



Control Number: 48872



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DOCKET NO. 48872

**APPLICATION OF MSEC
ENTERPRISES, INC. FOR FEDERAL
TAX CHANGE CREDIT RIDER**

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**PUBLIC UTILITY COMMISSION
OF TEXAS**
2019 JUN -5 AM 11:18
COMMISSION
FILING CLERK

**COMMISSION STAFF'S CORRECTION TO STAFF'S
FINAL RECOMMENDATION AND MOTION TO ADMIT EVIDENCE**

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files this Staff's Correction to Staff's Final Recommendation and Motion to Admit Evidence. In support thereof, the Staff would show the following:

I. BACKGROUND

On December 14, 2018, MSEC Enterprises Inc. (MSEC) filed a minor tariff change application for a new Federal Tax Change Credit Rider (FTCCR) to provide a credit to MSEC's customers effective for bills rendered on or after January 1, 2019. MSEC developed the FTCCR as a means to pass estimated savings resulting from the federal Tax Cuts and Jobs Act of 2017 corporate income tax rate reduction to customers. MSEC filed the FTCCR pursuant to 16 Texas Administrative Code (TAC) § 24.25(b)(2)(A)(v), formerly 16 TAC § 24.21(b)(2)(A)(v).

Staff filed its final recommendation on March 26, 2019, recommending approval of the application. On April 9, 2019, Staff and MSEC filed a joint motion to admit evidence and proposed notice of approval. On April 16, 2019 a Notice was issued admitting items into evidence.

II. STAFF'S CORRECTION TO STAFF'S FINAL RECOMMENDATION

The memorandum attached to Staff's final recommendation included the incorrect credit amount for water in the amount of \$104,837.52. The correct amount is \$140,837.52. Staff attaches the corrected memorandum to this pleading, which reflects the correct credit amount for water.

III. MOTION TO ADMIT EVIDENCE

Staff requests that the following evidence be admitted into the record of this proceeding:

- a. Staff's Correction to Staff's Final Recommendation, including the attached corrected Staff memorandum of Emily Sears.

IV. CONCLUSION

Staff is attaching a red-lined copy of Ms. Sears's final memorandum to include the correct credit amount for water in the amount of \$140,837.52. Furthermore, Staff respectfully requests the admittance of the evidence specified herein.

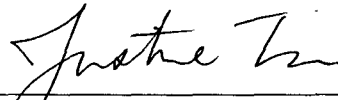
Date: June 5, 2019

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on June 5, 2019, in accordance with 16 TAC § 22.74.



Justine Isabelle Caedo Tan

PUC Interoffice Memorandum

To: Justine Tan, Attorney
Legal Division

Thru: Tammy Benter, Director
Water Utility Regulation Division

From: Emily Sears, Financial Analyst
Water Utility Regulation Division

Date: June 4, 2019

Subject: *Docket No. 48872; Application of MSEC Enterprises, Inc. for Federal Tax Change Credit Rider*

On December 14, 2018, MSEC Enterprises, Inc. (MSEC) filed a new proposed Federal Tax Change Credit Rider (FTCCR) with the Public Utility Commission of Texas. The FTCCR gives effect to the Tax Cuts and Jobs Act of 2017 (TCJA), which changed the federal corporate tax rate from 35% to 21%,¹ by reducing the cost of service paid by retail water and sewer utility customers taking service under MSEC's rate tariffs. The annual cost of retail service reduction resulting from the change in the federal tax rate is estimated by MSEC to be ~~\$140,837.52~~ \$104,837.52 for water and \$5,115.69 for sewer, based on its 2017 actual historical information. MSEC's proposed FTCCR is in response to the August 30, 2018 Second Order Related to Changes in Federal Income Tax Rates (Second Order) in Project No. 47945, *Proceeding to Investigate and Address the Effects of the Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*.

This memo represents the review and recommendation relating to MSEC's application. I have reviewed MSEC's requested annual FTCCR including the calculation of MSEC's proposed cost of service reduction resulting from the change in federal corporate income tax rate.

MSEC's FTCCR filing does not address the accounting and rate-making treatment of excess accumulated deferred federal income tax (ADFIT) arising from changes to federal tax law in the TCJA. This treatment is consistent with the Second Order in Project No. 47945, which requires Class B water utilities with more than 2,300 connections to account for a regulatory liability for "the balance of excess accumulated deferred federal income taxes (ADFIT) that now exists because of the decrease in the federal income tax rate from 35% to 21%." beginning on September 1, 2018. The Second Order does not require immediate treatment in rates, but only requires the establishment of a regulatory liability for full consideration at the next comprehensive rate review. Consistent with the Second Order, the calculations to determine the balance of excess ADFIT and regulatory treatment will be considered in MSEC's next comprehensive rate proceeding.

The FTCCR adjusts rates going forward and MSEC proposes to refund, over five months, the estimated balance of the regulatory liability for the period between August 30, 2018 and January 1, 2019 (the date the proposed rates were to go into effect). Thus, the credit is split into two stages.

¹ 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).

I recommend refunding the difference calculated from August 30, 2018 to the new date that the proposed rates are to go into effect (May 1, 2019) be refunded over eight months, instead of five. This is to align the number of months it will be passed back to the number of months over which it was collected. Using the five month period, MSEC estimated this amount for water to be \$2.28 and for sewer to be \$2.70 monthly credit per meter equivalent. I have recalculated this amount using the eight month period to be equal to \$2.54 for water and \$3.00 for sewer as a monthly credit per meter equivalent. The differences in the rates are caused by MSEC calculating a refund for four months and passing it back over five months, whereas Staff calculated a refund for eight months and recommends passing it back over eight months.

Based upon my review, I recommend that MSEC's FTCCR starting May 1, 2019 be approved as modified by Staff. I further recommend the rates starting January 1, 2020 be approved as listed in the attached tariff. The Applicant's new tariffs are attached to this filing.