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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION INTO THE IMPACT OF FEDERAL TAX CODE REVISIONS ON UTILITY COSTS AND RATEMAKING	**CASE NO. GNR-U-18-01** **COMMENTS OF THE COMMISSION STAFF IN SUPPORT OF SETTLEMENT STIPULATION RE: INTERMOUNTAIN GAS COMPANY**

The Staff of the Idaho Public Utilities Commission comments as follows on the Stipulation and Settlement ("Settlement Stipulation") and Motion to Approve Settlement Stipulation and Request for Modified Procedure relating to Intermountain Gas Company ("Intermountain" or the "Company").

BACKGROUND

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act of 2017 ("TCJA"). Effective January 1, 2018, the TCJA decreased the federal corporate tax rate from 35 percent to 21 percent. In response, the Commission opened this multi-utility case to investigate whether to adjust the rates of certain utilities that benefit from the reduced tax rate. *See* Order No. 33965. The Commission directed all affected utilities—including the Company—to immediately account for the tax benefits as a regulatory liability, and to report on how the tax changes affected them, and how resulting benefits could be passed on to customers. *See id.* at 1-2.

The Company filed its report on March 23, 2018. In its report, the Company proposed using the 2016 test year from its last rate case (INT-G-16-02) to calculate the benefits from the TCJA. Using a 2016 test year would have resulted in a $4,966,895 rate decrease.

A settlement conference was held at the Commission offices on May 7, 2018. Representatives of Intermountain, Alliance of Western Energy Consumers, and Commission Staff (collectively, the "Parties") attended this meeting. Through discussions and compromise, the Parties agreed to the proposed Settlement Stipulation.

On May 10, 2018, Intermountain filed Settlement Stipulation, which was signed by all Parties. The Settlement Stipulation, if approved, would result in the Company returning to customers, $5,111,303 of tax benefits the Company has realized under the TCJA, on a 2017 normalized basis. Furthermore, the deferred liability on the Company's books would be credited back to customers as part of the Company's next Purchased Gas Cost Adjustment ("PGA").

STAFF REVIEW

After thoroughly reviewing the Settlement Stipulation, Staff supports its resolution of the TCJA's impact on the Company. Staff believes the Settlement Stipulation is in the public interest and is a fair, just, and reasonable compromise that provides customers 100% of the benefits the Company receives under the TCJA and Idaho state tax rate changes. The Settlement Stipulation is discussed further below.

Summary of Stipulated Tax Benefit

The Settlement Stipulation proposes returning the entire benefit amount of $5,111,303 to customers as a uniform percentage decrease to each customer class based on the base revenue set in the Company's last rate case. *See* Order No. 33879 (Case No. INT-G-16-02). This rate reduction will be a credit to the volumetric rates. The monthly service charge will remain unchanged. *See* Settlement Stipulation Attachment 1, page 1. The amount consists of the components described below and illustrated in Table 1.

Table 1: Summary of Tax benefits

			Revenue Requirement
1	Income Tax Benefit	$	2,750,730
2	Deferred Income Tax - Plant	$	1,189,021
3	Deferred Income Tax - Non Plant	$	(154,543)
4	Amortization of Investment Tax Credits	$	(47,482)
5	Total Benefit	$	3,737,726
6	Revenue Conversion Factor		1.36749
7	**Total Benefit Returned to Customers**	**$**	**5,111,303**

Permanent (or Long-Term) Tax Benefits

The Parties agree that Intermountain will reduce its base rates by $5.1 million to account for the benefits received from the TCJA. The long-term benefits consist of the following components:

(1) Income Tax Benefit: The TCJA's primary provision reduced the federal corporate tax rate from 35% to 21%. After the TCJA passed, the Governor of Idaho signed House Bill 463 reducing the Idaho State Corporate Income Tax rate to 6.925% (previously 7.4%). Reducing the state and federal income tax rates decreases the Company's income tax expense by $2.75 million based on 2017 financial information.

(2) Deferred Income Tax Benefit – Plant: As of December 20, 2017, deferred tax amounts had to be revalued at the lower corporate tax rate, resulting in Excess Deferred Income Tax ("EDIT") balances. Balances associated with regulatory utility operations result in a balance sheet reclassification from deferred tax to deferred regulatory asset or liability. The revaluation effected both plant and non-plant balances. For plant-related EDIT, the Company must amortize the balance over the remaining life of the associated assets in accordance with the Internal Revenue Service's ("IRS") Average Rate Assumption Method ("ARAM"), in order to comply with the IRS's normalization rules. As shown in the Table, the annual permanent benefit from the plant excess deferred amortization is about $1.2 million.

(3) Deferred Income Tax Benefit – Non Plant: Balances associated with non-plant EDIT are not required to be amortized over the remaining life of the associated assets. For

Intermountain, the non-plant EDIT results in a regulatory asset to be collected from customers. The Settlement Stipulation provides that the non-plant EDIT will be amortized over a ten-year period, resulting in an annual surcharge to customers of $154,543.

(4) Amortization of ITC: Because of the TCJA, the Company updated its estimated amortization of Investment Tax Credits ("ITCs"). The amortization of the ITC amounts is also not required to be amortized using ARAM. The Parties agree the Company will amortize these amounts over ten years, resulting in an annual surcharge of $47,482.

(5) Revenue Conversion Factor: The Revenue Conversion Factor increases the gross amount of payments to account for taxes, uncollectables, and other revenue sensitive adjustments. The total of the above four items must be multiplied by the Revenue Conversion Factor to fully account for all the tax benefits of the TCJA. After accounting for tax changes, the Revenue Conversion Factor decreased from the 1.67055 approved in Case No. INT-G-16-02 to 1.36749, which results in a total of $5,111,303 in benefits to customers.

<u>January 1 – May 31, 2018 Deferred Liability</u>

Per Commission Order No. 33965, the Company began to "immediately account for the financial benefits from the January 1, 2018 tax rate reduction to 21%," by treating the benefits as a deferred regulatory liability. The monthly deferral is being recorded by the Company and will include the tax benefit of reducing current and deferred income tax expense to 21%, as well as the monthly amortization of the excess plant ADFIT from January 1, 2018 – May 31, 2018. The Parties agree the Company will return this liability to customers over 12 months in the Company's next PGA filing, to be effective October 1, 2018.

STAFF RECOMMENDATIONS

Staff believes the Settlement Stipulation is just, fair, and reasonable, and in the public interest. The Settlement Stipulation reasonably resolves this matter as it pertains to Intermountain Gas, while returning all benefits from the TCJA to customers. Staff thus recommends the Commission approve the Settlement Stipulation.

Respectfully submitted this 22nd day of May 2018.

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Deputy Attorney General

Technical Staff: Joe Terry
Johan Kalala-Kasanda
Donn English

Umisc/comments/gnru18.1kkjtjk stip comments Intermountain Gas

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 22ND DAY OF MAY 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. GNR-U-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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