



Testimony on House Bill 1436

House Consumer Affairs Committee

Submitted by Rod Nevirauskas
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Good morning Chairman Godshall, Chairman Daly, members of the committee and staff. On behalf of Pennsylvania American Water President and CEO Kathy Pape and our one-thousand dedicated employees, thank you for the opportunity to comment on House Bill 1436.

My name is Rod Neviraskas and I am the Director of Rates and Regulation for Pennsylvania American Water, which provides water and wastewater services to more than 2.2 million people in 400 communities across the commonwealth. We abide by regulations, invest in our vast infrastructure, develop industry innovations, educate our customers on wise water use, and support economic development in our cities and towns. This year alone, we will have invested over \$250 million in improving the Pennsylvania's infrastructure.

Pennsylvania American Water is the largest investor-owned water utility in the state providing water and wastewater service to approximately 670,000 customers in the commonwealth. We own and maintain more than 10,000 miles of pipeline in Pennsylvania.

As a utility operating in Pennsylvania, we enjoy one of the most progressive and fair legislative and regulatory climates in American Water's national footprint. This committee's support and leadership on legislation creating DSIC and Act 11 of 2012 is a case in point. However the continued imposition of the consolidated tax adjustment in ratemaking is out of step with the majority of regulatory bodies across the country. Only a handful of states still allocate Consolidated Tax Adjustments in the ratemaking process. That is why PA American Water supports HB 1436, legislation requiring that in rate proceedings before the Public Utility Commission (PUC), the federal tax expense of a utility must be calculated on a "stand alone"

basis. That is, the tax expense must be based on the utility's own operations, expenses, and investments, and not on those of the utility's unregulated affiliates or parent company.

Pennsylvania American Water supports the elimination of the CTA for ratemaking purposes for the following reasons:

- **Commingling is Bad Regulatory Policy:** It has long been regarded as a sound regulatory policy not to commingle or combine the income and expenses of public utilities with those of nonregulated affiliates for fear that utility customers could end up subsidizing or being subsidized by non-utility operations.

Pennsylvania American Water customers do not subsidize the losses of American Water's unregulated operations, nor should they. However, because of Pennsylvania's treatment of consolidated taxes, American Water's non-regulated subsidiaries are subsidizing Pennsylvania American Water customers for rate making purposes at an estimated \$5 million annually or an average of \$0.45 per residential customer per month.

- **Disincentive to Invest in Infrastructure:** As a private regulated utility, Pennsylvania American Water must attract capital not only from external investors, but also from our parent company. With the imposition of the CTA, the disincentive is two-fold.

1. Externally, investors want to be assured that utility rates are set based on the stand alone cost of service. Pennsylvania's CTA regulatory policy penalizes investors by passing a portion of the tax benefit of the unregulated losses to Pennsylvania American Water's customers.
 2. Internally, Pennsylvania American Water customers compete with other American Water subsidiaries whose regulatory agencies do not allocate or penalize the public utility for the tax benefits achieved by filing a federal consolidated tax return. In other words, American Water's subsidiaries compete with Pennsylvania American Water for infrastructure dollars from our parent company. Needless to say, unfair regulatory policies detract from our ability to attract capital dollars to invest in Pennsylvania.
- **Financial benefits should follow the risks:** Pennsylvania American Water customers do not shoulder the financial risks of American Water's unregulated affiliated companies. However, the customers do benefit from the allocation of the consolidated tax adjustment because the allocation reduces the federal tax expense for ratemaking purposes. In other words, regulated utilities are not permitted to recover the expenses of their non-regulated affiliates. Therefore PA customers should not get the benefit of the tax loss.

- **No reduction in taxes paid:** The adoption of HB 1436 would result in no reduction to the taxes paid to the state of Pennsylvania or Federal government. This adjustment is for ratemaking purposes only.

For the aforementioned reasons, coupled with those enumerated by my fellow panelists, PA American Water supports HB 1436 and the elimination of the Consolidated Tax Adjustments within the ratemaking process.

Again, thank you for your consideration of HB 1436 and our testimony. I am available to answer your questions.