April 6, 2020

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

RE: *In the Matter of the Application of Suburban Natural Gas Company's Implementation of Certain Matters Relating to the Tax Cuts and Jobs Act of 2017, Case Nos. 20-0043-GA-ATA and 20-0044-GA-UNC*

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 the Application Suburban Natural Gas Company's Implementation of Certain Matters Relating to the Tax Cuts and Jobs Act of 2017, Case Nos. 20-0043-GA-ATA and 20-0044-GA-UNC.

Tamara S. Turkenton
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Public Utilities Commission of Ohio

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Enclosure
Cc: Parties of Record

Suburban Natural Gas Company
Case No. 20-0043-GA-ATA
Case No. 20-0044-GA-UNC

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 10, 2020, Suburban Natural Gas Company (Suburban or Company) submitted an application (Application) to resolve matters relating to the TCJA and establish the TCJA Credit Rider (TCJA Rider) to refund to customers all of the remaining benefits of the TCJA not currently reflected in base distribution rates.

As proposed within the Application, the TCJA Rider will include the following parts:

A. Return of Normalized EDIT[3]:

   i. The balance of Normalized EDIT as of December 31, 2017 is approximately $1.6 million. The Company's records do not contain sufficient detail to amortize the Normalized EDIT in accordance with the Average Rate Assumption Method (ARAM). Therefore, the Company will amortize Normalized EDIT in accordance with the weighted average remaining life method, which the TCJA allows as an alternate amortization method if the underlying records do not contain sufficient information to apply ARAM.

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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] The Company's Application refers to this as "Protected EDIT". For purposes of this Staff Review and Recommendation, "Normalized EDIT" and "Protected EDIT" have the same meaning.

ii. The actual amount of Normalized EDIT refunded to customers through the TCJA Rider will include the gross revenue conversion factor of 1.265823 established in the most recent base distribution rate case (Rate Case).[4]

iii. The Normalized EDIT will be allocated among customers classes based on a percentage of base distribution revenue.

B. Return of Non-Normalized EDIT[5]:

i. The Non-Normalized EDIT asset of $233,650 will be amortized over a period of 120 months (ten years).

ii. The amount collected from customers through the TCJA Rider will include the gross revenue conversion factor of 1.265823 established in the Rate Case.

iii. The Non-Normalized EDIT will be allocated among customers classes based on a percentage of base distribution revenue.

C. Stub Period:

i. The tax savings deferred from January 1, 2018 through September 30, 2019 (Stub Period), the date which new distribution rates became effective, is estimated to be $454,785. In order to mirror the phase-in of the revenue increase established in the Rate Case, Suburban proposes to refund the Stub Period over the same period as the phase-in, or approximately 31 months.[6]

ii. In accordance with the Stipulation in the Rate Case, the Stub Period will include a one-time carrying charge on the monthly balance of deferrals to reflect the time lag in implementing the federal income tax savings into rates. The Company has calculated the carrying charges to be approximately $26,033 as of December 31, 2019. Therefore, the total Stub Period balance, including carrying charges, is estimated to be $480,819 as of December 31, 2019.

iii. The credit will be refunded to customers following the same allocation methodology as the refund of Normalized and Non-Normalized EDIT.

The Company will begin returning all the amounts described above upon approval of the Application. Staff notes that the Company has not proposed a specific rate design for the TCJA Rider.

STAFF REVIEW

Staff performed a review of the Company's Application and analyzed the underlying workpapers that support the Company's calculations of the Stub Period and allocation of refunds.[7] In addition,

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[4] See *In the Matter of the Application of Suburban Natural Gas Company for an Increase in Gas Distribution Rates,* Case Nos. 18-1205-GA-AIR, et al.

[5] The Company's Application refers to this as "Unprotected EDIT". For purposes of this Staff Review and Recommendation, "Non-Normalized EDIT" and "Unprotected EDIT" have the same meaning.

[6] 31 months is based on the assumption that the TCJA Rider would be approved an become effective March 1, 2020.

[7] See response to Staff DR #1

Staff confirmed the balances of Normalized and Non-Normalized EDIT as part the review conducted in the Company's Rate Case.

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 or acceptable alternative method, with such balances being based on the balance as of December 31, 2017. Staff acknowledges that the Company's records do not contain sufficient information to apply ARAM, so the Company intends to use the weighted average remaining life method (Alternative Method) to amortize Normalized EDIT. Staff supports this method, as the TCJA permits the Alternative Method in cases where a utilities lacks sufficient data to apply ARAM; however, Staff finds it necessary to emphasize the Company is solely responsible for ensuring the amortization of Normalized EDIT comports to the normalization requirements outlined in the TCJA.[8] Finally, 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.

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 collect Non-Normalized EDIT from customers over a period of 120 months (ten years), and the amount collected include a gross up for federal income taxes using the gross revenue conversion factor from the Rate Case.

Stub Period

Typically, Staff has recommended that the Stub Period be refunded to customers over a period of 12 months, with carrying charges accruing on the balance until the time which refunds begin. The Company's proposal to refund the Stub Period over the same timeframe as the phase-in of the revenue requirement from the Rate Case, or approximately 31 months, would be a departure from what has been consistently applied to other utilities in Ohio. Staff understands the Company's position is to refund the Stub Period over this longer timeframe in order minimize the financial impact on a relatively small natural gas company. Recognizing the Company's concerns about the potential financial impact, Staff finds it reasonable to deviate from the typical recommendation to refund the Stub Period over 12 months; however, Staff recommends that if the Stub Period is refunded over a longer period, then carrying charges accrue on the unrefunded Stub Period balance for the duration of the refund in order to recognize the comparatively longer lag in customers receiving refunds of the Stub Period. Therefore, Staff supports the Company's proposal to refund the Stub period over the same timeframe as the phase-in of the base rate revenue requirement, but only if carrying charges accrue for the duration of the refund.

The Company calculated the Stub Period balance by allocating the annual tax savings entirely to the commodity charge, rather than splitting it proportionally between the commodity charge and customer charge.[9] Although Staff disagrees with the Company's rationale for calculating the Stub

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[8] Section 13001(d) of the Tax Cuts and Jobs Act of 2017.

[9] See response to Staff DR #2

Period based on this application of tax savings, Staff concluded that changing the allocation of tax savings between the commodity charge and customer charge would have a negligible effect on the balance of the Stub Period. Therefore, Staff does not oppose the balance of the Stub Period as calculated by the Company.

Allocation of Refunds

Staff recommends that the TCJA Rider be allocated to customers based on the percentage of base distribution revenue from the Company’s most recent rate case. Based on the Company’s workpapers, Suburban’s proposed allocation of the refunds through the TCJA Rider is based on actual revenues from January 1, 2018 through September 30, 2019. By using actual revenues from this time period, the Company’s proposal is based on revenue allocations from its previous rate case. Staff finds it more appropriate to allocate the refunds in the TCJA Rider based on the Stipulation in the Rate Case rather than using revenue allocations in effect for the time period described above.

Rate Design

Staff notes that the Company’s Application does not specifically address the rate design of the TCJA Rider. Staff recommends that the TCJA Rider credit be reflected as a percentage of base distribution, in accordance with the Stipulation from the Rate Case.

True- Up of Pass Back Amounts and Actual TCJA Savings

Staff recommends that the TCJA Rider be trued up annually in order to mitigate large variances between the amount refunded through the TCJA Rider and the actual tax impact of the TCJA. This annual true up would ensure that the appropriate amount is refunded to customers annually.