cash flow condition cannot accommodate a 1-time refund in May or June of 2018 of the \$9.4 million stub period deferral and interest balance.
- RCR-NJAWC-A-12 With regard to the Protected excess ADIT balance, please provide the following information:
- a. Confirm that the excess ADIT balance created as a result of the FIT rate decrease from 35% to 21% has been funded by past and current ratepayers of the Company, not by future ratepayers. If you do not agree, explain your disagreement.
  - b. Confirm that, due to IRS regulations and normalization rules, the excess ADIT balance cannot be flowed back to NJAWC's customers at a rate more rapidly than over the life of the property that gave rise to the excess, which could be up to 70 years. If you do not agree, explain your disagreement.



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- c. Confirm that the implications of the facts stated in (b) above are that NJAWC's future ratepayers will share with the current ratepayers in the rate reduction benefits of the excess deferred tax flow back even though the past and current ratepayers have funded the excess.

RCR-NJAWC-A-13 With regard to the Company's proposal to accelerate the amortization of its net 3/31/18 COR regulatory asset balance of \$104.4 million from 40 years to 3 years and have the resulting cost increase of \$36 million paid for by the tax savings from the 2017 Tax Act, please confirm that one of the major reasons for this proposal is the reduction of future ratepayer costs after the 3-year write-off period, as stated on page 8 of the Petition. If you do not agree, explain your disagreement.