

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, JANUARY 8, 2018

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COMMONWEALTH OF VIRGINIA, *ex rel.*

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STATE CORPORATION COMMISSION

CASE NO. PUR-2018-00005

Ex Parte: Regulatory Accounting
related to the federal Tax Cuts and
Jobs Act of 2017

ORDER

In December 2017, the federal *Tax Cuts and Jobs Act of 2017* was enacted into law (Public Law 115-97) ("Act"). Among other provisions, the Act reduces the federal corporate income tax rate from 35% to 21%, effective January 1, 2018.

Virginia's electric, natural gas, and water utilities that are subject to the Act will be eligible to receive the substantial corporate tax rate cut contained therein. Federal tax costs incurred by these utilities are generally recovered from customers as part of the utility's cost of service. A corporate tax rate cut therefore will benefit customers by reducing the utility's cost of service.¹

In order to ensure that the corporate tax rate reduction contained in the Act can ultimately benefit the customers of these utilities through rates, the Commission hereby orders that, effective January 1, 2018, Virginia utilities to which the Act's tax cut provisions are applicable shall accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement

¹ The lower tax rate will significantly reduce current and deferred income tax expenses recognized in a utility's cost of service. The reduced tax rate will also create significant levels of excess accumulated deferred income taxes, which reflect federal tax liabilities already charged to customers that, as a result of the Act, will not be paid by the utilities.

impacts of the reduced corporate income tax rate.² This regulatory accounting recognition of cost of service savings will serve to protect the interests of customers until such time as the federal tax benefits can be appropriately reflected in customers' rates.

In addition, in order to evaluate the potential effects of the Act on cost of service in a timely manner, the utilities subject to the Act should reflect the impacts thereof in their respective informational submissions that are typically provided to the Commission or its Staff on an annual basis. Such information shall include, but need not be limited to: (i) expected cost of service impacts of the Act through calendar year 2018; (ii) the amount of protected (subject to normalization requirements) and unprotected excess accumulated deferred income taxes as of December 31, 2017, and the estimated reversal of such excess deferred income taxes during calendar year 2018; and (iii) such additional information that the utility wishes to include addressing the financial and cost of service impacts of the Act on the utility, and the appropriate treatment of the accrued regulatory liabilities ordered herein. As the specific schedule and contents of such filings varies among the utilities, the Commission hereby directs its Staff to modify as necessary the filing dates for, and to coordinate the receipt of such annual information from, each respective utility.

Accordingly, IT IS SO ORDERED, and this matter is closed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to all persons on the attached Service List.

² The utilities subject to this directive include: Virginia-American Water Company; Aqua Virginia, Inc.; Washington Gas Light Company; Columbia Gas of Virginia, Inc.; Virginia Natural Gas, Inc.; Roanoke Gas Company; Atmos Energy Corporation; Southwestern Virginia Gas Company; Appalachian Natural Gas Distribution Company; Kentucky Utilities Company; Appalachian Power Company; and Virginia Electric and Power Company. Massanutten Public Service Corporation need not comply with this directive, because its proposed rates were made interim and subject to refund as of December 16, 2017, in its pending base rate case (Case No. PUR-2017-00069). The Commission further directs its Staff to investigate the appropriate accounting related to the Act for, and provide necessary guidance to, small water and sewer utilities under Code § 56-265.13:1 *et seq.*

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