

Control Number: 48872



Item Number: 2

Addendum StartPage: 0

DOCKET NO. 48872

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

2018 DEC 11 PM 2:58  
BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS

**APPLICATION OF MSEC ENTERPRISES, INC.  
FOR MINOR TARIFF CHANGES TO IMPLEMENT  
FEDERAL TAX CHANGE CREDIT RIDERS**

MSEC Enterprises, Inc. (MSEC) requests the Public Utility Commission of Texas’s (Commission) approval to implement new Federal Tax Change Credit Riders (FTCCRs or Credit Riders) that will be used to provide credits to MSEC water and sewer customers. MSEC requests the Commission approve the Credit Riders as minor tariff changes to its water and sewer tariffs filed under the Commission’s original ratemaking jurisdiction, pursuant to 16 Texas Administrative Code (TAC) § 24.25(b)(2)(A)(v).

**I. BACKGROUND**

The Tax Cuts and Jobs Act of 2017 (TCJA) changed the federal corporate tax rate from 35% to 21%. As a result of the TCJA, the Commission initiated 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*. The Second Order Related to Changes in Federal Income Tax Rates (Second Order), dated August 30, 2018, directed Commission Staff to review each Class B water and sewer investor-owned utility in Texas that has more than 2,300 connections and, with input from interested stakeholders, and on a case-by-case basis, determine the appropriate mechanism to adjust those utilities’ rates to reflect the changes under the newly enacted federal income tax law.

The Second Order also directed investor-owned Class B water and sewer utilities to record as a regulatory liability: (1) the difference between the revenues collected under existing rates and the revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates; and (2) 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%. The recording of the ordered regulatory liability was to commence beginning on September 1, 2018.

2

## II. CREDIT RIDERS

As addressed in the attached Affidavit of Andrew Dallmeyer, MSEC's proposal to implement Credit Riders represents the most expeditious and efficient means available to MSEC for providing estimated savings resulting from the TCJA to MSEC's customers before its next rate filings. These estimated savings represent the difference between the revenues collected under existing rates and the revenues that would have been collected had the existing rates been set using the recently-approved federal income tax rates.

MSEC seeks Commission approval of the Credit Riders and findings that, as to MSEC, the Credit Riders will satisfy the Commission's recently ordered requirement for all Class B water and sewer utilities to record as a regulatory liability the difference between the revenues collected under existing rates and the revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates from August 30, 2018 (the date of the Second Order) forward.

MSEC is proposing to calculate and implement the Credit Riders differently for its water and wastewater utilities. MSEC has 5,322 water customers, or 9,385 meter equivalents, but its sewer utility has only eight connections.

### A. Water Utility Credit Rider

MSEC proposes to implement the water utility Credit Rider at a certain level effective for water bills rendered on or after January 1, 2019, and continued at this same level through May 31, 2019. Thereafter, the Credit Rider will continue at a lower level commencing on June 1, 2019, and ending on the effective date of new rates resulting from MSEC's next water rate case. The initial water Credit Rider is a higher amount because it includes a catchup credit for the period of September 1, 2018, through December 31, 2018. MSEC also proposes to apply the water Credit Rider immediately to all service reflected on bills on or after January 1, 2019, so that customers

may experience lower water utility payments without delay. MSEC requests that this application be approved administratively under the Commission's informal disposition rule.<sup>1</sup>

The attached Affidavit of Andrew Dallmeyer (Attachment 1) contains supporting details for this water Credit Rider request. MSEC's calculations approximate estimated TCJA savings as explained in Mr. Dallmeyer's affidavit. Mr. Dallmeyer's affidavit also provides the Credit Rider calculations and information used to derive the proposed tariff sheets.

MSEC proposes that the water Credit Rider remain in effect until MSEC's water rates are adjusted in a future rate proceeding using all cost of service information (not just tax savings). MSEC also proposes that the treatment of ADFIT be deferred until the next full rate case.

**B. Sewer Utility Credit Rider**

Because MSEC only has eight sewer customers, the proposal for the sewer Credit Rider is calculated differently than the water Credit Rider, but the proposal for the implementation of the sewer Credit Rider is the same as for water. Namely, MSEC proposes to implement the sewer utility Credit Rider at a certain level effective for sewer bills rendered on or after January 1, 2019, and continued at this same level through May 31, 2019. Thereafter, the Credit Rider will continue at a lower level commencing on June 1, 2019, and ending on the effective date of new rates resulting from MSEC's next sewer rate case. The initial sewer Credit Rider is a higher amount because it includes a catch-up credit for the period of September 1, 2018, through December 31, 2018. MSEC also proposes to apply the sewer Credit Rider immediately to all service reflected on bills on or after January 1, 2019, so that customers may experience lower sewer utility payments without delay. MSEC requests that this application be approved administratively under the Commission's informal disposition rule.<sup>2</sup>

The attached Affidavit of Andrew Dallmeyer (Attachment 1) contains supporting details for the sewer Credit Rider request. MSEC's calculations approximate estimated TCJA savings as

---

<sup>1</sup> 16 TAC § 22.35.

<sup>2</sup> 16 TAC § 22.35.

explained in Mr. Dallmeyer's affidavit. Mr. Dallmeyer's affidavit also provides the Credit Rider calculations and information used to derive the proposed tariff sheets.

MSEC proposes that the sewer Credit Rider remain in effect until MSEC's sewer rates are adjusted in a future rate proceeding using all cost of service information (not just tax savings). MSEC also proposes that the treatment of ADFIT be deferred until the next full rate case.

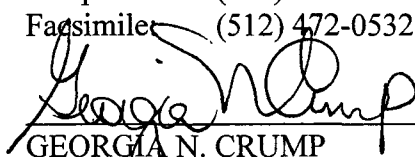
**C. Customer Notice**

MSEC proposes the form notices attached to the Affidavit of Mr. Dallmeyer, which will be mailed to MSEC's water and sewer customers. The notice identifies a 30-day intervention deadline. MSEC requests expedited review and approval of its proposed notice.

MSEC respectfully requests that its proposed notices to customers be approved, and that its proposed Federal Tax Change Credit Riders be approved as submitted.

Respectfully submitted,

**LLOYD GOSSELINK**  
**ROCHELLE & TOWNSEND, P.C.**  
816 Congress Avenue, Suite 1900  
Austin, Texas 78701  
Telephone: (512) 322-5800  
Facsimile: (512) 472-0532

  
\_\_\_\_\_  
GEORGIA N. CRUMP  
State Bar No. 05185500  
[gcrump@lglawfirm.com](mailto:gcrump@lglawfirm.com)


TY EMBREY  
State Bar No. 24025346  
[tembrey@lglawfirm.com](mailto:tembrey@lglawfirm.com)

WILLIAM A. FAULK, III  
State Bar No. 24075674  
[cfaulk@lglawfirm.com](mailto:cfaulk@lglawfirm.com)

ATTORNEYS FOR  
MSEC ENTERPRISES, INC.

**CERTIFICATE OF SERVICE**

I certify that a copy of this document was served on all parties of record in this proceeding on this 14th day of December 2018, in the following manner: hand delivered, sent via facsimile, or mailed by U.S. First Class Mail.

  
GEORGIA N. CRUMP

**DOCKET NO. 48872**

<b>APPLICATION OF MSEC</b>	<b>§</b>	<b>BEFORE THE</b>
<b>ENTERPRISES, INC. FOR FEDERAL</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>TAX CHANGE CREDIT RIDER</b>	<b>§</b>	<b>OF TEXAS</b>

**AFFIDAVIT**

STATE OF TEXAS           §  
  §  
COUNTY OF GRIMES       §

1. My name is Andrew Dallmeyer, I am the Treasurer of MSEC Enterprises Inc. (MSEC).

2. I swear or affirm that I have personal knowledge of the facts set forth in this Affidavit, and I am authorized to make this Affidavit on behalf of MSEC. Each fact set forth in this Affidavit is true and correct.

3. I am familiar with Public Utility Commission (Commission) Project No. 47945, *Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 (TCJA) on the Rates of Texas Investor-Owned Utility Companies*, including the Second Order Related to Changes in Federal Income Tax Rates (Second Order), dated August 30, 2018. The Second Order directed Commission Staff to review each Class B water and sewer investor-owned utility in Texas that has more than 2,300 connections and, with input from interested stakeholders, and on a case-by-case basis, determine the appropriate mechanism to adjust those utilities’ rates to reflect the changes under the newly-enacted federal income tax law. The Order also directed investor-owned Class B water and sewer utilities to record as a regulatory liability: (1) the difference between the revenues collected under existing rates and the revenues that would have been collected had the existing rates been set using the recently-approved federal income tax rates; and (2) 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%. The recording of the ordered regulatory liability was to commence beginning on September 1, 2018.

4. MSEC has complied with the regulatory accounting for excess accumulated deferred federal income taxes (ADFIT), as required by the Commission. MSEC proposes to implement credit riders for its water and sewer tariffs in satisfaction of the requirement that it account for the excess taxes as a regulatory liability. MSEC’s proposal is set forth in this affidavit.

5. MSEC's current water rates were approved by the Texas Commission on Environmental Quality (TCEQ) in 2006. Since that time, MSEC has applied for, and received, approval from the Commission for adjustments to pass-through fees imposed by the Lone Star Groundwater Conservation District, the San Jacinto River Authority, and the Bluebonnet Groundwater Conservation District.

6. MSEC's sewer rates were also approved by the TCEQ in 2006. Additional meter sizes were added to the sewer tariff in 2017 in PUC Docket No. 44740 when the sewer CCN was amended. MSEC currently has eight sewer customers, including its operations building.

7. MSEC is proposing two different calculations to develop the credit riders that will lower its rates. For water customers, MSEC is proposing to calculate the credit rider based on meter equivalents; for sewer customers, MSEC is proposing to calculate the credit rider for each customer based upon that customer's contributions to system revenues. Both of these calculation methodologies have the effect of lowering water and sewer rates immediately so as to provide MSEC's customers with rate relief commensurate with the lower tax rate. MSEC requests approval of these methodologies and the mechanisms I describe herein in order to avoid the incurrence of additional regulatory liabilities, and also requests that it be permitted to address ADFIT in its next water and sewer rate cases.

8. The rate mechanism MSEC proposes for its water and sewer utilities is a Federal Tax Change Credit Rider (FTCCR or Credit Rider) applied to its tariffs as a minor tariff change pursuant to 16 Texas Administrative Code (TAC) § 24.25(b)(2)(A)(v). That provision permits "rate adjustments to implement . . . downward rate adjustments to reconcile rates with actual costs." MSEC proposes its FTCCRs for the purpose of approximating such reconciliations for only its federal income tax expense costs, to use for its regulated water and sewer businesses to obtain the basis for its estimated TCJA tax savings so that some amount of savings may be passed back to its customers now.

9. I have developed the water and sewer FTCCRs that MSEC proposes to use for the benefit of its customers until its next general rate cases.

#### **Water Credit Rider Calculation**

10. For water customers, I have determined the Credit Rider monthly credit amounts and the method for implementing them in customer bills as follows:



(a) I started with MSEC's 2017 earnings before taxes, and subtracted the Texas Franchise Tax. This produces a water Net Income Before Taxes of \$794,726.41.

(b) This amount was then multiplied by 14%, the difference between MSEC's 2017 tax rate of 35% and the new tax rate of 21% under the TCJA.

(c) The adjusted tax expense difference was grossed up by a factor of 1.2658, which is calculated as follows:

$$\text{Gross Up Factor} = 1 + (21\% / (1-21\%))$$

(d) The resulting credit amount for water is \$140,835.05.

(e) To calculate a monthly credit amount to be applied to customer water bills, I divided the total water credit amounts by twelve months, resulting in a monthly credit for water customers, and then divided this amount by the number of water meter equivalents. The resulting monthly credit amount for a water customer with a  $\frac{3}{4}$  x  $\frac{5}{8}$  inch meter is \$1.27. To calculate the monthly credit amounts for other meter sizes, I multiplied the  $\frac{3}{4}$  x  $\frac{5}{8}$  inch meter size credit amount by the appropriate meter equivalent factor. These calculations are shown on the schedule attached as Attachment A. It should be noted that MSEC does not have any  $\frac{3}{4}$  x  $\frac{5}{8}$ -inch meters (its smallest meter is  $\frac{3}{4}$ " ), therefore no revenue or credit amounts are assigned to that water meter size.

### **Wastewater Credit Rider Calculation**

11. For sewer customers, I have determined the Credit Rider monthly credit amounts and the method for implementing them in customer bills as follows:

a. I started with MSEC's 2017 earnings before taxes, and subtracted the Texas Franchise Tax. This produces a sewer Net Income Before Taxes of \$28,867.11

b. This amount was then multiplied by 14%, the difference between MSEC's 2017 tax rate of 35% and the new tax rate of 21% under the TCJA.

c. The adjusted tax expense difference of \$4,041.40 was grossed up by a factor of 1.2658, which is calculated as follows:

$$\text{Gross Up Factor} = 1 + (21\% / (1-21\%))$$

d. The resulting credit amount for sewer is \$5,115.60.

e. To calculate a monthly credit amount to be applied to customer sewer bills, I determined each sewer customer's percentage allocation based on its contribution to MSEC's total sewer system revenues on an annual basis. I then applied these percentages to the

grossed-up total credit amount to determine the amount of credit that each sewer customer will receive, on an annual basis. These calculations are shown on the schedule attached as Attachment B. By dividing the individual credit amounts by 12, the monthly amount to be credited to each customer's bill is shown. The resulting monthly credits range from \$1.50 for a 1" meter, to \$190.57 for a 10" meter.

### **True-up Credit Calculations**

12. In addition to the monthly credit amounts described above, MSEC proposes to true-up the amount of the credits by crediting customers the amount of estimated tax savings accumulated from September 1, 2018, until December 31, 2018, when the credits will be implemented. MSEC will credit customers this additional amount over a five month period—from January 1, 2019, until May 31, 2019. Five months is a reasonable timeframe over which to apply the true-up credits and will have less impact on MSEC's cash flows than applying the credits over a shorter period. To calculate the additional credit amounts (the "true-up credits") that will be applied to customer bills in the first five months of the FTCCRs, I took the monthly base amounts as described above, and multiplied this amount by 4 (which assumes that the FTCCRs will go into effect on January 1, 2019, the start of the fifth month after the effective date of the Second Order). This is the total amount of tax true-up credits.

### **Water True-up Credit Calculation**

13. For water customers, the water true-up credit was divided by 5 (for the 5-month pay-back period), and then divided by the number of meter equivalents, to result in the monthly water true-up credit for a customer with a  $\frac{3}{4} \times \frac{5}{8}$  inch meter size. The monthly  $\frac{3}{4} \times \frac{5}{8}$  inch meter true-up credit amount for water is \$1.02. This amount was then multiplied by the appropriate meter equivalent factors for other meter sizes.

### **Wastewater True-up Credit Calculation**

14. For sewer customers, the sewer true-up credit for each was multiplied by 4 and divided by 5, for the same reasons as stated above for the water true-up credit.

### **Duration of Credits**

15. The monthly customer credits during the first five months of the FTCCR include both the on-going credits and the true-up credits. Thereafter, only the on-going credits will be applied to

customer bills. The credits by meter size for water and sewer customers are detailed in the tariff sheets attached hereto as Attachment C (water) and Attachment D (sewer).

**Compliance with Second Order**

16. MSEC submits that its approach will likely provide more benefit to customers than a regulatory liability recorded pursuant to the Second Order because: (1) the actual tax savings MSEC will experience for the 2018 tax year remain uncertain, as do other portions of the TCJA, and the actual tax savings may not be as much as anticipated and reflected in the FTCCR; and (2) an immediate implementation of the FTCCRs will provide certain benefits to current customers.

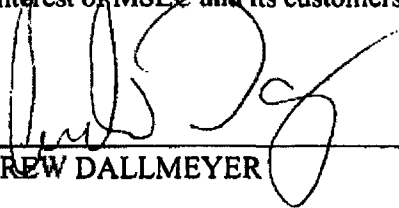
**Notice**

17. While no specific statutory or regulatory notice requirement applies to the type of minor tariff change MSEC is proposing with its requested FTCCR provisions, MSEC intends to provide notice of the Credit Riders Application to its water and sewer customers. Attachment E is the notice MSEC proposes to send to its water customers, and Attachment F is the notice MSEC proposes to send to its sewer customers explaining the FTCCRs.

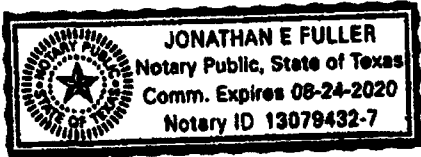
18. MSEC respectfully requests that this application be administratively approved pursuant to the informal disposition process under 16 TAC § 22.35, as no hearing should be required for MSEC to expeditiously lower customer rates through its proposed FTCCR implementation.

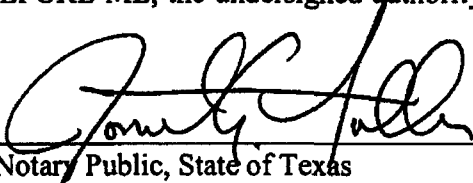
19. MSEC believes that the MSEC Credit Riders application package is consistent with the intent of the Commission’s Order and is in the best interest of MSEC and its customers.

Further affiant sayeth not.

  
\_\_\_\_\_  
ANDREW DALLMEYER

SWORN AND SUBSCRIBED TO BEFORE ME, the undersigned authority, on this the 14<sup>th</sup> day of December, 2018.



  
\_\_\_\_\_  
Notary Public, State of Texas

# WATER SCHEDULE

2017

ATTACHMENT A

Income B4 Tax \$ 794,726.41

Tax @ 35% \$ 278,154.24

Tax @ 21% \$ 166,892.55

Difference \$ 111,261.70

Factor 1.2658

Grossed Up \$ 140,835.05

Meter Size	Meters	Meter Ratio	Meter Equivalencies	Give Back Per Meter (Month)	Give Back Total (Month)	Give Back Total (Annual)
5/8" X 3/4"	0	1.0	0	\$1.27	\$0.00	\$0.00
3/4"	4,599	1.5	6,899	\$1.90	\$8,733.82	\$104,805.89
1"	829	2.5	2,073	\$3.17	\$2,623.88	\$31,486.58
1 1/2"	5	5.0	25	\$6.33	\$31.65	\$379.81
2"	23	8.0	184	\$10.13	\$232.95	\$2,795.43
3"	6	15.0	90	\$18.99	\$113.94	\$1,367.33
<b>Total</b>	<b>5,462</b>		<b>9,270</b>		<b>\$11,736.25</b>	<b>\$140,835.05</b>

# SEWER SCHEDULE

2017

## ATTACHMENT B

Income B4 Tax \$ 28,867.11

Tax @ 35% \$ 10,103.49

Tax @ 21% \$ 6,062.09

Difference \$ 4,041.40

Factor 1.2658

Grossed Up \$ 5,115.60

Meter Size	Monthly Rate	Weighted Avg.	Give Back (Annual)	Give Back (Month)
1"	\$ 100.00	0.4%	\$ 17.95	\$ 1.50
2"	\$ 275.00	1.0%	\$ 49.36	\$ 4.11
2"	\$ 275.00	1.0%	\$ 49.36	\$ 4.11
2"	\$ 275.00	1.0%	\$ 49.36	\$ 4.11
2"	\$ 275.00	1.0%	\$ 49.36	\$ 4.11
3"	\$ 6,512.86	22.9%	\$ 1,169.09	\$ 97.42
8"	\$ 8,046.00	28.2%	\$ 1,444.30	\$ 120.36
10"	\$ 12,739.50	44.7%	\$ 2,286.80	\$ 190.57
	<b>\$ 28,498.36</b>	<b>100.0%</b>	<b>\$ 5,115.60</b>	<b>\$ 426.30</b>

MSEC Enterprises, Inc.

Water Tariff Page No. 3b

**SECTION 1.0 – RATE SCHEDULE (Continued)**2017 Federal Tax Cut and Jobs Act Credit

## Customer Credit by Meter Size

Effective January 1, 2019, through May 31, 2019

<u>Meter Size</u>	<u>Monthly Credit</u>
5/8" x 3/4"	\$2.28
3/4"	\$3.42
1"	\$5.70
1 1/2"	\$11.39
2"	\$18.23
3"	\$34.18

## Customer Credit by Meter Size

Effective June 1, 2019

<u>Meter Size</u>	<u>Monthly Credit</u>
5/8" x 3/4"	\$1.27
3/4"	\$1.90
1"	\$3.17
1 1/2"	\$6.33
2"	\$10.13
3"	\$18.99

MSEC Enterprises, Inc.

Sewer Tariff Page No. \_\_

**SECTION 1.0 – RATE SCHEDULE (Continued)****2017 Federal Tax Cut and Jobs Act Credit****Customer Credit by Meter Size**

Effective January 1, 2019, through May 31, 2019

<u>Meter Size</u>	<u>Monthly Credit</u>
1"	\$2.70
2"	\$7.40
3"	\$175.36
8"	\$216.65
10"	\$343.03

**Customer Credit by Meter Size**

Effective June 1, 2019

<u>Meter Size</u>	<u>Monthly Credit</u>
1"	\$1.50
2"	\$4.11
3"	\$97.42
8"	\$120.36
10"	\$190.57

December \_\_\_\_\_, 2018

Dear valued customer:

MSEC Enterprises, Inc. (MSEC) is pleased to notify you that it has filed an application with the Public Utility Commission of Texas (PUC), in PUC Docket No. 48872, to approve the implementation of a Federal Tax Change Credit Rider (Credit Riders) effective for water bills rendered on or after January 1, 2019. MSEC has developed the Credit Rider as a means to immediately pass along to its customers the estimated savings resulting from the corporate income tax rate reduction accomplished by the Federal Tax Cuts and Jobs Act of 2017. The Credit Rider will immediately lower your monthly bills and will be noted on your bill until MSEC's next water rate proceeding.

The Credit Rider for water customers varies by the size of your meter. Starting on January 1, 2019, and continuing through May 31, 2019, the credit for a ¾" meter will be \$3.42 per month, for a 1" meter will be \$5.70/month, for a 1 ½" meter will be \$11.39/month, for a 2" meter will be \$18.23/month, and for a 3" meter will be \$34.18/per month. Starting on June 1, 2019, and continuing until MSEC changes its water rates, the Credit Rider will be \$1.90, \$3.17, \$6.33, \$10.13, and \$18.99 per month, for the respective meter sizes.

If you have any questions at all about the Tax Credit Rider, please give us a call. If you wish to intervene in the PUC proceeding or comment upon MSEC's request, you should contact the Public Utility Commission, P.O. Box 13326, Austin, Texas 78711-3326, or call the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing and speech impaired individuals with text telephones (TTY) may contact the commission at (512) 936-7136. The deadline for intervention in the proceeding is \_\_\_\_\_. You must send a letter requesting intervention to the Commission that must be received by \_\_\_\_\_.

Sincerely,



December \_\_\_\_\_, 2018

Dear valued customer:

MSEC Enterprises, Inc. (MSEC) is pleased to notify you that it has filed an application with the Public Utility Commission of Texas (PUC), in PUC Docket No. 48872, to approve the implementation of a Federal Tax Change Credit Rider (Credit Riders) effective for sewer bills rendered on or after January 1, 2019. MSEC has developed the Credit Rider as a means to immediately pass along to its customers the estimated savings resulting from the corporate income tax rate reduction accomplished by the Federal Tax Cuts and Jobs Act of 2017. The Credit Rider will immediately lower your monthly bills and will be noted on your bill until MSEC's next sewer rate proceeding.

The Credit Rider for sewer customers varies by the size of your meter. Starting on January 1, 2019, and continuing through May 31, 2019, the credit for a 1" meter will be \$2.70/month, for a 2" meter will be \$7.40/month, for a 3" meter will be \$175.36/per month, for an 8" meter will be \$216.65/month, and for a 10" meter will be \$343./03/month. Starting on June 1, 2019, and continuing until MSEC changes its sewer rates, the Credit Rider will be \$1.50, \$4.11, \$97.42, \$120.36, and \$190.57 per month, for the respective meter sizes.

If you have any questions at all about the Tax Credit Rider, please give us a call. If you wish to intervene in the PUC proceeding or comment upon MSEC's request, you should contact the Public Utility Commission, P.O. Box 13326, Austin, Texas 78711-3326, or call the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing and speech impaired individuals with text telephones (TTY) may contact the commission at (512) 936-7136. The deadline for intervention in the proceeding is \_\_\_\_\_. You must send a letter requesting intervention to the Commission that must be received by \_\_\_\_\_.

Sincerely,