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January 20, 2017

**VIA FEDERAL EXPRESS and  
ELECTRONIC MAIL**

**[irene.asbury@bpu.nj.gov](mailto:irene.asbury@bpu.nj.gov)**  
**[board.secretary@bpu.nj.gov](mailto:board.secretary@bpu.nj.gov)**

Irene Kim Asbury, Esquire  
Secretary of the Board  
Board of Public Utilities  
44 South Clinton Avenue, 3<sup>rd</sup> Floor, Suite 314  
P.O. Box 350  
Trenton, New Jersey 08625-0350

**RE:** Modified Tax Reform Act of 1986 ("TRA-86") Gross Up Factor Template  
BPU Docket No. AX12070601

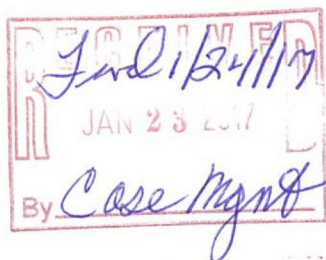
In the Matter of the Petition of Atlantic City Electric Company for Approval of  
Amendments to Its Tariff to Provide for an Increase in Rates and Charges for  
Electric Service Pursuant to *N.J.S.A. 48:2-21* and *N.J.S.A. 48:2-21.1*, for  
approval of a grid resiliency initiative and cost recovery related thereto, and for  
other appropriate relief (2016)  
BPU Docket No. ER16030252

Dear Secretary Asbury:

On behalf of Atlantic City Electric Company, enclosed is a modified TRA-86 Gross Up  
Factor Template pursuant to N.J.A.C. 14:3-8.6 (f) 4. Three conformed copies of this  
communication and its exhibit are attached.<sup>1</sup>

<sup>1</sup> This filing has been made consistent with the Board's Order Waiving Provisions of N.J.A.C. 14:4-2, N.J.A.C. 14:17-4.2(a), N.J.A.C. 14:1-1.6(c), and N.J.A.C. 14:17-1.6(d), issued on July 29, 2016 in connection with *In the Matter of the Board's E-Filing Program*, BPU Docket No. AX16020100.

*Case Mgmt*  
*Legal*  
*A. Moreau*



**BOARD OF PUBLIC UTILITIES**

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Irene Kim Asbury, Esquire

January 20, 2017

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Thank you for your cooperation and courtesies. Feel free to contact me with any questions.

Respectfully submitted,

 /jpr  
Philip J. Passanante  
An Attorney at Law of the  
State of New Jersey

Enclosure

cc: Thomas Walker, BPU (by electronic and overnight mail)  
Jacqueline Galka, BPU (by electronic and overnight mail)  
Stacy Peterson, BPU (by electronic and overnight mail)

# TRA-86 Tax Gross Up Factor Template

Directions: Replace the sample data that is shown in the fields highlighted in yellow with your company's information. The formulas will calculate the Gross Up factor that you will use to gross up customer deposits for extensions, customer contributions for extensions, and customer refunds to reflect the consequences under the Tax Reform Act of 1986. If you are taking advantage of Bonus Depreciation (PATH Act), enter the bonus depreciation rate in cell D21; otherwise, enter 0 in cell D21.

## Calculation of Tax Gross Up Factor:

	Atlantic City Electric Company	
Gross Up Factor =	$F = (1 - (NPV/C)) / (1 - T)$	1.1572
Construction Cost (C)		1.00
Customer Deposit with Tax Gross Up		1.16
Net of Tax Rate of Return		6.4917%
Combined 35% FIT & CBT Rate (T) =		40.85%
Initial Tax Liability		0.47
NPV benefit of tax depreciation (NPV) = $NPV(\$J\$15, \$L\$25 : \$L\$44) + \$L\$24$		0.3155
Bonus Depreciation Rate =	50%	

	Year	Tax Depreciation Rate	Federal Depreciation	NJ State Depreciation	Net Tax Cash Flow
Total deposit - CBT - FIT - Cost	0				(0.3155)
	1	3.750%	0.5188	0.0375	0.1838
	2	7.219%	0.0361	0.0722	0.0169
	3	6.677%	0.0334	0.0668	0.0156
	4	6.177%	0.0309	0.0618	0.0144
	5	5.713%	0.0286	0.0571	0.0133
	6	5.285%	0.0264	0.0529	0.0123
	7	4.888%	0.0244	0.0489	0.0114
	8	4.522%	0.0226	0.0452	0.0106
	9	4.462%	0.0223	0.0446	0.0104
	10	4.461%	0.0223	0.0446	0.0104
	11	4.462%	0.0223	0.0446	0.0104
	12	4.461%	0.0223	0.0446	0.0104
	13	4.462%	0.0223	0.0446	0.0104
	14	4.461%	0.0223	0.0446	0.0104
	15	4.462%	0.0223	0.0446	0.0104
	16	4.461%	0.0223	0.0446	0.0104
	17	4.462%	0.0223	0.0446	0.0104
	18	4.461%	0.0223	0.0446	0.0104
	19	4.462%	0.0223	0.0446	0.0104
	20	4.461%	0.0223	0.0446	0.0104
	21	2.231%	0.0112	0.0223	0.0052

## Calculation of Net of Tax Rate of Return and Combined Federal Income Tax (FIT) and Corporate Business Tax (CBT) Rate:

	% of Capital Structure	Embedded Cost	Weighted Avg. Cost	Net of Tax Rate of Return		
Atlantic City Electric Company						
Long Term Debt	50.52%	5.58%	2.82%			
Tax Deductible Capital Structure Components	0.00%		0.00%			
Tax Deductible Capital Structure Components	0.00%		0.00%	2.82%	1.67%	$2.82\% * (1 - 40.85\%)$
Common Equity	49.48%	9.75%	4.82%		4.82%	
	100.00%		7.64%		6.4917%	

Rate of Return Information from Docket No.: ER16030252, Order dated: August 24, 2016, Page: 3

Combined FIT and CBT Rate	=	40.85%	=	(	9.00%	+	(	35.00%	*	(1 -	9.00%	)))
				(	CBT	+	(	FIT	*	(1 -	CBT	)))
Note: If your company is not subject to Corporate Business Tax, enter 0 in cell J57.												