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Ohio | **Public Utilities Commission**

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March 4, 2020

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a Tax Savings Credit Rider, Case No. 19-0029-GA-ATA*

Dear Docketing Division:

Enclosed please find the Review and Recommendations of the Staff of the Public Utilities Commission of Ohio (Staff) in the Matter of Vectren Energy Delivery of Ohio, Inc. for Approval of a Tax Savings Credit Rider, Case No. 19-0029-GA-ATA.

Tamara S. Turkenton
Director, Rates and Analysis Department
Public Utilities Commission of Ohio

David Lipthratt
Chief, Accounting and Finance Division
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

Vectren Energy Delivery of Ohio, Inc.
Case No. 19-29-GA-ATA

SUMMARY

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law. Among other changes, the TCJA lowered the federal corporate income tax rate from a maximum 35 percent to a flat 21 percent, effective January 1, 2018. Additionally, the reduction in the federal corporate tax rate may result in excess accumulated deferred income taxes (EDIT) balances because the amount of accumulated deferred income taxes that a public utility has recorded in its books will exceed the amount the public utility needs to pay its future federal income tax obligations.

On January 10, 2018, the Public Utilities Commission of Ohio (Commission) opened a Commission-ordered investigation (COI), Case No. 18-47-AU-COI, in order to study the impacts of the TCJA on the Commission's jurisdictional, rate-regulated utilities and determine the appropriate course of action to pass benefits on to ratepayers. By Entry issued January 10, 2018, the Commission invited all of the rate-regulated Ohio utilities, as well as other interested stakeholders, to file comments discussing the following: (i) those components of utility rates that the Commission will need to reconcile with the TCJA and (ii) the process and mechanics for how the Commission should do so.[1] Additionally, the Commission directed utilities to record on their books as a deferred liability, in an appropriate account, the estimated reduction in federal income tax resulting from the TCJA, effective January 1, 2018. The utilities were instructed to continue this treatment until otherwise ordered by the Commission.[2]

On January 7, 2019, Vectren Energy Delivery of Ohio, Inc. (VEDO or Company) filed an application before the Commission to establish a rider to credit to its customers the benefits of the TCJA (Application). VEDO initiated this proceeding in order to resolve issues related to the impact of the TCJA on the rates charged to customers.

VEDO proposes to establish the Tax Savings Credit Rider (TSCR), to flow back to VEDO's customers the tax benefits realized under the TCJA. The TSCR will include the following components:

A. Return of Normalized EDIT:

   i. Normalized EDIT of approximately $59.1 million will be amortized based on the average rate assumption method (ARAM) so as to conform to normalization rules. The amount refunded will be updated on an annual basis, with a projected level for the calendar year included in the TSCR. The Normalized EDIT refunded to customers will include a gross-up for federal income taxes using the applicable gross revenue conversion factor in the 2018 base distribution rate case (Rate Case).[3]

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[1] *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 at 1-2 (Jan. 10, 2018).
[2] *Id.* at 2.
[3] See *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Increase in Gas Rates,* Case No. 18-0298-GA-AIR, et al.

ii. The refund of Normalized EDIT will be allocated to each rate schedule based on the allocation of overall rate base in the Rate Case cost of service study.

iii. The Normalized EDIT of $2.1 million (pre-tax balance of $2.6 million) amortized during 2018 will be refunded to customers over a 12 month period.

B. Return of Non-Normalized EDIT:

i. Non-Normalized EDIT of approximately $20.2 million will be amortized over a period of 72 months (6 years). The amount refunded annually will include the gross-up for federal income taxes using the applicable gross revenue conversions factor in the Rate Case.

ii. Non-Normalized EDIT will be allocated to each Rate Schedule based upon the allocation of overall rate base in the Rate Case Cost of service study.

iii. The Non-Normalized EDIT of $3.4 million (pre-tax balance of $4.3 million) will be refunded to customers over a 12 month period.

C. Stub Period:

i. The tax savings deferred from January 1, 2018 through December 31, 2018 (Stub Period), estimated to be $3.4 million as of December 31, 2018, will be refunded to customers over the first 12 months that the TSCR is in place. VEDO will continue to defer tax savings until rate become effective in the Rate Case.

ii. The refund of the Stub Period balance will be allocated to each Rate Schedule based upon the allocation of overall Rate Base from VEDO's second most recent rate case.[4]

iii. The Stub Period will accrue carrying charges based on the cost of debt in the Rate Case. The carrying charges will accrue from January 1, 2018 through the effective date of the TSCR.

D. Incremental Return on Rate Base:

i. To capture the return on Rate Base that would otherwise be unaccounted for by addressing the amortization and refund of EDIT outside of base rates, the TSCR will include a return on the cumulative amortization of Normalized EDIT. The rate of return will be the pre-tax weighted average cost of capital authorized in the Rate Case.

ii. The incremental return on rate base will be allocated to each rate schedule based upon the allocation of overall rate base in the Rate Case.

For residential rate schedules, the Company proposes to refund the tax savings as a fixed credit per customer per month. For all other rate schedules, the Company proposes refunding the tax savings as a volumetric credit per CCF. The TSCR rates and charges will be updated annually with a projection of the amounts of the four components of tax savings, and will include an

[4] See *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters,* Case No. 07-1080-GA-AIR

annual reconciliation. Once each component of the TSCR has been fully amortized or refunded, or when such component(s) has been recognized in base rates, the associated credit provided through the TSCR shall cease. Finally, the Company proposes that the TSCR shall terminate once all tax savings have collectively been fully amortized or reflected in base rates.

STAFF REVIEW

Staff performed a review of the Company's attachments to the Application, including the proposed TSCR tariff sheet (Attachment 1); the supporting calculations for the proposed credit amount, including balances of EDIT, deferrals, and estimated rates (Attachment 2); and the bill impacts based upon the projected TSCR credit (Attachment 3). Additionally Staff reviewed workpapers provided by the Company for both the tax impacts as-filed, and updated figures that reflect the tax impacts realized after December 31, 2018.

STAFF RECOMMENDATION

Return of Normalized EDIT

Staff recommends that Normalized EDIT include only such balances that are required to be amortized in accordance with ARAM, with such balances being based on the balance as of December 31, 2017. Staff supports the Company's proposal that the refund of Normalized EDIT include a gross up for federal income taxes using the gross revenue conversion factor from the Rate Case. Additionally, Staff supports the Company's proposal to allocate the refund of Normalized EDIT to rate schedules based upon the allocation of overall Rate Base in the Rate Case. Staff supports the Company's proposal to refund over a 12 month period the Normalized EDIT amortized in 2018.

Return of Non-Normalized EDIT

Staff recommends that Non-Normalized EDIT be based on the balance as of December 31, 2017. Staff supports the Company's proposal to refund Non-Normalized EDIT over a period of six years (72 months), and the refund include a gross up for federal income taxes using the gross revenue conversion factor from the Rate Case. Additionally, Staff supports the Company's proposal to allocate the refund of Non-Normalized EDIT based upon the allocation of overall rate base in the Rate Case. Staff supports the Company's proposal to refund over a 12 month period the Non-Normalized EDIT amortized in 2018.

Stub Period

Staff supports the Company's proposal to refund over a period of 12 months the deferred tax savings from January 1, 2018 through the date in which the TSCR becomes effective. Additionally, Staff concurs with the Company's proposal to accrue carrying charges on the Stub Period balance, with such carrying charges based upon the long term debt approved in the Rate Case, and that the carrying charges shall cease to accrue once the TSCR becomes effective.

Finally, Staff disagrees with the Company's proposal to allocate the refund of the Stub Period based on the second most recent rate case. Instead, Staff recommends the refund of the Stub Period be allocated based on the most recent rate case.

Incremental Return on Rate Base

Staff rejects the Company's proposal to collect the incremental return on rate base associated with the amortization of Normalized EDIT. Staff avers that this return on rate base should not be recovered through a new mechanism such as the TSCR. Staff finds that a base rate case is the appropriate means to recover the return on rate attributable to the amortization of Normalized EDIT. Therefore, Staff recommends that the Commission reject the Company's proposal to recover the return on rate base attributable to the amortization of Normalized EDIT.

Rate Design

Staff supports the Company's proposal regarding the rate design of the TSCR. Staff recommends that the TSCR refund be a fixed credit per customer bill for residential rate schedules, and a a volumetric credit for all other rate schedules.

True-Up of Pass amounts and Actual TCJA Savings

Staff recommends that TSCR be trued up annually in order to mitigate large variances between the amount refunded through the TSCR and the actual tax impact of the TCJA. This annual true up would assist in minimizing the resulting regulatory asset or liability that will be incorporated into the Company's next base rate case filing.