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SUMMARY OF ENTRY

Case No. 87-831-AU-COI

In the Matter of the Commission's Investigation of the Financial Impact of the Tax Reform Act of 1986 on Regulated Ohio Utility Companies.

By letter of November 12, 1986, the Chairman of the Commission directed all Ohio utility companies to review the impact of the Tax Reform Act of 1986 on their revenue requirements and to provide proposals on how any savings resulting from the changes in the federal tax laws could be passed on to ratepayers. A review of the responses filed by the utilities indicates that eight companies have reduced their rates or have rate reduction applications pending; seven have rate applications pending (or decided) which reflect the lower tax rate; seventeen have revenue requirements which are not affected by the changes; and three telephone companies have experienced reductions in carrier access charges and/or intra-LATA toll rates and increases in certain expenses which completely offset the savings from the changes in the tax law.

By this Entry, the Commission finds that there are twelve companies that have not provided adequate responses. The Entry further directs that, in addition to these 12 companies, all other utility companies who did not respond to the Chairman's letter are subject to the Entry unless exempted, are to provide certain information for staff review within fourteen days, along with an application to reduce rates or an explanation as to why their rates should not be reduced.

This summary was prepared to provide a brief statement of the Commission's action. It is not a part of the Commission's decision and does not supersede the full text of the Commission's Entry.

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's)
Investigation of the Financial) Case No. 87-831-AU-COI
Impact of the Tax Reform Act of)
1986 on Regulated Ohio Utility)
Companies.)

ENTRY

The Commission finds:

- (1) The Tax Reform Act of 1986, (TRA '86), signed into law on October 22, 1986, provides for a number of changes in the Federal tax system, three of which will most affect jurisdictional utility companies. First, the tax law retains provisions for accelerated depreciation, but at reduced levels. Second, investment tax credits, except for transitional property, are eliminated for property placed in service after January 1, 1986. Third, the federal corporate income tax rate is reduced from 46% to 34% effective July 1, 1987. Substantial reduction in revenue requirements is expected to result from the new federal corporate income tax which will overshadow the very minimal cost of service impact of the other two items. Rate reductions due to the lower federal corporate income tax rate may be necessary since the reduction in income tax rate indicates that the tax allowance component of rates under the Commission's rate-making formula should be significantly reduced.
- (2) On November 12, 1986, the Chairman of the Commission, by letter, directed all Ohio utility companies to review the impact of the Tax Reform Act of 1986 on their revenue requirements, and to provide proposals on how any resulting savings can be passed on to ratepayers.
- (3) The Staff reviewed the companies' responses to the Chairman's letter. The results of this review are set forth on Exhibit I attached to this Entry, and can be summarized as follows:
 - a) Eight companies have had their rates reduced or have applications to reduce rates pending;
 - b) Seven companies have rate case applications pending or decided, which reflect the lower tax rate;
 - c) Seventeen companies whose revenue requirements are not affected by TRA '86, and their rates should not be reduced; and

- d) Three telephone companies whose carrier access charge rates and/or intra-LATA toll rates have been reduced and certain of their operating expenses have been increased, to the extent that any savings as a result of the tax rate change have been completely offset.

The remaining 12 companies who responded to the Chairman's letter have not provided adequate or complete information and should respond to this Entry, unless exempted as provided later in this Entry.

- (4) The Staff recommends that all Ohio utility companies be directed to file requests for rate reduction to reflect the decrease in federal income tax rates or to show cause why their rates should not be reduced effective July 1, 1987 as a result of the TRA '86 changes and that they submit financial information for the Staff's review. Certain companies should be exempted from these requirements. These include the following: (a) companies identified in Exhibit 1 because of the reasoning set forth in Finding 3; (b) mutual or not-for-profit companies because such companies are not subject to federal income taxes; (c) companies with annual taxable income of less than \$75,000 because TRA '86 would have minimal or no impact on such companies; and (d) radio common carriers, inter-exchange and cellular telephone companies because their rates are basically driven by competitive pricing practices and market conditions.
- (5) The financial information required by the Staff to complete its analyses is shown below. Where applicable, this information should be shown for both total company and jurisdictional. Further information may be required during the Staff review.
 - a) 1986 Operating Income Statement using Pre-TRA '86 tax rates in their tax calculations. Include supporting tax workpapers.
 - b) 1986 Operating Income Statement using July 1, 1987 tax rates in their tax calculations. Include supporting tax workpapers.
 - c) 1987 estimated Operating Income Statement using July 1, 1987 tax rates in their calculations. Include supporting tax workpapers.
 - d) 1986 End of Year Balance of: (a) Net Plant-In-Service (exclusive of CWIP), (b) Materials and Supplies Inventory, (c) Customer Advances, (d) Contributions in Aid of Construction, (e) Deferred Income Taxes, and (f) Option 1 and 3 Accumulated Investment Tax Credit.

- e) Estimated 1987 End of Year Balance of: (a) Net Plant-In-Service (exclusive of CWIP), (b) Materials and Supplies Inventory, (c) Customer Advances, (d) Contributions in Aid of Construction, (e) Deferred Income Taxes, and (f) Option 1 and 3 Accumulated Investment Tax Credit.
- (6) The Commission concurs with the Staff's recommendations in this matter. To ensure that a comprehensive review of all companies is performed and to expedite this process, the Commission believes that a proceeding should be initiated, pursuant to Section 4905.26 Revised Code, which will enable the Staff to receive the information necessary to complete its investigation. Accordingly, within 14 days of the date of this Entry, the companies not shown in Exhibit 1, or not exempted as provided in Finding (4) should provide the information required by the Staff as shown in Finding (5) above, accompanied with an application to reduce rates, or a statement to show just cause why their rates should not be reduced as a result of TRA '86 tax rate changes.

It is, therefore,

ORDERED, That within 14 days of the date of this Entry all Ohio utility companies, except those listed in Finding (4), shall file under this docket number, the information set forth in Finding (5), accompanied with an application to reduce rates or a statement to show cause why their rates should not be reduced as a result of TRA '86 tax rate changes. It is, further,

ORDERED, That those companies who have reduced their rates to reflect 1987 40% tax rate, should file applications to reduce their rates reflecting a 34% tax rate for 1988, during the Fourth Quarter of 1987. It is, further,

ORDERED, That a copy of this Entry be served upon all public utilities (other than motor transportation companies) subject to the Commission's jurisdiction, the Office of the Consumers' Counsel, and all other parties of record.

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THE PUBLIC UTILITIES COMMISSION OF OHIO

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Thomas V. Chema, Chairman

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Entered in the Journal

JUN 9 1987

A True Copy

Nancy L. Wolpe
Nancy L. Wolpe
Secretary

EXHIBIT 1
1 of 2

TRA '86 Utility Review

Companies With Rates Reduced or Reduction Pending

1. Cincinnati Bell Telephone Company
2. The Cincinnati Gas & Electric Company
- *3. Columbia Gas of Ohio, Inc.
- *4. Columbus & Southern Ohio Electric Company
5. The Dayton Power & Light Company
6. Ohio Gas Company
- *7. Ohio Power Company
- *8. West Ohio Gas Company

Companies With New FIT Rate In Latest Rate Case

- | | |
|--|---------|
| 1. The Cleveland Electric Illuminating Company | Pending |
| *2. The East Ohio Gas Company | Decided |
| 3. Harlan Telephone Company | Pending |
| 4. Monongahela Power Company | Decided |
| 5. Ohio Edison Company | Pending |
| 6. The Toledo Edison Company | Pending |
| 7. West Millgrove Gas Company | Pending |

Companies With No Rate Reduction Recommended

1. Arcadia Telephone Company
2. Pascom Mutual Telephone Company, Inc.
3. Brimfield Water Company
4. Continental Telephone Company
5. Eastern Natural Gas
6. Fayetteville Telephone Company
7. McClure Telephone Company
8. Masury Water Company
9. National Fuel Gas Distribution Corp.
10. Ohio Utilities Company
11. Ohio Water Service
12. Orwell Telephone Company
13. Ottoville Mutual Telephone Company
14. Southeastern Natural Gas Company
15. Sandelwood Water Company
16. Valley Utility Company
17. Western Ohio Utility Company, Inc.

* Rate reduction reflects 1987 40% blended tax rate. Applications to reduce rates for 1988 reflecting a 34% tax rate are required to be filed during the Fourth Quarter of 1987.

Companies With Tax Savings Offset By
Revenue Loss and/or Expense Increase

1. GTE MTO, Inc.
2. The Ohio Bell Telephone Company
- **3. United Telephone Company of Ohio

** United has informed the Commission that absent changes in the State tax laws, it will not increase local service rates for 24 months.