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Comments of AARP Before the Pennsylvania Public Utility Commission

Re: Tax Cuts and Jobs Act of 2017 – Docket No: M-2018-2641242

March 9, 2018

AARP submits these Comments in response to the Commission Secretarial Letter issued at this Docket on February 12, 2018. In that letter, the Commission requested comments from interested parties on the impact of the Tax Cuts and Jobs Act of 2017 (TCJA) on the taxes paid by Pennsylvania utilities and the potential to reflect those impacts in the rates charged to Pennsylvania utility consumers.

AARP commends the Commission for taking this proactive step to quantify the massive financial benefits that Pennsylvania utilities will receive under TCJA and to determine whether and how those benefits can be passed on to customers. As recognized by the Commission, the rates that have been set for the Commonwealth's utilities reflect an assumed federal tax rate of 35%, but that rate has now been reduced to 21% under the TCJA. As federal tax payments represent a major element of the costs incurred by utilities in order to provide service, there is no question that the reduction in federal tax rates resulting from the TCJA has a dramatic impact on the level of rates that utilities should be permitted charge in order to recover those costs from Pennsylvania ratepayers. This reduction in tax costs – which became effective on January 1, 2018 – is relevant with respect to both the current ongoing level of tax expense that is included in utility rates as well as the balance of accumulated deferred income taxes that were collected from

consumers at a 35% rate but will now actually be paid by utilities to the federal government at a rate of 21%.

It is the position of AARP that the utility tax benefits resulting from the TCJA should be flowed through to Pennsylvania utility consumers in a timely and expeditious manner.

At page 2 of its Secretarial Letter, the Commission asks interested parties to submit comments on three issues: “(1) whether the Commission should adjust current customer rates to reflect the reduced annual state and federal income tax expenses of public utilities due to the tax rate changes in the TCJA; (2) if so, the appropriate negative surcharge or other methodologies that would permit immediate modifications to consumer rates; and (3) whether the surcharge or other methodology should provide that any refunds to customers due to these reduced taxes be effective as of January 1, 2018.”

AARP responds to the Commission’s questions as follows:

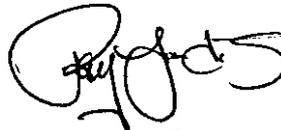
- (1) Yes, the Commission should immediately adjust current customer rates to reflect the reduced tax expenses resulting from the tax rate changes in the TCJA. There is no reason to maintain the fiction that Pennsylvania regulated utilities are incurring federal tax expense at a 35% rate when in fact that tax rate has been reduced to 21%. The many millions of dollars in current Pennsylvania utility rates that were designed to allow utilities to recover federal tax expense at a 35% rate must not serve as an unwarranted windfall to those utilities, but should be flowed through to consumers.
- (2) AARP would support a negative surcharge or monthly bill credit to be implemented immediately to reflect the reduction in the ongoing tax expense levels that are enjoyed by utilities under the TCJA. With respect to excess accumulated deferred

income taxes, AARP requests that the differential between the 35% collection rate and 21% payment rate also be flowed back to consumers as expeditiously as possible, consistent with the normalization requirements of the Internal Revenue Code.

- (3) AARP would absolutely urge the Commission to require that any refunds or rate reductions resulting from this proceeding be made effective as of January 1, 2018, which is the date on which the massive tax rate reductions in the TCJA became law. Again, there is no justification to permit these tax savings to be retained by utilities after January 1, 2018, when the utilities' actual tax rate declined so dramatically on that date.

AARP thanks the Commission for this opportunity to submit these Comments and respectfully urges the Commission to ensure that the substantial tax reduction benefits of the TCJA be flowed through to Pennsylvania consumers in as timely and expeditious manner as possible.

Respectfully submitted,



Ray Landis

Advocacy Manager AARP PA

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