

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF)	
THE IMPACT OF THE TAX CUTS)	CASE NO
AND JOB ACT ON THE RATES OF)	2018-00041
COLUMBIA GAS OF KENTUCKY, INC.)	

ORDER

This proceeding arises from a Commission-initiated investigation of the effect of the Tax Cuts and Jobs Act (“TCJA”) on the rates of Columbia Gas of Kentucky, Inc. (“Columbia”). On January 26, 2018, Columbia filed¹ the Direct Testimony of Chun-Yi Lai (“Lai Testimony”), which included a proposed tariff with interim rates and charges that reflect the reduction of its tax expense due to the lowering of the corporate federal income tax rate from 35 percent to 21 percent under TCJA. Columbia’s proposed tariff has an effective date of May 1, 2018.

Columbia proposes to return the reduction in its revenue requirement that results from TCJA by applying a “Tax Act Adjustment Factor” that lowers the volumetric delivery charge to customers. Columbia would distribute the revenue reduction to each rate class based on the allocation authorized in Columbia’s last base-rate case in 2016² and its

¹ Columbia filed the testimony in Case No. 2017-00481, *Electronic Investigation of the Impact of the Tax Cuts and Job Act on the Rates of Atmos Energy Corporation, Delta Natural Gas Company, Inc., Columbia Gas of Kentucky, Inc., Kentucky-American Water Company, and Water Service Corporation of Kentucky* (filed Jan. 26, 2018). Case No. 2017-00481 was subsequently separated into this and other utility-specific investigations, and the record from Case No. 2017-00481 was incorporated into this proceeding by the Commission’s January 30, 2018 initiating Order.

² Case No. 2016-00162, *Application of Columbia Gas of Kentucky, Inc. for an Increase in Base Rates* (Ky. PSC Dec. 22, 2016).

Accelerated Main Replacement Program.³ The revenue allocation per rate class would then be divided by the expected volumes to determine the per Mcf amount for each rate schedule.

Columbia used its actual 2017 calendar year operating income to calculate a reduction of \$2,749,234 in revenue requirement from the change in the federal income tax rate. First, Columbia calculated the effective tax rate based on actual total income tax expense divided by taxable income for 2017. Second, Columbia calculated a revised effective tax rate by decreasing the effective tax rate by the TCJA tax rate reduction. Third, Columbia calculated an implied income tax expense for 2017 by applying the revised effective tax rate to actual total taxable income. Last, Columbia multiplied the difference between the actual and implied income tax expense by a gross revenue conversion factor (“GRCF”). The GRCF was calculated by updating the GRCF used in Case No. 2016-00162 to reflect a corporate federal income tax rate of 21 percent.⁴

The proposed tariff reflects the impact of the TCJA on Columbia’s tax expense between May 1, 2018, and April 30, 2019, but not on its tax expense savings between January 1, 2018, and April 30, 2018, or on excess accumulated deferred taxes, both of which are being recorded in a regulatory liability. Columbia proposes to pass back the tax expense savings from January 1, 2018, through April 30, 2018, and the excess deferred income taxes to its customers by revising the Tax Act Adjustment Factors for services rendered on the first billing unit of October 2018. Columbia explains that at this time it is unable to determine with certainty the amount of excess deferred income taxes

³ Case No. 2017-00413, *Columbia Gas of Kentucky, Inc. 2017 Accelerated Main Replacement Program Filing* (Ky. PSC Dec. 22, 2017).

⁴ Lai Testimony at 3-4.

that result from the TCJA. Columbia requested guidance from the United States Internal Revenue Service (“IRS”) and expects to resolve the issue prior to filing a 2017 federal tax return, which must be filed no later than October 15, 2018. Columbia will provide the revised Tax Act Adjustment Factors in a separate filing prior to implementing the adjusted Factors with the first billing unit of October 2018.

Having reviewed the proposed tariff and testimony, and being otherwise sufficiently advised, the Commission finds that Columbia Gas’s proposal to reflect the TCJA tax expense reduction by implementing on May 1, 2018, interim rates and charges as set forth in tariff sheets attached to Lai’s Testimony is reasonable and should be approved. The Commission’s approval of interim rates does not constitute a precedent on any individual issue. This investigation is ongoing and additional discovery must be conducted before the Commission can make a final determination regarding the level of rates that should be approved to reflect the impact of the tax rate reduction on both income tax expense and the excess deferred accumulated taxes. Columbia has proposed that a true-up adjustment be implemented in the future to properly reflect any over- or under-refunds that arise from the interim rates, as well as a final determination regarding the tax expense savings from January 1, 2018, through April 30, 2018, and the excess deferred accumulated taxes. Upon filing the true-up adjustment, the Commission will review the amounts to determine their reasonableness. Further, if Columbia does not timely receive the requested guidance from the IRS, Columbia must file an estimate of the excess deferred accumulated taxes and begin to flow the estimated amount back to customers with the first billing unit of October 2018, along with the tax expense savings from January 1, 2018, through April 30, 2018. The revised Tax Act Adjustment Factors

should flow back over a period between October 1, 2018, and April 30, 2019, which corresponds to the heating season, and thus accrues greater benefit to ratepayers.

IT IS THEREFORE ORDERED that:

1. Columbia is authorized to place into effect the interim rates as set forth in the tariff sheets attached to the Lai Testimony for service rendered on and after May 1, 2018.

2. Within 20 days of the date of entry of this Order, Columbia Gas shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariffs reflecting the rates and charges set forth in the tariff sheets attached to the Lai Testimony, designating those rates and charges as interim and subject to future adjustment.

3. The revenue from these interim rates shall be collected subject to future adjustment as ordered by the Commission.

4. Columbia shall file by September 1, 2018, revised Tax Act Adjustment Factors reflecting the tax expense savings from January 1, 2018, through April 30, 2018, and an actual or estimate of the annual reduction due to the excess deferred accumulated taxes to be effective with the first billing cycle of October 2018.

5. The procedural schedule issued on February 26, 2018, is suspended until further Order by the Commission.

By the Commission

ENTERED
APR 30 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2018-00041

*Brooke E Wancheck
Assistant General Counsel
Columbia Gas of Kentucky, Inc.
290 W. Nationwide Blvd.
Columbus, OHIO 43215

*Rebecca W Goodman
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Cheryl A MacDonald
Columbia Gas of Kentucky, Inc.
290 W. Nationwide Blvd.
Columbus, OHIO 43215

*Judy M Cooper
Director, Regulatory Services
Columbia Gas of Kentucky, Inc.
2001 Mercer Road
P. O. Box 14241
Lexington, KY 40512-4241

*Justin M. McNeil
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Kent Chandler
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Columbia Gas of Kentucky, Inc.
290 W Nationwide Blvd
Columbus, OH 43215