Mr. Brandon Frey  
Interim Executive Secretary  
Louisiana Public Service Commission  
602 North 6th Street, 12th floor  
Baton Rouge, Louisiana 70802

RE: Impact of Federal Tax Cuts and Jobs Act  
LPSC Docket No. X-34747 and R-34754  
KM File No. 18832-0

Dear Mr. Frey:

South Coast Gas Co., Inc. ("South Coast") submits this letter to the Louisiana Public Service Commission ("LPSC") in response to a request that regulated utilities submit a report in the referenced docket prior to March 21, 2018, regarding savings that are anticipated to be flowed to ratepayers as a result of the Federal Tax Cuts and Jobs Act which reduced the federal income tax rate from 35% to 21%.

South Coast operates under a fiscal tax year of July 1-June 30, and understands from its auditors that it will experience a reduction in tax expense as a result of the Tax Cuts and Jobs Act beginning January 1, 2018.

South Coast further understands there will be two impacts from the tax reduction. First, there is a reduction in annual federal tax expense incurred by South Coast. Second, there is a reduction in the amount of accelerated deferred taxes that South Coast is required to reflect on its balance sheet and a corresponding increase in rate base. Each of these impacts is discussed below.

Regarding the reduction in annual federal tax expense, South Coast estimates the reduction will be approximately $88,131 based on June 1, 2017 - July 31, 2018 fiscal year data. Current rates are based on federal tax expense of $220,329, which would be reduced to $132,198 based on a 21% tax rate, for a difference of $88,131.

Regarding the reduction in deferred taxes, South Coast estimates the reduction would be approximately $10,146 per year. The reduction of deferred taxes on the balance sheet would be $271,268, amortized over 25 years, for an annual amount of $10,146 after offsetting the corresponding effect of increased rate base. A workpaper showing the calculation is attached.

"Faster - More Economical - More Dependable"
In order to flow the benefits of the tax reductions to its customers, South Coast contemplates that it would implement a rate adjustment as soon as possible. South Coast is currently targeting implementation on or before July bills, which would reflect the estimated annual benefits for January-December 2018, amortized and flowed to customers over the remaining months of calendar year 2018. The rate adjustment would be subject to true-up, based on the actual achieved tax reduction outcome. The rate adjustment would be implemented on a per Mcf basis as part of the monthly purchased gas adjustment. Pending flow though of the tax reduction benefits to its customers, South Coast will reflect a regulatory liability on its balance sheet for the reduced tax expense.

Meanwhile, before proceeding with the implementation, South Coast is continuing to evaluate the tax reduction and its plans for flow through of benefits to customers to ensure that its calculations and plans are appropriate and consistent with tax rules and regulations and requirements of the Louisiana Public Service Commission applicable to all of the jurisdiction natural gas distribution companies.

In considering the calculation and implementation steps to flow back the tax reduction benefits to ratepayers, South Coast has a number of questions, including as follows:

1) Can the flow through of benefits from the tax reduction to customers be implemented on an mcf basis?

2) Can the flow through of benefits from the tax reduction to customers be subject to true-up, after actual tax savings are confirmed at the end of the tax year?

3) Will all of the natural gas distribution utilities be required to flow the benefits of the tax reduction to customers as a dollar-for-dollar reduction outside of the Rate Stabilization Plan ("RSP") earnings bandwidth formula, or can the benefits be flowed though the RSP earnings calculation?

4) Does Staff have any questions or input on South Coast’s anticipated approach discussed above.

South Coast looks forward to working with LPSC Staff to address the above questions and any additional implementation steps in the LPSC Rulemaking initiated on this topic, in Docket R-34754.
Please let us know if you have any questions or need additional information from South Coast regarding this matter.

Very truly yours,

Jastilien Cortez, Jr.
Comptroller
South Coast Gas, Co., Inc.

cc: LPSC Commissioners
Melissa Watson
Lauren Temento
Paul Zimmering
Noel Darce
Lane Sisung
### Deferred Tax Analysis - Special South Coast Gas Co., Inc.

<table>
<thead>
<tr>
<th>Component</th>
<th>Timing Difference</th>
<th>Deferred Tax Asset (Liability)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>@ 34%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,651,721</td>
<td>(561,585)</td>
</tr>
<tr>
<td>Deferred Gas Costs</td>
<td>104,565</td>
<td>(35,552)</td>
</tr>
<tr>
<td>RSP Balance</td>
<td>375,336</td>
<td>(127,614)</td>
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<tr>
<td></td>
<td>2,131,622</td>
<td>(724,751)</td>
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<tr>
<td>Vacation Accrual</td>
<td>(44,938)</td>
<td>15,279</td>
</tr>
<tr>
<td>Balance, 6/30/17</td>
<td>2,086,684</td>
<td>(709,472)</td>
</tr>
</tbody>
</table>

### Journal Entries

**Deferred Tax Expense** 271,268

Deferred Income Taxes 271,268

Adjustment Calculation for tax savings through ADIT:

- ADIT adjustment 271,268
- Amortization period 25 years
- Difference 10,851

Adjustment calculation for income shortfall with reduced ADIT:

- ADIT adjustment 271,268
- Amortization period 25 years
- Additional Rate Base 10,851
- Equity Ratio 65% 7,053
- Allowed Return on Equity 10% 705

\[88,131 + 10,851 - 705 = 98,277\]