



Control Number: 48197



Item Number: 2

Addendum StartPage: 0

TERRILL & WALDROP

ATTORNEYS and COUNSELORS

810 West 10th Street
Austin, Texas 78701
Tel (512) 474-9100
Fax (512) 474-9888

March 26, 2018

2018 MAR 25 PM 3:12

PUBLIC UTILITY COMMISSION
FILING CLERK

Public Utility Commission of Texas
Shawn Hazard, Manager
Central Records
1701 N. Congress Avenue
Austin, TX 78701

Re: PUC Docket No. 48197; Application to Approve Aqua Texas' Federal Tax
Change Credit Rider

Dear Mr. Hazard:

Aqua Texas, Inc., Aqua Utilities, Inc. (including its subsidiaries Harper Water Company, Inc. and Kerrville South Water Company, Inc.) and Aqua Development, Inc. d/b/a Aqua Texas ("Aqua Texas") hereby requests Public Utility Commission of Texas ("PUC" or "Commission") approval to implement a new Federal Tax Change Credit Rider ("FTCCR" or "Credit Rider") which will be used to provide a credit to Aqua Texas customers. Aqua Texas requests the Commission approve the Credit Rider as a minor tariff change to each of its filed tariffs under the Commission's original ratemaking jurisdiction pursuant to 16 Texas Administrative Code ("TAC") §24.21(b)(2)(A)(v). Aqua Texas proposes to implement the Credit Rider effective for bills rendered on or after an effective date of May 1, 2018 with the same credit continued through December 31, 2018 and lowered slightly for bills rendered on or after January 1, 2019 ending with Aqua Texas' next rate case. Aqua Texas also proposes to apply the 2018 Credit Rider immediately to all service reflected on bills on or after May 1, 2018 as an interim rate before final approval so that customers may experience resulting lower water and sewer utility payments without delay. Aqua Texas requests that this application be approved administratively under the Commission's informal disposition rule (16 TEX. ADMIN. CODE § 22.35).

The Tax Cuts and Jobs Act of 2017 ("TCJA") changed the federal corporate tax rate from 35% to 21%. As discussed in the Affidavit of Robert L. Laughman, President, this proposal represents the most expeditious and efficient means available to Aqua Texas for providing an estimated amount of savings resulting from the TCJA to Aqua Texas customers prior to its next rate filing. In exchange, Aqua Texas seeks Commission restraint from requiring Aqua Texas to file a rate case before 2020 (using calendar year 2019 as the test year) and a finding that as to Aqua Texas the Credit Rider will effectively eliminate the portion of the Commission's recently ordered requirement for all Class A water and sewer utilities to record as a regulatory liability, in pertinent part, "the difference between the revenues collected under existing rates and the revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates" from January 25, 2018 (the date of the initial Order) forward. That specific calculation is not possible for Aqua Texas to achieve because it has multiple rate structures set without specific tax amount findings for various reasons that were approved while the Texas

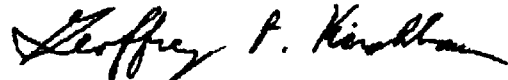
Commission on Environmental Quality ("TCEQ") held jurisdiction over Texas Water Code, Chapter 13 water/sewer utility rate administration.

The attached Affidavits of Robert L. Laughman (**Attachment 1**) and Kurt A. Scheibelhut (**Attachment 2**) contain supporting details for this Credit Rider request. Aqua Texas' Credit Rider calculations approximate estimated TCJA savings with rate division-specific tax savings amounts expressed as a percentage of the monthly service bill. The percentages will be applied to each customer's monthly base fees and volumetric fees for both water and sewer service, as applicable, to comprise each bill's total line item Credit Rider amount. Mr. Scheibelhut's affidavit provides the Credit Rider calculations and information used to derive same for each region and service type.

Aqua Texas proposes the Credit Rider remain in effect until Aqua Texas' rates are adjusted in a future rate proceeding utilizing all cost of service information (not just tax savings). Aqua Texas has conferred with both Commission Staff and the Office of Public Utility Counsel about this Credit Rider proposal and received favorable feedback from both.

Should any questions arise regarding the enclosed, please do not hesitate to contact me. Thank you for your time and attention to this matter.

Sincerely,

A handwritten signature in black ink, reading "Geoffrey P. Kirshbaum". The signature is fluid and cursive, with the first name being the most prominent.

Geoffrey P. Kirshbaum
TERRILL & WALDROP

AFFIDAVIT

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

BEFORE me, the undersigned authority, personally appeared Robert L. Laughman, who, being by me duly sworn, deposed as follows:

1. My name is Robert L. Laughman. I am the President of Aqua Texas, Inc., Aqua Utilities, Inc. (including its subsidiaries Harper Water Company, Inc. and Kerrville South Water Company, Inc.), and Aqua Development, Inc. ("Aqua Texas").

2. I swear or affirm that I have personal knowledge of the facts set forth in this Affidavit, and I am authorized to make this Affidavit on behalf of Aqua Texas. Each fact set forth in this Affidavit is true and correct.

3. I am familiar with Project No. 47945, Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 ("TCJA") on the Rates of Texas Investor-Owned Utility Companies, including the Order Related to Changes in Federal Income Tax Rates, dated January 25, 2018, and Amended Order Related to Changes in Federal Income Tax Rates, dated February 15, 2018 ("Order"). The Order directed Commission Staff to determine appropriate mechanisms to adjust the rates of regulated utilities to reflect the changes under the newly enacted TCJA. The Order also directed investor-owned Class A water and sewer utilities to record as a regulatory liability: (1) the difference between the revenues collected under existing rates and the revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates; and (2) the balance of excess accumulated deferred federal income taxes (ADFIT) that now exists because of the decrease in the federal income tax rate from 35% to 21%. The recording of the ordered regulatory liability was to commence beginning on January 25, 2018.

4. Aqua Texas' cost of service for both water and sewer services was approved and used to set rates for multiple Aqua Texas regions and rate divisions by the Texas Commission on Environmental Quality ("TCEQ") in TCEQ Docket Nos. 2004-1671-UCR and 2004-1120-UCR; and SOAH Docket Nos. 582-05-2770 and 582-05-2771, *Application of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc. to Change Water and Sewer Rates*. However, Aqua Texas does not have a single statewide water or sewer rate structure reflecting specific federal income tax amounts. Instead: (1) certain "black box" settlement rate structures were approved as part of the statewide rate case; (2) the vast majority of Aqua Texas' water rates in each region have been set since the statewide rate case via later "black box" rate settlements following subsequent rate filings; (3) municipal action on Aqua Texas' various rate applications has varied; and (4) Aqua Texas has been compelled by both the TCEQ and Public Utility

Commission of Texas (“PUC”) to take Seller rate structures in acquisitions without change to attain approval; many of those rate structures were set pursuant to “black box” settlements and/or were based on a Seller’s cost of service. In sum, there is no single federal income tax amount, and certainly no recent federal income tax amount, specifically included within Aqua Texas’ rates which can feasibly be recalculated at the 21% corporate tax rate to arrive at the revenue difference described in part (1) of the regulatory liability Order.

5. Aqua Texas plans to file its next rate case no later than 2020 using 2019 as the test year unless circumstances demonstrate that such a filing is not yet reasonable. Aqua Texas infrastructure capital expenditures in 2017 exceeded \$28 million, and its budgeted infrastructure capital expenditures in 2018 exceed \$45 million. Aqua Texas also anticipates infrastructure capital expenditures of over \$35 million in 2019. These budgeted expenditures are at least 4 times the depreciation expense each fiscal year. To avoid a need for multiple rate filings, Aqua Texas has anticipated filing its next rate case after the completion of these budgeted projects. The next rate case will incorporate the 21% corporate tax rate if it remains effective.

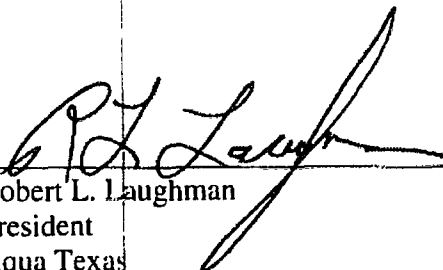
6. In the meantime, Aqua Texas desires to implement a mechanism to lower its rates statewide so that customers experience lower water and sewer rates immediately. Upon implementation, Aqua Texas desires to be relieved from part (1) of the regulatory liability described in the Order, leaving part (2) regarding ADFIT to be determined in Aqua Texas’ next rate case.

7. The rate mechanism Aqua Texas proposes is a Federal Tax Change Credit Rider (“FTCCR” or “Credit Rider”) applied to its tariffs as a minor tariff change pursuant to 16 Texas Administrative Code (“TAC”) § 24.21(b)(2)(A)(v). That provision permits “rate adjustments to implement . . . downward rate adjustments to reconcile rates with actual costs.” Aqua Texas proposes its FTCCR for the purpose of approximating such a reconciliation for only its new federal income tax expense costs, but to use its 2018 budget for its regulated water and sewer business to obtain the basis for its estimated TCJA tax savings so that some amount of savings may be passed back to its customers now. Aqua Texas proposes to use the budgeted net income for each rate division to determine an estimated amount of 2018 tax savings and rate division-specific FTCCR percentages to be applied to each customer’s bill.

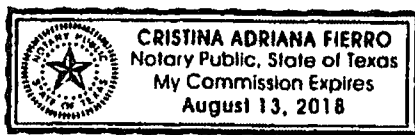
8. The Credit Rider percentage for each rate division has been determined as described in the Affidavit of Kurt A. Scheibelhut, Manager, Rates and Planning for Aqua Texas. Mr. Scheibelhut’s affidavit also describes how Aqua Texas proposes to implement the FTCCR and presents certain documents as part of Aqua Texas’ Credit Rider application package.

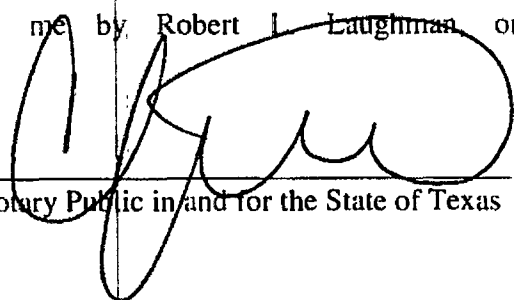
9. Mr. Scheibelhut prepared the Aqua Texas FTCCR application package for filing at my direction and under my direct supervision or control. I have personally examined and am familiar with the information submitted in the application. The FTCCR application information is true, accurate, and complete.

Further affiant sayeth not.


Robert L. Laughman
President
Aqua Texas
1106 Clayton Ln., Suite 400W
Austin, Texas 78723

03/22 SWORN TO and SUBSCRIBED before me by Robert L. Laughman on
_____, 2018.




Notary Public in and for the State of Texas

AFFIDAVIT

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

BEFORE me, the undersigned authority, personally appeared Kurt A. Scheibelhut, who, being by me duly sworn, deposed as follows:

1. My name is Kurt A. Scheibelhut. I am the Manager, Rates and Planning for Aqua Texas, Inc., Aqua Utilities, Inc. (including its subsidiaries Harper Water Company, Inc. and Kerrville South Water Company, Inc.), and Aqua Development, Inc. ("Aqua Texas").

2. I swear or affirm that I have personal knowledge of the facts set forth in this Affidavit and that I am authorized to make this Affidavit on behalf of Aqua Texas. Each fact set forth in this Affidavit is true and correct.

3. I am familiar with Project No. 47945, Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 ("TCJA") on the Rates of Texas Investor-Owned Utility Companies, including the Order Related to Changes in Federal Income Tax Rates, dated January 25, 2018, and Amended Order Related to Changes in Federal Income Tax Rates, dated February 15, 2018 ("Order"). The Order directed Commission Staff to determine appropriate mechanisms to adjust the rates of regulated utilities to reflect the changes under the newly enacted TCJA. The Order also directed investor-owned Class A water and sewer utilities to record as a regulatory liability: (1) the difference between the revenues collected under existing rates and the revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates; and (2) the balance of excess accumulated deferred federal income taxes (ADFIT) that now exists because of the decrease in the federal income tax rate from 35% to 21%. The recording of the ordered regulatory liability was to commence beginning on January 25, 2018.

4. As discussed in the Affidavit of Robert L. Laughman, President of Aqua Texas, I have developed a Federal Tax Change Credit Rider ("FTCCR" or "Credit Rider") for Aqua Texas which it proposes to use for the benefit of its customers until its next base rate case. I have determined the Credit Rider percentages for each customer rate division and the method for implementing those percentages in customer bills as follows:

- a. I have pulled the net income for each rate division from the 2018 Budget for Aqua Texas.

- b. I added the federal and state taxes to the budgeted net income to arrive at the budgeted Pre-Tax Book Income (PTBI).
- c. I multiplied the PTBI by the tax savings of 14% (35% - 21%). This results in the tax savings amount.
- d. I then "grossed up" the tax savings amount by the current tax effect of 21%. The reason for the gross up factor is that if Aqua only refunded or credited the tax savings, the resulting net income would be greater than the original or beginning net income by the tax effect on the credit. The formula to arrive at the credit using budgeted amounts is as follows.

$$\frac{((\text{Net Income} + \text{Federal and State Taxes}) * \text{rate difference})}{(1 - \text{current tax rate})}$$

- e. After calculating the federal tax rate change amount, I divided that amount by the budgeted regulated revenue for each operational division. The result of this is a percent credit for each bill.
- f. The percent credit will be implemented by applying it to each customer's monthly bill for water and/or wastewater services as applicable (using effective Water and/or Sewer Base Fees and Volumetric Fees). In addition, the Regulatory Assessment Fee of 1% will be applied to this credit and reduce the regulatory assessment fee amount on the customer's bill. Thus, the specific FTCCR amount on each bill will vary by customer, but the percentage FTCCR will be consistent within each rate division.
- g. The percent credit in year one will be higher than in subsequent years. In 2018, the FTCCR will apply to 341 days instead of 365 days due to the regulatory liability commencement date in the Order, January 25, 2018. Additionally, the credit rider will be effective May 1, 2018. Because the FTCCR is applied to a customers' bills a reduced number of days for 2018, the percent credit will be temporarily increased to compensate for not applying the FTCCR to the customers' bills from January 25th to April 30th. Because in 2019 the FTCCR will be applied to the customers' bills for the entire year, the FTCCR will be reduced beginning January 1, 2019, and continue until Aqua Texas receives a rate change in the next rate application filing.
- h. Aqua Texas notes that its approach will likely provide more benefit to customers than a regulatory liability recorded pursuant to the Order as amended because: (1) the actual tax savings Aqua Texas will experience

for 2018 remains uncertain, as do many aspects of the TCJA, and the actual tax savings may not be as much as anticipated and reflected in the FTCCR; and (2) were it feasible for Aqua Texas to somehow recalculate the tax amounts embedded in its older rate structures to lower those rates, which it is not, the result would likely be a lower savings amount than that calculated by Aqua Texas using more current budgeted income information as proposed.

5. **Attachment A** includes proposed tariff page additions that include each requested FTCCR provision.

6. **Attachment B** shows Aqua Texas' calculations which produce the requested FTCCR percentage for each rate division. The 2018 Budget information included in **Attachment B** is a forward-looking statement and is made based upon, among other things, our current assumptions, expectations, plans and beliefs concerning future events and their potential effect on us. Because forward-looking statements involve risks and uncertainties, there are many important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statement.

7. **Attachment C** is the correspondence Aqua Texas proposes to send to its customers under the Commission's original ratemaking jurisdiction discussing the FTCCR, if approved. Aqua Texas will be making similar filings to this Commission filing with other municipal regulatory authorities with original ratemaking jurisdiction over Aqua Texas so that all its customers may experience the benefit of lower rates.

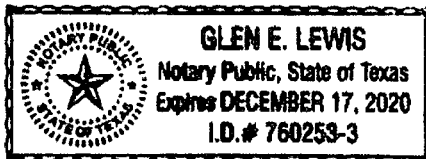
8. There is no specific statutory or regulatory notice requirement for the type of minor tariff change Aqua Texas is proposing with its requested FTCCR additions. Nor is there any specific process that applies to such a request other than 16 TAC § 24.21(b)(2)(A)(v). Aqua Texas is voluntarily making this FTCCR proposal to benefit its customers after receiving favorable input from both Commission Staff and the Office of Public Utility Counsel. Therefore, Aqua Texas respectfully requests that this application be administratively approved pursuant to the informal disposition process under 16 TAC § 22.35 as no hearing should be required for Aqua Texas to expeditiously lower customer rates through its proposed FTCCR implementation.


Further affiant sayeth not.



Kurt A. Scheibelhut
Manager, Rates and Planning
Aqua Texas
1106 Clayton Ln., Suite 400W
Austin, Texas 78723

SWORN TO and SUBSCRIBED before me by Kurt A. Scheibelhut, on
MARCH 22, 2018.





Notary Public in and for the State of Texas

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR)
Effective May 1, 2018 through December 31, 2018.

7.33%

Federal Tax Change Credit Rider (FTCCR)
Effective January 1, 2019 until changed.

5.26%

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Attachment

A

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	7.33%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	5.26%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) **7.33%**
Effective May 1, 2018 through December 31, 2018.

Federal Tax Change Credit Rider (FTCCR) **5.26%**
Effective January 1, 2019 until changed.

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	7.33%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	5.26%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) **7.33%**
Effective May 1, 2018 through December 31, 2018.

Federal Tax Change Credit Rider (FTCCR) **5.26%**
Effective January 1, 2019 until changed.

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	7.33%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	5.26%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	9.71%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	6.97%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallorage Charges

Regional Pass-Through Gallorage Charges (if applicable)

**Aqua Texas, Inc., Aqua Utilities, Inc., and
Aqua Development, Inc., dba Aqua Texas**
Southeast Region - Water

Water Utility Tariff Page No. 2a

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	6.38%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	4.58%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	6.38%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	4.58%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) **6.38%**
Effective May 1, 2018 through December 31, 2018.

Federal Tax Change Credit Rider (FTCCR) **4.58%**
Effective January 1, 2019 until changed.

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonge Charges

Regional Pass-Through Gallonge Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) **6.38%**
Effective May 1, 2018 through December 31, 2018.

Federal Tax Change Credit Rider (FTCCR) **4.58%**
Effective January 1, 2019 until changed.

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	6.94%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	4.99%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	6.94%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	4.99%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallorage Charges

Regional Pass-Through Gallorage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) **6.94%**
Effective May 1, 2018 through December 31, 2018.

Federal Tax Change Credit Rider (FTCCR) **4.99%**
Effective January 1, 2019 until changed.

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonge Charges

Regional Pass-Through Gallonge Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) 6.94%

Effective May 1, 2018 through December 31, 2018.

Federal Tax Change Credit Rider (FTCCR) 4.99%

Effective January 1, 2019 until changed.

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	6.94%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	4.99%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonge Charges

Regional Pass-Through Gallonge Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) **6.94%**
Effective May 1, 2018 through December 31, 2018.

Federal Tax Change Credit Rider (FTCCR) **4.99%**
Effective January 1, 2019 until changed.

Applied as a percentage to the following charges:

All monthly minimum charges

Gallorage Charges

Regional Pass-Through Gallorage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR)	7.23%
Effective May 1, 2018 through December 31, 2018.	

Federal Tax Change Credit Rider (FTCCR)	5.20%
Effective January 1, 2019 until changed.	

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonge Charges

Regional Pass-Through Gallonge Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) **7.23%**
Effective May 1, 2018 through December 31, 2018.

Federal Tax Change Credit Rider (FTCCR) **5.20%**
Effective January 1, 2019 until changed.

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	7.23%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	5.20%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonge Charges

Regional Pass-Through Gallonge Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	7.23%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	5.20%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR)	5.33%
Effective May 1, 2018 through December 31, 2018.	

Federal Tax Change Credit Rider (FTCCR)	3.83%
Effective January 1, 2019 until changed.	

Applied as a percentage to the following charges:

All monthly minimum charges

Gallorage Charges

Regional Pass-Through Gallorage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	5.33%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	3.83%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	5.33%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	3.83%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonge Charges

Regional Pass-Through Gallonge Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) **5.33%**
Effective May 1, 2018 through December 31, 2018.

Federal Tax Change Credit Rider (FTCCR) **3.83%**
Effective January 1, 2019 until changed.

Applied as a percentage to the following charges:

All monthly minimum charges

Gallonage Charges

Regional Pass-Through Gallonage Charges (if applicable)

Section 1.01a - Rates

Federal Tax Change Credit Rider (FTCCR) Effective May 1, 2018 through December 31, 2018.	5.33%
--	--------------

Federal Tax Change Credit Rider (FTCCR) Effective January 1, 2019 until changed.	3.83%
--	--------------

Applied as a percentage to the following charges:

All monthly minimum charges

Gallorage Charges

Regional Pass-Through Gallorage Charges (if applicable)

Note: The 2018 Budget information set forth in this document is a forward-looking statement and is made based upon, among other things, our current assumptions, expectations, plans and beliefs concerning future events and their potential effect on us. Because forward-looking statements involve risks and uncertainties, there are many important factors that could cause actual results to differ materially from those expressed or implied by this forward looking statement.

Attachment

B

Impact of Effects of Tax Reform (Aqua Texas 2018 Budget)

B

		Tax Calc Prior To Tax Reform								
		A	B	C	D	E	F	G	H	
		<u>Lawson PTBI</u>	<u>Difference in Tax Rates</u>	<u>(A * B) / (1 - D)</u>	<u>New Tax Rate</u>	<u>(A + C) * (1 - D)</u>	<u>Col A</u>	<u>Prior Tax Rate</u>	<u>Col F * (1 - G)</u>	
State	Region	2018 Budgeted Income Before Taxes (Regulated)	Rate Difference	Proposed Credit to Customers due to Pass Thru of Tax Savings	2018 Tax Rate under Tax Reform	Estimated Net Income - Tax Reform	2018 Budgeted Income Before Taxes (Regulated)	Prior Tax Rate	Estimated Net Income After Tax (Prior Tax Rate)	Difference in Net Income After Tax
TX	SW - Water	5,059,393	14.00%	(896,601)	21.00%	3,288,605	5,059,393	35.00%	3,288,605	-
TX	SW - Sewer	1,279,933	14.00%	(226,824)	21.00%	831,956	1,279,933	35.00%	831,956	-
TX	SE - Water	6,123,227	14.00%	(1,085,129)	21.00%	3,980,098	6,123,227	35.00%	3,980,098	-
TX	SE - Sewer	3,084,882	14.00%	(546,688)	21.00%	2,005,173	3,084,882	35.00%	2,005,173	-
TX	North - Water	5,161,725	14.00%	(914,736)	21.00%	3,355,121	5,161,725	35.00%	3,355,121	-
TX	North - Sewer	315,578	14.00%	(55,925)	21.00%	205,126	315,578	35.00%	205,126	-
TX	Aqua Texas	21,024,738	14.00%	(3,725,903)	21.00%	13,666,080	21,024,738	35.00%	13,666,080	-

2018 Budget	Regulated Texas
Estimated Net Income	13,392,748
Add: Estimated Federal Income Tax	7,211,500
Add: Estimated State Income Tax	420,490
2018 Est. PTBI (Pre-Tax Book Income)	21,024,738

2018 Budget (Regulated)

(3,725,903) Estimated Credit Rider based on 2018 budget calculation.
 (73,980,382) 2018 regulated revenue.
 5.04% % reduction in revenue.

Example: Credit Rider Allocation by Region - Year 2 and beyond

	SW - Water	SW - Sewer	SE - Water	SE - Sewer	North - Water	North - Sewer	Texas
Revenue	17,033,862.00	3,252,262.00	23,667,784.00	10,959,377.00	17,607,361.00	1,459,736.00	73,980,382
Estimated Annual Credit Rider	896,601	226,824	1,085,129	546,688	914,736	55,925	3,725,903
Estimated % credit	5.26%	6.97%	4.58%	4.99%	5.20%	3.83%	5.04%
Estimated Average Bill	\$ 69.79	\$ 87.97	\$ 79.76	\$ 63.80	\$ 63.17	\$ 73.30	
Estimated Average Monthly Credit	\$ 3.67	\$ 6.14	\$ 3.66	\$ 3.18	\$ 3.28	\$ 2.81	
Estimated Average Annual Credit	\$ 44.08	\$ 73.62	\$ 43.88	\$ 38.19	\$ 39.38	\$ 33.70	

Adjusted Credit Percentage by 24 days (Date of Order - 1/25/2018) - (341) days
 (365-24) / 365 days * Estimated % Credit

4.92% 6.52% 4.28% 4.66% 4.85% 3.58% 4.71%

Apply annualized FTCCR % over 245 days (April 30th)
 Adjusted Credit Percentage from above * 365 / 245 days effective Year 1.

7.33% 9.71% 6.38% 6.94% 7.23% 5.33% 7.01%

FTCCR % would be applied on May 1st and go through December 31st, 2018.

7.33% 9.71% 6.38% 6.94% 7.23% 5.33% 7.01%

FTCCR % would then apply the calculated annual rate above from January 1, 2019 and remain until rates are changed in the next rate filing. (See above - Estimated % credit)

5.26% 6.97% 4.58% 4.99% 5.20% 3.83% 5.04%



March 26, 2018

Dear Aqua Texas Customer:

Aqua Texas (Aqua) is pleased to notify you that it has sought approval from the Public Utility Commission of Texas (PUC) and in municipalities with original ratemaking jurisdiction over Aqua to implement a Federal Tax Change Credit Rider (FTCCR) effective for bills rendered on after May 1, 2018. The FTCCR will immediately lower your monthly bills and show up as a new line item until further notice.

Aqua has developed the FTCCR as a means to immediately pass estimated savings resulting from the federal Tax Cuts and Jobs Act of 2017 (TCJA) corporate income tax rate reduction to customers as fast as possible without a rate case. While the FTCCR remains subject to final regulatory authority approval, Aqua's proposal includes implementation of the FTCCR as an interim rate immediately to benefit our customers without delay. Aqua does not anticipate filing a rate case until at least 2020 at which time the actual effects of the TCJA on Aqua will be more fully known and considered. But the FTCCR will provide customers with rate relief now.

The FTCCR that will apply within Aqua's North Region (including your service area) for bills rendered on or after May 1, 2018 through December 31, 2018 is 7.23% for water and 5.33% for sewer. Then, effective for bills rendered on or after January 1, 2019, the FTCCR will drop slightly to 5.20% for water and 3.83% for sewer because next year, unlike this year, estimated annual savings will be credited over a full 12-month period. The 2019 FTCCR percentage will remain in place until Aqua's next rate case.

Please call Aqua at 877.WTR.AQUA (877.987.2782) if you have any questions about the Federal Tax Change Credit Rider. Thank you for the opportunity to serve you.

Sincerely,

Robert L. Laughman

Attachment

C



March 26, 2018

Dear Aqua Texas Customer:

Aqua Texas (Aqua) is pleased to notify you that it has sought approval from the Public Utility Commission of Texas (PUC) and in municipalities with original ratemaking jurisdiction over Aqua to implement a Federal Tax Change Credit Rider (FTCCR) effective for bills rendered on after May 1, 2018. The FTCCR will immediately lower your monthly bills and show up as a new line item until further notice.

Aqua has developed the FTCCR as a means to immediately pass estimated savings resulting from the federal Tax Cuts and Jobs Act of 2017 (TCJA) corporate income tax rate reduction to customers as fast as possible without a rate case. While the FTCCR remains subject to final regulatory authority approval, Aqua's proposal includes implementation of the FTCCR as an interim rate immediately to benefit our customers without delay. Aqua does not anticipate filing a rate case until at least 2020 at which time the actual effects of the TCJA on Aqua will be more fully known and considered. But the FTCCR will provide customers with rate relief now.

The FTCCR that will apply within Aqua's Southeast Region (including your service area) for bills rendered on or after May 1, 2018 through December 31, 2018 is 6.38% for water and 6.94% for sewer. Then, effective for bills rendered on or after January 1, 2019, the FTCCR will drop slightly to 4.58% for water and 4.99% for sewer because next year, unlike this year, estimated annual savings will be credited over a full 12-month period. The 2019 FTCCR percentage will remain in place until Aqua's next rate case.

Please call Aqua at 877.WTR.AQUA (877.987.2782) if you have any questions about the Federal Tax Change Credit Rider. Thank you for the opportunity to serve you.

Sincerely,

Robert L. Laughman



March 26, 2018

Dear Aqua Texas Customer:

Aqua Texas (Aqua) is pleased to notify you that it has sought approval from the Public Utility Commission of Texas (PUC) and in municipalities with original ratemaking jurisdiction over Aqua to implement a Federal Tax Change Credit Rider (FTCCR) effective for bills rendered on after May 1, 2018. The FTCCR will immediately lower your monthly bills and show up as a new line item until further notice.

Aqua has developed the FTCCR as a means to immediately pass estimated savings resulting from the federal Tax Cuts and Jobs Act of 2017 (TCJA) corporate income tax rate reduction to customers as fast as possible without a rate case. While the FTCCR remains subject to final regulatory authority approval, Aqua's proposal includes implementation of the FTCCR as an interim rate immediately to benefit our customers without delay. Aqua does not anticipate filing a rate case until at least 2020 at which time the actual effects of the TCJA on Aqua will be more fully known and considered. But the FTCCR will provide customers with rate relief now.

The FTCCR that will apply within Aqua's Southwest Region (including your service area) for bills rendered on or after May 1, 2018 through December 31, 2018 is 7.33% for water and 9.71% for sewer. Then, effective for bills rendered on or after January 1, 2019, the FTCCR will drop slightly to 5.26% for water and 6.97% for sewer because next year, unlike this year, estimated annual savings will be credited over a full 12-month period. The 2019 FTCCR percentage will remain in place until Aqua's next rate case.

Please call Aqua at 877.WTR.AQUA (877.987.2782) if you have any questions about the Federal Tax Change Credit Rider. Thank you for the opportunity to serve you.

Sincerely,

Robert L. Laughman