



Agenda Date: 3/26/18
Agenda Item: 2H

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES' CONSIDERATION OF THE TAX CUTS AND JOBS ACT OF 2017)	ORDER
)	
)	DOCKET NO. AX18010001
)	
IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY FOR APPROVAL OF A CHANGE IN RATES, CUSTOMER REFUND AND RIDER ASSOCIATED WITH THE TAX CUTS AND JOBS ACT OF 2017)	AND
)	
)	DOCKET NO. GR18030230
)	

(SERVICE LIST ATTACHED)

Parties of Record:

Stacy Mitchell, Esq. for South Jersey Gas Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

This Board Order addresses the interim rate changes to be effective April 1, 2018 that are proposed in the petition filed by South Jersey Gas Company ("SJG" or "Company") in response to an order issued by the New Jersey Board of Public Utilities ("Board") on January 31, 2018 ("January 31, 2018 Order")¹, directing the affected utilities² to file petitions proposing new rates reflecting the impacts from the Federal Tax Cuts and Jobs Act signed into law on December 22, 2017 (the "2017 Act").

¹ See In re the New Jersey Board of Public Utilities Consideration of the Tax Cuts and Jobs Act of 2017, BPU Docket No. AX18010001 (Order dated January 31, 2018).

² The affected utilities are investor owned gas, electric, water and wastewater companies under the jurisdiction of the Board. In addition, affected utilities shall be those with 2017 revenues equal to or greater than \$4.5 million.

BACKGROUND

The effective date of the 2017 Act is January 1, 2018. The 2017 Act sets forth changes to the Federal Internal Revenue Tax Code ("Tax Code"), including a reduction in the maximum corporate tax rate from thirty-five percent (35%) to twenty-one percent (21%). The Board is charged with the authority to ensure that the regulated utilities' rates charged to ratepayers are just and reasonable. When the Board sets rates in base rate cases and in certain annual/periodic clauses, utilities are permitted to gross up their revenue requirement as well as set other rate factors, including, the accumulated deferred income tax, based on the then existing thirty-five percent (35%) corporate tax rate.

The Board issued the January 31, 2018 Order which set all affected utility rates as interim and established a proceeding to consider the implications of the 2017 Act. Based upon the Board's review of the 2017 Act, the Board found in its January 31, 2018 Order that the changes to the Tax Code will provide savings to the affected utilities and will result in an over-collection of tax revenue by the affected utilities that will not be paid in federal income taxes. The affected utilities were required to file amended tariffs reflecting a reduction in rates resulting from the reduction in the corporate tax rate effective April 1, 2018, as well as a plan to address other rate factors and to refund any over collection in rates.

On March 5, 2018, the Company filed its petition pursuant to the January 31, 2018 Order, including proposed tariffs as well as a proposed plan. Specifically, the Company stated that it planned a reduction in base rates of \$25.88 million effective April 1, 2018, a corresponding estimated \$12.88 million refund to customers for the period January 1, 2018 through March 31, 2018 for the corresponding rate adjustment (including interest at the Company's short-term debt rate), and a re-measurement and adjustment to rates related to the "Unprotected" excess deferred income taxes of approximately \$27.1 million associated with the implementation of the 2017 Act. As a result, the average residential customer will receive an overall decrease in rates of approximately 5.8% to be effective April 1, 2018. SJG further proposed a one (1) time refund of approximately \$27.00 (based the Company's estimated refund at the time of the filing).

The Company's excess deferred income taxes fall into two (2) categories those restricted to normalization provisions of the 2017 Act. (i.e., "Protected") and those that are not (i.e., "Unprotected"). SJG proposes to leave its "Protected" excess deferred income tax balance in rate base but reclassify the amount as a separate regulatory liability. These deferred balances are included as a reduction to rate base³. The Company proposes to return this regulatory liability to customers over the remaining life of the related assets, consistent with the Internal Revenue Service normalization rules. SJG's preliminary estimate amortization period is up to seventy (70) years; however, the company has not begun this analysis and the final amortization period is not yet known. The Company anticipates implementing regulations and/or agency guidance in the months to come that will have a direct impact on the Company's final calculation of its excess deferred income tax balances. The Company's "Unprotected" assets is estimated at \$27.1 million, under the Board's Order and it is proposing to refund its Unprotected balance to ratepayers over a period of 10 years through a rider with interest

³ SJG indicated that it is not currently earning a return on these balances and imposing carrying costs at the Company's WACC rate would essentially amount to "double dipping".

calculated at the monthly short-term debt rate. SJG proposes to implement an initial credit rate effective April 1, 2018 with annual true-up filings to coincide with the Company's Basic Gas Supply Service filings schedule, beginning in 2019.

Regarding other SJG clauses, the Company is currently reflecting on its books any associated changes to its clauses resulting from the 2017 Act and any changes will be incorporated into SJG's subsequent annual filings associated with each clause.

The allocation of the \$25.88 million revenue requirement reduction to each customer class through the Company's last approved rate design and with its typical infrastructure program roll-ins the monthly impact of the proposed base rate reduction on a typical residential heating customer using 100 therms during winter month would see a decrease of \$7.31 or 5.2%.

The Company's proposed tariffs, include an across-the-board rate reduction reflecting the reduction in the corporate tax rate from thirty-five percent (35%) to twenty-one percent (21%). As a result, an average residential heating customer using 1,000 therms per year will receive an annual decrease of \$73.10 or three percent (5.8%).

The January 31, 2018 Order set the deadline for the filing of motions to intervene or participate on February 20, 2018. No party filed a motion seeking to intervene or participate in this proceeding prior to the expiration of the February 20, 2018 deadline.

DISCUSSION AND FINDINGS

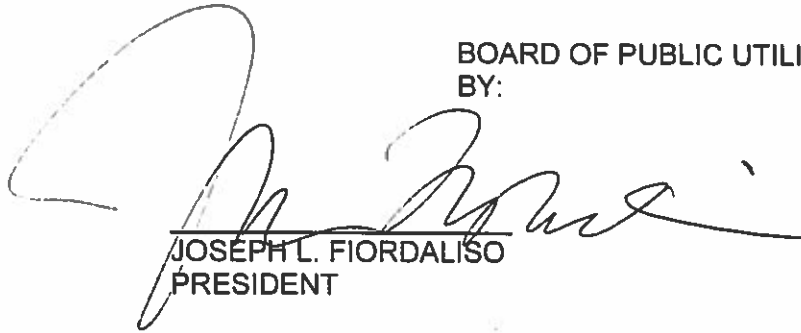
The Board has reviewed the proposed plan filed by the Company, and **HEREBY DIRECTS** that the plan will be reviewed in the instant proceeding, in accordance with the schedule set forth in the Board's January 31, 2018 Order.

The Company's proposed tariffs, include an across-the-board rate reduction reflecting the reduction in the corporate tax rate from thirty-five percent (35%) to twenty-one (21%). As a result of the proposed rate modification, an average residential heating customer using 1,000 therms per year will receive an annual decrease of \$73.10 or three percent (5.8%). Having reviewed the proposed tariffs, the Board **HEREBY DIRECTS** new tariffs to be filed by the Company by April 1, 2018 relating to the across-the-board rate reduction for services to be rendered on or after April 1, 2018. The rates set forth in the tariffs are on an interim basis, subject to refund, pending the outcome of this proceeding. The Board will address refunds and other proposed rider tariffs at a later date.

This Order shall be effective March 29, 2018.

DATED: 3/26/18

BOARD OF PUBLIC UTILITIES
BY:



JOSEPH L. FIORDALISO
PRESIDENT



MARY-ANNA HOLDEN
COMMISSIONER



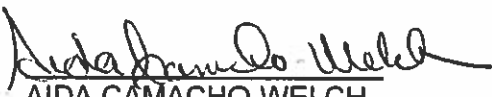
DIANNE SOLOMON
COMMISSIONER



UPENDRA J. CHIVUKULA
COMMISSIONER



RICHARD S. MROZ
COMMISSIONER

ATTEST: 
AIDA CAMACHO-WELCH
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public Utilities.

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