



## IN BRIEF

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This bill ensures any recent federal tax savings privately owned utilities receive are passed back to ratepayers as soon as possible.

## BACKGROUND

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Under the regulatory compact, many privately owned utilities – including water, gas, electric, and telecommunications utilities – are granted near-exclusive rights to sell and operate within a given service territory. The Public Utilities Commission (PUC) determines the amount such a utility can charge, invest in, and profit. Thus these utilities' profitabilities are set by the PUC, and prescribed during general rate cases (GRC).

While these utilities file state and federal taxes like any corporation, the utility's tax burden is one factor in how much a utility can charge customers in rates. Utilities are allowed to charge customers for a set amount, so any change in taxes becomes either profit (decreased taxes) or loss (increased taxes) for the utility. Generally, any difference in the amount a utility is allowed to charge versus the amount it expends is recorded in a memorandum account. These accounts are corrected during the next GRC. For large privately owned electric utilities in California, a GRC application occurs every three years offset from one another.<sup>1</sup>

## THE PROBLEM

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Under the recent House Resolution 1 (H.R. 1; Public Law 115-97),<sup>2</sup> utilities are expected to receive lower taxes, and thus increased profits, via a number of changes. Among its provisions, H.R. 1 significantly lowers corporate taxes, increases the timeline for deducting equipment costs, but also exempts utilities from any limitations on deducting interest on loans, debt or credit. This last provision means that utilities will be freer than other corporations to borrow money for infrastructure upgrades, and could likely increase the demand for utility bonds.

Since ratepayers have already paid for the corporate taxes previously forecasted by the utilities, any tax savings would result in profit for the utility. As a result, many states have already taken proactive measures to ensure customers benefit from utility tax savings.<sup>3</sup>

In early January, my office wrote the California PUC asking them to join these other states to ensure any tax savings were returned to the ratepayers.<sup>4</sup> The PUC confirmed that they have already asked all electric, gas, and water utilities to track their tax savings in a memorandum account, and that they agree that given the projected size of the savings, ratepayers should benefit this year.<sup>5</sup>

*However, some utilities have begun to argue to the PUC that any savings should be reinvested in utility infrastructure, disaster prevention, or other costs.* While these utility goals on their surface are admirable, ratepayers already pay for many of these costs. Any justifiable increase to these investments should be decided and approved by the PUC during the normal GRC process, not as a result of tax savings.

## THE SOLUTION

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This bill provides clear direction to the PUC that any changes to utilities' taxes shall be adjusted for in rates. If utilities receive tax savings, customer rates will be lowered. Moreover, this adjustment to rates is mandated to be made within 90 days of determining any savings, ensuring ratepayers receive savings as soon as possible.

## SUPPORT

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### FOR MORE INFORMATION

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<sup>1</sup> This is overly simplistic. But for PG&E, Edison, and SDG&E rarely are their GRCs synchronized. <http://www.cpuc.ca.gov/General.aspx?id=10431>

<sup>2</sup> The "Tax Cuts and Jobs Act"; RN 115-409;

<https://www.congress.gov/115/bills/hr1/BILLS-115hr1.rh.pdf>

<sup>3</sup> In MA, MD, IL, and OR, to name a few.

<https://www.seattletimes.com/business/states-to-us-pass-along-utilities-tax-savings-to-customers/> and <https://www.rtoinsider.com/tax-cut-and-jobs-act-opsi-utilities-83740/>

<sup>4</sup> [http://sd13.senate.ca.gov/sites/sd13.senate.ca.gov/files/2018-1-16\\_hill\\_cpuc\\_itr\\_reutilitytaxbreaks.pdf](http://sd13.senate.ca.gov/sites/sd13.senate.ca.gov/files/2018-1-16_hill_cpuc_itr_reutilitytaxbreaks.pdf)

<sup>5</sup> <https://www.sfchronicle.com/business/article/California-lawmaker-says-utilities-tax-breaks-12502397.php>