



THE BATON ROUGE WATER COMPANY

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February 14, 2018

2018 FEB 14 PM 3:27
LA PUBLIC SERVICE COMMISSION

Mr. Brandon Frey
Interim Executive Secretary
Louisiana Public Service Commission
P. O. Box 91154
Baton Rouge, LA 70821-9154

Dear Mr. Frey:

Re: Tax Cuts and Jobs Act

On December 22, 2017, The Tax Cuts and Jobs Act (the "Act"), was signed by the President into law. The Act contains many changes to corporate and individual tax law, including lowering of rates, elimination of deductions, changes and limitations to existing deductions. The Act has many tax law changes included and will affect all corporations differently. However, the purpose of this letter is to outline and detail the changes affecting Baton Rouge Water Company and subsidiaries, "Companies".

The most notable change for corporations is the reduction of the top statutory corporate rate from 35% to a flat 21% for tax years ending after December 31, 2017. Historically, the Companies have been subject to a statutory rate of 35% and will now be subject to the new statutory rate of 21%. However, as typical with many companies that utilize exclusions and deductions to taxable income, the Companies have recognized an average effective Federal rate of 30.89% for regulatory ratemaking and GAAP financial statement purposes. (See Attached Schedule.)

In addition to the rate reduction, the Act contains several more provisions that will specifically impact water and sewer businesses, as well as the effective Federal rate of the Companies.

First, IRC Section 199, also known as the Domestic Manufacturing & US Production Deduction, was repealed in the Act. This was a taxable deduction that was intended to encourage domestic production and manufacturing in the US. The Company historically benefited from the deduction that averaged \$607,858 per year over the past 5 years.

Secondly, contributions in aid of construction, or CIAC, which are funds typically received from developers when the cost of infrastructure needed for development exceeds our justified investment, have been exempt from gross taxable income under IRC Section 118(c). This IRC section had specifically excluded CIAC from taxable income only for "a regulated public utility that provides water or sewerage disposal services..." (IRC 118 (C) (1).

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DEPT. Level DATE _____ DEPT. _____

The Act has repealed this exclusion and these contributions are now included in gross taxable income. This will increase our effective tax rate based on the CIAC that is received each year. Over the past 5 years, the funds collected as CIAC have averaged \$2,298,489 per year. This also has been a cost free funding source for the Companies and our ratepayers, as the plant constructed with these funds were excluded from rate base for ratemaking purposes.

The net effect of the reduced statutory tax rate to 21%, along with the repeal of Section 199 and the addition of CIAC to gross income, will result in an average effective rate of 27.52% for the Company from a previous effective Federal rate of 30.89%

In addition to the change in the effective and statutory rates going forward, the Company will also have to look back and revalue the existing deferred tax liabilities that have accumulated over the years due primarily to accelerated depreciation. These excess deferred tax liabilities, following current normalization rules in IRC section 167 and 168, will be ratably amortized over the remaining composite regulatory life of the utility property. This benefit will accrue to the ratepayers in future rate cases.

Since all of our Companies are regulated using the return on rate base methodology and typically present applications for rate increases every five or six years, the rate case cycle for each Company varies. During this rate case interval, the Companies incur inflationary cost increases, and make significant investments in utility plant. Below is a list of all Companies and the test year used for the most recent rate case:

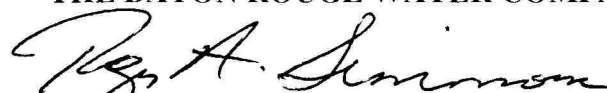
Baton Rouge Water Company – Test Year 2012
Parish Water Company – Test Year 2014
Ascension Water Company – Test Year 2016

Based on the aforementioned changes to our effective rate, loss of deductions and the repeal of CIAC exclusion from taxable income, we estimate the decrease in the effective tax rate would be mostly offset by the regulatory lag resulting from inflationary increases to expenses and the return on rate base of new utility plant added since the last test year.

However, the Companies will work with the Commission staff and furnish any additional documentation and analysis as requested.

Sincerely,

THE BATON ROUGE WATER COMPANY



Roger A. Simmons
Chief Financial Officer

RAS:mc
Enclosure

**Baton Rouge Water Company Consolidated
Financial & Tax Rate Analysis**

	Audited 12/31/2012	Audited 12/31/2013	Audited 12/31/2014	Audited 12/31/2015	Audited 12/31/2016	
Tax Calculation Using Historical Rate:						
Pretax Income	\$9,371,039	\$8,368,122	\$13,648,389	\$13,901,745	\$14,492,830	
Income Taxes	3,264,329	2,816,045	4,799,860	4,967,200	5,237,801	
Federal Income Taxes	2,872,610	2,478,120	4,223,877	4,371,136	4,609,265	
State Income Taxes	391,719	337,925	575,983	596,064	628,536	
Historical Effective Rate:	34.83%	33.65%	35.17%	35.73%	36.14%	
<i>State Rate</i>	4.18%	4.04%	4.22%	4.29%	4.34%	
<i>Federal Rate</i>	30.65%	29.61%	30.95%	31.44%	31.80%	30.89% Avg

Tax Calculation Using New Rate:						
Pretax Income	\$9,371,039	\$8,368,122	\$13,648,389	\$13,901,745	\$14,492,830	
(+) CIAC	2,049,050	2,251,789	1,424,107	2,672,975	3,094,523	
(+) Section 199 Lost Deduction	530,273	538,445	696,428	718,277	555,867	
Adjusted Taxable Income	\$11,950,362	\$11,158,356	\$15,768,924	\$17,292,997	\$18,143,220	
<i>State Rate</i>	4.86%	4.72%	4.90%	4.97%	5.02%	
<i>New Federal Rate</i>	21.00%	21.00%	21.00%	21.00%	21.00%	
	25.86%	25.72%	25.90%	25.97%	26.02%	
Adjusted Taxes	3,090,938	2,870,258	4,084,917	4,491,405	4,721,152	
New Effective Tax Rate:	32.98%	34.30%	29.93%	32.31%	32.58%	
<i>State Rate</i>	4.86%	4.72%	4.90%	4.97%	5.02%	
<i>Federal Rate</i>	28.12%	29.58%	25.02%	27.34%	27.55%	27.52% Avg
						3.37% Diff