

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF

FROM: KARL T. KLEIN
DEPUTY ATTORNEY GENERAL

DATE: MAY 11, 2018

SUBJECT: PROPOSED SETTLEMENT REGARDING PACIFICORP DBA ROCKY MOUNTAIN POWER IN THE COMMISSION'S INVESTIGATION INTO THE IMPACT OF FEDERAL TAX CODE REVISIONS ON UTILITY COSTS AND RATEMAKING – CASE NO. GNR-U-18-01.

On May 11, 2018, PacifiCorp dba Rocky Mountain Power (the “Company”) filed a settlement Stipulation. The Stipulation is signed by the Company, Commission Staff, and intervenors Idaho Irrigation Pumpers Association, PacifiCorp Idaho Industrial Customers, and Monsanto Company (the only persons or entities who expressed interest in participating as to the Company).

The Stipulation would return to customers the tax benefits the Company realizes under the federal Tax Cuts and Jobs Act of 2017 (the “Tax Reform Act”). The Stipulation provides, in summary:

1. If the Company's costs and ratemaking expenses decrease, then the Company will defer associated net savings effective January 1, 2018, and return all benefits to customers.
 - a. Effective June 1, 2018, Idaho retail revenues will decrease by \$8.385 million (about 3.0%). The decrease consists of a \$6.185 million in current federal and state income tax savings to be returned to customers through new Electric Service Schedule No. 197, and a \$2.2 million reduction to Electric Service Schedule No. 94 - Energy Cost Adjustment rate.
 - b. The Commission's 2017 Energy Cost Adjustment Mechanism (“ECAM”) order authorized the Company to amortize the 2013 depreciation regulatory asset by \$4 million per year (35% of the annual \$11.5 million ECAM recovery). *See* Order No. 33776. On May 31, 2017, the 2013 depreciation regulatory asset

account had a \$5.7 million balance, with an extra \$1.8 million in incremental depreciation to be deferred each year. On May 31, 2018, the 2013 regulatory asset balance will be about \$3.5 million. The Company will offset this amount with \$3.5 million of Idaho's allocation of deferred tax savings, which will decrease the annual ECAM rate by \$2.2 million. Additionally, the final Schedule 94 ECAM rate will collect \$1.8 million more than the approved 2017 ECAM deferral to continue offsetting the \$1.8 million incremental depreciation deferral.

2. The Company will record any under or over allocation of the benefits as a Tax Reform Act regulatory liability or asset, and will continue to defer any difference until base rates are reset through a general rate case.
3. On June 15, 2018, the Company will file a final report on the Tax Reform Act's net savings. The final report will: (1) include the calculation of excess deferred federal income taxes associated with both protected and unprotected deferred tax balances; and (2) reconcile the accounting for the benefits from the Tax Reform Act, including a true-up of any under or over-allocation of the customer credits described above.
4. Once the Company files its final report on June 15, 2018, the parties will initiate a second phase in this proceeding as it relates to Rocky Mountain Power. In this Phase II, the parties will review the remaining deferred balances, after accounting for the stipulated rate decrease, and propose ratemaking treatment for them. The normalization of tax savings subject to the average rate assumption method ("ARAM") will be identified as required by tax normalization provisions in the Tax Reform Act. The ratemaking treatment of deferred tax savings not subject to ARAM will be specifically determined in Phase II.
5. The Company will continue deferring the balance of the Tax Reform Act regulatory account, including any balance after Phase II, until the Commission determines its regulatory treatment and no later than in next general rate case. During Phase II, the parties will identify how the Company will report and describe the remaining deferral balances on June 15 each year until all tax benefits are included in Commission-approved rates. The Company will return all balances to

customers through Schedule 197 as reductions or offsets for rate stabilization purposes in the ECAM.

6. The Company will create a new Electric Service Schedule No. 197 – Federal Tax Act Adjustment, to pass a rate reduction associated with the Tax Reform Act back to customers. This schedule will be billed under a separate line item on customers' bills until the next general rate case. Of the \$8.385 million decrease, \$6.185 million will be returned to customers on Schedule No. 197 and \$2.2 million will be returned through a reduction to Schedule No. 94 – Energy Cost Adjustment.

7. The Company will allocate \$6.185 million to customer classes using the cost of service F101 – Rate Base factor. The Company will allocate the rate reduction to all retail tariff customers based on the rate base allocation to each customer class from the Company's cost of service study as filed in Case No. PAC-E-11-12.

8. The Company will base its per kilowatt-hour energy price for Schedule No. 197 on the same kilowatt-hour volumes by class that it used in its annual ECAM filing. To determine these rates, the Company will calculate the price for each rate schedule by dividing the \$6.185 million by the corresponding annual energy for each rate schedule.

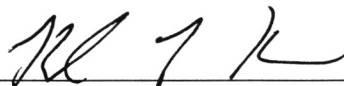
9. To avoid affecting demand-side management programs, the Company will apply Schedule No. 191, Customer Efficiency Services Rate Adjustment, to customers' bills before applying the proposed Schedule No. 197 sur-credit.

STAFF RECOMMENDATION

Staff recommends the Commission process the Stipulation by Modified Procedure with Comments due in time for an approving order to issue by June 1, 2018. To meet this deadline, the Staff recommends the Commission set a May 22, 2018 comment deadline, with any reply due two days later, on May 24, 2018.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Proposed Settlement and Notice of Modified Procedure setting a May 22, 2018 comment deadline and May 24, 2018 reply deadline relating to the Stipulation?



Karl T. Klein
Deputy Attorney General

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