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**ARIZONA CORPORATION
COMMISSION**

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December 20, 2017

Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

AU-00000A-17-0379

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AZ CORP COMMISSION
DOCKET CONTROL
2017 DEC 20 PM 4:57

Re: Federal Income Tax Reform Rate Adjustment

Dear Commissioners and Affected Utilities:

The United States Senate and House of Representatives today passed federal tax reform legislation. It is expected that President Trump will shortly approve the legislation. It is scheduled to go into effect immediately for the 2018 tax year.

This legislation represents the most comprehensive federal tax reform in over 30 years. The changes affect every regulated utility that maintains a corporate tax liability as an element of its revenue requirement. The legislation involves changes in tax liability for corporations as well as pass-through entities including limited liability companies, S corporations, partnerships and sole proprietorships. Significant changes to business income tax will result from the following provisions in the bill:

- a) A decrease of the federal income tax rate for corporations from 35% to 21%.
- b) A reduction of the business related income recognized by owners of pass through companies by 20%, subject to wage limits.

This Commission has anticipated this legislation for several months. The Commission has previously recognized in at least three rate cases that utilities will need to make an appropriate adjustment to rates if federal tax reform passed. The APS rate settlement included the following provision:

In the event that significant federal income tax reform legislation is enacted and becomes effective prior to the conclusion of APS's next general rate case, and such legislation materially impacts the Company's annual revenue requirements, APS will create a rate adjustment mechanism to enable the pass-through of Arizona Corporation Commission income tax effects to customers.

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The effect of this reduction in tax liability should be passed onto every applicable utility ratepayer in an efficient and expeditious manner. I acknowledge it is a significant task to make adjustments to the rates of every utility that maintains recovery of federal tax in their revenue requirement. Still, it is imperative that this Commission and the regulated utilities work together to pass the tax savings onto the ratepayers.

I am requesting Staff to open a new docket to address the impact of the federal tax reform on current utility rates. I would like to encourage my fellow Commissioners, the utility industry, and other stakeholders to provide input and proposed solutions on this issue. I invite companies to submit any comments or proposals on the matter by January 20, 2018. I request that Staff schedule a workshop on the matter as soon as practical after the opportunity to comment. It is my hope that the Commission is prepared to evaluate a rate adjustment procedure at the February Open Meeting.

It is my sincere desire that the Commission and the affected utilities will work effectively to address the rate adjustments on behalf of the utility customers in Arizona.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin Olson", with a stylized flourish at the end.

Commissioner Justin Olson
Arizona Corporation Commission

CC: Elijah Abinah, Utilities Director