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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF VEOLIA WATER IDAHO, INC. FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE IN THE STATE OF IDAHO	))))))))	Case No. VEO-W-22-02

DIRECT TESTIMONY OF MATTHEW KAHN
FOR VEOLIA WATER IDAHO, INC.

SEPTEMBER 2022

Q. Please state your name and business address.

A. I am Matthew H. Kahn. My business address is 461 From Road, Paramus, NJ 07652.

Q. By whom are you employed and in what capacity?

A. I am employed by Veolia Water M&S (Paramus) Inc. , and I serve as the Tax Director of the Utility Division of Veolia North America's Municipal Water business.

Q. What are your job responsibilities?

A. I am primarily responsible for the management of income taxes for Veolia North America's Municipal Water regulated utility businesses.

Q. Please outline your educational and professional qualifications.

A. I received a Bachelor of Accountancy degree from Bentley University in 2004. Subsequently, I received a Masters of Taxation degree from Bentley University in 2010. I joined Veolia North America's Utility Division as Tax Manager in July of 2019 and was subsequently promoted to Director of Tax in early 2022. Previous to that, I was employed by Con Edison, an electric, natural gas and steam utility operating in the northeast, as Tax Manager, overseeing income taxes and depreciation.

Q. Have you previously testified before the Idaho Public Utilities Commission ("Commission" or "IPUC")?

A. Yes. I testified in the Company's last general rate case, which was filed in 2020. In addition, I have testified before other state commissions on various regulatory issues, including those in New York and New Jersey.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present ratemaking considerations in regard to various tax topics including the reversal of protected excess deferred income taxes that resulted from the 2017 Tax Cuts and Jobs Acts ("TCJA"), Idaho's state income tax rate changes that have occurred since the Company's last rate filing, along with the refund of Employee Retention Credits that the Company derived from the Federal government during the COVID-19 pandemic. Additionally, my testimony will discuss an update in the income tax accounting for Allowance for Funds Used During Construction ("AFUDC").

Q. Have you prepared or had prepared under your direction any exhibits to your testimony?

A. Yes, I am sponsoring Exhibit No. 12, which provides support for the balance of the Company's TCJA regulatory liability and the related deferred income taxes at the historic test year ended June 30, 2022 ("Historic Test Year") and projected through March 31, 2023 ("Test Year"). The recommended annual amortization amount of the TCJA regulatory liability, to maintain compliance with the Internal Revenue Service's normalization rules, is included on Exhibit No. 10, Adjustments to Operating and Maintenance Expenses at Present Rates.

Q. Please describe the TCJA and its effects on the Company's books and records.

A. In the Company's 2020 general rate case, the Commission reviewed and approved the regulatory liability for the refund of excess deferred income taxes that resulted from the federal income tax ("FIT") rate reduction. This regulatory liability amount is also commonly referred to as excess accumulated deferred income taxes

("EADIT") and was addressed by the Commission in Order No. 34074, Case No. GNR-U-18-01.

Q. Has the IPUC addressed the treatment of the EADIT regulatory liability?

A. Yes. The Commission, in Order No. 34074, reduced the Company's rates to reflect the reduction in the FIT rate and ordered the Company to file an update to its deferred income tax records and to work with Staff on determining the amount and manner in which to return to customers the remaining benefits from the TCJA. The Company's base rates were changed effective June 1, 2018, as ordered.

Q. What are the current annual amortization and remaining balances of the EADIT regulatory liability?

A. The remaining balance of $4.2 million represents the balance of protected EADIT credit to be refunded to customers over the remaining lives of the Company's investment in plant assets. The annual amortization of the balance, as required in the previous rate filing, is $227,000 and reflected on Exhibit No. 12.

Q. Please describe the Company's understanding of "protected" and "unprotected" EADIT.

A. Per the normalization rules in the Internal Revenue Code, Section 168(i)(9), the amortization period for regulatory liability, which arose from temporary differences between book and tax methods used for plant-related "protected" amounts, may not be shorter than the period in which ADIT would have otherwise reversed over the remaining book lives of its' assets. The Average Rate Assumption Method ("ARAM") of amortization must be utilized for as much of the regulatory liability as possible, if the requisite data is available to the utility. ARAM calculates a specific amount by year, rather than a period, of amortization and, if amortized faster, could result in a normalization violation which would prohibit the Company from utilizing accelerated depreciation for income tax purposes. The updated projected results of the Company's ARAM calculations for tax years 2022 through 2025 are as follows:

ARAM
221,000
228,000
218,000
204,000

The amortization period for the amount of the regulatory liability which arose from amounts not considered normalized are "unprotected" and may be amortized by the utility over a period different from the protected amount. The unprotected EADIT have been fully refunded to customers as of April, 2022 and no longer require consideration in the Company's rates.

Q. What amount is the Company utilizing for the ARAM amortization in this case?

A. As shown above, the amount of ARAM reversals can vary year to year. The current approved annual amortization is $227,000. It can be noted that for 2022 the current projected calculation indicates that the actual ARAM reversals will be less than the annual amortization.

Q. Does the Company have a proposal to change the amount of amortization of the EADIT regulatory liability balance?

A. Yes. As previously described, the Company is required to use the ARAM for returning the remaining protected portion of the EADIT balance. As a result, the Company continues to track and monitor the amount of EADIT reversing over ARAM in comparison to the approved amortization amounts provided in its rate agreements. As a result of the projected ARAM calculation results and because the ARAM amount is updated annually and could change either up or down because of the retirement of fixed assets, an amortization amount of $200,000 for this case is prudent in order to allow for potential changes in the ARAM amount for 2022 and following once the recalculation is performed. As this case will likely set rates for more than one year, if the amount of the amortization of the protected portion of the EADIT set in this case is greater than the ARAM amount in a future period, the Company would need to file for a change in tariff rates to reduce the amortization to the amount allowed in that future period. The ARAM amount is a maximum amount or "speed limit" if you will. Therefore, an amortization amount of $200,000 for the protected EADIT is included on Exhibit No. 10, Schedule 1, line 26.

Q. Does the Company have additional tax benefits that it is proposing to refund to customers in this rate proceeding?

A. Yes. In addition to the benefits being amortized to customers for the remaining EADIT, the Company has deferred certain tax benefits that it has derived for the benefit of its customers from its Federal and State jurisdictions since the last rate filing. These benefits are the result of Idaho's state income tax rate reduction, as well as the Federal Employee Retention Credit.

Q. Please provide the amounts of benefits to be refunded as a result of these changes?

A. As a result of the reduction to Idaho's state income tax, the Company has deferred approximately $35,000 in state income taxes, and the Federal Employee Retention Credit resulted in an additional deferral of approximately $12,000. The Company proposes to refund these amounts as a reduction to the amortization of rate case expenses as shown on Exhibit No. 10, Schedule 1, Adjustment No. 23.

Q. Has the Company made any changes to its method of accounting for AFUDC?

A. No. The Company continues to account for the timing difference between financial accounting and its accounting for income tax purposes and record deferred income tax purposes as required under GAAP and specified under ASC 780. However, in its annual review of the Company's cumulative timing differences as part of the Tax Basis Balance Sheet ("TBBS") Study, the Company's Tax Department determined that a true-up adjustment was required to the regulatory balance attributable to the cumulative flow through timing difference associated with the equity component of its AFUDC timing difference.

Q. What are TBBS adjustments and why are they necessary?

A. TBBS adjustments reflect a review of overall timing differences which support the accumulated deferred income tax balances for any specific item giving rise to differences between financial accounting and the accounting for income tax purposes. As those timing differences reverse, the accumulated deferred tax obligations will reverse and become currently payable to the Company.

A timing difference that is flowed through in the calculation of income tax expenses results in a change to the per book effective rate that will either increase or decrease total tax expense. Any increase to income tax expense that is caused by a flow through timing difference will result in a regulatory asset balance for consideration of recovery in future rates. Conversely, any reduction to income tax expense that is caused by a flow through timing difference will result in a regulatory liability balance for similar consideration to be refunded to customers in future rates.

Q. When accumulating the regulatory balance in the future, will such considerations be made in the accounting for the balances?

A. Yes, the Company performs the TBBS study annually to support the tax return filing and incorporates any flow through impacts to the regulatory balances. The regulatory balances are trued-up in conjunction with the deferred tax balances.

Q. How will this change the calculation of the amounts for the AFUDC Equity Gross-up going forward?

A. The AFUDC Equity Gross-Up calculation is based on the AFUDC Equity balance. The actual calculation of the Gross-Up does not change.

Q. Did the adjustment result in a change in rate base?

A. There is no change to rate base, as the deferred tax balances agree with the remaining timing difference in support of the cumulative timing difference and the adjusted regulatory balance for future recovery. As a result, there is no adjustment required to the deferred taxes that reduce rate base.

Q. What adjustments were required to the regulatory balances associated with the timing difference for AFUDC?

A. The Company's TBBS study resulted in a reduction to the regulatory asset balance as of 12/31/2020. As a result, the per book balance of approximately $1.3 million was reduced to about $800,000, in order to reflect the remaining timing difference.

Q. What impact does the reduction have on the current amortization of AFUDC in rates?

A. The amortization of the regulatory balances attributable to AFUDC will not change. The current amortization provides a 30-year amortization of the balance, such that the benefits associated with AFUDC are provided to customers over the lives of the underlying investment from which they were derived. The reduction to the regulatory balance will be reflected in the ongoing amortization as an overall reduction to the balance being recovered over the 30-year amortization schedule. By doing so, the Company is reducing the regulatory asset balance by approximately $500,000, which will reduce the overall amortization amount.

Q. Does this conclude your testimony at this time?

A. Yes.

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

EXHIBIT 12 TO ACCOMPANY THE

DIRECT TESTIMONY OF MATTHEW KAHN

Veolia Water Idaho, Inc.
Accumulated Deferred Income Tax and Excess Deferred Income Tax Regulatory Liability Balances
As of June 30, 2022

Line No.	Account	Description	ADIT Balance at 6/30/2022	Adjustments [3]	Adjusted Balance at 6/30/2022	Rate Base Related ADIT		
	(a)	(b)	[c]			[d]		
1	19010	Def. Federal Inc Taxes- Other	($113,058)	$661	(112,397)			
2	19017	Def Fed NOL Tax Benefit	(3,866)	0	(3,866)			
3	28203	Def. FIT-MACRS	2,799,649	2,950,719	5,750,368	5,750,368		
4	28203	Def. FIT-MACRS - Unprotected		(2,930,986)	(2,930,986)	(2,930,986)		
5	28207	Def FIT Pens Reg Asset FAS158	1,805,433	(9,162)	1,796,271			
6	28208	Def FIT PBOP Reg Asset FAS158	(556,392)	1,325	(555,067)			
7	28221	Def FIT - COR	239,336	0	239,336			
8	28300	Def. FIT-Other	238,570	3,823	242,393			
9	28301	Def. FIT-Tank Painting	462,817	0	462,818	462,818		
10	28302	Def. FIT-Rate Expenses	18,700	(0)	18,700			
11	28303	Def. FIT-Deferred Charges	159,859	1	159,860			
12	28304	Def. FIT-Relocation Expense	(0)	0	0			
13	28306	Def. FIT-Pensions	(929,096)	9,161	(919,935)			
14	28307	Def. FIT-PEBOP	(80,317)	29,373	(50,944)			
15	28308	Def. FIT-Cost of Removal	848,354	(0)	848,353	848,353		
16	28311	Def. FIT-Injuries and Damages	(217,038)	0	(217,038)			
17	28312	Def. FIT - AFUDC Equity	486,719	0	486,719	486,719		
18	28313	Def. FIT - AFUDC Equity GU [1]	160,762	(3,820)	156,942			
19								
20		Total Deferred Tax [2]	5,320,432	51,097	5,371,529	4,617,273	0	0
21								
22	25316	Regulatory Liab-Tax New Federal Rate	$4,246,184		$4,246,184	Unprotected amortization completed 4/30/2022; Protected balance amortization of $227,004 per year		
23	25317	Reg Liab-NewFedRate2018portion	($2,570)		($2,570)	Amortization ended 4/30/2022		

[1] Change in balance is offset by the change in balance of the associated regulatory asset.
[2] Sum of Lines 1 through 19.
[3] Adjustments include Tax Return to Provision, TBBS adjustments, and reclassification of unprotected MACRS deferred taxes.

Case No: VEO-W-22-02
Exhibit No. 12
M. Kahn