State of Utah

Department of Commerce
Division of Public Utilities

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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities
Chris Parker, Director
Artie Powell, Manager
Brenda Salter, Utility Technical Consultant Supervisor
Jeff Einfeldt, Utility Technical Consultant

Date: April 24, 2020

Re: **Docket No. 17-035-69,** RMP Supplemental Notice – Investigation of Revenue Requirement Impacts of the New Federal Tax Legislation Titled: "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution of the budget for fiscal year 2018".

Recommendation (Acknowledge)

The Division of Public Utilities ("Division") recommends the Public Service Commission ("Commission") acknowledge Rocky Mountain Power's ("RMP") Supplemental Notice describing a correction of the reclassification of excess deferred income tax ("EDIT") between protected and non-protected classes made by RMP on August 2, 2018, and the adoption of the Reverse South Georgia Method ("RSGM") rather than the Average Rate Assumption Method ("ARAM") to amortize protected EDIT.

Background

Congress passed a change to the Federal Tax Law in December 2017 known as the Tax Cuts and Jobs Act ("TJCA"). Docket No. 17-035-69 was initiated to investigate and analyze the impacts of the new law on RMP and its ratepayers. One of the impacts was reduction of income tax rates and the corresponding creation of excess deferred income taxes ("EDIT"). RMP, the Division, and other intervenors investigated and analyzed the EDIT benefits and how best to return them to ratepayers. RMP submitted a final report on the revenue requirement impacts associated with TCJA on July 10, 2018. RMP filed a supplement to this report on August 2, 2018 reclassifying $16,326,000 EDIT from the Non-Protected class to the Protected class. Total EDIT remained unchanged. RMP also planned on amortizing the Protected EDIT balance in compliance with ARAM as required by the IRS.

RMP filed a supplemental notice on March 25, 2020 to inform the Commission that RMP was correcting the reclassification of EDIT (including correction of the previous EDIT reclassification dated August 2, 2018), and that RMP would apply RSGM rather than ARAM to amortize protected EDIT.

The Commission issued an Action Request to the Division to review RMP's Supplemental Notice and make recommendations by April 24, 2020. This is the Division's response.

In addition to correcting the EDIT reclassification dated August 2, 2018, RMP also identified additional amounts to be reclassified from the Protected class to the Non-Protected class due to additional bonus depreciation guidelines issued by the IRS, resulting in a total reclassification to the Non-Protected class of $17,996,367. Total EDIT (Protected and Non-Protected) still remains unchanged.

The IRS requires EDIT to be amortized via ARAM, if detailed records are available, to avoid penalties, and preserve certain accelerated depreciation options under the IRS code. If detailed accounting records are not available to allow the company to implement ARAM, the IRS requires the company to utilize RSGM as a substitute.

RMP anticipated using ARAM when it filed its final report on July 10, 2018 and during the negotiation of the related settlement (order dated November 9, 2018). Subsequently, RMP determined it does not have the requisite detailed supporting documents sufficient to allow using ARAM and must use the alternate RSGM. The total EDIT balance to be amortized remains the same. The application of RSGM rather than ARAM will result in the Protected class of EDIT being amortized more rapidly in earlier years, which will lessen any intergenerational impacts associated with EDIT in general, with ultimate benefits flowing to ratepayers a little sooner.

Conclusion

The Division recommends the Commission acknowledge RMP's reclassification of $17,996,367 of EDIT from the Protected to Non-Protected class, and the use of RSGM to amortize the Protected EDIT balance to remain in compliance with IRS rules. The Division finds the adjustments to be just, reasonable, and in the public interest.

Cc: Michele Beck, Office of Consumer Services
Joelle Steward, Rocky Mountain Power
Jana Saba, Rocky Mountain Power