



GARY R. HERBERT  
*Governor*

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State of Utah  
DEPARTMENT OF COMMERCE  
Office of Consumer Services

MICHELE BECK  
*Director*

To: Public Service Commission of Utah

From: Office of Consumer Services  
Michele Beck, Director  
Cheryl Murray, Utility Analyst

Date: February 23, 2018

Subject: 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” (Tax Reform Act). Docket No. 17-035-69

### Background

On December 21, 2017, the Public Service Commission of Utah (Commission) opened dockets to investigate the 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 (Company), assigned as Docket No. 17-035-69, was required to file written comments by January 31, 2018, describing in detail the impacts on its revenue requirement.<sup>1</sup> Other interested parties were to provide reply comments on or before February 16, 2018.

On January 2, 2018, the Utah Association of Energy Users (UAE) filed a Motion for Orders for Deferred Accounting Treatment of Benefits Associated with 2018 Tax Reconciliation Act (Motion) in the docket. The Division of Public Utilities (Division) and the Office of Consumer Services (Office) each filed comments supporting the Motion on January 12, 2018 and the Utah Industrial Energy Consumer (UIEC) filed a memorandum supporting the Motion. Rocky Mountain Power (Company) filed comments supporting deferred accounting of the impacts associated with the significant decrease in the federal corporate tax rate.

On February 7, 2018, Rocky Mountain Power submitted to the Commission its comments proposing “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

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<sup>1</sup> On January 29, 2018, the Company filed a motion to extend the deadline to file written comments until February 7, 2018, which the Commission granted on January 30, 2018.

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benefit of the Tax Reform Act.”<sup>2</sup> The Company also provided information on the estimated revenue requirement impacts from the “Tax Reform Act” and its “proposed ratemaking treatment for the associated tax reform revenue requirement impacts”.

On February 23, 2018, UAE, Division, Office of Consumer Services and UIEC filed reply comments. The Office and UIEC requested the Commission set a scheduling conference in this docket. On February 28, 2018, the Commission issued an Order Granting Motion for Deferred Accounting Order and Notice of Scheduling Conference. In the Order the Commission stated, “The PSC will consider the parties’ respective positions concerning the duration of the deferred accounting treatment, the quantification of impacts on revenue requirement and any appropriate refund mechanisms in additional proceedings within this docket...”<sup>3</sup>

On March 7, 2018, the Commission issued a Scheduling Order, Notice of Hearing, and Notice of Scheduling Conference. The schedule called for the Company to file its tariff application on March 16, 2018 followed by responsive comments from parties except the Company on April 9, 2018 and reply comments from all parties on April 16, 2018.

In keeping with the Commission’s March 7 scheduling order, on March 16, 2018, the Company submitted an application for approval of proposed Tariff Schedule 197 to begin returning to customers a small percentage of the initial estimated benefits resulting from the Tax Reform Act. In that application, the Company further explained its recommendations regarding treatment of the impacts of the Tax Reform Act on its revenue requirements.

## Discussion

The Office enlisted the consulting services of revenue requirement expert and CPA, Donna Ramas, to assist us in our review of the Company’s filing. Following her review of the Company’s filing and data responses to various parties to the docket, she prepared a Report for the Office providing her analysis of the facts and circumstances of the issues in this case. That Report is included as an attachment to this memo.

## Tax Reform Act Issues Related to Rocky Mountain Power’s Revenue Requirement

As explained in detail in Ms. Ramas’ Report there are a number of ways in which the Tax Reform Act significantly impacts the Company’s revenue requirement such as:

- Reduction to federal income tax expense
- Repeal of the domestic production activities deduction
- Transfer of amounts from accumulated deferred income taxes (ADIT) to Excess deferred income taxes (EDIT)
- Flow-back/amortization of EDIT balances

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<sup>2</sup> February 7, 2018 Comments of Rocky Mountain Power at 10.

<sup>3</sup> Commission Order at page 3

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All of these taken together will have a significant effect on the Company's revenue requirement and thereby customer rates.

Currently, the full impact of the Tax Reform Act on the Company's revenue requirement is unknown. However, the Company has provided an initial estimate of \$76,222,011, which incorporates only a portion of the overall impacts of the Tax Reform Act on revenue requirements. The Company proposes on May 1, 2018 to begin returning to ratepayers \$20 million; approximately 26% of the \$76 million initial estimate ratepayers are due to receive. The proposed \$20 million reduction in rates would reduce rates by approximately 1%.

The Company intends to submit its final Tax Reform impact filing by June 15, 2018 based on the December 2017 ROO incorporating the most recent data available. The Office believes that the December 2017 ROO will provide a better basis from which to determine the total amount customers should receive. Notably, Ms. Ramas' analysis suggests that the \$76 million is only a small portion of the total amount for which a refund would be necessary.

The Company states that by returning only \$20 million the remaining funds can be used to offset future liabilities or costs for which ratepayers would be responsible, thereby maintaining stable rates. Some of those "future" costs identified by the Company include:

- New depreciation rates<sup>4</sup>;
- Potential early closure of the Cholla Unit 4, Craig Unit 1, and Jim Bridger 1 and 2 coal plants<sup>5</sup>;
- Future rate case impact of the expiration of PTC benefits; and
- Current deferrals such as the Deer Creek mine closure<sup>6</sup> and energy imbalance market (EIM) O&M and implementation related expenses.

The Office contends that much more information is required to judge the appropriateness of the Company's suggested use of funds beyond the \$20 million. To date the Company is simply laying the foundation for alternative use of funds with no specific proposals<sup>7</sup>. However, the Office asserts that even if the full \$76 million dollars is returned to ratepayers beginning May 1, 2018, there remains additional funds from the deferral of tax related dollars from January 1, 2018 until May 1, 2018, plus additional funds to be quantified in the Company's June 15, 2018 filing. The Company will have the opportunity with its June filing to make the case that tax funds beyond the \$76 million should be used as an offset to future liabilities rather than returned to ratepayers. In order to make such a case, the Company should be more specific about the magnitude of the costs to be offset and the time period during which the costs were incurred in comparison to the ongoing stream of potential revenue credits from the Tax Reform Act. Ultimately, the Commission must

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<sup>4</sup> New depreciation study expected to be filed in September 2018.

<sup>5</sup> Coal plant costs may be partially recovered with STEP funds.

<sup>6</sup> Deer Creek mine closed in 2014; associated costs are being recovered in the energy balancing account.

<sup>7</sup> In Docket No. 18-035-01, (In the Matter of the Application of Rocky Mountain Power to Increase the Deferred EBA Rate Through the Energy Account Balancing Mechanism at page 2) the Company proposes to offset the Deer Creek mine amortization expense for 2017 against the regulatory liability established in Docket No. 17-035-69.

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evaluate the relative value of competing goals. Returning as much of the refund as soon as possible best matches the benefit to the appropriate set of ratepayers. However, depending on the nature of future costs, it may be appropriate to consider competing goals of rate stability and mitigation of a potential future rate shock.

#### Recommendations

The Office recommends that the Commission require the Company to return the full \$76 million to customers through a rate reduction effective May 1, 2018.

Also, the Commission should require the Company to provide a breakdown of the EDIT balance on a Utah jurisdictional basis, between protected property-related EDIT, unprotected property-related EDIT and non-property related EDIT in its June 15, 2018 filing.

CC: Joelle Steward, Rocky Mountain Power  
Chris Parker, Division of Public Utilities  
Vicki Baldwin, UIEC  
Gary Dodge, UAE