

SANFORD LAW OFFICE, PLLC
Jo Anne Sanford, Attorney at Law

February 1, 2018

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Via Electronic Delivery

Re: Aqua North Carolina, Inc.
Docket No. M-100, Sub 148
Initial Comments Regarding the Federal Tax Cuts and Jobs Act

Dear Ms. Jarvis:

On January 3, 2018, the Chairman of the North Carolina Utilities Commission ("Commission" or "NCUC") entered an Order in Docket No. M-100, Sub 148 entitled "*Order Ruling that Certain Components of Certain Public Utility Rates Are Provisional as of January 1, 2018, Initiating a Generic Proceeding, and Requesting Comments.*"

Aqua North Carolina, Inc. ("Aqua" or "Company"), was one of nine regulated public utilities in North Carolina who were specifically requested by the January 3, 2018 Order to file initial comments by February 1, 2018, and to include certain specified information in those comments.

Aqua hereby files the Affidavit of Shannon V. Becker, the Company's President, as its initial comments in response to the Commission's January 3, 2018 Order. In his Affidavit, Mr. Becker addresses the specific issues raised by the Commission. In addition, Mr. Becker notifies the Commission that Aqua intends to file a general rate case in early-March 2018, and requests that the

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impact of the Federal Tax Cuts and Jobs Act on the Company's rates be resolved in its soon-to-be-filed general rate case and determined in the Order to be issued by the Commission in that proceeding.

Accordingly, Aqua respectfully requests that the Commission consider the Company's initial comments and procedural request as set forth in Mr. Becker's Affidavit.

As always, we thank you and your staff for your assistance; please feel free to contact me if there are questions or if additional information is required.

Electronically Submitted

/s/Jo Anne Sanford
North Carolina State Bar No. 6831
Attorney for Aqua North Carolina, Inc.

cc: Parties of Record

AFFIDAVIT OF SHANNON V. BECKER
BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. M-100, SUB 148

Shannon V. Becker, the President of Aqua North Carolina, Inc. ("Aqua" or "Company"), being duly sworn, hereby executes this Affidavit on behalf of Aqua for filing in Docket No. M-100, Sub 148, a proceeding before the North Carolina Utilities Commission ("Commission" or "NCUC").

A. On January 3, 2018, the Chairman of the Commission entered an Order in Docket No. M-100, Sub 148 entitled "*Order Ruling that Certain Components of Certain Public Utility Rates Are Provisional as of January 1, 2018, Initiating a Generic Proceeding, and Requesting Comments.*" In support of its Order, the Commission noted that:

On December 22, 2017, President Donald J. Trump signed into law the Tax Cuts and Jobs Act (the Federal Tax Cuts and Jobs Act). Among other provisions that are contained in this tax reform are provisions that will upon implementation reduce the tax rate of most, if not all, investor-owned public utilities providing services in North Carolina. Specifically, the new federal legislation reduces the Federal corporate income tax rate from 35% to 21%, effective for taxable years beginning after December 31, 2017. This reduced tax rate when effectuated will have an immediate and favorable impact on the cost of providing the aforementioned public utility services to consumers in North Carolina.

B. Aqua was one of nine regulated public utilities in North Carolina specifically requested by the January 3, 2018 Order to file initial comments by February 1, 2018, and to respond with the following information in those comments:

- (1) the estimated annual cost-of-service effect, on an item-by-item basis, of the changes to the levels of income tax expenses

expected due to the enactment of the Federal Tax Cuts and Jobs Act. Please show the amount of each change and the related levels of tax expense before and after each change. Such information is to be presented on an NCUC jurisdictional basis (e.g., on a NC retail or NC intrastate basis, as appropriate); and

- (2) a complete detailed narrative explanation of how the Utility proposes to account for and treat excess deferred income taxes that were accrued in earlier years under Federal corporate income tax rates that were in excess of those set forth in the Federal Tax Cuts and Jobs Act.

C. The Commission's January 3, 2018 Order further directed as follows in Decretal Paragraphs 1 and 2:

1. That effective January 1, 2018, the Federal corporate income tax component of the rates and charges of all electric and natural gas distribution companies and all water and wastewater companies with annual operating revenues in excess of \$250,000 subject to the jurisdiction of the Commission shall be, and hereby are, ordered to be billed and collected on a provisional rate basis pending final disposition of this matter by the Commission.

2. That effective January 1, 2018, each and every utility subject to the provisions of this Order shall place in a deferred account the difference between revenues billed under rates then in effect, including provisional components thereof, and revenues that would have been billed had the Commission in determining the attendant cost of service based the Federal corporate income tax component thereof on the Internal Revenue Code as now amended by the Federal Tax Cuts and Jobs Act, assuming all other parameters entering into the cost of service equation are held constant.

AQUA'S RESPONSE

D. Aqua hereby notifies the Commission that the Company intends to file a general rate case in early-March 2018. Aqua will track and defer any benefit that is recognized as a result of the decrease in the federal corporate income tax rate from 35% to 21% on the currently payable piece of federal income tax included in customer rates. These changes will be recorded to a

regulatory liability for consideration in the Company's upcoming general rate case proceeding. The Company observes that the information requested in paragraph (1) above will certainly be examined as part of the soon-to-be-filed general rate case application and recommends that the Commission deal with the issue entirely in that rate case. Aqua estimates the amount on a prospective annual basis beginning January 1, 2018, to be a reduction in revenue of \$1.5 million.

E. Regarding paragraph (2) and the excess deferred income tax issue, Aqua proposes to account for the excess deferred Federal income taxes by reducing the deferred taxes ratably over the regulatory life of the underlying property. This issue is broken down into two components - protected and non-protected. The protected items must be accounted for by the average rate assumption method ("ARAM") or a straight-line method no faster than ARAM in order to not violate normalization accounting. Aqua intends to defer the process of amortizing these excess deferred taxes until they are addressed in the upcoming rate case filing. The unprotected excess deferred Federal income taxes will be amortized on a yet to be determined period, but will also be added to the regulated liability for consideration in the upcoming rate case. As with paragraph (1) above, the Company again suggests that this issue can be most logically and efficiently dealt with in the upcoming rate case, given the coincidence of timing of the rate case and the January 1, 2018 reduction in the Federal corporate income tax rate from 35% to 21%. Aqua believes that by utilizing this deferral accounting method all of the effects of the Federal Tax Cuts

and Jobs Act will be appropriately captured for proper consideration in the Company's upcoming rate case.

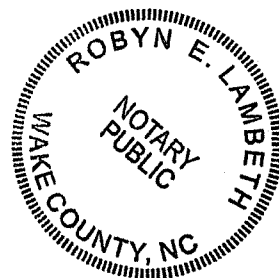
F. Aqua further states that the Company will take the necessary actions to comply with Decretal Paragraphs 1 and 2 of the January 3, 2018 Commission Order.

G. Accordingly, Aqua respectfully requests that the impact of the Federal Tax Cuts and Jobs Act on the Company's rates be resolved in its upcoming general rate case and determined in the Order to be issued by the Commission in that proceeding.

Shannon V. Becker
Shannon V. Becker

Sworn to and subscribed before me this
the 1st day of February 2018.

Robyn E. Lambeth
Notary Public



My Commission Expires: May 13, 2021

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing **Initial Comments Regarding the Federal Tax Cuts and Jobs Act**, filed by Aqua North Carolina, Inc. in Docket No. M-100, Sub 148, on the Parties to the proceeding in accordance with North Carolina Utilities Commission Rule R1-39, either by United States mail, first class postage pre-paid; by hand delivery; or by means of electronic delivery upon agreement of the receiving party.

This the 1st day of February 2018.

Electronically Submitted
/s/Jo Anne Sanford
North Carolina State Bar No. 6831

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