ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

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February 7, 2018

VIA ELECTRONIC FILING

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Secretary

RE: **Docket No. 17-035-69 – 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"**

Rocky Mountain Power hereby submits for filing its comments to provide the information on the estimated revenue requirement impacts and proposed ratemaking treatment associated with the recent federal income tax legislation in the above referenced matter.

Rocky Mountain Power respectfully requests that all formal correspondence and requests for additional information regarding this filing be addressed to the following:

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Sincerely,

Joelle Steward
Vice President, Regulation

cc: Service List

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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"	Docket No. 17-035-69 **COMMENTS OF ROCKY MOUNTAIN POWER**

Rocky Mountain Power, a division of PacifiCorp ("Rocky Mountain Power" or "the Company"), respectfully submits these comments to provide a) information on the estimated revenue requirement impacts from the federal income tax legislation enacted in December 2017, titled An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution of the Budget for Fiscal Year 2018 ("Tax Reform Act"), and b) the Company's proposed ratemaking treatment for the associated tax reform revenue requirement impacts. The Company also reiterates its request that the Public Service Commission of Utah ("Commission") issue an accounting order authorizing the Company to create a deferred liability of the income tax benefits arising from the Tax Reform Act until the effective date of new rates set in future ratemaking proceedings. The deferred liability and the Company's proposed ratemaking treatment will provide that customers obtain the benefits of the Tax Reform Act through lower and more stable rates.

PROCEDURAL BACKGROUND

1. On December 21, 2017, the Commission issued a Notice of Comment Period initiating this docket to investigate the revenue requirement impacts of the Tax Reform Act and directing all utility companies to file written comments on or before January 31, 2018 ("Notice of Comment Period").

2. On or about December 22, 2017, the Tax Reform Act was enacted.

3. On January 2, 2018, Utah Association of Energy Users ("UAE") filed a Motion for Orders for Deferred Accounting Treatment of Benefits Associated with 2017 Tax Reform Act ("UAE Motion") requesting the Commission establish an accounting order to defer the revenue requirement impacts associated with the Tax Reform Act beginning on January 1, 2018.

4. In response to the UAE Motion the Commission issued, on January 3, 2018, its Notice Regarding the Utah Association of Energy Users Motion for Orders for Deferred Accounting Treatment of Benefits Associated with the Tax Reform Act ("Notice of UAE Motion"). In its Notice of UAE Motion, the Commission requested comments on January 12, 2018.

5. On January 12, 2018, the Company filed a response to the UAE motion supporting the deferred accounting treatment impacts of the Tax Reform Act and requesting the Commission order a stay of the UAE Motion until the details of the impacts of the Tax Reform Act had been presented.

6. On January 29, 2018, the Company filed an Unopposed Motion to Extend and Amend Procedural Schedule in Notice of Comment Period ("Motion to Extend) requesting a one week extension of the January 31, 2018 deadline to file written comments until February 7, 2018, which was granted by the Commission on January 30, 2018.

OVERVIEW OF THE TAX REFORM ACT

The Tax Reform Act was enacted December 22, 2017, with the majority of the provisions becoming effective January 1, 2018. In general, the most notable items affecting the Company's revenue requirement include:

- A reduction in the federal corporate income tax rate from 35 percent to 21 percent;
- The requirement to normalize excess deferred income taxes associated with public utility property utilizing the average rate assumption method;
- The elimination of the allowance for bonus depreciation for public utility property;
- The repeal of the domestic production activities deduction;
- The repeal of the exclusion from income contributions in aid of construction ("CIAC") received from governments for public purposes; and
- The repeal of the deduction and imposition of certain limitations with respect to certain expenditures.

Reduction in the Federal Corporate Income Tax Rate from 35 Percent to 21 Percent

In regard to the reduction in the federal corporate income tax rate, the Tax Reform Act eliminates the progressive federal corporate income tax rate of 35 percent and replaces it with a flat rate of 21 percent, which impacts revenue requirement in two ways. First, it reduces the Company's income taxes. Second, it results in a reduction to the accumulated deferred income tax ("ADIT") liability to reflect the lower income tax rate due when the temporary differences reverse. This reduction ("Excess Deferred Income Taxes") is recorded by measuring the temporary differences at the new combined federal and state statutory income tax rate and comparing the result to the ADIT balance existing before the effective date of the income tax reduction before the rate change. The Excess Deferred Income Taxes are recorded to a regulatory liability resulting in no immediate net change to the rate base upon which a utility earns a return. The treatment of the regulatory liability associated with property-related timing differences is governed by normalization rules.

Required Normalization of Excess Deferred Income Taxes

The Tax Reform Act provides that Excess Deferred Income Taxes on public utility property (*e.g.*, temporary differences that result from different depreciation methods and lives) must be normalized using the average rate assumption method ("ARAM") of accounting.[1] The ARAM reverses the Excess Deferred Income Tax Expense through regulated operating expense. Under the ARAM, the public utility identifies the reversal pattern (book depreciation turnaround vs. tax depreciation turnaround) and reverses the Excess Deferred Income Taxes beginning when the turnaround occurs, as illustrated in the following example:

[1] Violations of the income tax normalization provisions associated with public utility property would result in (i) a prohibition against the public utility's claim to accelerated depreciation with respect to all public utility property and (ii) imposition of an additional tax on the public utility wherein the tax for the taxable year will increase by the amount by which it reduces its excess tax reserve more rapidly than permitted under a normalization method of accounting.

Example DR/(CR) ARAM							
Year	Book Depreciation	Tax Depreciation	Book/Tax Difference	Tax Rate	Deferred Tax Expense	ADIT	
2016	100,000	200,000	100,000	35%	35,000	-35,000	
2017	100,000	320,000	220,000	35%	77,000	-112,000	
2018	100,000	192,000	92,000	20%	18,400	-130,400	
2019	100,000	115,200	15,200	20%	3,040	-133,440	
2020	100,000	115,200	15,200	20%	3,040	-136,480	
2021	100,000	57,600	-42,400	30.85%	-13,080	-123,400	[a]
2022	100,000		-100,000	30.85%	-30,850	-92,550	[a]
2023	100,000		-100,000	30.85%	-30,850	-61,700	[a]
2024	100,000		-100,000	30.85%	-30,850	-30,850	[a]
2025	100,000		-100,000	30.85%	-30,850	0	[a]
Total	1,000,00	1,000,000	0		0	0	

[a] Under ARAM, at the time of reversal, aggregate book/tax difference is $442,400 and ADIT is $136,480. The Average Rate at which the differences were accumulated is $136,480/$442,400 or 30.85%. This is the rate at which the ADIT are to reverse under ARAM. The difference between the ARAM deferred tax expense and the tax expense that would have resulted if the book/tax difference for the year was multiplied by the enacted tax rate for the year is a permanent difference in the effective income tax reconciliation.

As shown above, the ARAM does not begin until the timing difference reverses. Thus, while an excess ADIT can be calculated at the time of the enactment of the rate change (in the above example, at the beginning of 2018), that excess would not begin to reverse until 2021, when book depreciation exceeds tax depreciation.

The non-property Excess Deferred Income Taxes are not subject to the income tax normalization rules imposed by the Tax Reform Act and can be used to satisfy other regulatory assets or deferred and amortized over a period prescribed by the regulatory jurisdiction.

Elimination of Allowance for Bonus Depreciation for Public Utility Property

The Tax Reform Act also eliminates the allowance for bonus depreciation on public utility property[2] acquired after September 27, 2017 that was not subject to a binding written contract as of that date.

[2] Public utility property is that property that is used in providing electricity if the rates for furnishing those services are subject to ratemaking by a government entity or instrumentality or by a public utility commission.

Specifically, the Tax Reform Act eliminates the ability to take the additional first-year depreciation deduction for public utility property allowed under the former law[3] on property acquired after September 27, 2017 and not subject to a binding written contract as of such date and under the new law[4] for property placed-in-service after September 27, 2017 and before 2023 and related phase-down provisions which was not subject to a binding written contract as of such date.

This will have the effect of moderating the level of ADIT in the future and reducing near-term cash flow that would have otherwise been available through immediate expensing of property placed in service.

Repeal of the Domestic Production Activities Deduction

The Tax Reform Act repeals the domestic production activities deduction (commonly referred to as the section 199 deduction or the qualified production activities income deduction) effective January 1, 2018.

The purpose of the deduction was to provide a targeted corporate rate reduction that would allow U.S. companies to compete against international tax systems, while also drawing international companies to the United States and its tax structure. This was deemed unwarranted and repealed due to the significant reduction in the corporate federal income tax rate.

Repeal of Exclusion from Taxability of CIAC Received from Governments

The Tax Reform Act has repealed the exclusion from taxability contributions in aid of construction received from any government entity or civic group for public purposes, effective December 22, 2017.

[3] For example, the "former law" allowed for 50 percent for property placed-in-service in 2017, 40 percent for property placed in-service in 2018, and 30 percent for property placed-in-service in 2019.
[4] For example, the "new law" allows for 100 percent for property placed-in-service after September 27, 2017 and before 2023 and related phase-down provisions which was not subject to a binding written contract as of such date.

Repeal of the Deduction and Imposition of Limitations on Certain Expenditures

The Tax Reform Act repeals the deduction and imposes additional limitations on certain expenditures including transportation fringe benefits (except as necessary for ensuring the safety of an employee to safely commute between the employee's residence and place of employment), employee achievement awards, meals and entertainment, local lobbying, executive compensation, fines and penalties, and settlements, effective January 1, 2018.

ESTIMATED REVENUE REQUIREMENT IMPACTS

To estimate the revenue requirement impact of the Tax Reform Act, the Company recalculated its Utah Results of Operations for the 12-months ended June 30, 2017 period, filed with the Commission October 31, 2017, for two major changes: 1) the impact of the reduction of the federal corporate income tax rate from 35 to 21 percent on current and deferred income taxes; and 2) the repeal of the domestic production activities deduction. The revenue requirement impacts associated with the aspects of the Tax Reform Act (normalization of excess deferred income tax, repeal of the exclusion from income of CIAC, and imposition of limitations on the deductibility of certain expenditures) are not included in this estimate at this time because they are either more complex in nature or require additional guidance or information. The impacts of these items will be provided in a later proposed filing, as discussed below. Also, the impacts associated with the elimination of the allowance of bonus depreciation for public utility property will only impact future revenue requirement calculations as new property is placed into service.

For this filing, the overall estimated revenue requirement was calculated using a "price change" approach in which the Company reduced revenues to reflect the lower revenue requirement while maintaining the same earned return on equity as filed in the June 2017 Utah Results of Operations. The estimated revenue requirement impacts are shown in the table below:

Revenue Requirement Impact (based on June 2017 ROO)	
Reduction of Federal Tax Expense	-$53,590,545
Reduction of State Tax Expense	-$2,744,585
Reduction of Deferred Tax Expense	-$19,453,734
Impact on Uncollectable Expense	-$175,875
Impact on PUC Fees	-$225,770
Impact on Cash Working Capital	-$31,503
Total Reduction	**-$76,222,011**

A summary of the June 2017 Utah Normalized Results of Operations that has been updated to reflect the impact of the Tax Reform Act is provided in Attachment 1.

PROPOSED ACCOUNTING TREATMENT FOR RATE REDUCTION AND STABILIZATION

As previously stated in response to the UAE Motion, the Company supports the treatment of deferring the benefits of the Tax Reform Act to a regulatory liability beginning January 1, 2018 until the effective date of new rates set in future ratemaking proceedings. Although the exact revenue requirement impact of the Tax Reform Act is still unknown, the Company proposes to file a rate reduction of approximately $20 million (approximately 1 percent) to be effective May 1, 2018, in order to start delivering benefits to customers while the final impacts are being finalized and reviewed by stakeholders. This represents approximately a quarter of the estimated impact. A rate change effective May 1, 2018 would align with other planned rate changes, specifically, the switch to seasonal summer base rates and interim effective rates for the Energy Balancing Account. This preliminary rate change would lower rates for customers while the Company finalizes and evaluates the full impacts of the Tax Reform Act, including working with parties to develop a longer-term strategy to use the regulatory liability balance to help offset future known cost increases pressures, such as the Deer Creek mine closure costs and other regulatory assets. The proposed strategy would also stabilize rates and allow customers to better predict future costs.

The Company is not proposing to use the deferral to offset other costs until the next rate case. The deferral will only be used to offset future ongoing and known costs as approved by the Commission, will help offset increases in the next rate case and provide customers with stable rates. In addition, Fitch, S&P, and Moody's have all issued reports suggesting that the tax law changes may have the potential to negatively impact utility company credit metrics. Deferring part of the reduction to offset future rate increases will allow more time to analyze these impacts and adjust capital structure levels, as appropriate.

As stated above, the Company used the June 2017 Utah Results of Operations Report to estimate the revenue requirement impact for this filing. The Company proposes making an updated filing using the Results of Operations Report for the 12 months ended December 31, 2017 ("December 2017 ROO") to calculate the final amount of the tax deferral, which would remain in effect until the next rate case. Using the December 2017 ROO will provide a timely analysis for calculating the final impact of the tax law change. The Company considered several alternatives, which would be more problematic. For example, the Company considered using the last general rate case in Docket No. 13-035-184, but the Company concluded this less desirable because the case was based on accounting data as of the 12 months ended June 2013, to calculate a forecast test period of the 12 months ended June 2015. The data is outdated and may not reflect the actual impact that the tax law change will have on the Company. Also, the case was settled without specific adjustments being agreed to by parties; therefore, exact cost elements, which may impact the calculation, are unknown. The Company also considered using the 12 months ending December 31, 2018 Results of Operations Report. However, because this report will not be finalized until April 30, 2019, the calculation of the final deferral associated with the Tax Reform Act would have to wait until almost 16 months after the effective date. Finally, the Company considered using the June 2017 ROO. Although this was used for the preliminary estimate in this filing, the Company believes updating the calculation using December 2017 Results of Operations reflects the most recent data available for the deferral calculation and is therefore the best alternative.

The December 2017 Utah Results of Operations Report will be filed by April 30, 2018. The Company requests 45 days after the filing of the December 2017 Utah Results of Operations Report to calculate and file the final deferral calculation, including the calculation of the other estimated impacts not included in these comments. While this filing is pending, the Company proposes to reflect a $20 million, or one percent rate reduction, beginning May 1, 2018, as discussed above. The Company proposes to allocate the May 1, 2018 rate based upon each class' allocation of rate base from the most recent annual cost of service study. The Company earns a return on its rate base and is ultimately taxed upon that return. It is therefore reasonable to allocate a tax-related sur-credit back to customers on this basis.

CONCLUSION

The Tax Reform Act will provide significant benefits to customers both now and in the future. The Company proposes a deferred liability account to record the revenue requirement impacts until the effective date of new rates set in a future general rate case, to ensure that customers receive the benefit of the Tax Reform Act. The Company currently estimates the deferral account to be $76.2 million annually. The Company proposes to file an update to this calculation, based on the calendar year 2017 results of operations report, by mid-June 2018. On May 1, 2018, however, the Company proposes a rate reduction of approximately $20 million to provide a reasonable level of immediate bill savings to customers while the final impacts are finalized and reviewed. The Company also plans to work with parties to develop a strategy for longer-term rate stability by addressing known rate pressures.

RESPECTFULLY SUBMITTED,

ROCKY MOUNTAIN POWER

Yvonne R. Hogle

Yvonne R. Hogle
Assistant General Counsel

Attachment 1

Rocky Mountain Power

Revenue Requirement Impact - Tax Rate Change

2017 PROTOCOL
13-Month Average

RESULTS OF OPERATIONS SUMMARY

	Description of Account Summary:	JUNE 2017 NORMALIZED RESULTS UTAH	TAX RATE IMPACT	21% TAX RATE JUNE 2017 NORMALIZED RESULTS UTAH
1	Operating Revenues			
2	General Business Revenues	1,973,467,420	(76,222,011)	1,897,245,409
3	Interdepartmental	0	0	0
4	Special Sales	84,175,186	0	84,175,186
5	Other Operating Revenues	73,733,343	0	73,733,343
6		2,131,375,949	(76,222,011)	2,055,153,937
7				
8	Operating Expenses:			
9	Steam Production	475,748,211	0	475,748,211
10	Nuclear Production	0	0	0
11	Hydro Production	18,858,316	0	18,858,316
12	Other Power Supply	386,268,705	0	386,268,705
13	Transmission	88,135,208	0	88,135,208
14	Distribution	83,610,177	0	83,610,177
15	Customer Accounting	34,500,260	(175,875)	34,324,384
16	Customer Service & Infor	4,668,377	0	4,668,377
17	Sales	0	0	0
18	Administrative & General	59,822,993	0	59,822,993
19				
20		1,151,612,248	(175,875)	1,151,436,372
21				
22	Depreciation	281,545,352	0	281,545,352
23	Amortization	24,113,856	0	24,113,856
24	Taxes Other Than Income	68,330,239	(225,770)	68,104,470
25	Income Taxes - Federal	76,057,508	(53,590,545)	22,466,963
26	Income Taxes - State	14,088,285	(2,744,585)	11,343,701
27	Income Taxes - Def Net	55,242,933	(19,453,734)	35,789,199
28	Investment Tax Credit Adj.	(3,354,144)	0	(3,354,144)
29	Misc Revenue & Expense	703,445	0	703,445
30				
31		1,668,339,722	(76,190,508)	1,592,149,214
32				
33	Operating Revenue for Return	463,036,226	(31,503)	463,004,723
34				
35	Rate Base:			
36	Electric Plant in Service	11,587,832,351	0	11,587,832,351
37	Plant Held for Future Use	7,362,333	0	7,362,333
38	Misc Deferred Debits	350,344,967	0	350,344,967
39	Elec Plant Acq Adj	23,171,959	0	23,171,959
40	Pensions	0	0	0
41	Prepayments	15,733,834	0	15,733,834
42	Fuel Stock	91,474,959	0	91,474,959
43	Material & Supplies	98,963,173	0	98,963,173
44	Working Capital	20,085,863	(420,141)	19,665,722
45	Weatherization Loans	19,937	0	19,937
46	Miscellaneous Rate Base	0	0	0
47				
48		12,194,989,376	(420,141)	12,194,569,235
49				
50	Rate Base Deductions:			
51	Accum Prov For Depr	(3,575,714,453)	0	(3,575,714,453)
52	Accum Prov For Amort	(218,207,817)	0	(218,207,817)
53	Accum Def Income Taxes	(2,015,498,930)	0	(2,015,498,930)
54	Unamortized ITC	(160,348)	0	(160,348)
55	Customer Adv for Const	(17,605,990)	0	(17,605,990)
56	Customer Service Deposits	(16,614,461)	0	(16,614,461)
57	Misc. Rate Base Deductions	(175,919,169)	0	(175,919,169)
58				
59		(6,019,721,169)	0	(6,019,721,169)
60				
61	Total Rate Base	6,175,268,207	(420,141)	6,174,848,066
62				
63	Return on Rate Base	7.498%		7.498%
64				
65	Return on Equity	9.632%		9.632%
66	Net Power Costs	646,236,066		646,236,066

Rocky Mountain Power

Capital Structure Impact - Tax Rate Change

	Previous Tax Rate			Revised Tax Rate		
TAX INFORMATION						
FEDERAL RATE		35.00%			21.00%	
STATE EFFECTIVE RATE		4.54%			4.54%	
FEDERAL/STATE COMBINED RATE		37.951%			24.587%	
CAPITAL STRUCTURE INFORMATION						
	CAPITAL STRUCTURE	EMBEDDED COST	WEIGHTED COST	CAPITAL STRUCTURE	EMBEDDED COST	WEIGHTED COST
DEBT	48.52%	5.24%	2.540%	48.52%	5.24%	2.540%
PREFERRED	0.02%	6.75%	0.001%	0.02%	6.75%	0.001%
COMMON	51.46%	**9.63%**	4.957%	51.46%	**9.63%**	4.957%
	100.00%		7.498%	100.00%		7.498%
PRE-TAX RETURN ON RATE BASE			10.530%			9.114%

CERTIFICATE OF SERVICE

Docket No. 17-035-69

I hereby certify that on February 7, 2018, a true and correct copy of the foregoing was served by electronic mail to the following:

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