



Agenda Date: 3/26/18  
Agenda Item: 2L

**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
44 South Clinton Avenue, 3<sup>rd</sup> Floor, Suite 314  
Post Office Box 350  
Trenton, New Jersey 08625-0350  
[www.nj.gov/bpu/](http://www.nj.gov/bpu/)

Energy

IN THE MATTER OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES' CONSIDERATION OF THE TAX CUTS AND JOBS ACT OF 2017	)	ORDER
	)	
	)	
	)	DOCKET NO. AX18010001
IN THE MATTER OF ROCKLAND ELECTRIC COMPANY FOR APPROVAL OF REVISED RATES (EFFECTIVE ON AN INTERIM BASIS APRIL 1, 2018)	)	AND
TO REFLECT THE REDUCTION UNDER THE TAX CUTS AND JOBS ACT OF 2017	)	DOCKET NO. ER18030236
	)	

(SERVICE LIST ATTACHED)

**Parties of Record:**

**Margaret Comes, Esq.** for Rockland Electric Company  
**Stefanie A. Brand, Esq., Director,** New Jersey Division of Rate Counsel

**BY THE BOARD:**

This Board Order addresses the interim rate changes to be effective April 1, 2018 that are proposed in the petition filed by Rockland Electric Company ("RECO" or "Company") in response to an order issued by the New Jersey Board of Public Utilities ("Board") on January 31, 2018 ("January 31, 2018 Order")<sup>1</sup>, directing the affected utilities<sup>2</sup> to file petitions proposing new rates reflecting the impacts from the Federal Tax Cuts and Jobs Act signed into law on December 22, 2017 (the "2017 Act").

<sup>1</sup> See In re the New Jersey Board of Public Utilities Consideration of the Tax Cuts and Jobs Act of 2017, BPU Docket No. AX18010001 (Order dated January 31, 2018).

<sup>2</sup> The affected utilities are investor owned gas, electric, water and wastewater companies under the jurisdiction of the Board. In addition, affected utilities shall be those with 2017 revenues equal to or greater than \$4.5 million.

## **BACKGROUND**

The effective date of the 2017 Act is January 1, 2018. The 2017 Act sets forth changes to the Federal Internal Revenue Tax Code ("Tax Code"), including a reduction in the maximum corporate tax rate from thirty-five percent (35%) to twenty-one percent (21%). The Board is charged with the authority to ensure that the regulated utilities' rates charged to ratepayers are just and reasonable. When the Board sets rates in base rate cases and in certain annual/periodic clauses, utilities are permitted to gross up their revenue requirement as well as set other rate factors, including, the accumulated deferred income tax, based on the then existing thirty-five percent (35%) corporate tax rate.

The Board issued the January 31, 2018 Order which set all affected utility rates as interim and established a proceeding to consider the implications of the 2017 Act. Based upon the Board's review of the 2017 Act, the Board found in its January 31, 2018 Order that the changes to the Tax Code will provide savings to the affected utilities and will result in an over-collection of tax revenue by the affected utilities that will not be paid in federal income taxes. The affected utilities were required to file amended tariffs reflecting a reduction in rates resulting from the reduction in the corporate tax rate effective April 1, 2018, as well as a plan to address other rate factors and to refund any over collection in rates.

On March 2, 2018, the Company filed its Petition pursuant to the January 31, 2018 Order, including proposed tariffs as well as a proposed plan. Specifically, the Company petition states that the 2017 Act will result in an annual revenue requirement reduction for the Company of approximately \$2.868 million, as of April 1, 2018. The Company decreased its net deferred tax liabilities by \$45 million, decreased its regulatory asset of future income tax by \$17 million, and accrued a regulatory liability for future income tax of \$28 million. RECO has calculated its new interim rates effective April 1, 2018 using billing determinants underlying the distribution rates established in RECO's 2016 Base Rate Case. The Company calculated the current level of revenue based on the currently effective rates and allocated the distribution decrease among the service classifications in proportion to the relative contribution made by each class to the total current level of revenue. The Company proposes to return to ratepayers amounts deferred pursuant to the January 31, 2018 Order for the period of January 1, 2018 until the effective date of the Company's new rates, by means of a sur-credit. The Company is proposing to employ a short-term borrowing rate to accrue interest on the deferred amounts until the Company's returns such amount to ratepayers. The Company will return this total deferral amount over twelve consecutive calendar months, commencing with the month immediately following when the Board issues an order approving the Company's new rates. The sur-credit will be applied to all service classifications on an equal per kWh basis for the twelve-month period. The Company's final effective rates, according to the petition, reflect the proposed refund of the full amount of the excess accumulated deferred federal income tax liability to ratepayers.

There will be no impact on RECO's operations for the interest limitation as well as their treatment of Contributions in Aid of Construction. Under the rate normalization requirements continued by the 2017 Act, \$16 million of the net regulatory liability related to certain accelerated tax depreciation benefits is to be amortized over the remaining lives of the related assets using the average rate assumption method ("ARAM"). The company proposes to amortize the net regulatory liability associated with the "Unprotected Property" category over the remaining lives of the related assets using ARAM. The Company proposes to amortize the net regulatory liability over the remaining lives of the related assets using a straight-line methodology, primarily

due to these temporary differences being long-lived liabilities related to pension and other post-retirement employee benefits. The Company indicated that it will not accrue a carrying charge on the excess deferred income taxes related to protected and unprotected property, as the balance of excess deferred income taxes included as a regulatory liability continues to reduce rate base. There will also be no impact on the Company's investment tax credits, nor are they impacted by the revocation of the Alternative Minimum Tax.

The currently effective Clean Energy Program and Demand Side Management components of the Societal Benefits Charge are not affected by the tax rate at this time. The only tax implications will be in the next true-up filing being made on or before April 1, 2018 on the calculation of interest on over- or under- recoveries for 2018 balances. The Universal Service Fund/Lifeline filing on July 1, 2018 will reflect a change on the carrying charge effective January 1, 2018. For any other surcharge mechanisms, net of tax calculations or calculations on the revenue requirement would only pertain to the forecasted quantities contained in their mechanisms.

The Company's proposed tariffs, include an across the board rate reduction reflecting the reduction in the corporate tax rate from 35% to 21%. As a result, an average customer using 925 kwh per month will receive a reduction in their month bill of \$2.10 or 1.2%. This represents an annual decrease of \$26.84.

The January 31, 2018 Order set the deadline for the filing of motions to intervene or participate on February 20, 2018. No party filed a motion seeking to intervene or participate in this proceeding prior to the expiration of the February 20, 2018 deadline.

#### **DISCUSSION AND FINDINGS:**

The Board has reviewed the proposed plan filed by the Company, and **HEREBY DIRECTS** that the plan will be reviewed in the instant proceeding, in accordance with the schedule set forth in the Board's January 31, 2018 Order.

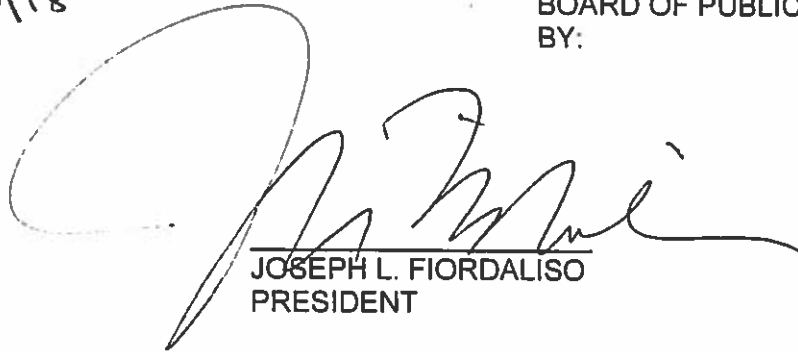
The Company's proposed Tariffs include an across the Board rate reduction reflecting the reduction in the corporate tax rate from 35% to 21%. As stated above, an average customer using 925 kwh per month will receive a reduction in their month bill of \$2.10 or 1.2%. This represents an annual decrease of \$26.84.

Having reviewed the proposed tariffs, the Board **HEREBY DIRECTS** new tariffs to be filed by the Company by April 1, 2018 relating to the across-the-board rate reduction for services to be rendered on or after April 1, 2018. The rates set forth in the tariffs are on an interim basis, subject to refund, pending the outcome of this proceeding. The Board will address refunds and other proposed rider tariffs at a later date.

This Order shall be effective March 29, 2018.

DATED: 3/26/18

BOARD OF PUBLIC UTILITIES  
BY:



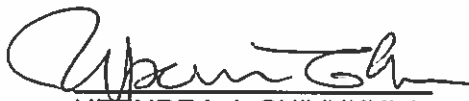
JOSEPH L. FIORDALISO  
PRESIDENT



MARY-ANNA HOLDEN  
COMMISSIONER



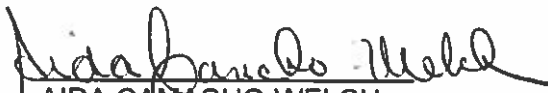
DIANNE SOLOMON  
COMMISSIONER



UPENDRA J. CHIVUKULA  
COMMISSIONER



RICHARD S. MROZ  
COMMISSIONER

ATTEST:   
AIDA CAMACHO-WELCH  
SECRETARY

I HEREBY CERTIFY that the within  
document is a true copy of the original  
in the files of the Board of Public Utilities.

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CONSIDERATION OF THE TAX CUTS AND JOBS ACT OF 2017  
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RATES (EFFECTIVE ON AN INTERIM BASIS APRIL 1, 2018) TO REFLECT THE  
REDUCTION UNDER THE TAX CUTS AND JOBS ACT OF 2017  
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**SERVICE LIST**

**Rockland Electric Company**

Margaret Comes, Esq.  
4 Irving Place  
New York, NY 10003  
[comesm@coned.com](mailto:comesm@coned.com)

Cheryl Ruggiero  
4 Irving Place  
New York, NY 10003  
[ruggieroC@coned.com](mailto:ruggieroC@coned.com)

William Atzl  
4 Irving Place  
New York, NY 10003  
[AtzIW@coned.com](mailto:AtzIW@coned.com)  
New York, NY 10003  
[RuggieroC@coned.com](mailto:RuggieroC@coned.com)

**Division of Rate Counsel**

140 East Front Street, 4<sup>th</sup> Floor  
Post Office Box 003  
Trenton, NJ 08625-0003

Stefanie A. Brand, Esq., Director  
[stefanie.brand@rpa.nj.gov](mailto:stefanie.brand@rpa.nj.gov)

Brian Lipman, Litigation Manager  
[brian.lipman@rpa.nj.gov](mailto:brian.lipman@rpa.nj.gov)

Felicia Thomas-Friel, Esq.  
[felicia.thomas@rpa.nj.gov](mailto:felicia.thomas@rpa.nj.gov)

Ami Morita  
[ami.morita@rpa.nj.gov](mailto:ami.morita@rpa.nj.gov)

Shelly Massey  
[shelly.massey@rpa.nj.gov](mailto:shelly.massey@rpa.nj.gov)

**Deputy Attorneys General**

124 Halsey Street  
Post Office Box 45029  
Newark, NJ 07101-45029

Geoffrey Gersten, DAG  
[geoffrey.gersten@law.njoag.gov](mailto:geoffrey.gersten@law.njoag.gov)

Alex Moreau, DAG  
[alex.moreau@law.njoag.gov](mailto:alex.moreau@law.njoag.gov)

Patricia Krogman, DAG  
[patricia.krogman@law.njoag.gov](mailto:patricia.krogman@law.njoag.gov)

**Board of Public Utilities**

44 South Clinton Avenue, 3rd Floor, Suite 314  
Post Office Box 350  
Trenton, NJ 08625-0350

Paul Flanagan, Executive Director  
[paul.flanagan@bpu.nj.gov](mailto:paul.flanagan@bpu.nj.gov)

Thomas Walker, Director  
Division of Energy  
[thomas.walker@bpu.nj.gov](mailto:thomas.walker@bpu.nj.gov)

Stacy Peterson, Deputy Director  
Division of Energy  
[stacy.peterson@bpu.nj.gov](mailto:stacy.peterson@bpu.nj.gov)

Alice Bator, Director  
Division of Audits  
[alice.bator@bpu.nj.gov](mailto:alice.bator@bpu.nj.gov)

Darren Erbe  
Division of Audits  
[darren.erbe@bpu.nj.gov](mailto:darren.erbe@bpu.nj.gov)

William Foley  
Division of Audits  
[william.foley@bpu.nj.gov](mailto:william.foley@bpu.nj.gov)

Jehvson Espiritu  
Division of Audits  
[jehvson.espiritu@bpu.nj.gov](mailto:jehvson.espiritu@bpu.nj.gov)

Noreen Giblin, Chief Counsel  
Counsel's Office  
[noreen.giblin@bpu.nj.gov](mailto:noreen.giblin@bpu.nj.gov)

Carol Artale, Esq.  
Counsel's Office  
[carol.artale@bpu.nj.gov](mailto:carol.artale@bpu.nj.gov)

Bethany Rocque-Romaine, Esq.  
Counsel's Office  
[bethany.romaine@bpu.nj.gov](mailto:bethany.romaine@bpu.nj.gov)

Megan Lupo, Esq.  
Counsel's Office  
[megan.lupo@bpu.nj.gov](mailto:megan.lupo@bpu.nj.gov)

Andrea Hart, Esq.  
Counsel's Office  
[andrea.hart@bpu.nj.gov](mailto:andrea.hart@bpu.nj.gov)