

Case 17-M-0815 Tax Cuts and Jobs Act of 2017 Technical Conference on Utility Accounting and Ratemaking

Overview Of Proceeding

- The Tax Cuts and Jobs Act of 2017 (Tax Act) signed into law December 22, 2017
- Commission Institutes Proceeding December 29, 2017
 - Tax Act makes significant changes to the federal tax structure
 - · Effects of the Tax Act on utilities will be material
 - Commission's intent to protect ratepayers' interest
 - Expressed goal is to ensure preservation of net benefits for ratepayers

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February 9, 2018

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NEW YORK Department of Public Service

Milestones

- Informal request for information from major electric, gas, steam, water utilities, and all telephone companies, to identify and quantify the impact of the Tax Act
- Technical conference February 9, 2018
- Staff issues whitepaper March 29, 2018
- Parties' comments due 90 days later June 27, 2018
- Commission to issue decision Case 17-M-0815

Goals For Today

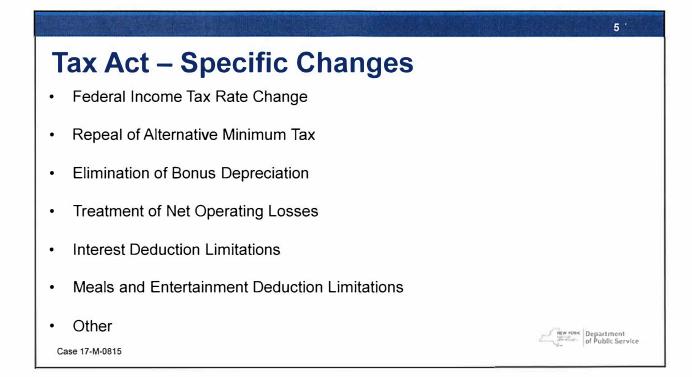
- Gain a common and comprehensive understanding of how the Tax Act impacts New York State utilities
- Discuss appropriate ratemaking and related accounting
- · Discuss how best to quantify the net benefits
- Explore financial implications of the Tax Act and related ratemaking
- Explore if ratemaking for all utilities and/or all industries should be the same

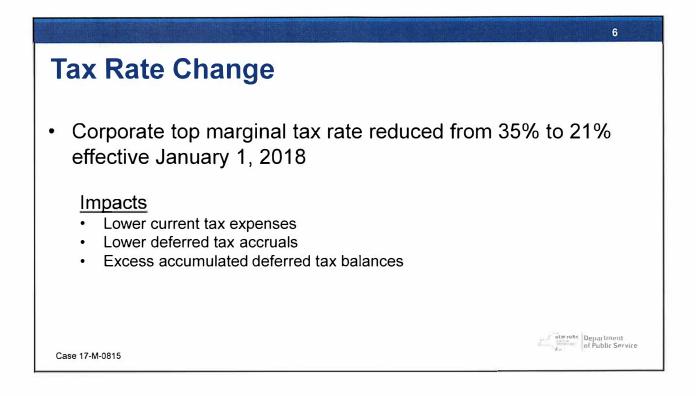
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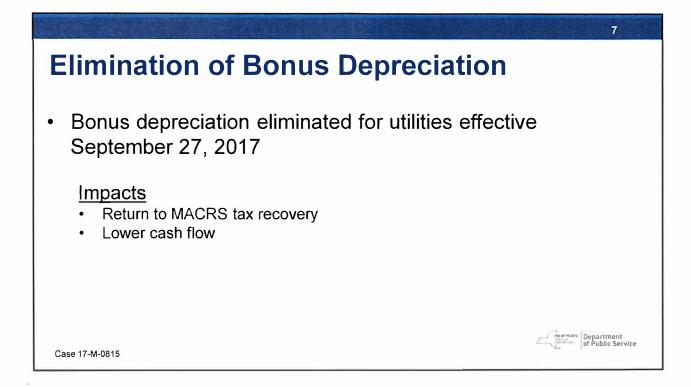
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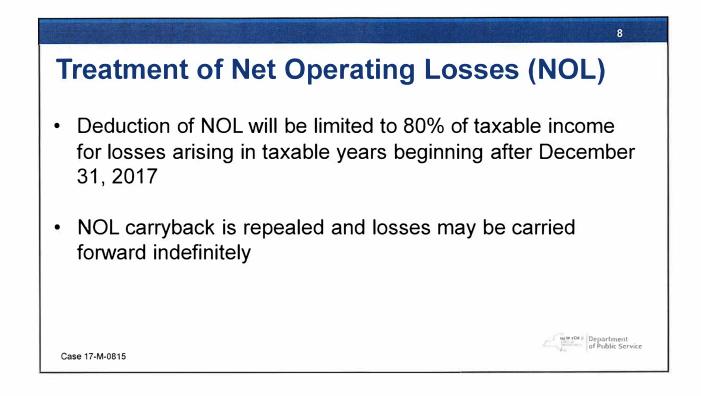
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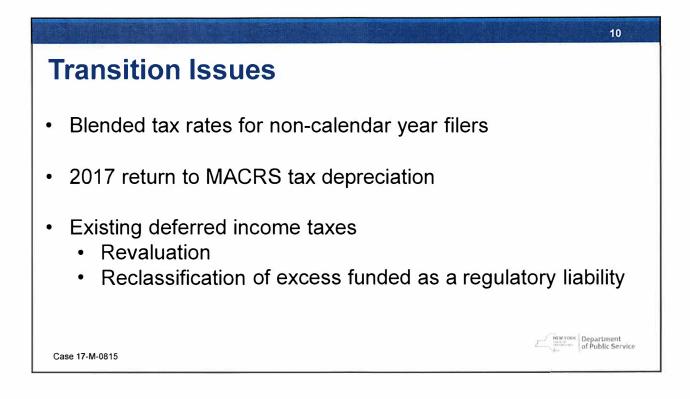




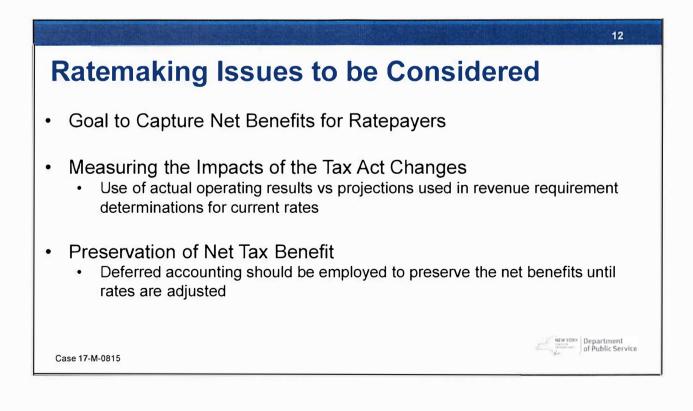


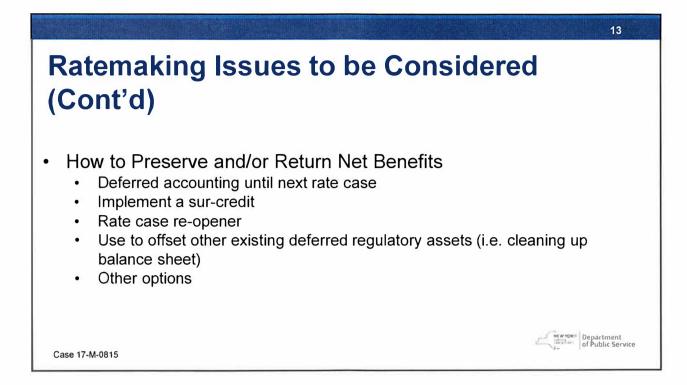


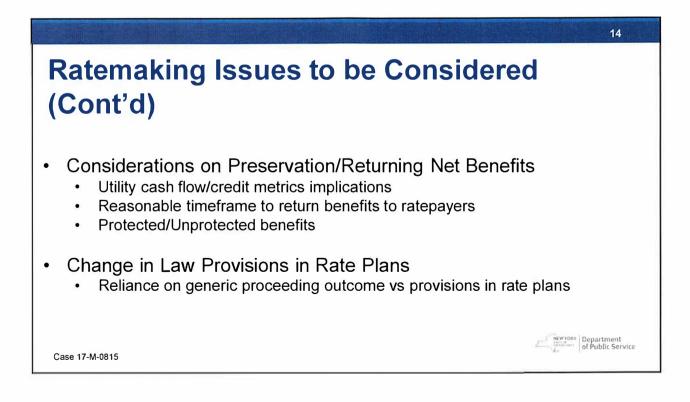
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Interest Deduction Limitation
 Interest deduction limitation does not apply to utilities, but may affect holding companies
 Interest costs assigned to utility should still be deductible
 May have to revisit tax sharing allocations with respect to consolidated structures
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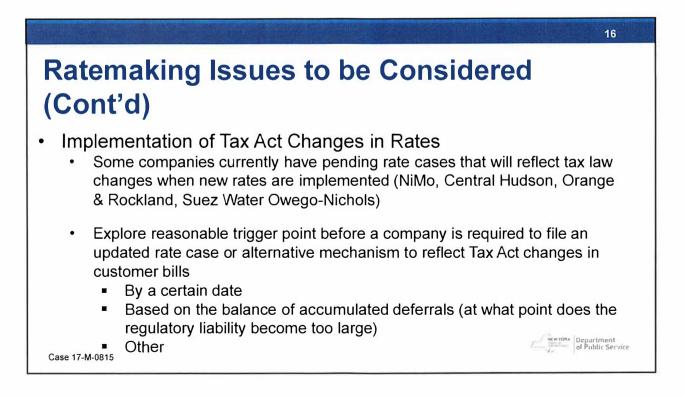
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Excess Deferred Income Taxes	
 Revaluation of deferred tax assets/liabilities at year end 20 Excess deferred taxes recorded as regulatory assets/liabilities (grown) 	
Asset related excess (protected)	
Other timing differences (unprotected)	
Segregation of balances on books	
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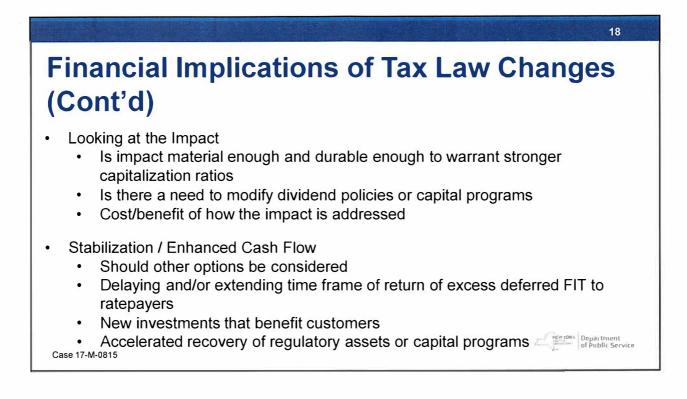


15 Ratemaking Issues to be Considered (Cont'd) Carrying charge rate to be applied to deferred balance Pre-tax overall weighted average cost of capital Other customer capital rate Rate allowed in current rate plan Other Items Impacted by Tax Act Changes Change in value of a basis point Rate plan revenue adjustments and incentives Earnings calculation used in earning sharing mechanism FERC transmission rates FERC interstate pipeline rates • of Public Service Case 17-M-0815



Financial Implications of Tax Law Changes

- Rating Agencies View of Tax Reform
 - Due primarily to reduced future cash flows, largely viewed as credit negative for utility industry
 - Moody's negatively changes outlooks on 25 regulated utilities
 - S&P impact on most issuers mild enough to offset effect and preserve ratings; trickier path for companies skirting edge of financial profile requirements
- Anticipate most companies will actively manage their cash flow to debt ratios by issuing more equity or through regulatory relief, including stronger capital structures



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19 **Discussion** Other Concerns • Needed system changes and/or updates to tax or accounting software ٠ Other ٠ Utility and/or Industry Specific Considerations • · Should the Commission give consideration to whether a utility has rates based on cost of service (energy & water) vs market based rates (telephone) • Should consideration be given to the size of a utility (small water companies) Other Comments and/or Questions ٠ NEW YORK Department Case 17-M-0815

