GLOBAL ENERGY INSTITUTE
U.S. CHAMBER OF COMMERCE

Policy Analysis: Impact of Tax Cuts and Jobs Act of 2017 on Electric Utility Rates

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act of 2017 that amended the Internal Revenue Code of 1986. This represents the first major tax reform in more than three decades, lowering rates for all businesses, making our tax system more competitive, and unleashing a new era of growth for the American economy.

Because of these changes, companies are reinvesting in their business, employees are reaping rewards through bonuses and increased wages, and individuals are keeping more of their hard-earned wages in their paychecks each month.

Another area of significant consumer savings and economic gain is coming in the form of reduced electricity bills made possible by these tax cuts, which we explore below.

Overview

The focus of this analysis was to calculate the direct consumer savings on electricity bills that are occurring because of the Tax Cuts and Jobs Act ("TCJA")[1] and to estimate the resulting broader economic benefits. The TCJA lowers tax rates for businesses and creates pro-growth reforms to make the American economy more competitive, which has caused state public utility commissions to require that investor-owned utilities submit adjustments to their retail tariffs to properly reflect their lowered costs from the TCJA. This results in consumer cost savings and other broader economic benefits, as calculated in the following analysis.

To estimate end-consumer electricity cost savings, we researched ongoing state-level utility filings made by June 2018 either as part of one-off state proceedings or as part of a rate case. In some cases, state commissions had already issued orders dealing with pass-through of savings that we incorporated. We then aggregated savings for individual utilities to develop state-level estimated savings.[2] Because of the manner in which utility rates are set, utility customers may see the estimated TCJA savings in different ways. The most direct way would be an adjustment in their current bills to reflect savings,[3] until the next rate case when their entire rate would be reset to reflect lower tax rates from the TCJA. In some cases, utilities may simply forgo surcharges or increases that would have otherwise gone into effect in current bills. For example, Florida Power & Light will forgo charges it otherwise planned to start collecting in 2018 to compensate it for Hurricane Irma costs. We also calculated the average savings for residential customers. The appendix lists the various state utility commission filings that served as the basis of this analysis.

To estimate the broader economic impacts of electricity cost savings, we applied the IMPLAN model to estimate state GDP and employment benefits. The IMPLAN model takes the known direct economic impacts (i.e. the rate filings with the state public utility commissions) and calculates the indirect and induced impacts resulting from the investment or savings. Tax savings result in increased real consumer income. For households, this means higher disposable income, allowing them to spend more, which increases GDP and employment through higher demand for goods and services throughout the various state economies.

The U.S. Chamber of Commerce Global Energy Institute analysis of 15 representative states found that direct customer savings over a five-year period from investor owned utilities (IOU) in these states are significant -- ranging from $100 million in Maine to nearly $4 billion in Florida. These direct customer savings are then multiplied across the economy with increased jobs and state GDP. Direct savings and GDP impacts are estimated over a five-year basis. Employment impacts are assumed to be sustained.

While only 15 states were modeled, residential and industrial users of electricity in most states are benefiting from the Tax Cuts and Jobs Act 0f 2017. Customer savings will also be realized for those who rely on natural gas as a fuel source given their near identical treatment to investor owned electric utilities. The Global Energy Institute engaged FTI Consulting to conduct this analysis.

Findings

The following table includes total customer savings, residential customer savings, gross domestic product and employment benefits in each state analyzed over a five-year period. While representative, these savings and gains are presented on a state-by-state basis and should not be represented as economy-wide given the analysis of 15 to 50 states.

[1] The TCJA will also have other rate impacts – e.g., adjustments to deferred tax accounts, phase out of bonus depreciation – the impacts of which are generally smaller than the direct impact and could be positive or negative.

[2] Municipal and co-operative utilities are excluded because their customers will see no change from lower tax rates because of their tax-exempt status.

[3] The rate case would also provide a means to reflect other changes from the TCJA such as changes to bonus depreciation.

Customer Savings, GDP and Job Gains (2018-2022)

	Total 5-Year IOU* Savings (millions)	Average 5-Year IOU* Residential Customer Savings	5-Year State GDP Impacts (millions)	Sustained Job Gains
Alabama	$1,285	$429.60	$1,345	3,444
Arizona	$765	$273.00	$1,085	2,411
California	$3,235	$138.60	$5,410	9,896
Florida	$3,916	$332.40	$5,230	12,043
Georgia	$825	$164.40	$1,305	2,776
Indiana	$1,425	$271.20	$1,660	3,987
Maine	$101	$132.00	$155	349
Michigan	$1,340	$179.40	$1,760	4,043
Minnesota	$759	$205.20	$1,080	2,384
Missouri	$652	$193.80	$930	2,098
Nevada	$419	$199.80	$545	1,147
Texas	$1,212	$82.80	$2,480	4,850
Virginia	$875	$159.60	$1,250	2,554
West Virginia	$330	$168.00	$352	891
Wisconsin	$725	$151.20	$972	2,219

*IOU: Investor Owned Utility