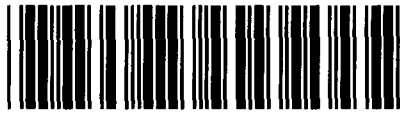




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DeAnn T. Walker  
Chairman

Arthur C. D'Andrea  
Commissioner

Shelly Botkin  
Commissioner

John Paul Urban  
Executive Director



Greg Abbott  
Governor

2019 JAN 14 PM 4:30

PUBLIC UTILITY COMMISSION  
FILING CLERK

## *Public Utility Commission of Texas*

**TO:** DeAnn T. Walker, Chairman  
Arthur D'Andrea, Commissioner  
Shelly Botkin, Commissioner  
  
All Parties of Record

**FROM:** Mayson Pearson, Administrative Law Judge  
Docket Management

**RE:** **Open Meeting of February 7, 2019 MP**  
Docket No. 48451 – *Application of Southern Utilities Company for a Minor  
Tariff Change for New Federal Tax Change Credit Rider*

**DATE:** January 14, 2019

Enclosed is a copy of the Proposed Order in the above-referenced docket. The Commission is currently scheduled to consider this docket at an open meeting to begin at 9:30 a.m. on Thursday, February 7, 2019, at the Commission's offices, 1701 North Congress Avenue, Austin, Texas. The parties must file corrections or exceptions to the Proposed Order on or before Tuesday, January 23, 2019.

**If there are no corrections or exceptions, no response is necessary.**

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**DOCKET NO. 48451**

**APPLICATION OF SOUTHERN  
UTILITIES COMPANY FOR A  
MINOR TARIFF CHANGE  
(FEDERAL TAX CUT CREDIT  
RIDER)**

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§

**PUBLIC UTILITY COMMISSION  
  
OF TEXAS**

**PROPOSED ORDER**

This Order addresses the application of Southern Utilities Company for approval of a federal tax cut credit (FTCC) rider to pass through estimated tax savings gained as a result of the Tax Cuts and Jobs Act of 2017 (TCJA)<sup>1</sup>. The Commission approves the rider and grants Southern's requests related to requirements ordered in Project No. 47945.<sup>2</sup>

The Commission adopts the following findings of fact and conclusions of law:

**I. Findings of Fact**

**Applicant**

1. Southern is an subchapter S corporation subject to the maximum tax rate of 37% under the Tax Cuts and Jobs Act of 2017 (TCJA).
2. Southern is a for-profit corporation registered with the Texas Secretary of State under file number 20247500.
3. Southern provides water service under certificate of convenience and necessity number 10762 in Cherokee, Rusk, and Smith counties.

**Application**

4. On June 8, 2018, Southern filed an application requesting the following:
  - a. Approval of the proposed FTCC rider; and
  - b. Approval to deviate from the requirement in the order in Project No. 47945 that requires all class A water utilities to record as a regulatory liability beginning on

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<sup>1</sup> Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, Pub. L. No. 115-97, 113 Stat. 2054 (Dec. 22, 2017).

<sup>2</sup> *Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*, Project No. 47945, Amended Order (Feb. 15, 2018).

January 25, 2018 the following: (1) the difference between the revenues collected under existing rates and the revenues that would have been collecting had the existing rates been set using the recently approved federal income tax rates; and (2) the balance of accumulated deferred federal income taxes (ADFIT) that now exists because of the decrease in the federal income tax rates.

5. In a notice of approval issued on July 11, 2018, the administrative law judge (ALJ) deemed Southern's application administratively complete.

#### **Notice**

6. On June 21, 2018, Southern issued notice of the application to approve the implementation of the FTCC to all affected customers.
7. On June 26, 2018, Southern filed the affidavit of Michael R. Farrell, president of Southern, attesting to the provision of notice mailed to affected customers on June 21, 2018.

#### **Interim Rates**

8. On June 8, 2018, Southern requested approval to apply the FTCC as an interim rate for its water service customers prior to final Commission approval.
9. In a notice issued on July 11, 2018, the ALJ granted Southern's request and approved the FTCC rider on an interim basis.

#### **Federal Tax Cut Credit Rider**

10. The proposed monthly FTCC for bills rendered on or after an effective date of August 1, 2018 through July 31, 2019, includes a catch-up credit rider amount for February through July 2018 and an estimated amount equal to a \$2.49 monthly credit by meter equivalent for five months out of the remaining six month period since Southern has already completed one month of the credit period.
11. The proposed FTCC reflects the reduction in revenue requirement of \$531,256 for all of Southern's water utility divisions in Texas based on its 2016 actual historical information.
12. The rates established by this Order accurately reflect the federal income tax rate reduction from 37% to 21% on Southern's annual federal income tax expenses.
13. The FTCC does not address the accounting and rate-making treatment of excess ADFIT

arising from changes to the federal tax law in the TCJA of 2017.

**Evidentiary Record**

14. In a notice issued on August 24, 2018, the ALJ admitted the following evidence into the record: Southern's FTCC application filed June 8, 2018; affidavits and proof of notice filed June 26, 2018; Commission Staff's sufficiency recommendation filed July 9, 2018; the notice of approval addressing sufficiency, adopting a procedural schedule, and approving the credit rider on an interim basis filed July 11, 2018; Commission Staff's final recommendation for approval of the application filed July 20, 2018; and Commission Staff's amendment to the final recommendation filed July 25, 2018.

**Informal Disposition**

15. More than 15 days have passed since the completion of notice provided in this proceeding.
16. Commission Staff and Southern are the only parties to this proceeding.
17. No party filed protests or request for hearing; thus, no hearing is necessary.
18. The decision is not adverse to any party.

**II. Conclusions of Law**

1. Southern is a water utility as defined in Texas Water Code (TWC) § 13.002(23) and 16 Texas Administrative Code (TAC) § 24.3(76).
2. The Commission has jurisdiction over the application under TWC §§ 13.041, 13.181, and 13.182.
3. Southern is a class A utility as defined in TWC § 13.002(4-a) and 16 TAC § 24.3(15).
4. The Commission has the authority to approve the FTCC under 16 TAC § 24.25(b)(2)(A)(v).
5. The Commission has the authority to implement the approved FTCC as a pass-through provision under § 24.25(b)(2)(C).
6. The notice provided to customers complies with 16 TAC § 24.25(b)(2)(F).
7. The application complies with the Order in Project No. 47945.
8. The Commission processed the application in accordance with the TWC and Commission

rules.

9. The rates established by this Order are just and reasonable under TWC § 13.182(a).
10. In accordance with TWC §13.182(b), the rates established by this Order are not unreasonably preferential, prejudicial, or discriminatory and are sufficient, equitable, and consistent in application to each class of customer.
11. The overall revenues produced by the rates established in this Order conform to TWC § 13.183.
12. The requirements for informal disposition in 16 TAC § 22.35 have been met in this proceeding.

### III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The Commission approves Southern's FTCC rider attached to Commission Staff's amended final recommendation filed on July 25, 2018.
2. The approved FTCC rider must remain in effect until Southern's next rate case.
3. Southern may defer for future regulatory treatment any amortization of the protected and unprotected excess ADFIT that it makes for accounting purposes and reflect such deferred liability amounts in the determination of Southern's rates in its next base rate application.
4. Southern must address, with its next rate case, the regulatory liability required by the Accounting Order in Docket No. 47995 for the balance of ADFIT that exists because of the decrease in the federal income tax rates.
5. Within 10 days of the date of this Order, Commission Staff must file a clean copy of the approved FTCC rider for Central Records to be marked *Approved* and kept in the Commission's tariff books.
6. The Commission denies all other motions and any other requests for general or specific relief, if not expressly granted.

**Signed at Austin, Texas the \_\_\_\_\_ day of January 2019.**

**PUBLIC UTILITY COMMISSION OF TEXAS**

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**DEANN T. WALKER, CHAIRMAN**

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**ARTHUR C. D'ANDREA, COMMISSIONER**

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**SHELLY BOTKIN, COMMISSIONER**

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