For Immediate Release

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PSC requires utilities to account for effects of tax reform, set aside money for customer benefit

Commission among the first state regulators in the country to take action

Helena, Mont. – The Montana Public Service Commission today took the first step to ensure that utility customers realize benefits from sweeping tax reform signed into law last week.

The Commission directed regulated utilities in the state to calculate the change in tax liability that each company expects to receive under the new tax bill and to come forward with a proposal for how to apply those benefits by the end of March.

Critics of the broader tax bill argue that these savings are likely to be pocketed by corporate shareholders, but Chairman Brad Johnson, R-East Helena, said that's not the case for regulated companies in Montana.

"Consumers are currently paying more in taxes through utility rates than the actual tax expense that utilities will incur next year," he said. "The Commission wants to ensure that this money is not simply captured by shareholders, but instead is directed in a way that provides a long-term benefit to the consumer."

The Tax Cuts and Jobs Act represents the most comprehensive federal tax reform in over 30 years. The legislation, which will become effective for tax year 2018, creates a significant change in tax liability for regulated utilities through the reduction of the corporate income tax rate. The change creates a gap between the tax rate of 35 percent that customers currently pay through rates and the 21 percent rate at which utilities will be taxed next year.

Additionally, because consumers have paid tax expense on future tax liabilities due to other federal policies, such as bonus depreciation, the lower rate that will be applied to those liabilities in future tax years creates another benefit for customers. The Commission's staff released a memo last week suggesting the total tax benefit to Montana's utility customers will amount to tens of millions of dollars annually.

NorthWestern's electric and gas utilities are subject to the Commission's requirement, as is the electric service of Montana-Dakota Utilities. Two other utilities, Great Falls' Energy West gas utility and MDU's gas utility, will stand to have their rates adjusted for the effects of tax reform during pending rate cases which those utilities filed in September 2017.

"Utilities basically have four options, said Commissioner Roger Koopman, R-Bozeman. "They can issue customer refunds, use the money as a source of zero cost financing for capital projects, direct the funds to offset large, unusual expenses, or propose some combination of these three applications.

"I suspect the commission will be strongly inclined toward ratepayer refunds," Koopman added.

For now, the additional funds collected through rates will be accounted for as a deferred liability. Since retroactive ratemaking is unlawful, the Commission, by imposing its accounting requirement before the law's effective date, is preserving its authority to determine how this additional revenue should be treated.

"Our Commission is, if not the first, one of early movers on this issue among the 50 state utility commissions in the nation," said Commissioner Travis Kavulla, R-Great Falls. "Taking this first step is essential to ensuring that consumers reap the benefits of the tax reform legislation."

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Made up of five elected commissioners, the PSC works to ensure that Montanans receive safe and reliable service from regulated public utilities while paying reasonable rates. Utilities regulated by the PSC generally include private investor-owned natural gas, electric, telephone, water, and sewer companies. In addition, the PSC regulates certain motor carriers, and oversees natural gas pipeline safety and intrastate railroad safety.