



Agenda Date: 6/22/18  
Agenda Item: 2L

**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
44 South Clinton Avenue, 3<sup>rd</sup> Floor, Suite 314  
Post Office Box 350  
Trenton, New Jersey 08625-0350  
[www.nj.gov/bpu/](http://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 OF EXTENSION

DOCKET NO. AX18010001

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. ER18030241

**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:

**BACKGROUND**

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law by President Trump ("the 2017 Act"). 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 an Order ("January 31, 2018 Order") on January 31, 2018 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, Atlantic City Electric Company ("ACE" or "Company") filed its Petition pursuant to the January 31, 2018 Order, including proposed tariffs, as well as a proposed plan. Specifically, ACE proposed the annual revenue requirement for the April 1, 2018 interim rates to be \$13,274,596 (excluding New Jersey Sales and Use Tax ("SUT")) and \$14,154,038 (including SUT). The interim rates included the federal income tax rate change impact on revenues during the twelve (12) months ending July 31, 2017, which was the test period used in ACE's last rate base filing. A residential customer utilizing Basic Generation Service and using 716 kWh per month would receive a monthly bill reduction of \$1.38 or approximately 1.0% for the interim rates effective April 1, 2018. ACE also stated that it would file proposed final rates effective July 1, 2018. The Company calculated that the annual revenue requirement for the July 1, 2018 final rate reduction would be \$22,706,885 (excluding SUT) and \$24,221,217 (including SUT). ACE calculated 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 was 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 proposed to amortize the TCJA regulatory liability over a twelve (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 proposed 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 non-protected property is \$100 million. The flow back method implemented is the average remaining life (weighted average of distribution and general plant). The estimated non-protected deferred balance is \$16 million. The proposed flow back method is the ten (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 the 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 established a procedural schedule for motions to intervene, discovery, technical conferences, filing of comments, and final settlement conferences. The January 31, 2018 Order set February 20, 2018 as the deadline for filing motions to intervene or participate. No party filed a motion seeking to intervene or participate in this proceeding prior to the expiration of the February 20, 2018 deadline.

By Order dated March 26, 2018, the Board directed the Company to implement its proposed base rate reduction on an interim basis, effective April 1, 2018. As a result of the March 26, 2018 Order, an average residential electric customer using 716 kWh per month received a bill reduction of \$1.38 or approximately 1.0%.

By letter dated June 19, 2018, ACE sought an extension of the procedural schedule in this matter. The Company stated that the Parties are engaged in settlement discussions and are seeking additional time to explore a possible resolution. The Company requested that the Board extend the procedural schedule through August 31, 2018. ACE represented that the request for an extension is acceptable to Rate Counsel and is in the public interest.

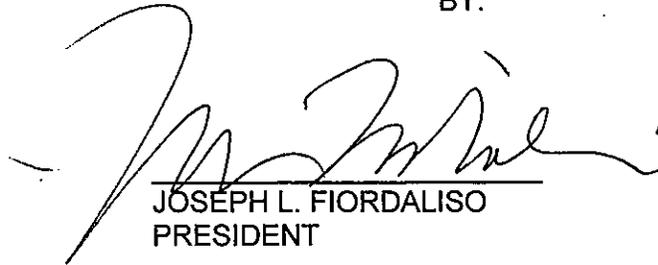
### **DISCUSSION**

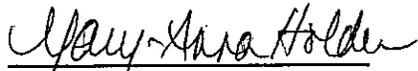
The Board has reviewed the extension request filed by ACE, and **HEREBY DIRECTS** that the procedural schedule for ACE shall be extended to provide the parties with additional time to complete their review of the petition and explore a possible settlement. The Board **FURTHER DIRECTS** that the parties submit all necessary information to the Board so as to allow the Board to consider final rates no later than the Board's August 2018 public agenda meeting, or as soon thereafter as the Board may deem appropriate.

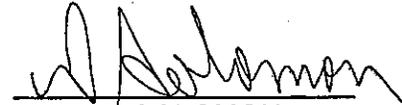
This Order shall be effective on July 2, 2018.

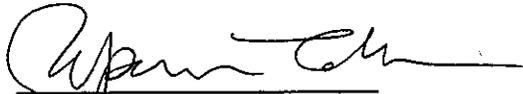
DATED: 6/22/18

BOARD OF PUBLIC UTILITIES  
BY:

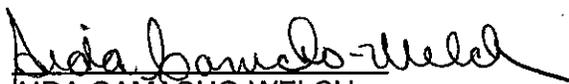
  
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DIANNE SOLOMON  
COMMISSIONER

  
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COMMISSIONER

  
ROBERT M. GORDON  
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.

**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**

**SERVICE LIST**

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