COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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 Gas). On January 26, 2018, Columbia Gas filed[1] testimony including 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. The interim rates consist of Tax Act Adjustment Factors that lower the volumetric delivery charge for each rate class based on the percent of each class's base revenue to total revenue.

Columbia Gas used its actual 2017 calendar year operating income to calculate an annual revenue requirement reduction of $2,749,234 resulting from the impact the change in the federal income tax (FIT) rate had on current FIT expense. Columbia Gas proposed to implement the interim rates as of May 1, 2018. To reflect the FIT expense

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[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.

savings from January 1, 2018, through April 30, 2018, and the excess ADIT, Columbia Gas proposed to file revised Tax Act Adjustment Factors. Columbia Gas explained that although it was able at that time to estimate the amount of excess ADIT that would result from the TCJA, it was unable to determine the amount with certainty and had submitted a request for guidance from the United States Internal Revenue Service (IRS). Based on an expectation that the ADIT issue would be resolved prior to filing its 2017 federal tax return, which is due by October 15, 2018, Columbia Gas stated that it would provide the revised Tax Act Adjustment Factors to be implemented for services rendered beginning with the first billing cycle of October 2018.

By Order entered on April 30, 2018, the Commission authorized Columbia Gas to place into effect the interim rates for gas service rendered on and after May 1, 2018, to reflect $2,749,234 reduction in Columbia Gas' current FIT expense. The Commission also ordered Columbia Gas to 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.

<u>FIT Stub Period</u>

The Commission's January 30, 2018 Order directed Columbia Gas to continue recording deferred liabilities on its books to reflect the reduction in the federal corporate tax rate to 21 percent and the associated savings in excess deferred taxes. This FIT liability was to be recorded on an interim basis until the Tax Act Adjustment Factors were adjusted to reflect the entire federal tax savings as of January 1, 2018. The interim rates implemented by Columbia Gas on May 1, 2018, reflected the prospective reduction in current FIT expense but not the FIT impact from January 1, 2018 through April 30, 2018. This four-month period is referred to as the Stub Period. Columbia Gas has now determined that the accrued FIT liability for the Stub Period is $1,612,621, and that amount should be returned to ratepayers by increasing the Tax Act Adjustment Factors through April 30, 2019.[2] After that date, the Tax Act Adjustment Factors will decrease.

ADIT Reduction

The TCJA normalization rules require that utilities use the Average Rate Assumption Method (ARAM) to amortize the excess ADIT or if a utility does not have sufficient financial records to comply with the requirements of ARAM, the TCJA allows the use of a simplified alternative method, the Reverse South Georgia Method (RSGM).

According to Columbia Gas, the IRS issued proposed regulations on August 3, 2018, (REG-104397-18) which affirms the availability of 100 percent bonus depreciation in addition to clarifying the rules for property eligible for bonus depreciation. Therefore, even though the Columbia Gas has yet to file its 2017 FIT return, it now believes that the estimated amount of excess ADIT as calculated as of December 31, 2017, should not change materially.[3]

Columbia Gas states that since its books and records contain sufficient details of property records, the TCJA normalization rules require it to use the Average Rate Assumption Method (ARAM) to amortize the excess ADIT. According to Columbia Gas, the ARAM reduces the excess deferred FIT tax reserve over the remaining regulatory life of the property during the years in which the related deferred tax reserve is reversing.

[2] Lai Supplemental Testimony at 5.

[3] Fisher Testimony at 4.

Columbia Gas adds that ARAM requires keeping deferred taxes intact until book depreciation exceeds tax depreciation for each individual asset.[4] Columbia Gas has determined that the amortization of protected excess ADIT results in a reduction to FIT tax expense of $793,937.[5]

Columbia Gas states that all remaining unprotected excess ADIT taxes are a net deficiency because of the TCJA tax rate decrease. Columbia Gas is proposing to amortize its federal Net Operating Loss (NOL) excess ADIT over 39 years based on the average remaining life of book assets, which have a composite book depreciation rate of 2.54 percent.[6] Using a 39-year life for the NOL excess ADIT results in a FIT expense increase of $26,308.[7] For all other unprotected excess ADIT, Columbia Gas is proposing to use a ten-year amortization period, which results in an increase to FIT expense of $150,769. Combining the excess protected and unprotected ADIT results in a net amortization amount of $616,860.[8] After reflecting the gross conversion factor for taxes and the impact of the increase in rate base due to the amortization of the excess ADIT, the annual reduction to Columbia Gas's revenue requirement is $794,674, as shown in the table below.

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[4] *Id.* at 6.

[5] *Id.*

[6] *Id.* This composite book depreciation rates is included in the last base rate case, Case No. 2016 00162, *Application of Columbia Gas of Kentucky, Inc. for an Increase in Base Rates* (Ky. PSC Dec. 22, 2016).

[7] *Id.*

[8] *Id.* at 6–7.

Line No.	A/C #	Description	Balance 12/31/2017	Balance After Rate Change	Difference Excess (Deficient) ADIT	Annual Amortization	Increase to CAP - ADIT
			(1)	(2)	(3)	(4)	(5)
1		Non-Property related in Rate Base (10 YR SL)					
2	190	Inventory Capitalization	$ 139,547	$ 81,644	$ 57,903	$ 5,790	
3	190	LIFO Storage Adjustment	2,418,815	1,415,158	1,003,657	100,366	
4	190	Customer Advn for Constr NonCur	1,075,181	629,048	446,133	44,613	
5		Subtotal (Lines 2-4)	3,633,543	2,125,850	1,507,693	150,769	
6							
7	190	Federal Net Operating Loss Excess (39 YR SL)	5,204,791	4,178,788	1,026,003	26,308	
8							
9	282	Property Related (ARAM)	78,975,234	48,876,572	30,098,662	(793,937)	
10							
11		Total (Line 5 + Line 7 + Line 9)	$ 87,813,568	$ 55,181,210	$ 32,632,358	$ (616,860)	$ (616,860)
12							
13		Gross Conversion Factor (Staff DR 1-6 Attach. A, Line 4)				1.3617825	
14							
15		Revenue Requirement Decrease (Line 11 X Line 13)				$ (840,029)	
16							
17		Weighted Cost of Capital (Staff DR 2-3, Attach. A, Line 9)					7.353%
18							
19		Revenue Requirement Increase (Col. 5, Line 11 X Col. 5 Line 17)				45,355	
20							
21		Total Revenue Requirement Decrease (Line 15 + Line 19)				$ (794,674)	

For the ten-month stub period of January 1, 2018, through October 31, 2018, the annual reduction for excess ADIT must be prorated, resulting in a refund of $662,228.[9] Columbia Gas proposes that the excess ADIT for the stub period be refunded to ratepayers by increasing the Tax Act Adjustment Factors through April 30, 2019.[10] After that date, the Tax Act Adjustment Factors will decrease.

RATE DESIGN

The revenue reductions to be included in the revised Tax Act Adjustment Factors for Columbia Gas are as follows:

Rate Reduction for Excess Deferred Income Taxes	$(794,674)
Stub Period for FIT Liability	$(1,612,621)
Stub Period for Excess ADIT	$(662,228)
TOTAL	$(3,029,523)

Columbia Gas proposes four components to be included in the revised Tax Act Adjustment Factors. The first is the current effective rate which is the rate reduction due to the lower corporate FIT expense. The second reflects the annual rate reduction for the

[9] Annual excess ADIT prorated for 10 months: $(794,674)*10÷12=$(662,228).

[10] Lai Supplemental Testimony at 6.

excess ADIT. The third and fourth components represent the pass back of the tax expense savings for the stub periods of the FIT liability and the excess ADIT and will only be effective from the date of this Order through April 2019. The FIT liability stub rate class allocation is calculated by using the current Tax Act Adjustment Factor for each rate class multiplied by the normalized billing volume for services rendered during the stub period. The annual and stub excess ADIT reductions are distributed to the rate classes based on the revenue allocation authorized in Columbia Gas's last base rate case, Case No. 2016-00162. Once the rate class revenue reductions are determined for components 2, 3, and 4; they are divided by the appropriate rate class volumes to determine the rate.[11] Attached hereto as Appendix A are the Tax Act Adjustment Factors to be credited against the gas volumetric delivery charge starting with the first billing cycle for November 2018 and continuing through April 30, 2019. Those credits include a refund of the FIT liability and excess ADIT stub amounts. Attached hereto as Appendix B are the Tax Act Adjustment Factors to be credited against the gas volumetric delivery charge starting with the first billing cycle for May 2019 upon expiration of the refunds for the FIT liability and excess ADIT stub amounts.

Columbia Gas proposes to reconcile the amounts related to the pass back of the FIT liability and excess ADIT stub amounts through a one-time true-up. This true-up will be included in each of the Tax Act Adjustment Factors and will be effective for the three-month period of September 2019 through November 2019. Columbia Gas also proposes to submit the calculation for the Tax Act Adjustment Factors true-ups and revised tariff sheets in conjunction with its quarterly Gas Cost Adjustment (GCA) filing in July 2019.

[11] See Columbia Gas's Response to IC Request, Attachment CYL-4.xlsx for rate calculations.

IT IS THEREFORE ORDERED that:

1. The rates and charges in Appendix A, attached hereto, are fair, just, and reasonable for Columbia Gas for service rendered on and after the first billing cycle for November 2018.

2. The rates and charges in Appendix B, attached hereto, are fair, just, and reasonable for Columbia Gas for service rendered on and after the first billing cycle for May 2019.

3. Within 20 days of the date of this Order, Columbia Gas shall file with the Commission, using the Commission's electronic Tariff Filing System, its revised tariffs as set forth in this Order reflecting that they were approved subject to true-up adjustments in a GCA filing in July 2019 for the Fit liability and excess ADIT stub amounts pursuant to this Order.

4. Columbia Gas shall file a revised Tax Act Adjustment Factor reflecting the true-up amounts relating to the FIT Liability and Excess ADIT pass backs with the July 2019 GCA filing.

5. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED

OCT 25 2018

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00041 DATED OCT 25 2018

The following rates and charges are prescribed for the customers in the area served by Columbia Gas Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

TAX ACT ADJUSTMENT FACTOR

Rate Schedule GSR	$(0.4929) per Mcf
Rate Schedule GSO	$(0.3027) per Mcf
Rate Schedule IS	$(0.0469) per Mcf
Rate Schedule IUS	$(0.2238) per Mcf
Rate Schedule DS[12]	$(0.0469) per Mcf
Rate Schedule GDS	$(0.3027) per Mcf
Rate Schedule IUDS	$(0.2238) per Mcf
Rate Schedule SAS	$(0.0469) per Mcf
Rate Schedule SVGTS – GSR	$(0.4929) per Mcf
Rate Schedule SVGTS – GSO	$(0.3027) per Mcf
Rate Schedule SVGTS – IUS	$(0.2238) per Mcf

[12] Excludes customers subject to the Flex provisions of Rate Schedule DS.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00041 DATED OCT 25 2018

The following rates and charges are prescribed for the customers in the area served by Columbia Gas Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

TAX ACT ADJUSTMENT FACTOR

Rate Schedule GSR	\$(0.2825) per Mcf
Rate Schedule GSO	\$(0.1680) per Mcf
Rate Schedule IS	\$(0.0260) per Mcf
Rate Schedule IUS	\$(0.1160) per Mcf
Rate Schedule DS[13]	\$(0.0260) per Mcf
Rate Schedule GDS	\$(0.1680) per Mcf
Rate Schedule IUDS	\$(0.1160) per Mcf
Rate Schedule SAS	\$(0.0260) per Mcf
Rate Schedule SVGTS – GSR	\$(0.2825) per Mcf
Rate Schedule SVGTS – GSO	\$(0.1680) per Mcf
Rate Schedule SVGTS – IUS	\$(0.1160) per Mcf

[13] Excludes customers subject to the Flex provisions of Rate Schedule DS.

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