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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 ON PHASE II SETTLEMENT STIPULATION (PACIFICORP)**

The Staff of the Idaho Public Utilities Commission comments as follows on the Phase II Stipulation (the "Phase II Settlement Stipulation") that Rocky Mountain Power, a division of PacifiCorp ("Company") has filed in this case. If approved, the Phase II Settlement Stipulation would settle all remaining issues as to the Company, and return to customers 100% of the benefits that the Company has realized from recent tax law changes. As explained below, Staff believes the Phase II Settlement Stipulation is just, fair, and reasonable. Staff thus recommends the Commission approve it in the public interest.

BACKGROUND

The federal Tax Cuts and Jobs Act of 2017 ("TCJA") decreased the federal corporate tax rate from 35% to 21%, effective January 1, 2018. In response, the Commission opened this multi-utility case to investigate whether to adjust the rates of certain utilities so the benefits from the reduced tax rate can pass to customers. *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, which the Company styled as an application, on March 30, 2018.

On May 31, 2018, the Commission entered an order approving an initial settlement stipulation signed by the Company and all parties. The initial settlement stipulation required the Company to use Electric Service Schedule 197—Federal Tax Act Adjustment, to refund $6,185,000 to Idaho retail customers effective June 1, 2018. This refund was to be a preliminary portion of the tax benefits the Company realized from the tax law changes. The initial settlement stipulation also provided for a Phase II of the case. In Phase II, the parties were to review balances remaining after accounting for the reduction to rates proposed in the initial settlement stipulation and propose ratemaking treatment for the remaining deferred balances. *See* Order No. 34072.

On March 5, 2019, the Company filed the Phase II Settlement Stipulation, which proposes to settle all remaining issues as to the Company and return to customers 100% of the benefits that the Company has realized from recent tax law changes. The Company, the Commission Staff, and intervenors Idaho Irrigation Pumpers Association, Inc., PacifiCorp Idaho Industrial Customers, and Monsanto Company (the sole intervenors in this multi-utility case as it relates to the Company), have signed the Phase II Settlement Stipulation and recommended the Commission approve it in the public interest.

SUMMARY OF PHASE II SETTLEMENT STIPULATION

The Phase II Settlement Stipulation, if approved, would return to customers the tax benefits the Company has realized under the tax law changes. The Phase II Settlement Stipulation provides, in summary:

1. Effective June 1, 2019, Schedule 197 rates would be revised to refund to Idaho retail customers about $7,589,000 annually, for an increase to the Phase I refund of about $1,400,000. The revised Schedule 197 would remain in effect until rates are set in the Company's next general rate case.
2. Starting June 1, 2019, the Company will use the Energy Cost Adjustment Mechanism ("ECAM") to amortize over two years the $1,141,000 deferred balance of the current tax savings from January 1, 2018 through May 31, 2019 not yet returned to customers.
3. The Idaho-allocated Excess Deferred Income Taxes ("EDIT") resulting from the new

tax laws include protected property-related EDIT of $105,924,604, with estimated annual amortizations through the average rate assumption method ("ARAM") of $2,564,410 in 2018, $2,352,309 in 2019, and $2,306,632 in 2020; and non-protected and non-property EDIT of $14,883,505. As the EDIT balances amortize in rates, the amounts will include a rate base carrying charge offset to account for the corresponding increase in rate base associated with the amortized EDIT until the next Idaho general rate case.

4. The actual annual ARAM amortization of protected property-related EDIT, and the annual straight-line amortization of non-protected property and non-property EDIT, will be reduced by a rate base offset calculated at the pre-tax weighted average cost of capital of 9.312% on the after-tax EDIT amounts until the EDIT rate base balances are updated and included in the next Idaho general rate case.
5. The actual annual ARAM amortization of protected property EDIT, less the associated rate base offset, will be refunded to Idaho retail customers in the subsequent year through the ECAM under Schedule 94 and will not be subject to the ECAM's 90/10 sharing band. Additionally, the non-protected property and non-property EDIT will be amortized over seven years ($2,126,215 per year less the rate base offset), beginning June 1, 2019, and be used in part to offset the 2013 incremental depreciation expense deferral approved by Commission Order No. 32910 in Case No. PAC-E-13-04. Both will be included in Idaho retail customer rates in the ECAM until the rate effective date in the next general rate case and will not be subject to the sharing band. The parties may propose to change the seven-year amortization period for the unamortized portion of the non-protected property and non-property EDIT balance in the next Idaho general rate case.
6. The tax savings to be passed through the ECAM to customers effective June 1, 2019 will be accomplished by multiplying Idaho retail energy for June 1, 2019 through May 31, 2020 by $0.957 per megawatt hour ("MWh").
7. Effective June 1, 2020, the Company will update the tax amortization rate to include any over or under collection from the prior period along with the 2019 protected property EDIT amount updated based on actual tax return data and reduced for the corresponding rate base carrying charge offset. The current estimated rate before these true-ups is $0.853 per MWh.

8. When the Company files its next Idaho general rate case, the Company's application will reflect information relating to the tax laws, including: current federal income taxes calculated using the test period data; annual amortization and updated balances of protected property EDIT for the test period; annual amortization and updated balances of non-protected property and non-property EDIT for the test period; and the Schedule 197 rider will end with the rate effective date of the general rate case.
9. The ongoing incremental depreciation expense associated with the 2013 depreciation study will be included in base rates beginning on the effective date of the rates set in the next Idaho general rate case. Any deferred balance associated with the 2013 depreciation will be trued-up in the next ECAM following the rate effective date in the next general rate case.
10. Regarding rate design, the above-described rate reductions will be passed through to customers under Schedule 197 or Schedule 94.
11. The $7,589,000 will be allocated to customer classes using the cost of service F101 – Rate Base factor. The rate reduction will be allocated to all retail tariff customers taking service under the Company's electric service schedules based on the rate base allocation to each customer class from the Company's class cost of service study as filed in Case No. PAC-E-11-12.
12. To avoid affecting demand-side management programs, Schedule No. 191, Customer Efficiency Services Rate Adjustment will be applied to customers' bills before applying the proposed Schedule 197 sur-credit.
13. The parties recommend the Commission approve the Phase II Settlement Stipulation in the public interest, and state that its terms are fair, just, and reasonable.

STAFF REVIEW

Staff has reviewed the Phase II Settlement Stipulation and believes it is just, fair, reasonable, and in the public interest. Staff thus recommends the Commission approve it as filed. If approved, the Phase II Settlement Stipulation will return to customers the remaining savings that resulted from the TCJA. These savings include current tax savings, protected EDIT savings, and non-protected EDIT savings, and are described below.

Current Tax Savings

The Phase II Settlement Stipulation states that the current tax savings are $7.589 million per year. Staff has audited this figure and confirmed it is accurate. In the Phase I settlement stipulation approved in Order No. 34072, the Company began returning $6.185 million to customers annually. The Phase II Settlement Stipulation increases that amount to $7.589 million beginning June 1, 2019. The signing parties agree to maintain the rate design for Schedule No. 197 as established in the previous stipulation.

In Order No. 33965, the Commission directed the Company to record the benefits of the TCJA beginning January 1, 2018. During Phase I of the case, the Company returned to customers $3.425 million of the current tax benefits that accrued after January 1, 2018 . The signing parties agree that $1.141 million in current tax benefits remains as a deferred liability for the period of January 1, 2018 through May 31, 2019, and that this amount will be tracked and returned to customers through the ECAM over two years beginning June 1, 2019.

Protected EDIT Savings

The Phase II Settlement Stipulation quantifies $105.924 million as the Idaho-allocated protected EDIT benefits from the TCJA. Staff audited the protected EDIT and confirmed this amount is correct. To avoid a normalization violation, this benefit will be returned annually using the ARAM method. Because the ARAM amount changes annually, the annual figures could not be audited. However, the benefits from the protected EDIT will be returned annually in the ECAM, where there will be opportunities to audit this amount each year.

Non-Protected EDIT Savings

The Phase II Settlement Stipulation also quantifies $14.883 million as the Idaho-allocated non-protected EDIT benefits from the TCJA. Staff audited the non-protected EDIT and confirmed that the amount in the Phase II Settlement Stipulation is correct. This amount will be returned to customers in the ECAM over a seven-year period beginning June 1, 2019.

In Order No. 32910, the Commission approved a settlement stipulation that allowed the Company to defer, on a monthly basis, the aggregate net increase in depreciation expense from January 1, 2014 until new depreciation rates are reflected in customer rates. The Phase II Settlement Stipulation provides that the Company must first use the non-protected EDIT to be returned to customers to offset the incremental depreciation expense deferral. The Company will include the net increase in depreciation expense and any remaining non-protected EDIT in rates through the ECAM until the effective date set in the next general rate case.

EDIT reduces rate base. When EDIT balances are amortized and returned to customers, the Company's rate base will increase. The amortization will include a rate base carrying charge offset to account for the corresponding increase in rate base. The rate base carrying charge offset reflects the most recently approved weighted average cost of capital, which when grossed up for tax effects is 9.312%. This amount will reduce the EDIT amortization returned to the customers.

STAFF RECOMMENDATION

The Phase II Settlement Stipulation is an equitable compromise that returns all benefits from the TCJA to customers. Staff believes the Phase II Settlement Stipulation is just, fair, and reasonable and in the public interest, and thus recommends the Commission approve it.

Respectfully submitted this 5th day of April 2019.

Karl Klein
Deputy Attorney General

Technical Staff: Joseph Terry
Brad Iverson-Long

i:umisc/comments/gnru18.1kkjtl settlement comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 5TH DAY OF APRIL 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF ON PHASE II SETTLEMENT STIPULATION (PACIFICORP),** IN CASE NO. GNR-U-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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