BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Gas Company for a Waiver of Orders Related to the Tax Cuts and Jobs Act of 2017	)))	Case No. 18-1903-GA-WVR

APPLICATION

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DECEMBER 27, 2018

ON BEHALF OF OHIO GAS COMPANY

Before
The Public Utilities Commission of Ohio

In the Matter of the Application of Ohio Gas Company for a Waiver of Orders Related to the Tax Cuts and Jobs Act of 2017	)))	Case No. 18-1903-GA-WVR

APPLICATION

In an Entry issued on January 10, 2018, the Public Utilities Commission of Ohio ("Commission") directed rate regulated utilities to record on their books a deferred liability for the estimated reduction in federal income tax expense resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA"). *In the Matter of the Commission's Investigation of the Financial Impact of the Tax Cuts and Jobs Act of 2017 on Regulated Ohio Utility Companies*, Case No. 18-47-AU-COI, Entry ¶ 7 (Jan. 10, 2018) ("*Tax COI*"). On October 24, 2018, the Commission further ordered rate regulated utilities, with some exceptions, to file applications not for an increase "to pass along to consumers the tax savings resulting from the TCJA." *Id*., Finding and Order ¶ 29 (Oct. 24, 2018). In that Finding and Order, the Commission also stated that "the Commission is open to any alternative proposals by utilities, provided such proposals pass all tax savings on to customers, have the full agreement of Staff and provide for input from other interested stakeholders." *Id*.

In its base distribution rate case, Ohio Gas Company ("Ohio Gas") agreed to reduce its revenue requirement to incorporate the effect of a reduction in the federal income tax rate under the TCJA. *In the Matter of the Application of Ohio Gas Company for an Increase in Gas Distribution Rates*, Case No. 17-1139-GA-AIR, *et al.*, Joint Stipulation and Recommendation (the "Stipulation") at 4-5 (Jan. 26, 2018) ("*Rate

Case"). Additionally, Ohio Gas agreed that it would not implement an increase in rates for any unaddressed changes resulting from the TCJA. *Id*. at 5. The Commission approved the Stipulation without modification on February 21, 2018. *Id*., Opinion and Order (Feb. 21, 2018).

Although Ohio Gas collected revenue based on rates that included tax expense set at the prior tax rate from January to March 2018 ("2018 Tax Savings"), it has determined that amortization of both Non-Normalized Excess Deferred Income Taxes ("EDIT") and Normalized EDIT would result in revenue increases that exceed the 2018 Tax Savings. Based on that determination, any further changes to effect the reduction in the corporate tax rate would result in a revenue increase.

Ohio Gas has advised the Commission Staff and the Office of the Ohio Consumers' Counsel that Ohio Gas has determined that any further changes to implement the TCJA in rates would result in a revenue increase and that it is precluded from seeking an increase from consumers under the approved Stipulation.

In this Application, therefore, Ohio Gas seeks a determination that it has fully complied with the Commission's directive to return the tax savings to customers as a result of the resolution of its base distribution rate case in 2018 and a waiver of the Commission's order to file an application not for an increase.

In support of its Application, Ohio Gas states:

1. Ohio Gas is a natural gas company within the meaning of R.C. 4905.03(A)(6), and as such, is a public utility subject to the jurisdiction of the Commission.

2. The TCJA became effective in January 2018. One provision of the law provided for a reduction in the corporate income tax rate from up to 35% to a fixed rate of 21%.

3. On January 10, 2018, the Commission opened an investigation in the *Tax COI* to consider the effects of the TCJA on the rates of rate-regulated utilities. In that Entry, the Commission directed each rate regulated utility to record on its books a deferred liability for the estimated reduction in federal income tax expense resulting from the TCJA.

4. In a Finding and Order entered on October 24, 2018 in the *Tax COI*, the Commission directed each rate regulated utility, with several exceptions, to file by January 1, 2019 an application to "pass along to consumers the tax savings resulting from the TCJA." *Id*., Finding and Order ¶ 29 (Oct. 24, 2018). The Commission also noted that it was open to alternative proposals, provided such proposals passed all tax savings on to customers. *Id*.

5. Tax adjustments resulting from the reduction in the federal corporate tax rate fall into three areas: (1) tax savings incorporated in rates to be prospectively applied; (2) tax savings associated with the change in the tax rate embedded in base rates and riders collected after the change in the tax rate but prior to any prospective rate changes; and (3) adjustments to deferred income taxes associated with timing differences between federal tax filings and recovery in regulated rates. *Id*., *passim* and *In the Matter of the Motion of Ohio Power Company for a Procedural Schedule and Request for Expedited Ruling and*

Memorandum in Support for the Implementation of the Tax Cuts and Jobs Act of 2017, Finding and Order (Oct. 3, 2018).

6. Ohio Gas previously implemented a reduction in base rates that incorporates the effects of the reduction in the federal corporate tax rate in a base distribution rate case. At the time that the TCJA became effective, Ohio Gas was seeking a base rate increase. *Rate Case*, Application (May 31, 2017). The rate application incorporated the prior federal corporate tax rate applicable to Ohio Gas. *Id*., Schedule C-4. The rate application was resolved by the Stipulation. *Id*., Stipulation (Jan. 26, 2018). As part of the Stipulation, Ohio Gas agreed to reduce its requested revenue requirement by incorporating a tax rate of 21%. *Id*., Stipulation at 4-5. This change in the tax rate reduced the increase in the annual revenue requirement in excess of $600,000. *Id*., Stipulation at 5. Ohio Gas also agreed that it would not implement an increase in rates for any unaddressed changes resulting from the TCJA. *Id*. The Commission approved the Stipulation without modification. *Id*., Opinion and Order (Feb. 21, 2018). Rates based on the 21% federal corporate tax rate were effective March 1, 2018, on a service rendered basis. *Id*., Letter to Barcy McNeal from Frank P. Darr (Feb. 22, 2018) (tariff filing).

7. The Stipulation did not address the return of any tax savings under the rates in effect.

8. Ohio Gas billed and collected rates based on the prior tax rate from January 1, 2018 to March 31, 2018. The 2018 Tax Savings was $463,257. Schedule A.

9. The Stipulation also did not address EDIT. EDIT consists of two parts. Under federal tax law, Normalized EDIT relates to property for which accelerated depreciation is taken for tax purposes and amortization must be accomplished under specialized rules. Non-Normalized EDIT relates to all other items for which there are tax timing differences and may be amortized on a schedule approved by the Commission.

10. Unlike some utilities that have previously submitted applications to address EDIT, Ohio Gas presently shows a net debit for its Non-Normalized EDIT. The positive balance of EDIT results from a significant deferral for contributions in aid of construction. If this balance were amortized in rates, rates would increase $478,722. Schedule B.

11. Offsetting the 2018 Tax Savings against the Non-Normalized EDIT would result in a net increase in revenue of $15,465. Schedule C.

12. Ohio Gas has identified that it has Normalized EDIT of $2,630,467. The period for amortization of the Normalized EDIT is estimated to be 26 years. To properly reflect the amortization of the Normalized EDIT, Ohio Gas will book an increase in its net rate base as the EDIT is reduced. As a result of the amortization of Normalized EDIT, Ohio Gas would realize a net increase in its revenue requirement of $983,712, or an average of $37,835 during the 26-year amortization period. Schedule D.

13. As set out above, the return of the 2018 Tax Savings and the amortization of the Non-Normalized and Normalized EDIT would result in a net rate increase to customers, but Ohio Gas has agreed that it will not seek an increase in rates for

the increase in the revenue requirement as a result of any remaining changes necessary to effect the TCJA. Accordingly, there is no further action that Ohio Gas may take to comply with the orders in the *Tax COI*.

14. As noted above, the Commission has indicated that it will consider alternatives to the filing of an application not for an increase in rates. Under the facts and circumstances set out in this Application, Ohio Gas has stated good cause for the Commission to waive the Order that Ohio Gas file an application not for an increase in rates since any further changes to rates would result in a rate increase.

15. Ohio Gas has contacted both Commission Staff and the Office of the Ohio Consumers' Counsel. Each has been advised that Ohio Gas has determined that return of the 2018 Tax Savings and amortization of the EDIT would result in a rate increase and that Ohio Gas is therefore seeking a determination that it has fully complied with the Commission's order in the *Tax COI*.

WHEREFORE, Ohio Gas requests:

1. That the Commission find that the 2018 Tax Savings is $463,257.
2. That the Commission find that the Non-Normalized EDIT is ($478,722).
3. That the Commission find that the return of the 2018 Tax Savings and amortization of the Non-Normalized EDIT result in an increase in the revenue requirement of $15,465
4. That the Commission find that the Normalized EDIT is $2,630,467;

5. That the Commission find that the amortization of the Normalized EDIT as required by federal law would result in an increase in the revenue requirement of $983,712;

6. That the Commission find that return of the 2018 Tax Savings, amortization of Non-Normalized EDIT, and Normalized EDIT over the statutorily required period of approximately 26 years would result in a rate increase;

7. That the Commission find that Ohio Gas, due to the terms and conditions which the Commission approved in the Rate Case which prevent Ohio Gas from increasing its gas distribution rate, has fully complied with the requirements of its Order in the *Tax COI* to return tax savings associated with the TCJA to consumers;

8. That the Commission waive the order that Ohio Gas file an application not for an increase in rates; and

9. That the Commission make any other orders that are necessary to implement this Application.

Respectfully submitted,

<u>/s/ Frank P. Darr</u>

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ON BEHALF OF OHIO GAS COMPANY

SCHEDULE A

Ohio Gas Company
Tax Savings Rider
2018 Adjustment - Carrying Cost Calculation

		2018 January	2018 February	2018 March	2018 April	2018 May	2018 June	2018 July	2018 August	2018 September	2018 October	2018 November	2018 December	2019 January	Total
1	Grossed-up Income Tax Savings (Through 3/31/18 / 3 Months)	$ 148,718	$ 148,718	$ 148,718	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 446,154
2	Cumulative Income Tax Savings	$ 148,718	$ 297,436	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	
3	Balance Subject to Interest	$ 74,359	$ 223,077	$ 371,795	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	
4	Interest Cost	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
5	Monthly Interest Cost	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	
6	Monthly Interest	$ 248	$ 744	$ 1,239	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 17,103
															$ 463,257

New Rates in 17-1139-EL-AIR effective April 1, 2018

SCHEDULE B

12/31/2017	**Account 283 - non-property related ADIT**	($30,194)
	EDIT (1-(.21/.34)	($11,545)
	Jurisdictional allocation	89.43%
	Jurisdictional amount	($10,324)
	Gross-up	1.328948
	Account 283 non-property EDIT	($13,721)
	Account 282 non-property ADIT	$1,108,595
	Excess ADIT (1-(.21/.34)	$423,875
	Jurisdictional allocation	87.42%
	Jurisdictional amount	$370,551
	Gross-up	1.328948
	Account 282 non-property EDIT	$492,443
	Total unprotected EDIT	$478,722

SCHEDULE C

2018 Tax Savings and Non-Normalized EDIT

2018 Stub with interest	$463,257
Unprotected Excess ADIT	($478,722)
Net increase to customers	$15,465

SCHEDULE D **Normalized EDIT**

RETURN ON RATE BASE 9.00%

BEGINNING BALANCE* $2,630,467

	Excess Deferred Taxes Balance	Amortization	Grossed up Amortization	Accum. Amort.	Grossed up R of R 11.96%		25 ARAM	Net Credit to Customers Difference
AMORTIZATION YEAR 1	$2,525,248	$105,219	$139,830	$105,219	$6,292	0.04000	$105,219	($133,538)
AMORTIZATION YEAR 2	$2,420,293	$104,956	$139,481	$210,174	$18,861	0.03990	$104,956	($120,620)
AMORTIZATION YEAR 3	$2,315,600	$104,693	$139,131	$314,867	$31,397	0.03980	$104,693	($107,734)
AMORTIZATION YEAR 4	$2,211,171	$104,430	$138,781	$419,296	$43,903	0.03970	$104,430	($94,878)
AMORTIZATION YEAR 5	$2,107,004	$104,166	$138,432	$523,463	$56,377	0.03960	$104,166	($82,055)
AMORTIZATION YEAR 6	$2,003,101	$103,903	$138,082	$627,366	$68,820	0.03950	$103,903	($69,263)
AMORTIZATION YEAR 7	$1,899,460	$103,640	$137,733	$731,007	$81,231	0.03940	$103,640	($56,502)
AMORTIZATION YEAR 8	$1,796,083	$103,377	$137,383	$834,384	$93,610	0.03930	$103,377	($43,773)
AMORTIZATION YEAR 9	$1,692,969	$103,114	$137,034	$937,498	$105,959	0.03920	$103,114	($31,075)
AMORTIZATION YEAR 10	$1,590,117	$102,851	$136,684	$1,040,350	$118,275	0.03910	$102,851	($18,409)
AMORTIZATION YEAR 11	$1,487,529	$102,588	$136,334	$1,142,938	$130,561	0.03900	$102,588	($5,774)
AMORTIZATION YEAR 12	$1,385,204	$102,325	$135,985	$1,245,263	$142,814	0.03890	$102,325	$6,830
AMORTIZATION YEAR 13	$1,283,142	$102,062	$135,635	$1,347,325	$155,037	0.03880	$102,062	$19,402
AMORTIZATION YEAR 14	$1,181,343	$101,799	$135,286	$1,449,124	$167,228	0.03870	$101,799	$31,942
AMORTIZATION YEAR 15	$1,079,807	$101,536	$134,936	$1,550,660	$179,387	0.03860	$101,536	$44,451
AMORTIZATION YEAR 16	$978,534	$101,273	$134,587	$1,651,933	$191,515	0.03850	$101,273	$56,929
AMORTIZATION YEAR 17	$877,524	$101,010	$134,237	$1,752,943	$203,612	0.03840	$101,010	$69,375
AMORTIZATION YEAR 18	$776,777	$100,747	$133,887	$1,853,690	$215,677	0.03830	$100,747	$81,789
AMORTIZATION YEAR 19	$676,293	$100,484	$133,538	$1,954,174	$227,710	0.03820	$100,484	$94,172
AMORTIZATION YEAR 20	$576,072	$100,221	$133,188	$2,054,395	$239,712	0.03810	$100,221	$106,524
AMORTIZATION YEAR 21	$476,115	$99,958	$132,839	$2,154,352	$251,683	0.03800	$99,958	$118,844
AMORTIZATION YEAR 22	$376,420	$99,695	$132,489	$2,254,047	$263,622	0.03790	$99,695	$131,133
AMORTIZATION YEAR 23	$276,988	$99,432	$132,139	$2,353,479	$275,530	0.03780	$99,432	$143,391
AMORTIZATION YEAR 24	$177,820	$99,169	$131,790	$2,452,647	$287,406	0.03770	$99,169	$155,616
AMORTIZATION YEAR 25	$83,033	$94,787	$125,967	$2,547,434	$299,005	0.03760	$94,787	$173,038
AMORTIZATION YEAR 26	$0	$83,033	$110,346	$2,630,467	$309,639		$83,033	$199,293
AMORTIZATION YEAR 27		$0	$0	$0	$314,604			$314,604
AMORTIZATION YEAR 28		$0	$0	$0	$0			$0
AMORTIZATION YEAR 29		$0	$0	$0	$0			$0
AMORTIZATION YEAR 30		$0	$0	$0	$0			$0
		$2,630,467	$3,495,754		$4,479,466		$2,630,467	$983,712
			rev. credit					

*Total company amount of $3,008,999 allocated 87.42% to jurisdictional per Schdule B-6 in Case No. 17-1139-GA-AIR

GRCF	1.328948
ROR	9.00%
	11.96%