

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF THE IMPACT) CASE NO.
OF THE TAX CUTS AND JOB ACT ON THE) 2018-00064
RATES OF WKG STORAGE, INC.)

ORDER

The Commission, on its own motion, initiates this investigation of the impact of the recently enacted Tax Cuts and Jobs Act on the rates of WKG Storage, Inc. (“WKG”). The current rates being charged by WKG were established by the Commission in Case No. 2016-00053 to include recovery of a 34 percent federal corporate tax rate on the equity portion of capital investments.¹ However, under the Tax Cuts and Jobs Act, that tax rate was reduced to 21 percent as of January 1, 2018. This statutory reduction in the federal corporate tax rate constitutes a *prima facie* case that the utility rates being charged by WKG are no longer fair, just, or reasonable as of January 1, 2018, and should be reduced.

Utility rates must be set at a level to allow a utility to recover all of its reasonable expenses, including taxes, and to provide its shareholders an opportunity to earn a fair return on invested capital. Since ratepayers are required to pay through their rates the tax expenses of a utility, any reduction in tax rates must be timely passed through to ratepayers. The reduction in the federal corporate tax rate results in both lower tax expense on current income and booked deferred taxes that are in excess of future liability.

¹ Case No. 2016-00053, *Application of WKG Storage, Inc. for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 30, 2016), Order at 30. WKG’s rates were modified in a manner unrelated to the tax rate by separate Order entered in that case on Oct. 20, 2016.

Since the tax rate reduction was effective January 1, 2018, WKG should record a deferred liability, from January 1, 2018, forward, to reflect both the reduced federal corporate tax rate expense of 21 percent and the excess deferred accumulated income taxes to be returned to ratepayers over the next 20 years.

While the exact amount of the tax savings and resulting rate reductions cannot be determined with precision at this time, WKG should use its best estimate to determine the amount to be recorded as a deferred liability, subject to review and adjustment as part of this case. This is the same procedure followed by utilities in Kentucky when they seek approval of deferred assets before the final amounts are known with certainty. The issues to be addressed in this investigation are properly limited to the savings resulting from the January 1, 2018 tax reduction, the appropriate level of deferred liabilities to be recorded on an interim basis to reflect the reduced federal corporate tax rate, and the appropriate level of reductions in utility rates to reflect the reduced federal corporate tax rate.

IT IS THEREFORE ORDERED that:

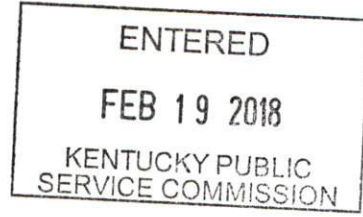
1. This investigation is initiated to review the impact of the reduction of the federal corporate tax rate from 34 percent to 21 percent on the utility rates of WKG.
2. WKG shall record deferred liabilities, from January 1, 2018, forward, on its books for gas service to reflect the reduction in the federal corporate tax rate to 21 percent and the associated savings in excess deferred taxes.
3. Within 30 days of the date of entry of this Order, WKG shall file prepared testimony on the impact of the reduction in federal corporate tax rate on its financial operations, utilizing a historical 12-month period, along with copies of the accounting

entries made to reflect the deferred liabilities and a schedule of proposed rates to reflect the tax rate reduction.

Should documents of any kind be filed with the Commission in the course of this proceeding, the documents shall also be served on all parties of record. A party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

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By the Commission



ATTEST:


Executive Director

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