

MACRUC 23rd Annual Education Conference

Tax Reform:
This CIAC
Won't Float

Tax Reduction Act : Cash Flow Implications

- ▶ Operating Income Tax Reduction
- ▶ Amortization of Excess Deferred Tax Liability
- ▶ Continued deduction of interest expense for Tax purposes
- ▶ Deferred Income Tax - Depreciation
 - ▶ No Bonus Depreciation
 - ▶ MACRS Only
- ▶ Depreciation on Contributed Property for Taxes

**2017 Federal Tax Reduction and Jobs Act
MACRUC 23rd Annual Education Conference
June 24 - 27, 2018**

Financial Implications

Assumptions:

Federal Taxable Income	\$17,000,000
Utility Plant (net accum. Dep.)	\$390,000,000

Operating Income Statement Changes			
Operating Income Tax Reduction			
	2017	34%	\$5,780,000
	2018	21%	<u>\$3,570,000</u>
Tax Savings			\$2,210,000
Excess Deferred Tax Amortization			
Excess Deferred Tax			\$20,000,000
Amortization over remaining useful life		2%	\$400,000
Total Tax Reduction			\$2,610,000
Gross Revenue Reduction due to Customer?			<u>\$3,654,000</u>

Here's What you don't see

Change in Rate Base		
2018 Investment in Infrastructure		\$25,000,000
Tax Depreciation Reduction		
Bonus Depreciation 50%		\$12,500,000
MACRS Depreciation (1st yr 1/2 year conv)	3.75%	\$ 937,500
Reduction to federal taxable income		\$11,562,500
Decrease in Deferred Tax/Increase in Rate Base	21%	\$2,428,125
Add: Reduction in Excess Deferred Tax (above)		\$400,000
Increase in Rate Base		\$2,828,125
Increase in Allowed Utility Income	7%	\$197,969
Gross Revenue Requirement		<u>\$277,156</u>

Cash Flow (net)	
Tax Savings (Net)	(\$400,000)
Tax Reduction and loss of Accelerated/Bonus Depreciation	(\$2,428,125)
Reduction in Cash Flow (Additional Investment)	<u>(\$2,828,125)</u>

CIAC: Gross up?

- ▶ 1986 Companies handled in a variety of economic ways based on revenues in many cases
- ▶ 1996 Removed taxability of most CIAC
- ▶ 2017 Re-introduces Taxable CIAC
- ▶ Rules for Gross up??
 - ▶ All Contributed property at up to 140%
 - ▶ Partial/economically driven drives up rate base
- ▶ Growth inhibitor...Negative Cash flow/Rate case generator

MACRUC 23rd Annual Education Conference

Tax Reform:
This CIAC
Won't Float