ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

1407 W North Temple, Suite 330
Salt Lake City, Utah 84114

July 10, 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"**

In accordance with the Scheduling Order, Notice of Technical Conference, and Notice of Hearing issued by the Public Service Commisssion of Utah on June 25, 2018, in the above referenced docket, Rocky Mountain Power hereby submits its direct testimony supporting the final report on the revenue requirement impacts and proposed ratemaking treatment associated with the recent federal income tax legislation.

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

By E-mail (preferred): datarequest@pacificorp.com
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By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232

Informal inquiries may be directed to Jana Saba at (801) 220-2823.

Sincerely,

Joelle Steward
Vice President, Regulation

cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that on July 10, 2018, a true and correct copy of the foregoing was served by electronic mail and/or overnight delivery to the following:

Utah Office of Consumer Services	
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Rocky Mountain Power	
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Katie Savarin

Katie Savarin
Coordinator, Regulatory Operations

Rocky Mountain Power
Docket No. 17-035-69
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Steven R. McDougal

July 2018

Q. Please state your name and business address with PacifiCorp dba Rocky Mountain Power ("Company").

A. My name is Steven R. McDougal, and my business address is 1407 W. North Temple, Suite 330, Salt Lake City, Utah 84116.

QUALIFICATIONS

Q. Please describe your education and professional background.

A. I received a Master of Accountancy from Brigham Young University with an emphasis in Management Advisory Services and a Bachelor of Science degree in Accounting from Brigham Young University. In addition to my formal education, I have also attended various educational, professional, and electric industry-related seminars. I have been employed with PacifiCorp and its predecessor, Utah Power and Light Company (the "Company"), since 1983. My experience includes various positions with regulation, finance, resource planning, and internal audit. My current position is the Director of Revenue Requirements.

Q. What are your current responsibilities with the Company?

A. My primary responsibilities include overseeing the calculation and reporting of the Company's regulated earnings and revenue requirement, assuring that the interjurisdictional cost allocation methodology is correctly applied, and explaining those calculations to regulators in the jurisdictions in which the Company operates.

Q. Have you testified in previous proceedings?

A. Yes. I have provided testimony in many dockets before this Commission. I have also provided testimony before the California, Idaho, Oregon, Washington, and Wyoming public utility commissions.

PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. On December 22, 2017, the President of the United States signed into law 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") that was effective January 1, 2018. I will discuss the impacts of the Tax Reform Act on the Company's revenue requirement.

IMPACT OF THE TAX REFORM ACT

Q. How does the Tax Reform Act impact the Company's revenue requirement?

A. There are six notable items related to the Tax Reform Act that affect the Company's annual revenue requirement:

- The federal corporate income tax rate reduction from 35 to 21 percent;
- The requirement to normalize excess deferred income taxes associated with public utility property utilizing the average rate assumption method ("ARAM");
- The elimination of the allowance for bonus depreciation for public utility property;
- The repeal of the domestic production activities deduction section 199 ("DPAD");
- The repeal of the exclusion from income contributions in aid of construction ("CIAC") received from governments of public purposes; and
- The repeal of the deduction and imposition of certain limitations with respect to certain expenditures.

Q. Does the reduction in the federal corporate income tax rate have an impact on more than just current income taxes?

A. Yes, the reduction of the federal corporate income tax rate from 35 to 21 percent impacts the Company's revenue requirement in three ways: first, it reduces current income taxes; second, it creates a reduction to the accumulated deferred income taxes ("ADIT") liability; and third, it reduces the Company's FERC Open Access Transmission Tariff ("OATT") rates, which reduces third party wheeling revenues.

Q. Please explain the impact of the reduction in the federal corporate income tax rate on ADIT in more detail.

A. The decrease in the federal corporate tax rate reduces the ADIT liability by reflecting the lower income tax rate that will be due when the temporary differences reverse. This reduction ("Excess Deferred Income Taxes" or "EDIT") was calculated by measuring the temporary differences at the new combined federal and state statutory income tax rate compared to the ADIT balance existing under the old statutory income tax rate.

The EDIT can be classified under three groups: protected property related items, non-protected property related items, and non-protected non-property related items. All three groups of EDIT were recorded to a regulatory liability resulting in no immediate net change to rate base upon which the Company earns a return.

REVENUE REQUIREMENT IMPACT

Q. How did the Company calculate the impact of the Tax Reform Act on revenue requirement?

A. The Company started with the December 31, 2017 results of operations that was filed with the Public Service Commission of Utah ("Commission") on April 30, 2018. The

Company then updated this filing to include all of the plant additions for 2018 and a correction to the allowance for funds used during construction ("AFUDC") equity adjustment, establishing the starting point from which the impact of the Tax Reform Act is calculated. A summary of this restated results of operations for December 31, 2017 is provided on Page 2 of Exhibit RMP___(SRM-1) ("SRM-1"). The Company then made the following adjustments:

- Reduced the federal tax rate from 35 to 21 percent;
- Adjusted for tax related changes such as the change in section 199, changes to employees meals deductibility, and the elimination of the deduction for transit passes SRM-1, Page 3;
- Added the ARAM amortization SRM-1, Page 4; and
- Adjusted the accumulated deferred income tax balances SRM-1, Page 5.

The revenue requirement difference between the restated results of operations calculated using a federal tax rate of 35 percent versus the new federal tax rate of 21 percent as provided in SRM-1, Page 1, is a decrease of approximately $92.3 million, as summarized in Table 1 below:

TABLE 1

$ Thousands		**Utah**
Current Taxes	$	65,890
ARAM Amortization		26,413
TOTAL	**$**	**92,303**

The Company calculated the $92.3 million using a "price change" approach in which the Company reduced the revenues to reflect the lower revenue requirement while maintaining the same earned return on equity as in the restated December 2017 results of operations using a 35 percent federal tax rate.

Q. What other adjustments did the Company make to the December 2017 results of operations in order to calculate the impact of the Tax Reform Act?

A. The Tax Reform Act included the elimination of the allowance for bonus depreciation for public utility property, effective January 1, 2018. To correctly calculate this impact, the Company included pro-forma adjustments to reflect all of the revenue requirement components associated with all capital additions projected in 2018 consistent with the effective period of the Tax Reform Act.

Additionally, the Company made an adjustment in the filed December 2017 results of operations to include in the results the appropriate level of AFUDC equity to align the tax schedule m with regulatory income. The filed results included the correct impact to interest expense; however, excluded the impact to the schedule m. This correction was incorporated into the filing.

Q. Did the Company exclude any impacts from the change in the federal corporate tax rate from the current filing?

A. Yes. The filing excludes the impact on the Company's wheeling revenues due to the reduction in the OATT, currently estimated to reduce Utah's allocation of wheeling revenues by approximately $3.5 million. In addition to truing up net power costs, the Company's Energy Balancing Account ("EBA") filing also trues up wheeling revenues. Therefore, any impact on wheeling revenues will be included in future EBA filings and are excluded from this filing to avoid a double count.

TREATMENT OF REVENUE REQUIREMENT IMPACT

Q. How is the Company proposing to return the $92.3 million reduction in annual revenue requirement to Utah customers?

A. In this docket, the Commission previously approved an annual rate reduction of $61.0 million, effective May 1, 2018. For calendar year 2018, the $61.0 million is being refunded over eight months (May through December) for a rate reduction of approximately 4.7 percent. Beginning January 1, 2019, the $61.0 million refunded over 12 months will equate to a decrease of approximately 3.1 percent. The Company proposes to continue the current $61.0 million annual rate reduction and defer the $31.3 million difference into a regulatory liability to offset Commission-approved regulatory assets and future price increases, as set forth in the example in Exhibit RMP__(SRM-2) ("SRM-2").

Q. Why does the Company want to defer $31.3 million rather than refund those savings in rates immediately?

A. Gradualism and rate stability are longstanding ratemaking principles recognized by this Commission in setting rates. Reducing rates by the full balance of the Tax Reform Act benefits would provide interim reductions, only to leave customers facing upward pressures on rates a short time thereafter. Significant changes in customer rates downward then upward in a matter of a few years does not meet the principle of gradualism, and does not promote rate stability. The Company proposes that a deferred regulatory liability and the Company's proposed ratemaking treatment provides for responsible accounting treatment that will provide customer benefits of the Tax Reform Act through lower and more stable rates. Additionally, this proposed ratemaking treatment supports the Company's current credit rating, as discussed in the testimony of Company witness Ms. Nikki L. Kobliha.

Q. What is the Company's proposed treatment of the protected property and non-protected property EDIT?

A. The protected property timing differences are governed by normalization rules. The Tax Reform Act provides that EDIT (e.g., temporary differences that result from different depreciation methods and lives) must be normalized using the ARAM. A violation 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. Under the ARAM, the public utility identifies the reversal pattern (book depreciation turnaround vs. tax depreciation turnaround) and reverses the EDIT beginning when the turnaround occurs over the remaining book life through regulated operating expense.

While the Tax Reform Act does not require that non-protected property related EDIT be normalized using ARAM, the Company has historically treated it that way and proposes that treatment continue. In part, this is due to the configuration of the Company's property-related tax system, PowerTax, which presently uses ARAM to amortize all EDIT included in the system, protected and non-protected.

Q. Is the amortization for the property related EDIT included in the revenue requirement calculation in this filing?

A. Yes, the property related ARAM, including both protected property and non-protected property, included in this filing is $20.5 million. A summary of this is included in Table 2 below:

TABLE 2

Excess Deferred Income Tax Amortization Included in Filing		
$ Thousands		**Utah**
Property Related		
ARAM (includes protected		
and non-protected property)	$	20,470
Non-Property Related [(1)]		0
TOTAL	**$**	**20,470**

(1) The Company is proposing to amortize the Non-Property related over five years beginning with the rate effective date of the next general rate case, or at another time as approved by the Commission.

Q. What is the Company's proposed treatment of the non-protected non-property EDIT?

A. The non-property EDIT 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. Based on the 2017 normalized results of operations, the impact of the Tax Reform Act on the non-property related EDIT was $46.5 million total-Company and $22.6 million allocated to

Utah. The Company is proposing a five-year amortization of this balance beginning with the effective date of rates established in the next general rate case. A summary of all three groups of EDIT for both total Company and Utah-allocated amounts is provided in Table 3 below:

TABLE 3

Excess Deferred Income Tax Balance as of December 31, 2017

$ Thousands	Total Company	Utah
Property Related		
Protected	$ 1,331,532	$ 596,036
Non-Protected	259,302	121,260
Non-Property Related	46,534	22,561
TOTAL	**$ 1,637,368**	**$ 739,857**

PROPOSAL FOR RECOVERY OF OFFSETS TO THE DEFERRAL

Q. How does the Company propose to request offsets to the tax deferral?

A. The Company proposes a two-step process by which it could request offsets to the deferred account. First, the Company would apply for approval to establish a deferral in an appropriate docket. For example, the Company would request approval of incremental depreciation expense associated with the depreciation study within the depreciation study approval docket. Once the Commission approves the Company's request to establish a deferral, the Company would then file a request in this docket to offset the deferral with the tax change regulatory liability. An estimated deferral balance beginning 2018 through 2020 is provided as SRM-2.

SUMMARY

Q. Please summarize your testimony.

A. The Tax Reform Act results in significant cost savings to Utah customers largely due to the change in the federal corporate income tax rate from 35 percent to 21 percent. The full impacts of the Tax Reform Act have decreased Utah-allocated revenue requirement by $92.3 million. The principles of gradualism and rate stability support the Company's proposal to continue to refund to customers $61.0 million annually and to defer the remaining balance to a regulatory liability. They also allow for the responsible balancing of refunding to customers the reduction in rates resulting from the Act in a timely manner, and protecting the Company from potential risks of credit downgrades.

Q. Does this conclude your direct testimony?

A. Yes.

Rocky Mountain Power
Exhibit RMP___(SRM-1)
Docket No. 17-035-69
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Exhibit Accompanying Direct Testimony of Steven R. McDougal

Revenue Requirement Impact Tables

July 2018

Rocky Mountain Power

Revenue Requirement Impact - Tax Rate Change

RESULTS OF OPERATIONS SUMMARY

		DECEMBER 2017 NORMALIZED RESULTS[1] UTAH	TOTAL CURRENT	TOTAL ARAM	21% TAX RATE DECEMBER 2017 NORMALIZED RESULTS UTAH
1	Operating Revenues				
2	General Business Revenues	1,977,173,142	(65,890,414)	(26,413,018)	1,884,869,710
3	Interdepartmental	0	0	0	0
4	Special Sales	99,091,638	0	0	99,091,638
5	Other Operating Revenues	74,277,480	0	0	74,277,480
6		2,150,542,260	(65,890,414)	(26,413,018)	2,058,238,828
7					
8	Operating Expenses:				
9	Steam Production	474,540,209	0	0	474,540,209
10	Nuclear Production	0	0	0	0
11	Hydro Production	18,594,627	0	0	18,594,627
12	Other Power Supply	416,643,699	0	0	416,643,699
13	Transmission	89,078,922	0	0	89,078,922
14	Distribution	82,131,005	0	0	82,131,005
15	Customer Accounting	33,063,752	(157,391)	(63,092)	32,843,269
16	Customer Service & Infor	4,804,901	0	0	4,804,901
17	Sales	0	0	0	0
18	Administrative & General	61,149,705	0	0	61,149,705
19					
20		1,180,006,819	(157,391)	(63,092)	1,179,786,335
21					
22	Depreciation	290,531,714	0	0	290,531,714
23	Amortization	25,337,049	0	0	25,337,049
24	Taxes Other Than Income	69,404,051	(195,167)	(78,235)	69,130,648
25	Income Taxes - Federal	24,188,936	(3,957,459)	(5,318,921)	14,912,556
26	Income Taxes - State	6,565,241	3,480,573	(1,204,588)	8,841,226
27	Income Taxes - Def Net	107,107,327	(65,665,310)	(20,470,344)	20,971,673
28	Investment Tax Credit Adj.	(3,090,508)	0	0	(3,090,508)
29	Misc Revenue & Expense	577,753	0	0	577,753
30					
31		1,700,628,382	(66,494,755)	(27,135,181)	1,606,998,446
32					
33	Operating Revenue for Return	449,913,878	604,342	722,163	451,240,382
34					
35	Rate Base:				
36	Electric Plant in Service	11,951,351,290	0	0	11,951,351,290
37	Plant Held for Future Use	7,249,580	0	0	7,249,580
38	Misc Deferred Debits	357,202,241	0	0	357,202,241
39	Elec Plant Acq Adj	22,318,810	0	0	22,318,810
40	Pensions	0	0	0	0
41	Prepayments	16,391,012	0	0	16,391,012
42	Fuel Stock	87,842,266	0	0	87,842,266
43	Material & Supplies	100,367,439	0	0	100,367,439
44	Working Capital	21,202,252	174,290	(716)	21,375,826
45	Weatherization Loans	16,220	0	0	16,220
46	Miscellaneous Rate Base	0	0	0	0
47					
48		12,563,941,109	174,290	(716)	12,564,114,684
49					
50	Rate Base Deductions:				
51	Accum Prov For Depr	(3,687,877,141)	0	0	(3,687,877,141)
52	Accum Prov For Amort	(224,055,412)	0	0	(224,055,412)
53	Accum Def Income Taxes	(2,055,276,934)	8,390,409	10,235,172	(2,036,651,353)
54	Unamortized ITC	(151,351)	0	0	(151,351)
55	Customer Adv for Const	(19,682,679)	0	0	(19,682,679)
56	Customer Service Deposits	(15,561,423)	0	0	(15,561,423)
57	Misc. Rate Base Deductions	(185,178,397)	0	0	(185,178,397)
58					
59		(6,187,783,337)	8,390,409	10,235,172	(6,169,157,756)
60					
61	Total Rate Base	6,376,157,772	8,564,699	10,234,456	6,394,956,928
62					
63	Return on Rate Base	7.056%			7.056%
64					
65	Return on Equity	8.747%			8.747%

Footnotes:

(1) The December 2017 Normalized Results of Operations were revised from the filed December 2017 Results of Operations to accurately reflect the revenue requirement prior to the tax reform act.

'Please refer to Exhibit 1 page 2.

Rocky Mountain Power

Revenue Requirement Impact - Tax Rate Change

RESULTS OF OPERATIONS SUMMARY

		DECEMBER 2017 FILED RESULTS UTAH	ADJUSTED [1]	DECEMBER 2017 NORMALIZED RESULTS UTAH
1	Operating Revenues			
2	General Business Revenues	1,977,173,142	0	1,977,173,142
3	Interdepartmental	0	0	0
4	Special Sales	99,091,638	0	99,091,638
5	Other Operating Revenues	74,278,466	(986)	74,277,480
6		2,150,543,246	(986)	2,150,542,260
7				
8	Operating Expenses:			
9	Steam Production	474,540,209	0	474,540,209
10	Nuclear Production	0	0	0
11	Hydro Production	18,594,627	0	18,594,627
12	Other Power Supply	416,643,699	0	416,643,699
13	Transmission	89,078,922	0	89,078,922
14	Distribution	82,233,705	(102,700)	82,131,005
15	Customer Accounting	33,063,752	0	33,063,752
16	Customer Service & Infor	4,804,901	0	4,804,901
17	Sales	0	0	0
18	Administrative & General	61,169,480	(19,775)	61,149,705
19				
20		1,180,129,294	(122,475)	1,180,006,819
21				
22	Depreciation	284,922,828	5,608,886	290,531,714
23	Amortization	24,536,787	800,262	25,337,049
24	Taxes Other Than Income	69,433,038	(28,987)	69,404,051
25	Income Taxes - Federal	76,584,601	(52,395,665)	24,188,936
26	Income Taxes - State	13,684,942	(7,119,701)	6,565,241
27	Income Taxes - Def Net	53,483,653	53,623,674	107,107,327
28	Investment Tax Credit Adj.	(3,090,508)	0	(3,090,508)
29	Misc Revenue & Expense	577,753	0	577,753
30				
31		1,700,262,389	365,993	1,700,628,382
32				
33	Operating Revenue for Return	450,280,857	(366,979)	449,913,878
34				
35	Rate Base:			
36	Electric Plant in Service	11,729,140,988	222,210,302	11,951,351,290
37	Plant Held for Future Use	7,249,580	0	7,249,580
38	Misc Deferred Debits	357,301,560	(99,319)	357,202,241
39	Elec Plant Acq Adj	22,318,810	0	22,318,810
40	Pensions	0	0	0
41	Prepayments	16,395,923	(4,912)	16,391,012
42	Fuel Stock	87,842,266	0	87,842,266
43	Material & Supplies	100,361,615	5,823	100,367,439
44	Working Capital	21,872,007	(669,756)	21,202,252
45	Weatherization Loans	16,219	1	16,220
46	Miscellaneous Rate Base	0	0	0
47				
48		12,342,498,969	221,442,140	12,563,941,109
49				
50	Rate Base Deductions:			
51	Accum Prov For Depr	(3,684,881,173)	(2,995,968)	(3,687,877,141)
52	Accum Prov For Amort	(223,387,826)	(667,585)	(224,055,412)
53	Accum Def Income Taxes	(2,046,125,175)	(9,151,759)	(2,055,276,934)
54	Unamortized ITC	(151,351)	0	(151,351)
55	Customer Adv for Const	(19,682,679)	0	(19,682,679)
56	Customer Service Deposits	(15,561,423)	0	(15,561,423)
57	Misc. Rate Base Deductions	(185,230,442)	52,045	(185,178,397)
58				
59		(6,175,020,069)	(12,763,268)	(6,187,783,337)
60				
61	Total Rate Base	6,167,478,900	208,678,872	6,376,157,772
62				
63	Return on Rate Base	7.301%		7.056%
64				
65	Return on Equity	9.222%		8.747%

Footnotes:

(1) The December 2017 Normalized Results of Operations were revised from the filed December 2017 Results of Operations by adding the following adjustments: Other Capital Additions, Other Plant Additions Deprecation Expense and Reserve, AFUDC Equity, Major Plant Additions, and the Major Plant Additions Depreciation Expense and Reserve.

Rocky Mountain Power
Utah Results of Operations - December 2017
Tax Deductible Items - New

WORK PAPER ADJUSTMENT PAGE NO. 9.7

	ACCOUNT	Type	TOTAL COMPANY	FACTOR	FACTOR %	UTAH ALLOCATED	REF#
Adjustment to Tax:							
Schedule M Deduction - Sec. 199	SCHMDP	3	(34,219,097)	SG	43.504%	(14,886,731)	
Schedule M Deduction - Sec. 199	SCHMDP	3	(1,620,786)	SE	42.601%	(690,467)	
Sch M Add - Meals & Entertainment	SCHMAP	3	731,873	SO	43.096%	315,406	
Sch M Add - Meals & Entertainment	SCHMAP	3	22,879	SE	42.601%	9,747	
Sch M Add - Transit Pass	SCHMAP	3	343,380	SO	43.096%	147,982	

Description of Adjustment:

This adjustment removes Section 199, and adds an additional 50% of Meals & Entertainment for a 100% add back of Meals & Entertainment expense from the December 2017 results of operations to reflect ongoing tax expense as a result of the changes from the Tax Cuts and Jobs Act of 2017 signed on December 22, 2017 with an effective date of January 1, 2018. Included also is an add back for the transit pass costs provided for employees that are no longer tax deductible.

Rocky Mountain Power
Utah Results of Operations - December 2017
ARAM Adjustment - NEW

WORK PAPER ADJUSTMENT PAGE NO. 9.5

	ACCOUNT	Type	TOTAL COMPANY	FACTOR	FACTOR %	UTAH ALLOCATED	REF#
Adjustment to Tax:							
Add 2018 ARAM Amount	41110	B	(19,720,908)	UT	100.000%	(19,720,908)	
Add 2018 ARAM Amount	282	B	9,860,454	UT	100.000%	9,860,454	
Add 2018 ARAM Amount - Bridger Coal	41110	B	(749,436)	UT	100.000%	(749,436)	
Add 2018 ARAM Amount - Bridger Coal	282	B	374,718	UT	100.000%	374,718	

Description of Adjustment:

This adjustment provides an annual amortization of the accumulated deferred income taxes related to the change in federal tax rate of the protected property and non-protected property using the average rate assumption method (ARAM).

Also,
This adjustment provides an annual amortization of the accumulated deferred income taxes related to the change in federal tax rate of the protected property and non-protected property using the average rate assumption method (ARAM) for Bridger Coal Company.

Rocky Mountain Power
Utah Results of Operations - December 2017
Deferred Income Tax - New

WORK PAPER ADJUSTMENT PAGE NO. 9.6

	ACCOUNT	Type	TOTAL COMPANY	FACTOR	FACTOR %	UTAH ALLOCATED	REF#
Adjustment to Tax:							
Restate DIT @ 24.5866%	41010	3	(7,385,150)	UT	100.000%	(7,385,150)	
Remove DIT Attributed to Flow Through	41010	3	(10,321,248)	UT	100.000%	(10,321,248)	

Description of Adjustment:

This adjustment restates the deferred income tax expense to the pro-forma period using the new effective tax rate. This adjustment also removes the ARAM associated with flow through taxes. The full impact of the ARAM will be captured under a separate ARAM adjustment.

Rocky Mountain Power
Exhibit RMP___(SRM-2)
Docket No. 17-035-69
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Exhibit Accompanying Direct Testimony of Steven R. McDougal

Deferral Schedule

July 2018

Exhibit 2

Rocky Mountain Power
Estimated Federal Tax Impact Deferral and Amortization Table
State of Utah
$ - Thousands

		Deferral	Less Refund	Carrying Charge Rate [1]		
				4.19%		
				4.09%		
	Beginning Balance	Current Tax & ARAM	Refund	Carrying Charge	Ending Balance	Ref
Jan-18	$ -	$ 7,692	$ -	$ 13	$ 7,705	
Feb-18	7,705	7,692	-	40	15,438	
Mar-18	15,438	7,692	-	67	23,197	
Apr-18	23,197	7,692	-	92	30,981	
May-18	30,981	7,692	(7,625)	106	31,154	(2)
Jun-18	31,154	7,692	(7,625)	106	31,327	
Jul-18	31,327	7,692	(7,625)	107	31,501	
Aug-18	31,501	7,692	(7,625)	107	31,675	
Sep-18	31,675	7,692	(7,625)	108	31,850	
Oct-18	31,850	7,692	(7,625)	109	32,026	
Nov-18	32,026	7,692	(7,625)	109	32,202	
Dec-18	32,202	7,692	(7,625)	110	32,379	
Total		**$ 92,303**	**$ (61,000)**	**$ 1,076**	**$ 32,379**	
Jan-19	$ 32,379	$ 7,692	$ (5,083)	$ 115	$ 35,102	
Feb-19	35,102	7,692	(5,083)	124	37,835	
Mar-19	37,835	7,692	(5,083)	133	40,577	
Apr-19	40,577	7,692	(5,083)	143	43,328	
May-19	43,328	7,692	(5,083)	152	46,089	
Jun-19	46,089	7,692	(5,083)	162	48,859	
Jul-19	48,859	7,692	(5,083)	171	51,639	
Aug-19	51,639	7,692	(5,083)	180	54,428	
Sep-19	54,428	7,692	(5,083)	190	57,227	
Oct-19	57,227	7,692	(5,083)	199	60,035	
Nov-19	60,035	7,692	(5,083)	209	62,852	
Dec-19	62,852	7,692	(5,083)	219	65,680	
Total		**$ 92,303**	**$ (61,000)**	**$ 1,997**	**$ 65,680**	
Jan-20	$ 65,680	$ 7,692	$ (5,083)	$ 228	$ 68,517	
Feb-20	68,517	7,692	(5,083)	238	71,363	
Mar-20	71,363	7,692	(5,083)	248	74,219	
Apr-20	74,219	7,692	(5,083)	257	77,086	
May-20	77,086	7,692	(5,083)	267	79,961	
Jun-20	79,961	7,692	(5,083)	277	82,847	
Jul-20	82,847	7,692	(5,083)	287	85,742	
Aug-20	85,742	7,692	(5,083)	297	88,648	
Sep-20	88,648	7,692	(5,083)	307	91,563	
Oct-20	91,563	7,692	(5,083)	317	94,488	
Nov-20	94,488	7,692	(5,083)	326	97,423	
Dec-20	97,423	7,692	(5,083)	336	100,368	
Total		**$ 92,303**	**$ (61,000)**	**$ 3,385**	**$ 100,368**	

(1) Beginning April 1, 2018, the carrying charge rate decreased from 4.19% to 4.09% per Docket No. 18-035-T01.
(2) Currently, tariff schedule 197 is refunding $61.0m effective May 1, 2018 per the Commission's April 27, 2018 order.

Rocky Mountain Power
Docket No. 17-035-69
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Nikki L. Kobliha

July 2018

Q. Please state your name, business address, and present position with PacifiCorp.

A. My name is Nikki L. Kobliha and my business address is 825 NE Multnomah Street, Suite 2000, Portland, Oregon 97232. My present position is Vice President, Chief Financial Officer and Treasurer for PacifiCorp. I am testifying on behalf of Rocky Mountain Power ("Company"), a division of PacifiCorp.

QUALIFICATIONS

Q. Briefly describe your educational and professional background.

A. I received a Bachelor of Business Administration with a concentration in Accounting from the University of Portland in 1994. I became a certified public accountant in 1996. I joined the Company in 1997 and have taken on roles of increasing responsibility before being appointed Chief Financial Officer in 2015.

Q. What are your responsibilities as Vice President, Chief Financial Officer and Treasurer?

A. I am responsible for all aspects of the Company's finance, accounting, income tax, internal audit, Securities and Exchange Commission reporting, treasury, credit risk management, pension, and other investment management activities.

PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your direct a testimony in this proceeding?

A. I support the Company's request that the Public Service Commission of Utah ("Commission") approve its proposal to continue to refund to customers $61 million annually until the next general rate case and defer the remaining tax benefits discussed in Company witness Mr. Steven R. McDougal's direct testimony to a regulatory liability account. Specifically, I provide details on how the Company's proposed ratemaking treatment will support the Company's current credit rating.

Q. How do changes in the 2018 Tax Reconciliation Act impact the Company's revenue requirement?

A. As described in the testimony of Mr. McDougal, the overall impact to the Company's revenue requirement is a decrease of $92.3 million per year to Utah customers.

Q. How does the Company propose to pass this savings back to Utah customers?

A. The Company is committed to refunding the full revenue requirement impact of the Tax Reform Act back to Utah customers. Consistent with the April 27, 2018 order in this docket, $61 million is currently being refunded to customers. The Company proposes to continue the current $61 million annual rate reduction and defer the $31.3 million difference into a regulatory liability to be used to offset Commission-approved regulatory assets.

Q. Why is the Company requesting that only a portion of the full impact be refunded at this time?

A. Fitch, Standard & Poor's, and Moody's Investor Service ("Moody's") have issued reports suggesting that the tax law changes may have the potential to negatively impact utility company credit metrics. Most recently, on June 18, 2018, Moody's changed its outlook for the 2019 U.S. regulated utility sector from stable to negative to reflect increased financial risk due to lower cash flow. This report is provided as Confidential Exhibit RMP__(NLK-1). Deferring part of the reduction will allow more time to analyze these impacts and adjust capital structure levels, as appropriate. While it may appear that the primary impacts of the Tax Reform Act and its reduction of corporate rates from 35 percent down to 21 percent are entirely positive to the Company, a closer analysis shows there are potential negative impacts in the case of regulated public utilities. A January 2018 report from The Brattle Group ("Brattle Group Tax Report")[1] discusses several of these adverse effects.

Q. What adverse impacts were identified in the Brattle Group Tax Report?

A. The Brattle Group Tax Report demonstrates that coverage ratios for utilities will tighten as earnings before interest and taxes ("EBIT") and earnings before interest, taxes, depreciation and amortization ("EBITDA") decrease, EBIT and EBITDA interest coverage is lowered and EBITDA to debt is also lowered. These reduced coverage ratios potentially result in ratings downgrades which may increase utilities' borrowing costs. The report goes on to show that utilities' realized earnings volatility is increased by a lower tax rate because the "cushion" provided by the impact of taxes on utility rates becomes smaller. This will make earnings more sensitive to reductions to EBITDA as the offsetting tax benefit goes from a 35 percent rate to a 21 percent rate. The Brattle Group Tax Report also states that cash flows may be deferred due to a lower tax rate on depreciation timing differences. These same impacts noted in the Brattle Group Tax Report led Moody's to lower the outlook for 24 regulated utilities on January 19, 2018, based primarily on the Tax Reform Act's impacts on cash flows.

Q. Has the Company realized any of the negative impacts described in the Brattle Group Tax Report?

A. Since the Company has just begun to give back partial refunds in only a few of its jurisdictions the negative impacts have not yet been fully realized. If the Company were

[1] *See* The Brattle Group, "Six Implications of the New Tax Law for Regulated Utilities", January 2018 (available at http://files.brattle.com/files/13011_six_implications_of_the_new_tax_law_for_regulated_utilities.pdf).

to give back 100 percent of the benefits immediately in all of its jurisdictions the Company's cash from operations would likely fall below levels where it can no longer meet its Cash From Operations Pre-Working Capital-to-Debt ("CFO pre-W/C/D") coverage ratio outlined by Moody's in its June 22, 2018 credit opinion. Moody's credit opinion specifically notes:

> "Factors that could lead to a downgrade – The ratings could be downgraded if PacifiCorp's capital expenditures are funded in a manner inconsistent with it current financial profile, or if adverse regulatory rulings lower its credit metrics, as demonstrated for example, by a ratio of CFO pre-W/C/Debt sustained below 20%."

Q. What options does the Company have to mitigate the impact of CFO pre-W/C/D to keep it at levels above 20 percent?

A. Options to strengthen this metric include improving cash from operations through an increase in cash revenue, decrease in cash expense or in long-term debt balances. A reduction in long-term debt balances would likely come in the form of lower future borrowings and not early redemption of existing debt. In order to have enough cash to fund operations, lower borrowings would be offset by lower cash dividends paid to Berkshire Hathaway Energy. Cash dividends are paid to Berkshire Hathaway Energy as a means to manage the Company's common equity component of the capital structure, targeting the common equity percentage approved in customer rates. Absent the payment of dividends, retention of earnings would cause the percentage of common equity to grow beyond levels approved in rates.

Q. How does the maintenance of PacifiCorp's current credit rating benefit customers?

A. First, the credit rating of a utility has a direct impact on the price that a utility pays to attract the capital necessary to support its current and future operating needs. Many institutional investors have fiduciary responsibilities to their clients, and are typically not permitted to purchase non-investment grade (i.e. rated below BBB-) securities or in some cases even securities rated below a single A. A solid credit rating directly benefits customers by reducing the immediate and future borrowing costs related to the financing needed to support regulatory obligations.

Second, credit ratings are an estimate of the probability of default by the issuer on each rated security. Lower ratings equate to higher risks and higher costs of debt. The financial crisis of 2008 and 2009 provides a clear and compelling example of the benefits of the Company's credit rating because the Company was able to issue new long-term debt during the midst of the financial turmoil. Other lower-rated utilities were shut out of the market and could not obtain new capital.

Further, the Company has a near constant need for short-term liquidity as well as periodic long-term debt issuances. The Company deploys significant amounts of funds daily to suppliers who are relied on to provide necessary goods and services such as fuel, energy, and inventory. Being unable to access funds can risk the successful completion of necessary capital infrastructure projects and could lead to outages and service failures over the long-term.

Lastly, the Company is in the midst of a period of significant capital spending and investing in infrastructure to build an energy future that is reliable, clean, and affordable. If the Company does not have consistent access to the capital markets at reasonable costs, these borrowings and the resulting costs of building new facilities become more expensive. The inability to access financial markets can threaten the completion of necessary projects and can impact system reliability and customer safety.

Maintaining the current single A credit rating makes it more likely the Company will have access to the capital markets at reasonable costs even during periods of financial turmoil. Such a rating will allow the Company continued access to the capital markets that will enable it to fulfill its capital investments for the benefit of customers.

Q. Does this conclude your direct testimony?

A. Yes.

REDACTED
Rocky Mountain Power
Exhibit RMP___(NLK-1)
Docket No. 17-035-69
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

REDACTED
Exhibit Accompanying Direct Testimony of Nikki L. Kobliha

Moody's Outlook Report

July 2018

EXHIBIT RMP___(NLK-1) IS CONFIDENTIAL IN ITS ENTIRETY AND IS PROVIDED UNDER SEPARATE COVER