



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

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

IN THE MATTER OF THE PETITION OF ATLANTIC)
CITY ELECTRIC COMPANY FOR APPROVAL OF THE)
TREATMENT OF TAX IMPACTS ASSOCIATED WITH)
IMPLEMENTATION OF TAX CUTS AND JOBS ACT OF)
2017 AND TO DETERMINE THE APPROPRIATE)
LEVEL AND MECHANISM BY WHICH RATES MUST)
BE ADJUSTED TO REFLECT THE BENEFITS OF THE)
ACT)

DOCKET NO. AX18010001

AND

DOCKET NO. ER18030241

(SERVICE LIST ATTACHED)

Parties of Record:

Philip J. Passanante, Esq. for Atlantic City Electric 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 Atlantic City Electric Company ("ACE" 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 2, 2018, the Company filed its Petition pursuant to the January 31, 2018 Order, including proposed Tariffs as well as a proposed plan. Specifically, ACE proposes the annual revenue reduction for the April 1, 2018 interim rate to be \$13,274,596 (excluding New Jersey Sales and Use Tax ("SUT")) and \$14,154,038 (including SUT). The interim rate include the federal income tax rate change impact on revenues during the 12 months ending July 31, 2017, test period used in ACE's most recent rate base filing. A residential customer utilizing Basic Generation Service ("BGS") and using 716 kWh per month would receive a bill reduction of \$1.38 or approximately 1.0% for the interim rates effective April 1, 2018. ACE will file proposed final rates effective July 1, 2018. The Company calculates that the annual revenue requirement for the July 1, 2018 final rate reduction to be \$22,706,885 (excluding SUT) and \$24,221,217 (including SUT). ACE calculates that a typical residential customer utilizing 716 kWh would receive a bill reduction of approximately \$2.37 or approximately 1.72% as a result of the final July 1, 2018 rates.

ACE's Tax Cuts and Jobs Acts ("TCJA") regulatory balance at June 30, 2018 is anticipated to be \$6,155,946. The Company indicated that it has not included the Weighted Average Cost of Capital ("WACC") in its TCJA regulatory liability balance, since it was addressed in the Company's last rate base case and the additional WACC on excess accumulated deferred balances would represent a duplicative accrual. The Company proposed addressing the over-collection as part of the next rate base, which the Company anticipates filing in mid-2018. However, ACE would propose to amortize the TCJA regulatory liability over a 12-month period as a sur-credit that will automatically end once provided to customers if the Board directs the Company to address the matter in this proceeding. ACE also proposes that any over-refunding of the TCJA regulatory liability be deferred as a regulatory asset that would receive rate base treatment. The excess federal accumulated deferred income tax balances will be included as overall reduction in the Company's rate base on a prospective basis.

The estimated excess deferred balance for property-protected is \$103 million. The company proposes a flow back of excess property-protected in accordance with the average rate assumption method ("ARAM"). The estimated deferred balance for property non-protected is \$100 million. The flow back method implemented is the average remaining life (weighted average of distribution and general plant). The estimated deferred balance non-protected is \$16 million. The proposed flow back method is the 10-year amortizations given underlying items' tax versus book unwind period.

The tax impact on annual petitions will mainly be on the interest for any over/under recovered balance. Concerning Market Transition Cost, the tax impact on this charge will be addressed with any necessary customer reduction in the true-up calculation in its next compliance filing scheduled for August 31, 2018.

The Company's proposed tariffs, include an across the Board rate reduction reflecting the reduction in the corporate tax rate from 35% to 21%. As stated above, an average customer using 716 kWh per month would receive a monthly bill reduction of approximately \$(2.37) or approximately 1.72%.

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:

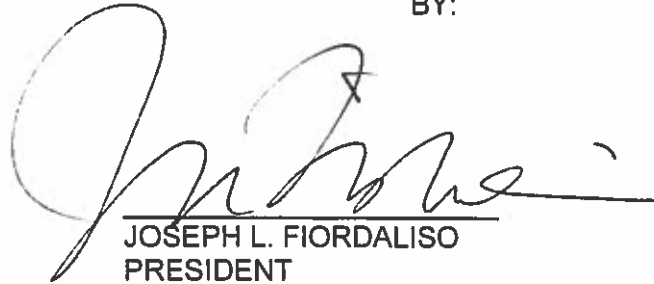
The Board has reviewed the proposed plan filed by the Company, and **HEREBY DIRECTS** that the plan will be reviewed in this proceeding. If, ACE subsequently files a rate case, the Board may then consider whether any outstanding issues in this matter will be considered in the context of that case.

The Company's proposed tariffs include an across the Board rate reduction reflecting the decrease in the corporate tax rate from thirty-five percent (35%) to twenty-one percent (21%). As mentioned above, a typical residential electric customer using 716 kWh per month would receive a bill reduction of \$1.38 or approximately 1.0% for the interim rates effective April 1, 2018. 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 their Company's pending 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

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

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

**IN THE MATTER OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES'
CONSIDERATION OF THE TAX CUTS AND JOBS ACT OF 2017
DOCKET NO. AX18010001**

**IN THE MATTER OF ATLANTIC CITY ELECTRIC COMPANY FOR APPROVAL OF
REVISED RATES (EFFECTIVE ON AN INTERIM BASIS APRIL 1, 2018) TO REFLECT THE
REDUCTION UNDER THE TAX CUTS AND JOBS ACT OF 2017
DOCKET NO. ER18030241**

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