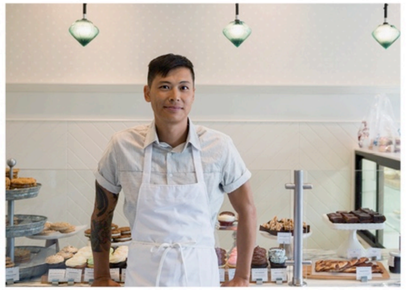
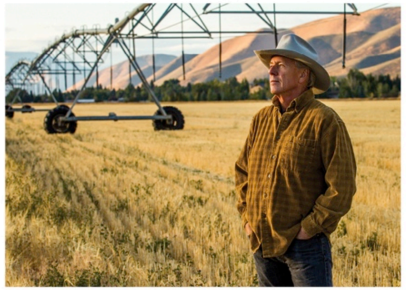
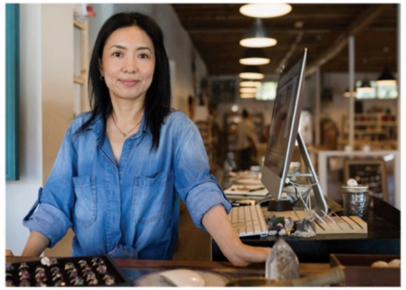
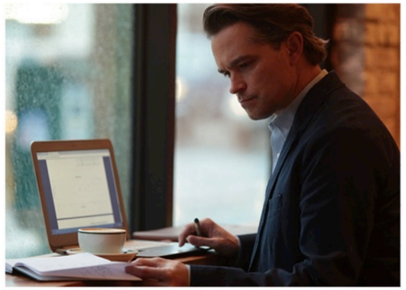
Tax Reform Act

Docket No. 17-035-69
Utah Technical Conference
July 18, 2018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Overview of Tax Reform Act

The Company has identified six notable items related to that Tax Reform Act that affect the Company's annual revenue requirement.

- The federal corporate income tax rate reductions from 35 to 21 percent;
- The requirement to normalize excess deferred income taxes associated with public utility property utilizing the 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.

Calculating the Impact of the Tax Reform Act

To calculate the impact of the Tax Reform Act, the Company compared two models:3

- The "before" Tax Reform Act (referred to as the "35% Tax Rate Model") adjusted the filed results of operations report ("ROO") to a pro-forma 2018 perspective assuming 2017 tax law.
- The "after" Tax Reform Act (referred to as the "21% Tax Rate Model") adjusted the 35% Tax Rate Model to include the revised tax law.

Updates to Filed Utah ROO ("35% Tax Rate Model")

To calculate the impact of the Tax Reform Act, specifically with regards to the elimination of bonus tax for public utility property, the Company revised the filed Utah ROO model to include pro-forma adjustments to add into results the capital and associated impacts for the test period of the Tax Reform Act. The revised adjustments are provided below:

- Adjustment 9.1 – Major Plant Additions
  - Included in rate base a pro-forma CY 2018 13-month average for major plant additions, including bonus depreciation, greater than $2 million.
- Adjustment 9.2 – Major Plant Additions Depr. Expense and Reserve
  - Included into results the depreciation and amortization expense and reserve for the major plant additions included in adjustment 9.1.
- Adjustment 9.3 – Other Plant Additions
  - Included in rate base a pro-forma CY 2018 13-month average for major plant additions, including bonus depreciation, less than $2 million and all blanket projects.
- Adjustment 9.4 – Other Plant Additions Depr. Expense and Reserve
  - Included into results the depreciation and amortization expense and reserve for the major plant additions included in adjustment 9.3.
- Adjustment 7.3 – AFUDC Equity
  - Filed Utah ROO excluded the Schedule M adjustment to correctly align the Schedule M with regulatory income. This adjustment should have been included in original filed ROO.
- Adjustment 7.1 and 8.1 – Interest True-Up and CWC
  - Adjustments synchronize interest and CWC with regulatory results and were revised to include impacts from adjustments above.

Updates to 35% Tax Rate Model ("21% Tax Rate Model")

To calculate the impact of the Tax Reform Act the Company updated the 35% Tax Rate Model for the impacts of the Tax Reform Act. The revised adjustments are provided below:

- Updated the federal corporate tax rate from 35 to 21 percent
- Adjustment 9.1 – Major Plant Additions
  - Updated to <u>exclude</u> bonus depreciation.
- Adjustment 9.3 – Other Plant Additions
  - Updated to <u>exclude</u> bonus depreciation.

Updates to Revised ROO Con't

- Adjustment 9.5 – ARAM
  - Included into results the amortization of the accumulated deferred income taxes related to the protected property and non-protected property for the test period of the Tax Reform Act. This adjustments also includes the amortization of the accumulated deferred income taxes related to Bridger Coal Company.
- Adjustment 9.6 – Deferred Income Tax
  - Restates deferred income tax expense to the test period of the Tax Reform Act using the new effective tax rate. This adjustment also removes the ARAM associated with flow-through taxes as it was captured in Adjustment 9.5.
- Adjustment 9.7 – Tax Deductible Items
  - Adjust results to include the appropriate level of tax deductible items such as Section 199, Meals & Entertainment, and transit passes.
- Adjustment 7.1 and 8.1 – Interest True-Up and CWC
  - Adjustments synchronize interest and CWC with regulatory results, and were revised to include impacts from adjustments above.

Additional Considerations

- Accumulated Deferred Income Taxes
  - The change in tax rate results in a reduction to the accumulated deferred income tax balances, however, this reduction is offset by the regulatory liabilities for the excess deferred income taxes. Since the combination of both do not result in an immediate change to rate base upon which the Company earns a return, not adjustment was necessary.
- FERC OATT Rate
  - A reduction to the federal corporate tax rate also impacts the FERC OATT revenues allocated to Utah. In addition to truing up net power cost, the EBA filing also trues up wheeling revenues. Therefore, the impact of the FERC OATT revenues will be captured as part of the annual EBA filing.

Calculating the Revenue Requirement Impact

To calculate the final revenue requirement impact of the Tax Reform Act, the Company compared the 35% Tax Rate Model to the 21% Tax Rate Model. The Company then used a "price change" approach in which revenues were reduced to reflect the lower revenue requirement of the 21% Tax Rate Model while maintaining the same earned return on equity as the 35% Tax Rate Model. A summary of the impact has been included below:

Tax Impact		
$ Thousands		**Utah**
Current Taxes	$	65,890
Wheeling Revenue Offset		-
ARAM Amortization		26,413
TOTAL	**$**	**92,303**

Excess Deferred Income Taxes

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**

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)	-
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.

Questions and Answers

OCS Questions

Q) Are any of the jurisdictions in which the Company operates requiring that the non-protected property-related EDIT be amortized over a shorter period than the ARAM amortization that is required for the protected property-related EDIT? If yes, which? If no, what is the current status on that issue in the other jurisdictions (i.e., unresolved, resolved with ARAM, etc.)?

Q) What would the cost be to the Company to modify its Powertax system to enable it to separate out the $259.3 million ($121.26M Utah) of non-protected property-related EDIT from the protected property-related EDIT to allow for the non-protected property-related EDIT to be amortized over a shorter timeframe than provided for under the ARAM? Has the Company begun such modifications of the system? Have quotes been received? How long would it take to make the required modifications?

Q) The Company is proposing that the non-protected non-property related EDIT of $22.6 million be amortized over 5 years beginning with the effective date of the next rate case (McDougal lines 163 – 169). The $22.6 million of non-protected non-property related EDIT (or the grossed-up revenue requirement amount associated with the $22.6M) is not included in the estimated federal tax impact deferral shown on Exhibit RMP__(SRM-2) to which the carrying charges are being applied. Does the Company propose to apply carrying charges to the grossed-up revenue requirement amount associated with the $22.6 million of non-protected non-property related EDIT that it is proposing to defer? If no, why not?

OCS Questions

Q) Mr. McDougal's testimony indicates that the Company modified the December 31, 2017 ROOs to "… include all of the plant additions for 2018." It appears from the workpapers previously provided, specifically for Adjustment 9.1, that the Company also annualized the plant additions that were placed into service during 2017. Is this understanding correct? If no, then please elaborate on what is being done in Adjustment 9.1. If the understanding is correct, then please explain why the Company annualized the 2017 plant additions?

Q) The amount of property-related ARAM amortization will change annually. For example, responses to discovery have indicated that the projected 2018 ARAM amortization is $44M and the projected 2019 ARAM increases to $59M on a total Company basis. The Company's filing includes $20.47 million of ARAM amortization (Utah basis), grossed up to $26,413,000 for the revenue requirement impact in the calculation of the annual deferral. Is the Company proposing to lock in the 2018 ARAM amortization amount to be deferred at $26,413,000 (McDougal Table 1) annually for each year for purposes of calculating the amount to be deferred, or will the amount deferred be based on the actual annual ARAM amortization grossed-up for the revenue requirement impacts?

Q) Could you please elaborate on lines 98 – 102 of Mr. McDougal's testimony regarding the AFUDC equity and tax Schedule M adjustment and the impact the correction had on the December 31, 2017 ROO? Also, was a similar issue or mistake made in the prior June 2017 ROOs?

OCS Questions

Q) At lines 78 – 89 of her direct testimony, Ms. Kobliha discusses ways to mitigate the impact of Cash From Operations Pre-Working Capital to Debt (CFO pre-W/C/D) coverage ratio at levels above 20%. She states that absent the payment of dividends to Berkshire Hathaway Energy "…retention of earnings would cause the percentage of common equity to grow beyond levels approved in rates."

a. What is the current CFO pre-W/C/D coverage ratio percentage?

b. If the Company is required to begin flowing all of the impacts of the reduction of the tax rate to 21% to ratepayers, but is allowed to defer the non-protected EDIT, what percentage would the common equity ratio need to increase to maintain the CFO pre-W/C/D levels to at least 20%?

c. Is there anything specifically precluding the Company from increasing its current common equity ratio as a short term mitigation measure?

Q) In response to OCS 5.17, the Company indicated that it added 2018 plant additions and associated depreciation "...so that the impact of the change to bonus tax depreciation would be included in the filing." The response also stated "In order to avoid violating IRS normalization rules all pieces must be included in the calculation." Just to clarify, is it the Company's position that if the 2018 plant additions are not added to the December 31, 2017 Results of Operations, a violation of the IRS normalization rules would result? If so, please explain how exclusion of the actual and projected 2018 plant additions would violate the IRS normalization rules, particularly when the property-related EDIT balances are based on amounts booked as of December 31, 2017.

UIEC Questions

Q) Does RMP intend to update Confidential Exhibit RMP-1 (credit metrics exhibit) of its June 15 filing in this matter with updated revenue requirement impacts, or are the parties supposed to rely on the previously filed version of that exhibit?

Q) If RMP does intend to provide an updated version of that exhibit, when can parties expect to receive it?