

800 North Third Street
Suite 203
Harrisburg, PA 17102
Tel (412) 393-6231
Fax (717) 525-7460



Shelby A. Linton-Keddie
Manager, State Regulatory Strategy and Senior Legal Counsel
slinton-keddie@duqlight.com

March 13, 2018

VIA UPS

Ms. Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, Room-N201
400 North Street
Harrisburg, PA 17120

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

Dear Secretary Chiavetta:

Enclosed please find Duquesne Light Company's Response to the Secretarial Letter of February 12, 2018.

The report is submitted in two versions, proprietary and non-proprietary. The proprietary version in the enclosed sealed envelope contains information marked as "Confidential." Duquesne Light Company respectfully requests that any information marked "Confidential" **not** be made available to the public.

Upon receipt, if you have any questions regarding the information contained in this filing, please contact the undersigned or Audrey Waldock at 412-393-6334 or awaldock@duqlight.com.

Sincerely,


Shelby A. Linton-Keddie
Manager, State Regulatory Strategy
And Senior Legal Counsel

Enclosure

c: Erin Laudenslager (elaudensla@pa.gov) (w/ enc.)
James Mullins (jamullins@pa.gov) (w/ enc.)

RECEIVED

MAR 13 2018

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

RECEIVED

MAR 13 2018

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Tax Cuts and Jobs Act

:
:
:

Docket No. M-2018-2641242

**RESPONSE OF
DUQUESNE LIGHT COMPANY**

I. BACKGROUND:

On February 12, 2018, the Pennsylvania Public Utility Commission ("PUC" or "Commission") issued a Secretarial Letter, which established a docket and commenced a proceeding to evaluate the tax liability effects of the recently enacted Tax Cuts and Jobs Act ("TCJA"). In addition, the PUC will also investigate the feasibility of reflecting such impacts in rates charged to Pennsylvania utility ratepayers.

The Commission requested that responses to the data requests in Attachment B and completed templates as provided for in Attachment C be provided within 25 days of the date of the Secretarial Letter, or by March 9, 2018. On March 6, 2018, Duquesne Light Company ("DLC" or "Company"), filed a letter requesting an extension until March 13, 2018, to file its response. Consistent with the schedule outlined above, including the two business day extension, DLC hereby files these Responses for the Commission's consideration.

II. RESPONSES TO ATTACHMENT B – TAX CUTS AND JOBS ACT DATA REQUEST:

DLC submits the following responses to the PUC Secretarial Letter's Attachment B issued on February 12, 2018 in the above-captioned docket. At the outset, the Company believes that the totality of the impacts of the TCJA should be addressed as a part of a distribution base rate case

for those utilities that file a distribution base rate case in 2018. Furthermore, and consistent with basic tenets of ratemaking, the Company does not believe that any rates or adjustments should be made retroactively. Further, the Commission should avoid any result that requires an immediate reduction in rates in 2018 followed by an increase in revenue as part of rate case that is allowed to take effect in 2019. This result is not only confusing to customers, but also misstates the true effect of the totality of the TCJA on utility revenues.

1. How does the reduction in the corporate Federal Income Tax rate from 35% to 21% affect your federal tax obligations for calendar year 2018 and subsequent tax years? Please quantify your response as to the effect on both current and deferred tax obligations

RESPONSE:

- The reduction in the corporate tax rate from 35% to 21% will lower current federal tax expense; however, the loss of bonus depreciation more than offsets this benefit and will actually result in an increased current federal tax expense for the 2018 tax year.¹
- In contrast to the increase to current federal tax expense, DLC's deferred federal tax expense will decrease due to the lower tax rate and the loss of bonus depreciation.

2. If a reduced tax obligation is passed through to ratepayers, explain the methodology to be used to compute the reduction, the rate mechanism to accomplish the reduction, and the allocation among customer classes.

RESPONSE:

- As indicated above, the Company believes that the effects of the TCJA should be addressed holistically in a distribution base rate case if filed in 2018. Under that scenario, the methodology used would be consistent with conventional principles of ratemaking.
- By way of further answer, the Company projects higher current federal tax expense for 2018 and thus will not have an immediate cash tax benefit to pass back to customers.

¹ See the Company's response to Attachment C for the calculation of current federal tax expense at 21% under the TCJA compared to the federal tax obligation that would have been due without the impacts of TCJA.

- 3. If any of the potential tax savings from the reduced federal corporate tax rate can be used for purposes other than to reduce customer rates, provide details on how and where those savings can be used.**

RESPONSE:

- To the extent that utilities experience tax savings, DLC believes that it would be reasonable and prudent to use those dollars to offset the effects of increased expenses, reduced revenues, and required return as well as depreciation on investments in infrastructure improvements since the Company's last rate case, thereby mitigating a future base rate increase, which would directly benefit ratepayers.

- 4. Does the company have any Net Operating Losses (NOL) as of 12/31/17? Please quantify the impact of the Tax Cuts and Jobs Act (TCJA).**

RESPONSE:

- No. Duquesne Light Company does not have any net operating losses at 12/31/17.

- 5. Does the company have any Deferred Tax Liabilities as of 12/31/17? Please quantify the impact of the Tax Cuts and Jobs Act (TCJA).**

RESPONSE:

- Yes. The Company has Deferred Tax Liabilities as of 12/31/17.
- The balance of the Company's distribution property related Accumulated Deferred Income Taxes (ADIT) at 12/31/17 was \$476 million. The ADIT balance is a reduction to the Company's rate base.
- Deferred tax expenses have been included in customer rates at 35% under the expectation that the deferred taxes would be paid to the IRS in the future at this tax rate when the benefits of accelerated tax deductions on the Company's regulated utility property reverse. Under the TCJA, the Company's deferred federal income taxes will be paid at the lower tax rate of 21% resulting in a savings to customers as the Company gives back the excess deferred income taxes previously collected.
- The change in the federal tax rate from 35% to 21% represents a 40% reduction in the tax rate. Applying this same 40% reduction to the ADIT balance results in \$190 million of excess deferred income taxes that will be returned to customers. Under the TCJA and IRS normalization rules, the excess deferred income taxes will be refunded to customers over the average remaining book life of the regulated property.
- The Company's ADIT balance that is a reduction to rate base is not impacted at 12/31/17. As the excess deferred income taxes are amortized and refunded to customers, the Company's ADIT balance will also be reduced.

6. Are there any impacts on riders/surcharges resultant from the TCJA? If so, please explain.

RESPONSE:

- Yes. The tax calculations, when applicable, need to be updated to reflect the changes due to the TCJA. The Company's riders and surcharges will be adjusted quarterly and in accordance with the applicable reconciliation schedule for each rider/surcharge.

7. Are there any other changes made in the TCJA that will impact the company? If so, please explain.

RESPONSE:

- Yes. As explained the response to question five, the loss of bonus depreciation in 2018 will increase the Company's current tax expense, resulting in higher cash tax payments in the short term.

8. What test year should be used to quantify the new 21% federal corporate tax rate to be effective 1/1/18?

RESPONSE:

- It is unclear whether the reference to 1/1/18 relates to the effective date of the TCJA or the proposed rates. The Company does not believe that retroactive changes to base rates based upon changes to a single component of such rates is lawful or reasonable. Any and all effects created by the TCJA should be addressed as a part of a distribution base rate case for those utilities that file a distribution base rate case in 2018.

9. Please provide the following regarding you last Commission approved rate case:

- **Docket Number**
- **Date filed**
- **Approved Rate of Return**
- **Approved Increase in Annual Revenues**
- **Allocation of Approved Increase Among Major Customer Classes**
- **Effective Date of new rates**

RESPONSE:

- a. Docket Number: R-2013-2372129
- b. Date filed: August 2, 2013
- c. Approved Rate of Return: (N/A) -Black box settlement
- d. Approved Increase in Annual Revenues: \$48.0 million
- e. Allocation of Approved Increase Among Major Customer Classes:
 - i. See below
- f. Effective Date of new rates: May 1, 2014

APPENDIX B
Duquesne Light Company
Summary of Proof of Revenue Calculation at Current and Proposed Settlement Rates
12 Months Ending April 30, 2015
Summary of Distribution Revenue Calculations
Docket No. R-2013-2372129

A	B	C	D	E	F
<u>Rate Class</u>	<u>Current Base Rate Revenue</u>	<u>Adjusted Customer Count Revenue</u>	<u>Adjusted Current Base Rate Revenue</u>	<u>Base Rate Revenue at Settlement Rates</u>	<u>Change</u>
	DFR-IV-A	Note 1	[B+C]		[E-D]
RS	\$205,128,445	\$152,287	\$205,278,732	\$236,486,441	\$31,207,709
RH	\$16,922,326	\$1,661	\$16,923,987	\$19,512,745	\$2,588,758
RA	\$1,656,271	(\$2,245)	\$1,654,026	\$1,846,869	\$292,842
GS	\$6,732,924	(\$13,559)	\$6,719,365	\$7,897,971	\$1,178,606
GM<25	\$23,448,031	\$61,483	\$23,507,515	\$25,459,771	\$1,952,257
GM>=25	\$56,595,597	\$130,371	\$56,725,969	\$61,794,489	\$5,068,520
GMH (Note 2)	\$8,358,378	(\$17,495)	\$8,340,882	\$9,115,965	\$775,083
GL	\$58,234,104	(\$675,145)	\$57,558,959	\$62,530,959	\$4,972,000
GLH	\$8,709,561	(\$77,083)	\$8,632,477	\$9,893,477	\$1,261,000
L	\$20,403,692	\$0	\$20,403,692	\$20,403,692	\$0
HVPS	\$766,982	\$0	\$766,982	\$630,538	(\$126,444)
AL (Note 3)	\$918	\$0	\$918	\$845	(\$73)
SE	\$1,522,396	\$0	\$1,522,396	\$1,344,134	(\$178,262)
SM (Note 3)	\$9,397,463	\$0	\$9,397,463	\$8,643,388	(\$754,074)
SH (Note 3)	\$111,191	\$0	\$111,191	\$102,436	(\$8,756)
UMS	\$1,201,097	(\$218)	\$1,200,879	\$997,182	(\$203,696)
PAL (Note 3)	\$419,461	\$0	\$419,461	\$393,992	(\$25,469)
Total	\$419,594,837	(\$439,944)	\$419,154,893	\$467,154,894	\$48,000,000
<u>Other Electric Revenue:</u>					
Late Fee (Acct. 450)	\$3,621,897		\$3,621,897	\$3,621,897	\$0
Reconnected Fee (Acct. 451)	\$1,088,709		\$1,088,709	\$1,088,709	\$0
Rent (Acct. 454)	\$8,699,062		\$8,699,062	\$8,699,062	\$0
Other (Acct. 456)	\$455,685		\$455,685	\$455,685	\$0
Other Revenue	\$13,865,353	\$0	\$13,865,353	\$13,865,353	\$0
Total Revenue Requirement	\$433,460,190	(\$439,944)	\$433,020,246	\$481,020,248	\$48,000,000

1/ Revenue adjustment associated with residential and general service revised customer forecast in Exhibit JH 1-R.

Excludes adjustment for Rate HVPS which was already included in original filing.

2/ Rate GMH shown as a single line item for presentation since it is a single tariff rate for all eligible customers less than 25 kW and greater than or equal 25 kW.

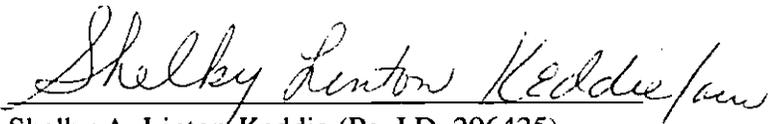
3/ Individual lighting rate classes shown for presentation purposes since these are tariff rates.

Consolidated as Lighting Class SL for cost allocation purposes.

III. CONCLUSION:

Duquesne Light appreciates the Commission's time and effort to determine the effects of the TCJA on regulated utilities' tax liabilities for 2018 and future years, as well as the feasibility of reflecting such impacts in rates charged to Pennsylvania ratepayers going forward. The Company would be happy to answer any questions upon review.

Respectfully submitted,



Shelby A. Linton-Keddie (Pa. I.D. 206425)

Manager, State Regulatory Strategy

Sr. Legal Counsel

Duquesne Light Company

800 North Third Street, Suite 203

Harrisburg, PA 17102

slinton-keddie@duqlight.com

Tel. (412) 393-6231

DATE: March 13, 2018

RECEIVED

MAR 13 2018

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Tax Cuts and Jobs Act of 2017

: Docket No. M-2018-2641242

VERIFICATION

I, Matthew L. Simpson, hereby state that the facts above set forth are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).



Matthew L. Simpson, Director, Tax
Duquesne Light Company

Date: March 13, 2018

RECEIVED
MAR 13 2018
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

CERTIFICATE OF SERVICE

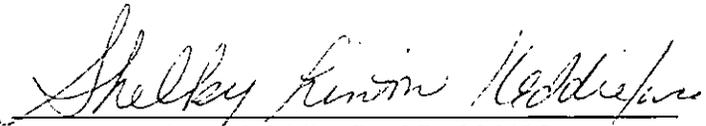
I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

By Electronic Mail and First Class, U.S. Mail

Tanya J. McCloskey, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
TMcCloskey@paoca.org

John R. Evans
Small Business Advocate
Office of Small Business Advocate
300 North Second Street, Suite 202
Harrisburg, PA 17101
jorevan@pa.gov

Richard Kanaskie, Esquire
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120
rkanaskie@pa.gov



Shelby A. Linton-Keddie (Pa. I.D. 206425)
Manager, State Regulatory Strategy and
Sr. Legal Counsel
Duquesne Light Company
800 North Third Street, Suite 203
Harrisburg, PA 17102
Phone: (412)393-6231
slinton-keddie@duqlight.com

DATE: March 13, 2018

RECEIVED

MAR 13 2018

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

UPS CampussShip: View/Print Label

1. **Ensure there are no other shipping or tracking labels attached to your package.** Select the Print button on the print dialog box that appears. Note: If your browser does not support this function select Print from the File menu to print the label.
2. **Fold the printed label at the solid line below.** Place the label in a UPS Shipping Pouch. If you do not have a pouch, affix the folded label using clear plastic shipping tape over the entire label.
3. **GETTING YOUR SHIPMENT TO UPS Customers with a Daily Pickup**
Your driver will pickup your shipment(s) as usual.

Customers without a Daily Pickup

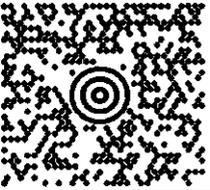
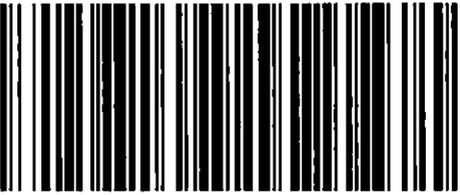
Take your package to any location of The UPS Store®, UPS Access Point(TM) location, UPS Drop Box, UPS Customer Center, Staples® or Authorized Shipping Outlet near you. Items sent via UPS Return Services(SM) (including via Ground) are also accepted at Drop Boxes. To find the location nearest you, please visit the Resources area of CampussShip and select UPS Locations. Schedule a same day or future day Pickup to have a UPS driver pickup all your CampussShip packages. Hand the package to any UPS driver in your area.

UPS Access Point™
THE UPS STORE
1735 E CARSON ST
PITTSBURGH, PA 15203

UPS Access Point™
PVA INTERACTIVE
2004 SMALLMAN ST
PITTSBURGH, PA 15222

UPS Access Point™
MILLER ACE HARDWARE
237 BROWNSVILLE RD
PITTSBURGH, PA 15210

FOLD HERE

AUDREY WALDOCK 4123936334 DUQUESNE LIGHT MAIL DROP 15-7 PITTSBURGH PA 15219		0.3 LBS LTR	1 OF 1
SHIP TO: ROSEMARY CHIAVETTA, SECRETARY 717-772-7777 PA PUBLIC UTILITY COMMISSION 400 NORTH STREET 2ND FLOOR, ROOM N201 COMMONWEALTH KEYSTONE BLDG HARRISBURG PA 17120-0200			
	PA 171 9-20 		
UPS NEXT DAY AIR SAVER 1P TRACKING #: 1Z 187 399 13 9748 5599			
			
BILLING: P/P			
Cost Center: 492 Reference # 2: Tax Reform			
CS 20.0.32		WNTNV50 97.0A 01/2018	