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BOARD OF PUBLIC UTILITIES
TRENTON, NJ

COZEN O'CONNOR
A Pennsylvania Professional Corporation

Ira G. Megdal
Direct Phone 856-910-5007
Direct Fax 877-259-7984
imegdal@cozen.com

March 2, 2018

VIA HAND DELIVERY

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MAR 05 2018

BOARD OF PUBLIC UTILITIES
TRENTON, NJ

Aida Camacho-Welch
Secretary
Board of Public Utilities
44 South Clinton Ave.
3rd Floor, Suite 314
PO Box 350
Trenton, NJ 08625-0350

Re: In the Matter of the New Jersey Board of Public Utilities' Consideration of the Tax Cuts and Jobs Act of 2017
BPU Docket No. AX18010001

In the Matter of The Atlantic City Sewerage Company's Petition with Calculation of Rates under the Tax Cuts and Jobs Act of 2017
BPU Docket No. WR18030234

Dear Ms. Camacho-Welch:

This firm represents The Atlantic City Sewerage Company ("ACSC" or the "Company"). ACSC files an original and ten copies of this letter petition in compliance with the January 31, 2018 Order (the "Order") of the New Jersey Board of Public Utilities (the "Board") in the above-referenced matter, BPU Docket No. AX18010001. The Order directs all public utilities with revenues equal to or greater than $4.5 million to file a petition by this date setting forth the impact of the 2017 Tax Cuts and Jobs Act (the "Act") on the utilities' revenue requirement along with proposed interim rates effective April 1, 2018 and rate and tariff design proposals. ACSC submits the following in compliance with the Order.

I. The Impact of the Act on ACSC's Revenue Requirement

ACSC has calculated the impact of the Act on its revenue requirement. The result is a revenue reduction of $472,838, including gross-up.

In calculating the impact of the Act on ACSC's revenue requirement, the Order directed that the Company compare the income tax expense during the last Board approved base rate case to the tax expense resulting from the Act. However, ACSC's last rate case at BPU Docket No. WR16121186 was a "black-box" settlement and the income tax expense contained within that settlement was not specifically defined. Thus, ACSC began with the filed 12+0 update from its last rate case and adjusted the revenue requirement to reflect the Board-approved, stipulated revenue increase of $1,950,000 resulting in corresponding revenue-based tax and income tax

CMS
J. Kane
DAG

RPA
M. Moran
M. Kammer
M. Mosser

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adjustments. The Company then recalculated the income tax expense under the old rate (34%)[1] and the new rate under the Act (21%). The recalculation resulted in an income tax expense reduction of $319,945. ACSC applied the gross up factor to reach the annual revenue reduction of $472,838. Schedules TSK-1 through TSK-4 supporting the Company's calculations in support of this filing are attached at Exhibit A.

II. Tariff Design

The Order further directs ACSC to provide the tariff rates reflecting the new tax rate at 21% to be effective on April 1, 2018 with detailed workpapers showing how each rate was developed using the last approved rate design on an inter- and intra-class basis. Attached at Exhibit B is a proposed tariff giving effect in rates to the proposed revenue reduction of $472,838.

Attached at Exhibit C are the workpapers supporting the proposed tariff. As shown in Exhibit C, ACSC adjusted its tariff rates utilizing water volumes that the Board adopted pursuant to the Order Adopting Stipulation in the Company's last rate case, Docket No. WR16121186, Exhibit C therein. ACSC proposes to implement the revenue reduction through both its fixed customer charge as well as its volumetric collection rate proportionately to provide the benefits of the Act equally among customers. The impact on the Company's average 5/8-inch residential customer is a decrease in annual rates of approximately 1.97%.

III. Over-Recovery of Income Taxes to Be Deferred and Returned with Interest

In compliance with the Order, ACSC has deferred with interest the impact on income tax expense resulting from the difference between a tax rate of 34% and 21%, effective January 1, 2018. To do so, the Company proposes to record a deferral of the over-collection evenly from January 1 through March 31, 2018 ("Stub Period") utilizing 1/12 of $472,838, or $39,403 each month. See Schedule TSK-1, line 5. The calculation of the total deferral during the Stub Period totals $119,096, which includes interest of $887. See lines 6-9 of Schedule TSK-1 at Exhibit A.

In arriving at the interest due as a result of the over-collection, ACSC applied its actual short term borrowing rate of 4.5%.

As directed by the Order, ACSC proposes the following rate mechanism for refunding the deferrals to ratepayers. The Company proposes to refund the over-recovery through a bill credit to customers' accounts during the first possible month following the Board's authorization of the rate mechanism.

IV. Accumulated Deferred Income Taxes

In addition to calculating and deferring with interest the effects of the Act on the Company's revenue requirement, the Order directs ACSC to calculate the effects from the Act on the deferral related to the accumulated deferred income taxes ("ADIT") and the associated calculation of interest at the Company's overall allowed weighted average cost of capital. Schedule TSK-3 at Exhibit A demonstrates the calculation of the excess deferred income taxes arising from the reduction of income tax rates effective January 1, 2018.

[1] ACSC is subject to a 34% tax rate, below the maximum corporate tax rate of 35% because its taxable income is less than $10 million.

As directed by the Order, ACSC calculated the deferred account on the ADIT based on December 31, 2017 financial results. The Company further segregated the excess ADIT balances between excess protected and unprotected ADIT.

A. Excess Protected ADIT

Excess protected ADIT are those deferred income taxes related to Utility Plant and were reflected as an offset to rate base in ACSC's last base rate case. In arriving at the total due to flow back to ratepayers, the Company multiplied the total protected ADIT as of December 31, 2017 by 38.2%, the calculated decrease in the tax rate, which amounts to an excess of $2,597,879. See line 6 of Schedule TSK-3 at Exhibit D. The calculation of the excess protected ADIT is a high-level estimate only.

Although the Order directs the Company to provide the rate mechanism related to refunding the excess ADIT to ratepayers, ACSC cannot propose such a rate mechanism at this time without violating Internal Revenue Service ("IRS") normalization rules. Indeed, protected ADIT are subject to IRS normalization rules restricting the feedback of such balances. Under Section 203(e) of the Tax Reform Act of 1986 and Section 13001(d) of the Act, ACSC cannot reduce cost of service more rapidly or to a greater extent than the rate at which the book/tax temporary differences reverse over the life of the property that gave rise to the excess. ACSC would determine the timing of the reversal using the Average Rate Assumption Method ("ARAM"). ARAM is a process by which vintage property information is scheduled out by year and by class for book and tax purposes in each year for which a book/tax difference exists to determine the appropriate timing of the reversal to avoid violating IRS normalization rules. The calculation is time-consuming because, among other reasons, ACSC's tax recovery period is generally 25 years, while the book lives span as much as 125 years. Thus, ACSC has not yet completed these calculations.

For the foregoing reasons, ACSC cannot begin flowing the benefits of the Act related to protected ADIT without the risk of violating normalization rules until ACSC completes the ARAM. ACSC proposes to defer the excess protected ADIT liability balance and flow back to customers until its next rate case, but without interest because ratepayers are currently receiving the benefit of a rate base deduction for ADIT. Forcing ACSC to pay interest on the excess would be "double dipping" and is improper ratemaking. Any further interest would be excessive and punitive in nature.

B. Unprotected ADIT

Excess unprotected ADIT are those related to accounts subject to ratemaking; however, the method of returning and/or collecting such excess is not subject to IRS regulation. In this case, ACSC's excess unprotected ADIT asset due from ratepayers totals $240,242. See line 14 of Schedule TSK-3 at Exhibit A. ACSC calculated the total in the same manner as described above for excess protected ADIT and the calculation is likewise a high-level estimate only.

ACSC recommends deferring the excess unprotected ADIT along with the excess protected ADIT until the resolution of the Company's next rate case, but without interest for the same reasons articulated above.

ACSC believes that any additional impacts resulting from the Act on the items listed in paragraph 6 of the Order are nonexistent or deminimis. ACSC submits the foregoing information and proposals in compliance with the Order. ACSC made the foregoing calculations pursuant to the Act, and its interpretations of the same, to the best of ACSC's knowledge information and belief.

Respectfully,

COZEN O'CONNOR, PC

By: Ira G. Megdal

IGM/k
Enclosure

cc: Attached Service List (via email)

VERIFICATION

STATE OF NEW JERSEY)
) ss:
COUNTY OF ATLANTIC)

Thomas S. Kavanaugh, of full age, being duly sworn according to law upon his oath deposes and says:

1. I am President of The Atlantic City Sewerage Company, and I have reviewed the contents of the Letter Petition.

2. The statements as contained therein are true to the best of my knowledge, information and belief.

Thomas S. Kavanaugh
President
The Atlantic City Sewerage Company

Sworn and Subscribed
before me this 2nd day
of March, 2018.

Barbara S. Bruckler

Barbara S. Bruckler
Notary Public of New Jersey
My Commission Expires October 2, 2021