

**REYNOLDS DISPOSAL COMPANY**

301 ARLINGTON DRIVE  
GREENVILLE, PENNSYLVANIA 16125

(724) 646-1144  
FAX (724) 646-1162

September 14, 2018

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
400 North Street, 2<sup>nd</sup> Floor  
Harrisburg PA 17120

RE: Tax Cuts and Jobs Act of 2017  
M-2018-2641242

Dear Madam Secretary:

In response to the Commission's letter of February 12, 2018 requesting data relating to the effects of the Tax Cuts and Jobs Act (TCJA) on the tax liabilities of Commission-regulated public utilities for 2018 and future years, attached are responses to the data requests (Attachment B) and the completed template (Attachment C) showing the calculations of the effects on taxable income and customer related rates related to the TCJA.

Should you have any questions or need more information please contact this office.

Respectfully,

REYNOLDS DISPOSAL COMPANY



Bradley R. Gosser,  
Executive Director/Vice President

Enclosures

CC: Thomas T. Niesen, Esquire  
Thomas, Niesen & Thomas, LLC  
tniesen@tntlawfirm.com

Dennis M. Kalbarczyk  
Utility Rate Resources  
utilityrate.dmk@verizon.net

Reynolds Disposal Company  
Response to  
Tax Cuts and Jobs Act of 2017  
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Data Request Response  
September 13, 2018

ATTACHMENT B

- 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 Company is a small “Class B” utility with annual revenues less than \$500,000 and generally has experienced net losses and/or only minimal net income. In general, under the previous Federal Income Tax rate schedule the Company’s net taxable income generally was below the first \$50,000 net taxable income threshold which would have been taxed at a rate of only 15%, with the next \$25,000 of taxable income to be taxed at a rate of 25% – the combined effect of \$75,000 of taxable income would result in a tax liability of \$13,750 or an effective tax rate of only 18.33%. In short, based on the Company’s small size and related taxable income potential the new TCJA 21% tax rate would more than likely result in a greater tax liability obligation than that under the prior tax rates before consideration of Section 179 carryover.

The Company has a Section 179 carryover from previous years which will not result in any taxable income for several future year. Therefore, based upon its current rates and related financial operating obligations the reduction in the Federal Income Tax rate will more than likely have no affect on the federal tax obligations for 2018 and several subsequent tax years.

- 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:

See response #1.

- 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 tax savings can be used.**

Response:

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See response #1.

- 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:

The entity has a federal net operating loss carry forward of \$26,000. The net operating loss incurred before December 31, 2017 is not subject to limitation. The impact on the rate change is estimated to be about \$4,000.

- 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's pre-2017 ADIT was based upon a 25% and 9.99% federal and state tax rate, respectively. The estimated decrease to the accumulated deferred income taxes (ADIT) as of December 31, 2017 based upon the TCJA tax rate of 21% and state tax rate of 9.99%, respectively is as follows:

	Federal	State (9.99%)	Total
25% ADIT	\$301,307	\$133,766	\$435,073
21% ADIT	253,098	133,766	<u>386,864</u>
Total	\$ 48,209	\$ 0	<u>\$ 48,209</u>

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

Response:

No.

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

Response:

No.

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

Response:

Fiscal year end December 31, 2017.

**9. Please provide the following information regarding your last Commission approved rate case:**

- a. Docket Number**
- b. Date filed**
- c. Approved Rate of Return**
- d. Approved Increase in Annual Revenues**
- e. Allocation of Approved Increase Among Major Customer Classes**
- f. Effective Date of new rates**

Response:

- a. R-2010-2171339.
- b. June 30, 2010.
- c. Approved Settlement was silent as to Rate of Return value.
- d. Requested revenue increase \$77,167 or 20.5% over existing rates. Commission order adopted and entered on February 10, 2011 approved settlement revenue increase of \$49,500 or 13.2% over existing rates.
- e. Allocation of Approved Increase Among Major Customer Classes in general was across of the board.
- f. Effective Date of new rates were February 11, 2011.

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Line No.	DESCRIPTION	Last Commission As-Filed Rate Case R-2010-2171339	Last Commission Approved Settlement R-2010-2171339	Actual Results 12/31/17 and same for Ratemaking	Ratemaking Adjustments	Proposed Adjusted 12/31/17
1a	Operating Revenues - General Rates	\$ 453,572	\$ 425,804	\$ 375,237		
1b	Operating Revenues - Pennvest Surcharge	106,780	106,780	86,108		
1c	Total Operating Revenues	\$ 560,352	\$ 532,584	\$ 461,345		
2	Less: O&M Expenses	313,847		292,235		
3	Book Depreciation	98,012		116,268		
4	Interest Expense	40,991		30,799		
	Operating Income before Taxes Total	\$ 107,502	\$ 532,584	\$ 22,043	\$ -	\$ -
6	Add: Premature Property Losses/ Amortizations					
7	Depr- Straight Line- Remaining Life (Incl COR)	98,012	n/a	116,268		
8	Taxable Meals & Entertainment			-		
9	Total	\$ 98,012	n/a	\$ 116,268	\$ -	\$ -
	Deduct					
10	Tax Depreciation (State)	\$ 166,037	n/a	\$ 23,603		
11	MACRS On Post 1986 Assets (State)			99,957		
11a	Other M-1 items (including PA Bonus Adj)			15,813		
12	Cost of Removal			-		
13	Total	\$ 166,037	n/a	\$ 139,373	\$ -	\$ -
14	State Taxable Income	\$ 39,477	n/a	\$ (1,062)	\$ -	\$ -
15	State Income At:					
16	Historic, Future and Fully Projected At 9.99%	\$ 3,944	n/a	\$ -	\$ -	\$ -
17	Taxable Income after State Income Tax	\$ 35,533	n/a	\$ (1,062)	\$ -	\$ -
18	Add: Cost Of Removal Non Adr Property					
18a	Addl Bonus Adj			1,062		
19	ACRS On Post 1980 Assets			-		
20	MACRS On Post 1980 Assets- State			-		
21	Deduct: SLRL On Post 1980 Assets & Amortization					
22	Income Subject To Federal Income Tax	\$ 35,533	n/a	\$ -	\$ -	\$ -
23	Federal Income Tax 1st \$25K@15%, balance at 25%	\$ 6,383	n/a	\$ -	\$ -	\$ -
24	Federal Income Tax at 21%	\$ 7,462	n/a	\$ -	\$ -	\$ -

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<u>Pre TCJA Taxes</u>	<u>Net Tax Effect</u>
Federal- Current (Page 1, Column 4, Line 23)	\$ -
Federal- Deferred	\$ 301,307
<u>Less: Post TCJA Taxes</u>	
Federal- Current (Page 1, Column 4, Line 24)	\$ -
Federal- Deferred	\$ 253,098
Effect of TCJA On Income (A)	\$ -
Change in ADIT	\$ 48,209
Comission Approved Rate of Return	Note Company has operating loss, thus a negative rate of return.
Effect of ADIT Change on Income (B)	\$ -
Earnings Excess (Line A - Line B)	\$ -
Complement of Tax Rate	0.711079
Revenue Excess	\$ -
Commission Allowed Revenues (Excl PV SC)	\$ 375,237
Percent Decrease Per Bill	0.0000%

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Statutory State Tax Rate	9.99%
Statutory Federal Tax Rate	21%
1 minus State Tax Rate	0.9001
Federal Rate multiplied by (1 minus State Tax Rate)	0.189021
Effective Tax Rate	0.288921
1 minus Effective Tax Rate (Complement Tax Rate)	0.711079
Reciprocal	1.406314

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I, Bradley R. Gossler, hereby state that the facts and data attached 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 subject to the penalties of PA. C. S. § 4904 (relating to unsworn falsification to authorities).

A handwritten signature in blue ink that reads "Bradley R. Gossler". The signature is written in a cursive style and is positioned above a horizontal line.

Bradley R. Gossler  
Executive Director and Vice President of Reynolds Disposal Company