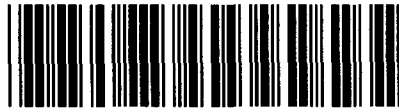


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Public Utility Commission of Texas

48226

Memorandum

2018 AUG 28 PM 2:41

PUBLIC UTILITY COMMISSION
FILING CLERK

To: Chairman DeAnn T. Walker
Commissioner Arthur C. D'Andrea
Commissioner Shelly Botkin

From: Darryl Tietjen, Rate Regulation

Re: Open Meeting, August 30, 2018—**Agenda Item #26**
Project No. 47945—*Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*

Date: August 28, 2018

The attached *Revised Memo* includes the following revisions to Staff's memorandum filed August 23, 2018:

1. Footnote 1 notes that the Commission order for El Paso Electric Company's Docket No. 48124 is pending.
2. In the table on page 2 of the memo, the *Distribution* column includes corrected amounts for AEP Texas and CenterPoint Energy. The effects of the revised figures flow through to the totals of other affected columns and result in a total (to date) Commission-approved reduction to annual federal income tax expense for all companies of \$333 million (increased from the \$297 million figure included in the memo filed August 23).

I apologize for the errors.

Please let me know if you have any questions.

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Public Utility Commission of Texas

Memorandum

To: Chairman DeAnn T. Walker
Commissioner Arthur C. D'Andrea
Commissioner Shelly Botkin

From: Darryl Tietjen, Rate Regulation

Re: Open Meeting, August 30, 2018—**Agenda Item #26**
Project No. 47945—*Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*
(Revised Memo)

Date: August 28, 2018

Background and Purpose of Memo

In January 2018, after the enactment in December 2017 of legislation amending federal tax law, the Commission opened this project to investigate and address the new law's effects on the rates charged by regulated Texas investor-owned utility companies. The purpose of this memo is to provide a brief summary of the reductions to the amounts of annual income tax expense the Commission has approved, to date, for electric utility companies.

Discussion and Summary of Results

As Staff discussed with the Commission at the February 15, 2018 Open Meeting (under agenda item #27), the Public Utility Regulatory Act (PURA) and Commission rules include a number of different ratemaking mechanisms—e.g., interim transmission cost-of-service filings, distribution cost recovery factor (DCRF) filings, various forms of credit riders, etc.—that are available to the state's investor-owned electric utility companies for the purpose of adjusting rates to reflect reduced amounts of income tax expense. At that same Open Meeting, the Commission approved and issued its *Amended Order Relating to Changes in Federal Income Tax Rates*, and stated therein that:

The Commission directs the Commission Staff to review each investor-owned utility in Texas, with input from interested stakeholders, on a case-by-case basis to determine the appropriate mechanism to adjust its rates to reflect the changes under the newly enacted federal tax law.

Over the last six months, consistent with the Commission's directive, all investor-owned electric utility companies in the state have used various types of filings (some companies have used combinations of certain types of filings) to reduce the amount of income tax expense included in their authorized rates. For the majority of the companies, the Commission has now issued orders approving reductions in rates (some cases are pending).

The table below provides a summary of the amounts of income tax reductions the Commission has authorized, to date,¹ for the state's 13 investor-owned electric utility companies. Please note that the

¹ The table includes the results from CenterPoint's Docket No. 48226 and AEP's Docket No. 48222, the final orders for which the Commission will consider at the August 30, 2018 Open Meeting. Please additionally note that the order for El Paso Electric's Docket No. 48124 is also pending, and for Oncor's Docket No. 48325 (which has reached a settlement in principle), the table includes the amount of the income tax reduction contained in Oncor's application.

table focuses only on each company's change in income tax expense resulting from the reduction in the corporate tax rate from 35% to 21%; the specific circumstances and treatments of other tax-related adjustments—for example, those relating to the amortization of excess accumulated deferred federal income tax (ADFIT), and the refund of the tax-expense regulatory liability the Commission ordered each company to record beginning January 25, 2018—are complex and vary between companies. Accordingly, for purposes of presentational simplicity, the table lists only the difference in annual federal income tax expense resulting from the tax-rate change from 35% to 21%.

Summary of Commission-Approved Reductions to Federal Income Tax Expense				
Transmission & Distribution Utilities and Transmission-Only Utilities				
Company	Docket	Reduction in Federal Income Tax Expense (MM=million)		
		Transmission	Distribution	Total Company
AEP Texas	48122; 48222	\$24 MM ^{Note 1}	\$20 MM ^{Note 2}	\$44 MM
CenterPoint Energy Houston Electric	48065; 48226	\$23 MM	\$39 MM	\$62 MM
Cross Texas Transmission	48179	\$5 MM		\$5 MM
Electric Transmission Texas	48340	\$27 MM		\$27 MM
Lone Star Transmission	48101	\$7 MM		\$7 MM
Oncor Electric Delivery Company	47988; 48325	\$57 MM	\$73 MM	\$130 MM
Sharyland Utilities	47649	\$20 MM		\$20 MM
Texas-New Mexico Power Company	48001	\$5 MM		\$5 MM
Wind Energy Transmission Texas	48127	\$10 MM		\$10 MM
Totals (TDUs & Transmission-Only)		\$178 MM	\$132 MM	\$310 MM
Vertically Integrated Companies				
El Paso Electric Company	48124			\$23 MM
Total (all companies)				\$333 MM
Note 1: Total amount of \$24 MM consists of \$18 MM for AEP Texas Central and \$6 MM for AEP Texas North.				
Note 2: Total amount of \$20 MM consists of \$16 MM for AEP Texas Central and \$4 MM for AEP Texas North.				
Pending Cases				
Company	Docket			
Southwestern Electric Power Company	48233			
Southwestern Public Service Company	47527			
Entergy Texas	48371			
Texas-New Mexico Power	48401			

Staff is available to answer any questions you may have about this information.

