Agenda Date: April 26, 2018
Item Numbers: A2 and A5

Dockets: **UE-180282 and UG-180283**
Company: Puget Sound Energy

Staff: Melissa Cheesman, Lead Regulatory Analyst
Amy White, Regulatory Analyst
Jing Liu, Regulatory Analyst
Jason Ball, Regulatory Analyst
Andrew Roberts, Consumer Protection

Recommendation

Take no action, thereby allowing the tariff revisions filed in Dockets UE-180282 and UG-180283 to become effective by operation of law.

Background

On December 22, 2017, President Trump signed H.R.1 – An Act to provide for reconciliation pursuant to Titles II and V of the concurrent resolution on the budget for fiscal year 2018 (The Tax Cuts and Jobs Act, TCJA or new tax law, NTL) into law. The TCJA amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. The most notable impact for utilities regulated by the Washington Utilities and Transportation Commission (commission) is the reduction of the federal corporate tax rate from 35 percent to 21 percent.

On December 29, 2017, Puget Sound Energy (PSE or company) filed petitions for orders authorizing deferred accounting treatment associated with the new tax law impacts on the company's electric and natural gas cost of service. The deferred accounting petitions are Dockets UE-171225 and UG-171226.

On March 30, 2018, PSE filed with the commission tariff revisions to update electric and natural gas base rates, and update the Allowed Revenue per Customer reflected in Schedule 142, to reflect the decrease in the federal corporate income tax rate (or income tax rate) from 35 percent to 21 percent resulting from the new tax law. Because the company's annual revenue requirement decreased due to the reduced income tax rate, the allowed revenue per customer for all decoupled groups also decreased. This is the filing being considered here in Dockets UE-180282 and UG-180283.

PSE serves approximately 1.1 million electric customers and 0.8 million natural gas customers. A typical electric residential customer using an average 900 kWh per month would experience a decrease of $3.89 per month, bringing their monthly bill to $89.80. A typical natural gas residential customer using an average 64 therms would experience a decrease of $1.83 per month, bringing their monthly bill to $62.87. On March 31, 2018, the company notified its customers of the proposed tax reform rate adjustments to become effective May 1, 2018, via published notice in accordance with WAC 480-100-194(2).

Discussion

PSE proposes to flow through net operating income benefits of the lower income tax rate by updating PSE's most recent general rate case in Dockets UE-170033 and UG-170034. PSE proposes updating the following in both its electric and natural gas revenue requirement models to reflect the income tax rate decrease from 35 percent to 21 percent:

- Increase the conversion factor: electric operations from 61.9051 percent to 75.2385 percent, and natural gas operations from 62.0450 percent to 75.4085 percent,
- Restate Federal Income Tax Adjustment for both electric and natural gas operations, and
- Reduce the income tax impact for all other net operating adjustments.

The overall impacts of updating the most recent general rate case with PSE's proposed changes to reflect the NTL:

Table 1 – Overall Impacts

Operations	Approximate Revenue Impact	Percentage Change
Electric	$(72.9) million	(3.5) percent
Natural Gas	$(23.6) million	(3.0) percent

These filings do not address the over-collection of taxes in interim rates for the period January 1 to April 30, 2018, nor excess deferred income taxes (EDIT). Both these issues will be addressed in PSE's accounting petitions in Dockets UE-171225 and UG-171226. Staff and the company estimate that the accounting petition will be presented at an Open Meeting in June 2018.

PSE has also filed tariff revisions to its electric tariff Schedule No. 95A, Federal Incentive Tracker to reflect the reduction in the income tax rate docketed in UE- 180284. There are no other natural gas tariff revisions to reflect the NTL at this time.

TABLE 2 – Electric Tariff Revisions

Docket	Description	Approximate Revenue Impact	Percentage Change
UE-180282	General Rates	$(72.9) million	(3.5) percent
UE-180284	Tracker – Schedule 95A	8.1 million	0.37 percent
	Total Impact	**$(64.8) million**	

Combining the electric operation decrease in base rates and decrease in Schedule 95A credit, a typical electric residential customer using an average 900 kWh per month would experience a decrease of $3.51 per month, bringing their monthly bill to $90.18.

Conclusion

Staff has reviewed the company's proposed filing and finds that it is a fair and reasonable resolution of the net operating impacts of the reduction in the income tax rate for rates going forward. The remainder TCJA impacts related to over-collection of taxes in interim rates and EDIT will be addressed at a later date as part of staff's review of PSE's accounting petitions in Dockets UE-171225 and UG-171226.

Recommendation

Take no action, thereby allowing the tariff revisions filed in Dockets UE-180282 and UG-180283 to become effective by operation of law.