



NJUSA Issue Summary: Consolidated Tax Adjustment

What's at Issue?

To what extent should New Jersey ratepayers receive the benefit of a utility's parent company's decision to file federal taxes on a consolidated basis?

Background

For many years, New Jersey's investor-owned utilities and their shareholders have experienced the detrimental effects of the way consolidated tax adjustments are made in rate cases. In 2014, BPU considered these effects and established a new policy that created a fairer way of calculating consolidated tax adjustments (CTA).

The New Jersey Division of Rate Counsel disagreed with the substance of the new policy and how it was established and filed a lawsuit to overturn it. The Appellate Division of the New Jersey Superior Court ruled that the BPU needed to set the policy through a formal rulemaking process, which provides an opportunity for public input, but it did not rule on the substance of the policy.

In the context of utility regulation, a CTA is a reduction in the amount a utility is allowed to charge through its rates when its parent holding company has received tax benefits by submitting one consolidated tax return to the IRS for all its subsidiary companies instead of filing separate returns for each subsidiary. If a non-regulated affiliate of the utility has experienced a loss in income, that loss can result in a tax benefit to the parent company by offsetting gains of other affiliates, including the utility. If the benefit has accrued to the parent company over multiple years, the BPU has historically taken a portion of that benefit and shared it with the utility's ratepayers by reducing the amount the utility can

charge in new rates. The sharing of the benefit with ratepayers occurs even though it was the result of an affiliated subsidiary's operation, not the utility's.

However, none of the parent company's tax liability that results from its choice to file on a consolidated basis is shared with ratepayers, so the practice is not balanced. The New Jersey Rate Counsel would argue that they address this imbalance by giving the utility credit by apportioning some of the tax savings based upon the utility's percent of tax liability. However, the entire process begs the question as to why New Jersey ratepayers should have the benefit of savings or the detriment of liability for affiliate operations not related to the utility, and which in many instances occur outside of New Jersey.

This issue is important to utility shareholders because it can reduce a utility's earnings by multiple millions of dollars. Lower earnings can translate to lower dividends and less capital available to invest in and earn a return on needed infrastructure upgrades.

Look for Action Alert in January

On December 19, the BPU approved for publication in the New Jersey Register a proposed rule to formally adopt its policy on CTA. NJUSA does not yet have a copy of the rule, but expects to have it soon. Once we do, we will be in touch with members to ask for your help in writing to the BPU in order to help shape the final policy.

Commonly Used NJ Utility Regulatory Terms

"CNG" - Compressed natural gas is natural gas that has been compressed to less than 1 percent of its volume under normal atmospheric pressure. CNG can be used in motor vehicles as an alternative to gasoline. It is most often and most efficiently used to power fleet vehicles.

CONSOLIDATED TAX

ADJUSTMENT (CTA) - A mechanism in utility rate-setting that reduces the amount a utility can charge customers because its parent company derives a financial benefit from filing a consolidated tax return including all of its subsidiaries which shows a financial loss instead of filing a separate return for each one. The CTA takes the tax savings from unregulated companies tax losses and reduces Utility Rate Base, thereby reducing rates to customers.

DECOUPLING - A methodology for setting utility rates that does not depend on the volume of commodity sold (i.e. therms of natural gas, kilowatts of electricity or gallons of water). Instead, a different rate-setting mechanism is created that allows the utility to recover its costs and remain financially whole without regard to the volume sold. This allows the utility to encourage conservation without concern for revenues that could be lost from customers' conservation.

"DSIC" - Distribution System Improvement Charge is a surcharge on customers' water and/or sewer bills approved by utility regulators to be collected to upgrade or replace the equipment used to deliver drinking water to, or carry wastewater from, customers' premises.

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ELECTRIC LOAD - The amount of electrical energy drawn from a source of power that is delivered to or needed to operate by one or more components connected to the source via the electric grid. Measured in terms of what is needed or used at the point of delivery/consumption. Also can be referred to as electric demand.

“LNG” - Liquefied natural gas is natural gas that has been cooled to liquid form and reduced in volume to better enable transport and storage. LNG can be used as a vehicle fuel.

NATURAL GAS PRESSURE REGULATOR - A device used to reduce the pressure of natural gas transported via pipeline between the pipeline and point of use.

RENEWABLE ENERGY - Refers to sources of energy that are capable of replenishment via natural rather than man-made processes (e.g., solar energy, wind energy, biomass, hydropower, etc.)

UTILITY INFRASTRUCTURE - The physical assets that make the operation of a utility and the delivery of its service possible. These assets can include, but are not limited to: electric transmission towers, electric substations and switchyards, electric wires, natural gas pipelines and pressure regulators, water treatment facilities, water pumps, mains and pipes.



NJUSA Submits Testimony to Preserve Nuclear Power

NJUSA recently submitted testimony at joint hearings of the Senate Environment and Energy Committee and the Assembly Telecommunications and Utilities Committee.

“NJUSA offers this testimony on behalf of its members, all of whom are New Jersey residents who own shares in one or more companies with utility subsidiaries providing essential service in the State. On behalf of our members, we respectfully urge the Committees to support S-3560/A-3550.

NJUSA submitted testimony at the December 4 hearing, at which the Committees sought public input on “Strategies to Prevent the Premature Retirement of Existing, Licensed, and Operating Nuclear Power Plants.”

NJUSA supports the bills because they:

- *protect the interests of NJUSA members who, first and foremost, are New Jersey citizens and like all other New Jerseyans need safe, reliable and affordable electric power;*
- *enable an energy future for New Jersey that has diverse and environmentally responsible electric resources;*

On December 20, NJUSA submitted additional testimony on S-3560/A-3550, identical bills that would provide a means to prevent the premature retirement of New Jersey’s existing nuclear plants. Excerpts from NJUSA’s December 20 testimony expressing support for the bills are as follows:

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NJUSA Word Find

Test your knowledge by finding each Glossary Term in the puzzle below. Please note, some terms are split and appear as individual words.

R J T D P S O J H S J C I G L
 M E S N Y R I V A T O G N N O
 E I N U E Z E G B N V T F I U
 C O H E O M L S S J N B R L T
 M H V E W A T O S H Q W A P I
 Y M W E R A L S L U D U S U L
 G N C U A I B G U T R Y T O I
 P L T K D F F L V J E E R C T
 O A R A H Q D H E M D X U E Y
 N S T T A T A K K E Y A C D X
 R E G U L A T O R U N O T X C
 D A O L C I R T C E L E U J P
 P S P T R V E O X Z F G R N G
 X M O P P M U T X A Q N E G M
 M U C D Q A N M V C T L R G Y