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JAN 11 2019

BOARD OF PUBLIC UTILITIES
TRENTON, NJ

Fwd 1/16/19

COZEN O'CONNOR
A Pennsylvania Professional Corporation

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January 10, 2019

VIA FEDERAL EXPRESS

UPDATE LETTER

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

RECEIVED
MAIL ROOM

JAN 11 2019

BOARD OF PUBLIC UTILITIES
TRENTON, NJ

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 Secretary Camacho-Welch:

This firm represents Petitioner, The Atlantic City Sewerage Company ("ACSC" or the "Company"), in the referenced matters. This letter updates the letter which this firm submitted in this matter on November 9, 2018. It assumes that this matter will be placed on the Board's February 27, 2019 agenda. By this letter we also request that the effective date of the Board's February 27, 2019 Order in this matter be accelerated, and made effective March 1, 2019.

The Board of Public Utilities ("BPU" or "Board") issued an Order in this matter dated June 22, 2018. That Order, inter alia, deferred final action in this matter pending receipt of additional information from ACSC.

ACSC in turn engaged the accounting firm of Deloitte & Touche to complete necessary analyses for ACSC. Those analyses have now been completed.

In addition, effective April 1, 2018, Petitioner implemented a rate decrease, to reflect the fact that the tax expense reflected in ACSC's rates had been calculated at the statutory 34% rate.[1] The new rates, made effective April 1, 2018 were based upon the new statutory rate of 21%.

[1] ACSC is a 34% Company – not a 35% Company, as ACSC is under the $10 million taxable income required to move into the 35% tax bracket.

LEGAL\39594174\1

Case mgmt
M. Lupo, Esq
K. Felton
C. Vachier, Esq
Audits

The April 1, 2018 rate reduction was based upon a reduction in income tax expense of $319,945.00. After applying the gross up factor, the rate decrease became an annual revenue reduction of $472,838.00.

ACSC has now determined that the April 1, 2018 rate decrease was insufficient. Rather than $319,945.00 before gross up, it should have been $449,350.00 before gross up. By this letter, Petitioner proposes to correct this error, and address other issues remaining open in this matter.

I. <u>SUMMARY OF ACSC'S PROPOSAL</u>

The Company's proposal in this matter is summarized on Schedule TSK-1 attached to this letter.

Line item No. 1 is entitled: "Annual Impact of TCJA on Income Tax Expense". That reflects the amount by which rates should have been reduced effective April 1, 2018, before gross up.

Line item No. 2 demonstrates the amount by which rates were reduced effective April 1, 2018.

Line item No. 3 reflects the fact that the rate reduction effective April 1, 2018 was deficient by $129,405.00 before gross up. This additional amount must be returned to customers.

Deloitte determined that the Company had insufficient records as to assets placed into service prior to January 1, 1992 to apply the Average Rate Assumption Method ("ARAM") to Pre-92 assets. As a result, ACSC applied the Reverse South Georgia Method ("RSGM") to Pre-92 assets. As a result, line item No. 4 demonstrates that for Pre-92 assets, the RSGM results in an annualized return to customers of excess protected Accumulated Deferred Income Taxes ("ADIT") of $42,353.00.

Relative to Post-1991 additions, the Company was able to apply ARAM, in Deloitte's view. As a result, line item No. 5 reflects the return of excess protected ADIT utilizing the ARAM Method for Post-1991 assets.

Line item No. 12 was previously the same as line item No. 3. It has now been updated to reflect an effective date of March 1, 2019. That is, it represents the deficiency in the rate reduction dated April 1, 2018, which must be returned to customers.

Concerning unprotected ADIT, in ACSC's case, that amount is a regulatory asset, and is actually due *from* rate payers. That amount is $162,225.00 (line item No. 13). Line item No. 14 represents the remaining balance of the amount due to ratepayers as a bill credit for the period January 1, 2018 through March 31, 2018, (the "Stub Period"). Line item No. 15, the sum of line item Nos. 12 through 14, represents the net amount due from rate payers from the April 1, 2018 rate decrease of $7,542.00. It is proposed that this amount will be recovered from customers over three (3) years, based upon the assumption that ACSC will have a rate case resulting in rates in effect by 2021.

This is reflected on line item No. 6, as an annualized recovery of $2,514.00.

The result is a total annual rate reduction required before gross up of $190,107.00 as reflected in line item No. 7. After applying the gross up factor in line item No. 8, the result is the Company's proposal of a rate reduction to be effective March 1, 2019 of $280,954.00. ACSC

requests that this matter be placed upon the Board's February 27, 2019 agenda and made effective March 1, 2019.

II. SUPPORTING SCHEDULES

Schedule TSK-2 calculates the required revenue deficiency, which should have been implemented April 1, 2018 of $449,350.00. This calculation emanates from the revenue requirement in the Company's last rate case which was stipulated at $1,950,000.00. The income tax expense embedded in that revenue requirement was $1,177,393.00. That was calculated at 34%. If it were calculated at 21%, it would have been $725,873.00. The result is an amount to be returned to customers of $449,350.00.

Schedule TSK-3 is an application of the RSGM to Pre-92 assets. The resulting annual return to customers for excess protected ADIT on this schedule is $30,000.00. This is based upon an estimated remaining book life for the Pre-92 assets of 14.77 years. The amount to be returned to customers is $443,060.00, and when divided by 14.77, the annual amount becomes $30,000.00. Because 2018 will have already passed by the time the Company's proposal is adopted at the Board's December Board meeting, the Company is adding one-third (1/3), or $10,000 to the calculated annual return for 2019 through 2021, the year in which it is anticipated that a rate change will take place in ACSC's base rates. This produces an average yearly amount of $40,000.00, which has been carried forward to March 1, 2019 and becomes $42,353.00. This was brought forward to Schedule TSK-1.

Schedule TSK-4 is a calculation of the annual return required for excess ADIT related to Post-1991 additions.

Because 2018 will have already passed by the time the Company's proposal is adopted at the Board's December Board meeting, the Company utilized an average for 2018 through 2021, the year in which it is anticipated that a rate change will take place in ACSC's base rates. As a result, the amounts for each of the four years, 2018-2021, was divided by 3 rather than 4, to produce an average yearly amount of $20,863.00 on Schedule TSK-4. This was brought forward to Schedule
TSK-1.

Schedule TSK-5 is a calculation of the gross up factor, adjusted to reflect the 21% federal income tax rate.

Schedule TSK-6 is a summary schedule, calculating both the excess protected and excess unprotected ADIT on the books of the Company. With regard to the excess protected ADIT, the results of the D&T study have also been included and the books will be adjusted accordingly upon the approval of this filing.

Schedule TSK-7 is a calculation of the remaining amount to be returned to customers for the stub period January 1, 2018 through March 31, 2018. The customer credits were posted to customer accounts in April 2018. This balance was brought forward to Schedule TSK-1.

Schedule TSK-8 is a rate design calculation, demonstrating the manner in which the revenue reduction contained in the Company's proposal will be apportioned to customers.

The above summarizes the Company's proposal to bring this matter to a conclusion.

The Company requests that this proposal be on the Board's agenda for its February 27 meeting.

We would be happy to meet with BPU Staff and Rate Counsel to address any questions which might arise.

Thank you for your cooperation in this matter.

Respectfully,

COZEN O'CONNOR, PC

By: Ira G. Megdal

IGM:kn
Enclosure

cc: Service List (w/enclosure, *via E-mail*)

ATLANTIC CITY SEWERAGE COMPANY
PRO FORMA INCOME TAXES

TSK-1

Pro-Forma Impact of Tax Reform on Annual Income Tax Expense

			"Incremental" Impact of Tax Change	Reference
1	Annual Impact of TCJA on Income Tax Expense		$ 449,350	TSK-2, line 16
2	LESS: Reduction Already Included in Rates effective April 1, 2018		$ 319,945	
3	Additional Annual Reduction Required for Tax Expense Decrease		$ 129,405	
4	Return of Excess Protected under Reverse South Georgia Method	(a)	$ 42,353	TSK-3, line 26
5	Return of Excess Protected under ARAM Method	(b)	$ 20,863	TSK-4, line 5
6	Other Difference Due From Ratepayers (Line 15 below) / 3 years		$ (2,514)	
7	Total Annual Rate Reduction Required before Gross-Up		$ 190,107	
8	Gross-Up Factor		1.477876	TSK-5, line 15
9	Additional Revenue Reduction Required, effective March 1, 2019		$ 280,954	

10 (a) Source: Study prepared by Deloitte & Touche (dated 10.31.18), pre-1992 assets (Summary page @ TSK-3)
11 (b) Source: Study prepared by Deloitte & Touche (dated 11.1.18), post-1991 assets (Summary page @ TSK-4)

2018 plus Jan & Feb 2019 Settle-Up Required:

12	Additional Reduction Required for 2018 plus Jan & Feb 2019	$ 150,972	(Line 3 above plus 2/12 for Jan/Feb 2019)
13	Less: Excess Unprotected due FROM Ratepayers	$ (162,225)	(TSK-6, line 12)
14	Add: Balance of April Refund Due to Ratepayers	$ 3,711	(TSK-7, line 11)
15	Difference to be Credited to Ratepayers over 3 years	$ (7,542)	

Line		12&0 TEST YEAR 2016	Required Adjustments	Tax Rate @ 34% Proforma Financials	Tax Rate @ 21% Proforma Financials	Impact of Tax Decrease
1	**THE ATLANTIC CITY SEWERAGE COMPANY**					
2	**CALCULATION OF TAX IMPACT ON TEST YEAR**					
3						
7	**Utility Operating Income:**					
8	400 Operating Revenues	20,792,954	1,950,000	22,742,954	22,742,954	
9						
10	**Utility Operating Expenses:**					
11	401 Operation Expense	12,441,851	699,365	13,141,216	13,141,216	
12	402 Maintenance Expense	1,891,089	0	1,891,089	1,891,089	
13	403 Depreciation Expense	1,012,371	0	1,012,371	1,012,371	
14	404 Amortization Expense	36,347	0	36,347	36,347	
15	408 Taxes other than Income	2,314,462	279,796	2,594,258	2,594,258	
16	409 Income Taxes	846,570	330,085	1,175,223	725,873	449,350
17	Total Expenses	18,542,690	1,309,246	19,850,503	19,401,154	to TSK - 1
18						
19	**Sewerage Operating Income:**	2,250,264	640,754	2,892,451	3,341,800	
20	**Other Income:**					
21	419 Interest & Dividend Income	15,449	0	15,449	15,449	
22	421 Miscellaneous Income	0	0	0	0	
23	Total Other Income	15,449	0	15,449	15,449	
24	**Income Deductions:**					
25	426 Other Deductions	3,250	0	3,250	3,250	
26	428 Interest on Long Term Debt	621,615	0	621,615	621,615	
27	432 Other Interest Charges	1,720	0	1,720	1,720	
28	Total Deductions	626,585	0	626,585	626,585	
29	**Net Income**	1,639,128	640,754	2,281,314	2,730,664	(449,350)
30				**Reduction in March 2018 Filing**		(319,945)
31				**Additional Reduction Required**		
32				**Before Tax Gross-Up**		(129,405)

Tax Calcs:				
Pre-tax	2,485,698	970,839	3,456,537	3,456,537
	34%	34%	34%	21%
	845,137	330,085	1,175,223	725,873

Atlantic City Sewerage Company
Reverse South Georgia Method
Pre-92 Assets as of 12/31/17

Line					
	Book Cost Basis:				
1	Gross PPE	$ 22,162,070			
2	Less Land	$ (218,179)			
3	Gross CIAC	$ (10,098,274)			
4	**Total Cost Basis**	**$ 11,845,617**			
5	**Accumulated Depreciation:**				
6	Accumulated Depreciation	$ (10,869,431)			
7	Accumulated Depreciation CIAC	$ 3,017,705			
8	**Total A/D**	**$ (7,851,727)**			
9	**Net Book Value**			**$ 3,993,891**	
	Tax Cost Basis:				
10	Gross PPE	$ 21,753,035			
11	Less Land	$ (218,179)			
12	Gross CIAC	$ (8,398,180)			
13	**Total Cost Basis**	**$ 13,136,676**			
	Accumulated Depreciation:				
14	Accumulated Depreciation	$ (12,550,940)			
15	Accumulated Depreciation CIAC	$ -			
16	**Total A/D**	**$ (12,550,940)**			
17	**Net Tax Value**			**$ 585,736**	
18	**Timing Difference (DTL)/DTA**	**$ (3,408,155)**			
19	**ASC740 DIT @ 34%**	**$ (1,158,773)**	[1]		
20	**ASC740 DIT @ 21%**	**$ (715,712)**	[1]		
21					**$ (443,060)**
21	**Estimated Remaining Book Life ($3,993,891 line 9 / $270,427 annual deprec exp.)**				14.77
22	**Estimated Annual Reversal of Excess Deferred Taxes (Pre-1992 Plant)**				**$ (30,000)**

Line		Total to Return	Annual Return	Mo's	Start Date
23					
24	**Line 25 x 4 years (2018 to 2021)**	$ (120,000)	$ (40,000)	36	If Jan 1, 2019
25	since 2018 has already passed		$ (41,143)	35	If Feb. 1, 2019
26	and is available to return		**$ (42,353)**	**34**	**If Mar. 1, 2019**
27			To TSK-1		

28 **Note [1] - ASC740 DIT calculation does not include revenue requirement gross ups and state impacts.**

Atlantic City Sewerage Company TSK-4

Excess Deferred Federal Income Tax Model – Post-1991 Additions

Summary Results

Tax Year	Ending Net Book Value	Ending Net Tax Value	Timing Difference DTA/(DTL)	Cumulative Timing Difference DTA/(DTL)	ASC740 DIT DTA/(DTL)	Cumulative ASC740 DIT DTA/(DTL)	APB11 DIT DTA/(DTL)	Cumulative APB11 DIT DTA/(DTL)	Annual Excess Deferred Tax Reversal Before Gross Up	Cumulative Reg Asset/(Liab) Before Gross Up
2017	44,184,097	28,621,699	-	(15,562,398)	-	(3,268,104)	-	(5,291,215)	-	(2,023,112)
2018	43,363,362	26,873,799	(927,165)	(16,489,563)	(194,705)	(3,462,808)	(176,110)	(5,467,326)	18,594	(2,004,517)
2019	42,574,466	25,135,749	(949,154)	(17,438,717)	(199,322)	(3,662,131)	(182,024)	(5,649,349)	17,299	(1,987,219)
2020	41,833,977	23,402,396	(992,863)	(18,431,581)	(208,501)	(3,870,632)	(196,452)	(5,845,801)	12,049	(1,975,169)
2021	41,123,452	21,701,124	(990,748)	(19,422,328)	(208,057)	(4,078,689)	(196,886)	(6,042,688)	11,171	(1,963,999)
2022	40,419,354	20,036,601	(960,425)	(20,382,753)	(201,689)	(4,280,378)	(188,646)	(6,231,334)	13,043	(1,950,956)
2023	39,718,080	18,395,951	(939,376)	(21,322,129)	(197,269)	(4,477,647)	(184,241)	(6,415,575)	13,028	(1,937,928)
2024	39,018,742	16,822,663	(873,950)	(22,196,079)	(183,529)	(4,661,177)	(170,276)	(6,585,851)	13,254	(1,924,674)
2025	38,321,364	15,340,773	(784,512)	(22,980,591)	(164,748)	(4,825,924)	(155,116)	(6,740,967)	9,631	(1,915,043)
2026	37,627,563	13,911,881	(735,091)	(23,715,682)	(154,369)	(4,980,293)	(136,559)	(6,877,526)	17,810	(1,897,233)
2027	36,935,695	12,511,728	(708,286)	(24,423,967)	(148,740)	(5,129,033)	(130,236)	(7,007,762)	18,504	(1,878,729)
2028	36,245,929	11,145,776	(676,186)	(25,100,154)	(141,999)	(5,271,032)	(123,222)	(7,130,984)	18,777	(1,859,952)
2029	35,557,207	9,825,232	(631,821)	(25,731,974)	(132,682)	(5,403,715)	(113,397)	(7,244,381)	19,285	(1,840,667)
2030	34,869,847	8,535,598	(602,274)	(26,334,249)	(126,478)	(5,530,192)	(107,561)	(7,351,943)	18,916	(1,821,750)
2031	34,182,603	7,263,427	(584,928)	(26,919,176)	(122,835)	(5,653,027)	(103,456)	(7,455,398)	19,379	(1,802,371)
2032	33,495,360	6,041,355	(534,828)	(27,454,004)	(112,314)	(5,765,341)	(92,535)	(7,547,933)	19,779	(1,782,593)
2033	32,808,139	4,878,969	(475,167)	(27,929,171)	(99,785)	(5,865,126)	(77,453)	(7,625,386)	22,333	(1,760,260)
2034	32,120,930	3,848,194	(343,565)	(28,272,736)	(72,149)	(5,937,275)	(48,716)	(7,674,102)	23,433	(1,736,828)
2035	31,436,750	2,960,401	(203,613)	(28,476,349)	(42,759)	(5,980,033)	(16,236)	(7,690,338)	26,523	(1,710,305)
2036	30,781,224	2,256,978	(47,897)	(28,524,246)	(10,058)	(5,990,092)	15,955	(7,674,383)	26,013	(1,684,291)
2037	30,131,652	1,742,695	135,289	(28,388,957)	28,411	(5,961,681)	58,311	(7,616,072)	29,900	(1,654,392)
2038	29,484,999	1,281,269	185,226	(28,203,731)	38,897	(5,922,783)	70,645	(7,545,427)	31,748	(1,622,644)
2039	28,838,347	914,324	279,708	(27,924,023)	58,739	(5,864,045)	91,819	(7,453,608)	33,080	(1,589,564)
2040	28,192,742	614,989	346,271	(27,577,752)	72,717	(5,791,328)	106,569	(7,347,039)	33,852	(1,555,711)
2041	27,549,034	376,111	404,830	(27,172,923)	85,014	(5,706,314)	119,140	(7,227,899)	34,126	(1,521,585)
2042	26,906,242	334,214	600,895	(26,572,028)	126,188	(5,580,126)	160,828	(7,067,071)	34,640	(1,486,945)
2043	26,269,774	329,128	631,382	(25,940,646)	132,590	(5,447,536)	166,706	(6,900,364)	34,116	(1,452,829)
2044	25,635,619	324,042	629,069	(25,311,577)	132,104	(5,315,431)	166,032	(6,734,333)	33,927	(1,418,902)
2045	25,007,659	321,658	625,576	(24,686,000)	131,371	(5,184,060)	165,406	(6,568,927)	34,035	(1,384,867)
2046	24,385,183	320,490	621,307	(24,064,693)	130,475	(5,053,586)	164,417	(6,404,511)	33,942	(1,350,925)
2047	23,765,281	319,397	618,809	(23,445,884)	129,950	(4,923,636)	163,774	(6,240,737)	33,824	(1,317,101)
2048	23,145,379	318,828	619,333	(22,826,551)	130,060	(4,793,576)	163,926	(6,076,811)	33,866	(1,283,235)

4 Yr total	Mo's	Average Per Yr
59,113	36	19,704
If Feb. 1st	35	20,267
If Mar. 1st	34	20,863
		to TSK-1

NOTE:
Excerpt of File. Full file available upon request.

Ratemaking Adjustments to December 31, 2016
Derivation of Revenue Factor

	Amount	Reference	Post 2017 TRA Rev. Factor	
COMPONENTS:				
Public Utilities Assessment (PUA)	0.2346%		0.2346%	
Division of Ratepayer Advocate (DRA)	0.0514%		0.0514%	
Gross Receipts & Franchise Tax (GRAFT)	12.5000%		12.5000%	
Excise Tax (EX)	1.5625%		1.5625%	
Federal Income Tax (FIT)	34.0000%		21.0000%	new rate
Operating Revenue	1.0000		1.0000	
	1.768973		**1.477876**	**To TSK-1**

Revenue Factor Formula:

1 divided by (1 minus the sum of (PUA+DRA+GRAFT+EX)-FIT(1-(PUA+DRA+GRAFT+EX))

Revenue Factor Calculation in last Base Rate Case:

$$\frac{1}{1 -((.0023461+.00051409+.12500+.015625)- .34(1 - (.0023461+.00051409+.12500+.015625)))}$$

Adjusted to reflect 21% FIT rate:

$$\frac{1}{1 -((.0023461+.00051409+.12500+.015625)- .21(1 - (.0023461+.00051409+.12500+.015625)))}$$

THE ATLANTIC CITY SEWERAGE COMPANY

APPLICATION OF RATES TO PRO FORMA METER BILLING UNITS AND WATER VOLUME

AS OF DECEMBER 31, 2016 TEST PERIOD ENDED

		REVISED for FIT Changes, effective 4/1/18					REVISED for FIT Changes, effective 1/1/19				
Meter Size	Meter Billing Units	REVISED Annual Fixed Charge	REVISED Fixed Charge Revenues	REVISED Volumetric Charge @ $32.775	REVISED Annual Revenues	Decrease in Revenue from REVISED Rates	REVISED Annual Fixed Charge	REVISED Fixed Charge Revenues	REVISED Volumetric Charge @ $32.601	REVISED Annual Revenues	Decrease in Revenue from REVISED Rates
(1)	(2)	(11)	(12)	(13)	(14)	(15)	(11)	(12)	(13)	(14)	(15)
5/8***	5,330	$ 260	$ 1,385,800	$ 1,296,159	$ 2,681,959	$ (59,795)	$ 254	$ 1,353,820	$ 1,289,261	$ 2,643,081	$ (38,878)
3/4	1,290	451	581,790	740,351	1,322,141	(27,394)	$ 441	$ 568,890	$ 736,411	1,305,301	$ (16,840)
1	359	1,326	476,034	596,469	1,072,503	(22,673)	$ 1,298	$ 465,982	$ 593,294	1,059,276	$ (13,227)
1-1/2	125	3,270	408,750	379,226	787,976	(18,460)	$ 3,200	$ 400,000	$ 377,208	777,208	$ (10,768)
2	157	6,483	1,017,831	733,580	1,751,411	(43,901)	$ 6,344	$ 996,008	$ 729,676	1,725,684	$ (25,727)
3	53	15,792	836,976	664,572	1,501,548	(36,697)	$ 15,455	$ 819,115	$ 661,035	1,480,150	$ (21,398)
4	43	33,215	1,428,245	1,262,221	2,690,466	(63,760)	$ 32,505	$ 1,397,715	$ 1,255,503	2,653,218	$ (37,248)
6	35	107,373	3,758,055	3,859,709	7,617,764	(172,656)	$ 105,079	$ 3,677,765	$ 3,839,167	7,516,932	$ (100,832)
8	2	157,896	315,792	563,619	879,411	(16,689)	$ 154,523	$ 309,046	$ 560,619	869,665	$ (9,746)
10	1	253,750	253,750	165,914	419,664	(10,793)	$ 248,329	$ 248,329	$ 165,031	413,360	$ (6,304)
Total	7,395		$ 10,463,023	$ 10,261,820	$ 20,724,843	$ (472,818)		$ 10,236,670	$ 10,207,205	$ 20,443,875	$ (280,968)
***Average 5/8-inch Residential		$ 260.00	9.3 Mcf	$ 304.81	$ 564.81	$ (11.78)	$ 254.00	9.3 Mcf	$ 303.19	$ 557.19	$ (7.62)
					% Decrease =	-2.04%				% Decrease =	-1.35%

	April 1, 2018	Jan. 1, 2019
* Includes Collection Charge of	8.165	$ 7.991
and Treatment Charge of	24.610	24.610
	32.775 **	32.601

NOTE: PSTAC (treatment) rate held constant to prove revenue impact resulting from TCJA. Actual PSTAC rate is $ 24.610