STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. M-100, SUB 148
DOCKET NO. E-22, SUB 532
DOCKET NO. E-22, SUB 560

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. M-100, SUB 148 In the Matter of The Federal Tax Cuts and Jobs Act DOCKET NO. E-22, SUB 532 In the Matter of Application by Virginia Electric and Power Company, d/b/a Dominion North Carolina Power, for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina DOCKET NO. E-22, SUB 560 In the Matter of Dominion Energy North Carolina Filings to Reflect The Federal Tax Cuts and Jobs Act	)	ORDER APPROVING PROPOSAL AND REQUIRING FILING OF REVISED TARIFFS AND CUSTOMER NOTICE

BY THE COMMISSION: On October 5, 2018, in Docket No. M-100, Sub 148, the Commission issued an Order Addressing the Impacts of The Federal Tax Cuts and Jobs Act on Public Utilities. The Order directed certain utilities, including Virginia Electric and Power Company, d/b/a Dominion Energy North Carolina (DENC), to "adjust their base rates to reflect the reduction in the federal corporate income tax rate to 21% for taxable years beginning after December 31, 2017, as outlined in the Tax Act." The Commission further requested that certain utilities, including DENC, "file proposals . . . to adjust their rates to reflect the reduction in the federal corporate income tax rate to 21%" by no later than October 25, 2018 and that the Public Staff and other parties "file comments on the proposals by no later than Wednesday, November 14, 2018." Finally, the Commission requested that the Public Staff work with DENC to determine the impact, if any, to DENC's State Rider Excess Deferred Income Tax (EDIT) due to the Tax Act and to file a recommendation with the Commission on how the Commission should address the decrease in the federal corporate income tax rate on DENC's State Rider EDIT.

On October 25, 2018, DENC filed its proposal in response to the Commission's Order, including its proposal to address the Company's State Rider EDIT. On October 29, 2018, DENC filed a public version of its Attachment C which it had inadvertently omitted from its compliance filing.

On November 2, 2018, the Public Staff filed a motion for extension of time to file comments. By Order dated November 2, 2018, the Public Staff's motion was granted.

On November 6, 2018, the Carolina Industrial Group for Fair Utility Rates I (CIGFUR I) filed a petition to intervene in the docket, and the Commission granted the petition by Order dated November 9, 2018.

On November 14, 2018, the Public Staff filed a second motion for extension of time to file comments that was granted by Order dated November 15, 2018.

On November 20, 2018, comments were filed by CIGFUR I and the Public Staff.

On February 13, 2019, DENC filed its updated compliance filing.

DENC'S OCTOBER 25, 2018 PROPOSAL

DENC noted that its proposed updated rates and charges to implement the rate reductions ordered by the Commission provide an overall annual revenue reduction of $14.3 million due to the net reduction in DENC's retail revenue requirement (i.e., the income tax expense component in base rates) associated with the changes in the tax law as outlined in the Tax Act. DENC stated that it also presents its proposal to credit to customers amounts provisionally collected through existing base rates since January 1, 2018, net of the Tax Act's impact upon its State Rider EDIT during the provisional period.

DENC noted that Attachment B to its filing presents the Company's rate design workpapers supporting the calculation of base rates adjusted for the $14.3 million decrease. DENC maintained that the $14.3 million decrease is allocated to customer classes, and non-fuel base rates, billing determinants and annualized non-fuel base revenue as approved in the Company's 2016 Base Rate Case and subsequently implemented pursuant to the Company's compliance filing in that case.

DENC also noted that in lieu of continuing to defer the provisional collected revenues since January 1, 2018 for potentially three years into the future, including interest at the Company's weighted average cost of capital, DENC proposed to immediately implement a calendar year 2018 rebilling procedure and to provide all customers a one-time billing credit refunding the provisionally collected $14.4 million 2018 tax expense amounts. DENC noted that it proposes to continue to defer any federal EDIT attributable to its base rate tariffs under the parameters of the October 5, 2018 Order.

DENC noted that in addition to the impacts of the Tax Act on base rates, the Tax Act has reduced the State Rider EDIT credit amount owed to customers since January 1, 2018, in a consistent, albeit, offsetting manner to the impact of the Tax Act on the Company's base rates and charges. DENC stated that it proposes to use the rebilling procedure described in its proposal to address both the provisionally-collected amounts during calendar year 2018 for base rates and the reduction to State Rider EDIT.

COMMENTS

CIGFUR I stated in its comments that DENC proposes to adjust its ongoing rates to provide an overall annual revenue reduction of $14.3 million due to the net reduction in DENC's retail revenue requirement associated with the changes in the tax law as outlined in the Tax Act by applying a uniform percentage reduction to only non-fuel revenues by rate class. CIGFUR I asserted that since federal income tax is a function of total revenues, CIGFUR I proposes that it would be more appropriate to apply a uniform percentage reduction to total revenue by class.

CIGFUR I noted that the Company also proposes to refund the amounts provisionally collected through existing base rates since January 1, 2018, net of the Tax Act's impact upon its State Rider EDIT during the provisional period. CIGFUR I stated that based on the Public Staff's comments filed in the docket earlier on November 20, 2018, CIGFUR I understands that DENC's proposal to immediately refund the 2018 overcollection includes interest reflected at the overall weighted cost of capital approved in DENC's last general rate case proceeding. CIGFUR I maintained that ratepayers will particularly benefit from this immediate refund with interest in light of the significant increase sought by DENC in Docket No. E-22, Sub 558 – the 2018 Fuel Charge Adjustment proceeding. CIGFUR I stated that it supports DENC's offer to expedite refund of the 2018 overcollection with interest.

The **Public Staff** stated that it has reviewed DENC's filing in this docket, along with associated workpapers provided to the Public Staff by DENC, and makes the following comments. First, the Public Staff noted that in its compliance filing, DENC has presented a consolidated "rebilling" proposal to address four issues: (i) the rate adjustment to reflect the reduction in the federal corporate income tax; (ii) an immediate refund to ratepayers of the 2018 provisional revenues, rather than waiting until DENC's next rate case[1]; (iii) an adjustment to reflect the impact of the Tax Act on DENC's State Rider EDIT; and (iv) a true-up adjustment to the State Rider EDIT as part of the rebilling procedure to ensure that the total Year 2 State Rider EDIT credit amount approved by the Commission in Docket No. E-22, Sub 532 is correctly refunded to customers. The Public Staff stated that it agrees in principle that these four issues can be addressed in this proceeding, and through discussions with the Company, has reached agreement with DENC with regard to certain revisions and clarifications to its proposal, as further discussed below.

[1] DENC filed a 30-day notice of intent to file a general rate case application on February 27, 2019, in Docket No. E-22, Sub 562.

The Public Staff also commented that it has reviewed the Company's filing of the rate adjustment to reflect the reduction in the federal corporate income tax and agrees with the Company's calculations. The Public Staff also stated that it does not object to DENC's proposal to immediately return to ratepayers the 2018 provisional revenues through a one-time rebilling credit. However, the Public Staff maintained that because the Company is electing to immediately return the 2018 provisional revenues, rather than waiting for its next general rate case, the Company did not include interest on the 2018 provisional revenues, as required in Ordering Paragraph 5 of the Commission's October 5, 2018 Order. The Public Staff noted that in the course of discussions with the Public Staff, the Company has subsequently agreed to include interest on the 2018 provisional revenues. Therefore, the Public Staff noted that the parties agree that the interest should be imposed beginning on January 1, 2018, until the rebilling proposed by the Company is accomplished and that the interest applied should be at the overall weighted cost of capital approved in the Company's last general rate case, adjusted to reflect tax savings on the interest component, taking into account the change in the federal corporate income tax rate to 21%.

The Public Staff further commented that it agrees that the State Rider EDIT should be adjusted to reflect the impact of the reduction in the federal corporate income tax, and believes that interest should apply to the adjustment amount, calculated in a similar manner as the interest on the 2018 provisional revenues. The Public Staff stated that it also agrees that an adjustment should be made to ensure that the correct rider credit is refunded to customers for the State Rider EDIT.

The Public Staff noted that in its Order issued in Docket No. E-22, Sub 532, the Commission directed DENC to refund excess accumulated deferred income taxes (State EDIT) created by a reduction in the state tax rate over a two-year period beginning on November 1, 2016, and ending October 31, 2018. The Public Staff stated that as provided in the rate case Order, State Rider EDIT was based on pro forma kWh sales and amounts refunded during the first year were to be trued-up at the end of the first year of the Rider. The Public Staff noted that the Commission issued an Order in Docket No. E-22, Sub 532, on October 20, 2017, so revising the State Rider EDIT. The Public Staff commented that the October 20, 2017 Order also directed DENC to analyze the rider again towards the end of the second year to determine if further adjustments would need to be made. The Public Staff stated that it does not object to the true-up adjustment being made as part of the overall rebilling process proposed by DENC in this proceeding. The Public Staff noted that the final amount of the State Rider EDIT credits will not be available until mid-December 2018.

The Public Staff stated that after discussion between the parties, the Public Staff and DENC have reached agreement as to a methodology to calculate a final adjustment to State Rider EDIT that will combine both: (1) the effect on the 2018 portion of the refund of the reduction in the federal corporate income tax rate and (2) a true-up to assure that the overall refund accomplished through State Rider EDIT accurately reflects actual kWh sales. The Public Staff commented that DENC plans to make a filing to reflect this adjustment once final actual refunds already made through State Rider EDIT are known.[2] The Public Staff stated that it will review this filing when it is made by DENC.

The Public Staff requested that the Commission direct DENC to file, at the time that final receipts from State Rider EDIT are known: (a) its proposed final narrative and calculations supporting its proposed rebilling of the 2018 provisional revenues, with interest, as agreed to by the Company and the Public Staff; and (b) its proposed final narrative and calculations supporting the combined tax and true-up adjustments to State Rider EDIT, with interest, as agreed to by the Company and the Public Staff.

In conclusion, the Public Staff recommended that the Commission approve DENC's proposal to adjust its rates as proposed in its filings.

DENC'S FEBRUARY 13, 2019 UPDATED CALCULATIONS ON STATE RIDER EDIT

DENC noted that its proposed process will provide a one-time bill credit to customers for: (1) the 2018 provisional rate regulatory liability held in deferred regulatory liability accounts net of: (2) provisional amounts credited for the State Rider EDIT. DENC noted that it was making its filing in response to paragraph 8 of the Public Staff's November 20, 2018 comments.

DENC maintained that the Public Staff has authorized DENC to state that the Public Staff has reviewed the Company's calculations and that it finds the Company's calculations reasonable and consistent with the agreement between the Public Staff and the Company reflected in the Public Staff's November 20, 2018 comments.

Addressing specifically the State Rider EDIT, DENC noted that unlike the Company's other riders, State Rider EDIT does not have a true-up component that will naturally capture the impact of the Tax Act. DENC stated that it suggests, through its proposed rebilling process, to true-up any amounts of State Rider EDIT credited to customers in excess of the $16.8 million credit approved by the Commission in DENC's last general rate case. DENC noted that as of November 30, 2018, the Company has credited to customers $17.4 million through State Rider EDIT, an excess credit of $0.6 million.

DENC also provided rate design workpapers supporting the State Rider EDIT to be effective January 1, 2018. DENC further provided (as Attachment D) the Company's revised State Rider EDIT tariffs in "redline" and "clean" versions. DENC stated that the effective date of these new rates is proposed to be January 1, 2018, in support of the Company's proposal to rebill collections during the provisional rate period and provide a one-time refund, net of the Tax Act's impact upon its Sate Rider EDIT during the provisional period.

[2] DENC filed its updated calculations concerning the State Rider EDIT on February 13, 2019.

DENC noted that the Tax Act reduced the total State Rider EDIT credit by $1.4 million, from $16.8 million to $15.4 million. DENC maintained that it estimates the rebilling will result in a recovery of approximately $2.0 million ($17.4 million total credit less the $15.4 million credit as modified by the Tax Act). DENC stated that it will include an interest component through the rebilling process for the State Rider EDIT rebilling amount in a manner consistent with the interest to be paid on the federal provisional revenues.

DENC concluded that the Public Staff has reviewed the Company's calculations and authorized DENC to inform the Commission that the Public Staff finds the calculations reasonable and consistent with the agreement between the Public Staff and the Company reflected in the Public Staff's November 20, 2018 comments.

DISCUSSION AND CONCLUSIONS

The Commission has reviewed all of the filings made on this issue and finds that it is appropriate to approve DENC's proposal which includes implementing the change in the federal corporate income tax rate in rates and refunding the federal provisional revenues, with interest reflected at the Company's overall weighted cost of capital approved in its last rate case, net of the change in the State Rider EDIT due to the Tax Act. Although CIGFUR I commented that it would be "more appropriate" to apply a uniform percentage reduction to total revenues by class, as opposed to only non-fuel revenues as proposed by DENC, the Commission is not persuaded that that approach is more reasonable. The Public Staff has agreed with DENC's proposal, and the Commission does not find CIGFUR I's comments in this regard convincing. Therefore, the Commission hereby approves DENC's proposal. DENC shall file a clean copy of the revised tariffs that have been reviewed and determined to be accurate by the Public Staff and notify customers of the rate change through either a bill insert or a bill notation.

IT IS, THEREFORE, SO ORDERED.

ISSUED BY ORDER OF THE COMMISSION.

This the 4th day of March, 2019.

NORTH CAROLINA UTILITIES COMMISSION

Janice H. Fulmore, Deputy Clerk