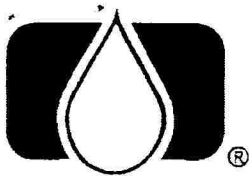


X-34747



# LOUISIANA WATER COMPANY

Post Office Box 66396 • Baton Rouge, Louisiana 70896-6396

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 Louisiana Water Company, "Company".

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 Company has 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 Company has recognized an average effective Federal rate of 32.83% 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 Company.

First, IRC Section 199, also known as the Domestic Manufacturing & US Production Deduction, was repealed in the Act.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 \$97,763 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).

ROUTE FROM

DATE 2/15

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B. [Handwritten initials]

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 CIAC received each year. Over the past 5 years, the funds collected as CIAC have averaged \$618,318 per year. This also has been a cost free funding source for the Company 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 32.83% for the Company from a previous effective Federal rate of 32.25%

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.

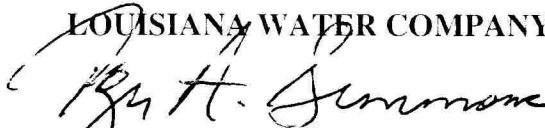
Since the Company is regulated using the return on rate base methodology and typically present applications for rate increases every five or six years, the rate case cycle for the Company varies. During this rate case interval, the Company will typically incur inflationary cost increases, and make significant investments in utility plant. The last rate case test year for Louisiana Water Company was 2013.

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 Company will work with the Commission staff and furnish any additional documentation and analysis as requested.

Sincerely,

**LOUISIANA WATER COMPANY**



Roger A. Simmons  
Vice President

RAS:mc  
Enclosure

**Louisiana Water Company  
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	\$1,837,909	\$1,322,449	\$1,428,910	\$2,578,940	\$2,219,291	
Income Taxes	680,307	486,432	523,495	1,030,360	801,968	
Federal Income Taxes	598,670	428,060	460,676	906,717	705,732	
State Income Taxes	81,637	58,372	62,819	123,643	96,236	
Historical Effective Rate:	37.02%	36.78%	36.64%	39.95%	36.14%	
<i>State Rate</i>	4.44%	4.41%	4.40%	4.79%	4.34%	
<i>Federal Rate</i>	32.57%	32.37%	32.24%	35.16%	31.80%	<b>32.83% Avg</b>
<hr/>						
Tax Calculation Using New Rate:						
Pretax Income	\$1,837,909	\$1,322,449	\$1,428,910	\$2,578,940	\$2,219,291	
(+) CIAC	<b>414,115</b>	<b>637,169</b>	<b>1,415,037</b>	<b>136,010</b>	<b>319,089</b>	
(+) Section 199 Lost Deduction	<b>72,412</b>	<b>75,727</b>	<b>76,046</b>	<b>140,586</b>	<b>124,043</b>	
Adjusted Taxable Income	\$2,324,436	\$2,035,345	\$2,919,993	\$2,855,536	\$2,662,423	
<i>State Rate</i>	5.13%	5.10%	5.08%	5.48%	5.02%	
<i>New Federal Rate</i>	21.00%	21.00%	21.00%	21.00%	21.00%	
	26.13%	26.10%	26.08%	26.48%	26.02%	
Adjusted Taxes	607,295	531,197	761,564	756,119	692,790	
New Effective Tax Rate:	33.04%	40.17%	53.30%	29.32%	31.22%	
<i>State Rate</i>	5.13%	5.10%	5.08%	5.48%	5.02%	
<i>Federal Rate</i>	27.92%	35.07%	48.22%	23.84%	26.20%	<b>32.25% Avg</b>
						<b>0.58% Diff</b>