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MEMORANDUM

To: Utah Public Service Commission

From: Division of Public Utilities
Philip Powlick, Director
Artie Powell, Manager, Energy Section
David Thomson, Technical Consultant
Brenda Salter, Utility Analyst

Subject: Rocky Mountain Power's Deferred Tax Normalization Method, Docket No. 09-035-03 (Also known as 08-999-02 Deferred Tax Normalization).

Date: May 28, 2009

ISSUE

At the present time, where tax codes or accounting principles allow discretion, PacifiCorp employs by Commission order a 40 percent tax normalization policy – 40 percent of the deferred income tax is normalized or levelized over the life of the asset, while the other 60 percent is flowed through to current ratepayers. In Rocky Mountain Power's ("RMP" or "Company") recent rate cases, Docket Nos. 07-035-93 and 08-035-38, the issue of moving to 100 percent normalization has arisen. However, the issue was not decided in either case, and the Public Service Commission ("Commission") opened this docket to allow parties time to explore the issue and formulate recommendations on a prospective basis. The Division is not asking or anticipating that the Commission will make a ruling in this docket. Rather, the Division anticipates that it will make recommendations in the Company's next general rate case.

In this regard, the Commission has scheduled a technical conference in this docket for June 4, 2009. In preparation for the technical conference, the Division of Public Utilities ("DPU" or "Division") requested that its consultant in the two previous RMP general rate cases prepare a report on the issues surrounding tax normalization. The report is completed and

attached to this memo. Given the timing, we have asked the Commission to postpone the technical conference to a later date to allow parties time to review the report and prepare any questions or comments that they may wish to make.

DISCUSSION

The Company proposed in its general rate case filing Docket No. 07-035-93 to provide, on a prospective basis, 100 percent normalization of deferred tax on certain basis differences which are currently providing only 40 percent normalization of deferred tax, so a change of 60 percent. The Company's proposed change was withdrawn at the June 2, 2008 hearing. Since the Company, at time of filing, did not provide an explanation or supporting documentation for the change, the Committee of Consumer Services (Committee or Office (now known as the Office of Consumer Services)) recommended the Commission require the Company to provide support for any proposed material accounting change at the time of filing. The Division agreed with this request. The Commission directed the Company to explain and support in direct testimony any proposed material accounting change.

As a result of the issues raised on the normalization of deferred tax in the above docket, the Division issued a memo to Rocky Mountain Power on July 8, 2008, with a copy to the Commission, notifying them that the Division would be reviewing the Company's Deferred Tax Normalization method change for basis differences.

On July 17, 2008 the Company recommended in its general rate case filing Docket No. 08-035-38 moving from 40 percent basis normalization to full basis normalization over the period of three subsequent rate cases. Although the Company recommended the move they did not include the change in the filing. The Parties to the Stipulation of Docket No. 08-035-38 Regarding Revenue Requirement agreed to address the issue of deferred tax normalization in Docket No.09-035-03.

The Division has retained the services of The Garrett Group to explain tax normalization and to review, analyze, and provide written comments on the current and future effect of a change in tax normalization methodology by Rocky Mountain Power. Included with this memo is The Garrett Group's paper.

The Division has provided the deferred tax normalization paper in preparation for the Technical Conference scheduled on June 4, 2009, and as an educational tool to give other parties information on the effect the change has on ratepayers now and in the future if the Company were to move to full basis normalization. However, given the timing of this filing, the Division has asked the Commission to reschedule the technical conference for a later date to allow parties sufficient time to review the report and prepare questions and remarks. The Division will continue to work with parties to find a mutually agreeable date.

The Division is not taking a position at this time but will address the issue when it is presented in a general rate case. The Division anticipates that the Technical Conference will provide answers to any unanswered questions other parties may have about this issue and therefore requests that at the conclusion of the Technical Conference, the Commission close Docket No. 09-035-03.

cc: Michele Beck, Utah Office of Consumer Services

Dave Taylor, PacifiCorp