Witness OCS – 2D

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** **Direct Testimony of Donna Ramas For the Office of Consumer Services**

DIRECT TESTIMONY

OF

Donna Ramas

FOR THE OFFICE OF CONSUMER SERVICES

August 28, 2018

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INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and Principal at Ramas Regulatory Consulting, LLC, with offices at 4654 Driftwood Drive, Commerce Township, Michigan 48382.

Q. HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. I was retained by the Utah Office of Consumer Services (OCS) to review the impacts on the revenue requirements of Rocky Mountain Power (the Company or RMP) caused by the 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", herein after referred to the "Tax Reform Act." Accordingly, I am appearing on behalf of the OCS.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I provide the OCS recommendations regarding the impact of the reduction in the federal corporate income tax rate on current rates as well as the OCS's position regarding the timing of the return of the Excess Deferred Income Taxes (EDIT) to customers. I also address the Company's proposal for the treatment of the impacts of tax reform on customer rates and explain the differences between RMP's proposal and the OCS's position. This includes pointing out a significant concern with the Company's proposed treatment of the protected property-related EDIT flow-back to customers.

Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

A. Yes. I have prepared Exhibit OCS 2.1D through Exhibit OCS 2.4D, provided with this testimony. Additionally, Exhibit OCS 2.5D consists of RMP data responses referenced in this testimony.

Q. COULD YOU PLEASE BRIEFLY SUMMARIZE THE OCS'S RECOMMENDATIONS FOR FLOWING THE BENEFITS OF THE TAX REFORM ACT TO UTAH RATEPAYERS?

A. Yes. The OCS recommends that beginning January 1, 2019, the current annual rate reduction of $61 million approved in the Public Service Commission's (Commission) April 27, 2018 Order in this case be revised to $99,844,000. This revised reduction in rates charged to Utah ratepayers should remain in effect until rates from the next general rate case go into effect. The $99,844,000 revised reduction includes the impact on current taxes resulting from the Tax Reform Act, calculated by RMP as a reduction to revenue requirements of $65,890,000 before the impacts of EDIT. The $99.8 million reduction also includes the amortization of the non-protected property related EDIT and the non-protected non-property EDIT over a five-year period, with the amortization effective beginning January 1, 2019.

The OCS recommends that the amount of reduction in revenue requirement associated with current taxes for 2018 that will not be fully refunded to customers during 2018 under the current interim rates continue to be deferred, with carrying charges applied, until the rate effective date of the next general rate case. This would be the difference between the $65.89M of reduction in revenue requirement associated with current taxes being collected from customers and the $61 million currently being refunded during 2018 under interim rates, totaling $4.89 million prior to the application of carrying charges.

The OCS also recommends that the amount of amortization of the protected property related EDIT under the Average Rate Assumption Method (ARAM) required under the IRS normalization rules be deferred as a regulatory liability based on the actual annual ARAM amortization amounts until the next rate case. This would result in a fairly substantial regulatory liability that could either be amortized or used to offset regulatory assets, which would assist in mitigating anticipated cost increase pressures. At that time, the Company and parties could address the recommended treatment of the amounts deferred.

Details regarding the calculation of the recommended reduction in rates effective January 1, 2019, as well as the recommended deferrals and amortizations, will be addressed in this testimony.

SUMMARY OF COMPANY POSITION

Q. WHAT HAS THE COMPANY PRESENTED AS THE IMPACTS OF THE TAX REFORM ACT IN THIS DOCKET?

A. Using its December 31, 2017 Results of Operations (ROO), adjusted for the impacts of the changes in the tax law, the Company calculated the impact on revenue requirements as $65,890,000 on a Utah jurisdictional basis. This is prior to any amortization associated with the Excess Deferred Income Tax balances being returned to customers.

The table below presents the EDIT balances by category:

Table 1 - EDIT Balances, per RMP

	Amount ($000)
Protected Property Related EDIT	$ 612,362
Non-Protected Property Related EDIT	104,934
Non-Property Related EDIT	22,561
Total EDIT, Utah Jurisdictional Basis	$ 739,857

Source: Direct Testimony of Steven R. McDougal, line 172, Table 3, as Revised 8/2/18

I do not take issue with any of the amounts presented above, which were calculated by the Company. I agree that using the December 31, 2017 ROO, as adjusted by RMP, is a reasonable method for determining the annual revenue requirement impact associated with the Tax Reform Act, prior to consideration of the flow-back of the EDIT balances to customers. I also have found no reason to dispute the EDIT balances determined by the Company.

Q. DOES THE COMPANY AGREE THAT CUSTOMERS SHOULD RECEIVE THE BENEFITS RESULTING FROM THE TAX REFORM ACT?

A. Yes. The reply comments filed by the Company in this docket on April 16, 2018, at page 5, states: "The Company has agreed, since inception of the docket, that the benefits of tax reform should be passed on to customers; however, the Company continues to recommend an approach that balances both near-term reductions with rate stability and the financial health of the Company." Additionally, the Direct Testimony of Nikki L. Kobliha states: "The Company is committed to refunding the full revenue requirement impact of the Tax Reform Act back to Utah customers."[1] While parties may have disagreements on when the full benefits of tax reform should be passed on to Utah ratepayers and the method in which the impacts should benefit customers, the Company has nevertheless testified that the benefits of the Tax Reform Act should be passed on to Utah ratepayers.

Q. COULD YOU PLEASE ELABORATE ON WHAT THE EDIT BALANCE IS AND WHY THE EDIT BALANCE SHOULD BE RETURNED TO RATEPAYERS?

A. Yes. The Company has Accumulated Deferred Income Tax (ADIT) assets and liabilities on its books, with the net balance being an ADIT liability. The net ADIT liability balance represents funds that ratepayers have paid

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[1] Direct Testimony of Nikki L. Kobliha, filed July 10, 2018, lines 30 – 31.

in rates for income taxes that the Company has not yet had to pay the IRS. It is a cost-free source of capital to the Company that has been funded over time by ratepayers. As a result of the Tax Reform Act, the federal income taxes will now be paid to the federal government based on a lower income tax rate than the rate that was in effect when the income taxes were collected from ratepayers. This difference represents the Excess Deferred Income Taxes that were funded by ratepayers but will not now be paid to the Federal government. As the EDIT balances were funded by ratepayers and will no longer be paid to the Federal government, the EDIT should be returned to ratepayers.

Q. HOW DOES THE COMPANY PROPOSE TO PASS THE BENEFITS OF THE TAX REFORM ACT TO UTAH RATEPAYERS?

A. The Company's current proposal was described in its supplemental filing submitted June 15, 2018 and it its direct testimony filed on July 10, 2018. The Company is proposing to continue deferring until the next general rate case the non-protected non-property EDIT balance of $22.6 million on a Utah jurisdictional basis, with the deferral amortized over a period of five years starting with the effective date of rates in the next general rate case.[2] It is my understanding that the Company currently plans to file its next general rate case in Utah during 2020 utilizing a 2021 test year.

The Company also calculated what the impacts on its revenue requirements would be if it modified the December 31, 2017 ROO to

[2] Direct Testimony of Steven R. McDougal, lines 165 – 169.

include: 1) the impacts of the Tax Reform Act on current income taxes; and 2) the amortization of the non-protected property related EDIT and protected property related EDIT using the 2018 ARAM flow-back amount grossed-up for the revenue requirement impact. This resulted in a revenue requirement impact of $92.303 million, consisting of $26.413 million for the ARAM amortization[3] and $65.89 million for the impact on current taxes.

While the Company has calculated this $92.303 million annual impact, it is proposing to continue the current $61 million annual rate reduction approved by the Commission in its Order issued April 27, 2018 in this docket. The Company proposes to defer the difference between the $92,303,000 and the $61 million annual rate reduction. The resulting $31.3 million annual difference ($92.3M - $61M) would be recorded as a regulatory liability that the Company proposes to use to "…offset Commission-approved regulatory assets and future price increases…"[4] The Company has proposed to apply a carrying charge to the amount transferred to a regulatory liability.

Q. WHAT AMOUNT OF REGULATORY LIABILITY DOES THE COMPANY PROJECT?

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[3] The $26.413 million for the ARAM amortization is based on a 2018 ARAM amortization amount of $20.47 million grossed up for the revenue requirement impact. The Company has since updated the 2018 ARAM amortization from $20.47 million to $20.457 million.
[4] Direct Testimony of Steven R. McDougal, lines 118 – 122.

A. Under the Company's proposal, since carrying charges are applied, the actual amount of regulatory liability will be dependent upon when the liability is used to offset the "…Commission-approved regulatory assets and future price increases…" Exhibit RMP__(SRM-2), provided with Mr. McDougal's testimony, estimates an ending balance as of December 31, 2020 of $100,368,000 on a Utah jurisdictional basis. In addition to the $100,368,000 estimated regulatory liability, there would also be the non-property related EDIT balance of $22.6 million[5] to return to customers beginning in the next rate case.

Q. WILL THE COMPANY'S PROPOSAL RESULT IN UTAH RATEPAYERS FULLY REALIZING THE BENEFITS RESULTING FROM THE TAX REFORM ACT?

A. No, not entirely. As will be discussed in greater detail in the next section of this testimony, under the Company's proposal ratepayers will not receive the full amount of the property-related EDIT balance that is owed to them. The Company has calculated the amount to be deferred in the regulatory liability annually between now and the rate effective date of the next rate case based on the amortization of the property related EDIT under the ARAM for 2018. Since amortization, or flow-back, under the ARAM changes annually, the Company would essentially retain the difference between the 2018 ARAM amortization amount and the actual

[5] The amortization of the $22.6 million non-property EDIT will be grossed-up to the revenue requirement impact when returned to customers through amortization.

ARAM amortization amounts for the subsequent years through the rate effective date of the next rate case.

VARIABILITY OF AMORTIZATION UNDER ARAM

Q. IS PACIFICORP REQUIRED TO AMORTIZE THE PROPERTY RELATED EDIT UNDER THE ARAM IN ORDER TO BE IN COMPLIANCE WITH THE IRS NORMALIZATION RULES?

A. The Company is required to amortize the protected property related EDIT using the ARAM, but not the non-protected property related EDIT. Under the Tax Reform Act, if a Company reduces the protected property related EDIT balance more quickly or by a greater amount than what would occur under the Average Rate Assumption Method, the Company would be in violation of the IRS normalization rules. While there is an alternative method in certain circumstances, such as for taxpayers whose books and records do not contain vintage data needed to apply the ARAM, there is no dispute that PacifiCorp is required to utilize the ARAM for the protected property related EDIT balance in order to avoid violation of the normalization rules.

In its February 7, 2018 filing in this docket, at pages 4 and 5, the Company provided a description of the ARAM and an example illustrating the associated calculations. As described in Mr. McDougal's direct testimony, at lines 146 – 149, "[u]nder 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." In general, the amortization of the property related EDIT for each asset begins in the year book depreciation first exceeds tax depreciation, with the amortization continuing through the remaining book life of the asset.

Q. CAN YOU BRIEFLY DESCRIBE WHAT PROPERTY RELATED TAX AND BOOK TIMING DIFFERENCES CAUSE PROTECTED VERSUS NON-PROTECTED PROPERTY RELATED EDIT?

A. Yes. The protected property related EDIT is associated with differences between book and tax depreciation. Capital assets are depreciated more quickly for tax purposes than for book purposes, this causes an increase in the ADIT liability and the subsequent protected property-related EDIT balance. The non-protected property related EDIT is caused by differences other than accelerated tax depreciation. A prime example is PacifiCorp's use of the repairs deduction in which it was able to expense certain costs for tax purposes while capitalizing and depreciating the costs for book purposes. PacifiCorp's non-protected property related EDIT balance is $278.27 million on a total Company basis. Of this amount, the Company has estimated that the EDIT related to the repairs deduction is $255 million on a total Company basis.[6]

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[6] Response to UIEC Data Request 5.7.

Q. WOULD YOU PLEASE ELABORATE ON THE VARIABILITY OF THE AMORTIZATION OF THE PROPERTY RELATED EDIT UNDER THE ARAM?

A. Yes. Since different assets have different remaining book and tax lives, the amortization under the ARAM varies annually. The flow back of the EDIT under the ARAM begins in the year in which the book depreciation exceeds the tax depreciation for an asset. The timing of the triggering of the EDIT flow back is different for different assets. In general, as more assets begin to trigger the reversal in which the book depreciation exceeds the tax depreciation, the total annual EDIT amortization under the ARAM will grow until more assets become fully depreciated for book purposes. Additionally, many factors will impact the amortization under the ARAM, such as new depreciation rates being set for book purposes and extraordinary retirements of assets. The parties are reliant on the Company to accurately calculate the annual amortization under the ARAM as only the Company has the extensive data and the PowerTax system needed to make the calculations.

The Company provided the following estimated amounts for the annual amortization of the property related EDIT under the ARAM on a total Company basis:

Table 2 - Company Est. Property Related EDIT Amortization - Total Company Basis

($000s)	2018	2019	2020	2021
Protected	30,937	42,599	35,625	37,115
Non-Protected	14,140	16,792	5,059	11,930
Total	45,077	59,391	40,684	49,045

Source: Response to OCS 5.4 for 2019 - 2021, 2018 provided by Company.

The Company also provided the estimated amounts on a Utah jurisdictional basis, as shown below:

Table 3 - Company Est. Property Related EDIT Amortization - Utah Jurisdictional Basis

($000s)	2018	2019	2020	2021
Protected	13,942	18,307	15,513	16,219
Non-Protected	6,515	7,691	2,149	5,377
Total	20,457	25,998	17,662	21,596

Source: Response to OCS 5.4 for 2019 - 2021, 2018 provided by Company.

While the tables above show the amounts of protected and non-protected property related EDIT amortization under the ARAM, only the protected property related EDIT is required to be flowed-back under the ARAM.

The above tables demonstrate the variability of the amortization from year to year under the ARAM. As shown above, the estimated amortization of the protected property related EDIT goes from $13,942,000 in 2018 to $18,307,000 in 2019 on a Utah jurisdictional basis. The amortization of both the protected and non-protected property related EDIT, if the ARAM is used for both categories, increases from approximately $20.5 million in 2018 to $26 million in 2019 on a Utah jurisdictional basis.

Q. HAS THE COMPANY IDENTIFIED THE FACTORS THAT CAUSE THE LARGE INCREASE IN THE AMORTIZATION OF THE PROPERTY RELATED EDIT UNDER THE ARAM BETWEEN 2018 AND 2019?

A. Yes. In response to OCS Data Request 4.3(a), the Company indicated as follows:

> The flow-back of property-related EDIT is higher in 2019 primarily due to the projected amount of retirements in 2019. The retirements in 2019 are higher than in 2018 or 2020 largely due to the anticipated retirement of wind assets under the Company's proposed wind repowering.

The early retirement of the wind assets is caused by the repowering of existing wind assets approved by the Commission on May 25, 2018 in Docket 17-035-39. However, it is now my understanding based on a discussion with a PacifiCorp employee that this response was in error and that other factors are causing the large increase in the amortization of the property related EDIT under the ARAM in 2019.

The Company subsequently filed a supplemental response to OCS 4.3(a) stating, in part, the following: "The Company presently understands the 2019 increase in excess deferred income tax amortization to be attributable to a large extraordinary retirement in the steam tax class was included in the forecast data used for the PowerTax run on which the four-year quantification of excess deferred income taxes was based." The supplement response also stated: "Generally speaking, the Company expects that the following factors would be the drivers for year-on-year differences in the level of excess deferred income tax amortization: (1) changes in the level of book depreciation / book useful lives, (2) vintage tax classes newly beginning their amortization period under the average rate assumption method of excess deferred income taxes becoming fully amortized for vintage tax classes thereby ending amortization, and (3) extraordinary retirements or asset sales which would result in the immediate recognition of the unamortized excess deferred income tax balance for the respective vintage tax class."

Clearly there are factors that can substantially change the amortization in the ARAM from year to year and the ARAM amortization amounts are variable. While the total amount of property related EDIT owed to ratepayers is known, the annual amortization of the EDIT under the ARAM for future years is not known as it is dependent on many variables.

It is my understanding that the Company will file a new depreciation study later this year. Changes in the Commission authorized depreciation rates will impact the calculation of the property-related EDIT amortization under the ARAM.

Q. PREVIOUSLY YOU INDICATED THAT THE DEFERRAL PROPOSED BY THE COMPANY WAS CALCULATED, IN PART, ON THE AMOUNT OF PROPERTY RELATED EDIT AMORTIZATION UNDER THE ARAM FOR CALENDAR YEAR 2018. IS THE COMPANY PROPOSING TO

REVISE THE AMOUNT IT WOULD DEFER ANNUALLY UNDER ITS PROPOSAL TO ACCOUNT FOR THE INCREASES IN THE PROPERTY RELATED EDIT AMORTIZATION UNDER THE ARAM SUBSEQUENT TO 2018?

A. No, it is not. Under the Company's proposal, the deferral calculation would essentially lock in the $92,303,000 amount and the annual $61 million reduction in rates currently approved by the Commission until base rates from the next general rate case go into effect. As a reminder, the $92.303 million is based on: 1) $65.89 million to reflect the current tax impacts calculated using the December 31, 2017 ROO exclusive of EDIT amortization; and 2) the 2018 amortization of protected and non-protected property related EDIT under the ARAM of $20.47 million grossed-up to a revenue requirement impact of $26.413 million. Under the Company's proposal, it would essentially retain the increase in the ARAM amortization that is anticipated after 2018. Clearly this is not a reasonable result and is unfair to ratepayers.

Q. IS THERE A WAY THAT THE COMMISSION CAN ENSURE THAT RATEPAYERS RECEIVE THE FULL BENEFITS OF THE NON-PROTECTED PROPERTY RELATED EDIT BALANCES?

A. Yes. As will be discussed later in this testimony, I recommend that the non-protected property related EDIT be amortized over a period of five years, or possibly a longer period of ten years if a longer period is needed to stabilize or improve the Company's credit ratings. As previously indicated, the variable ARAM method of amortization is not required for the non-protected property related EDIT balance. Amortizing the non-protected property related EDIT balance evenly over a period of five years, or longer if a longer amortization period is needed, would remove the concern regarding the variability of the amortization or flow-back of the non-protected property related EDIT under the ARAM method. It would ensure that the full non-protected property related EDIT goes to the benefit of the customers that funded the EDIT balances.

Q. HOW CAN THE COMMISSION ENSURE THAT RATEPAYERS RECEIVE THE FULL BENEFITS OF THE PROTECTED PROPERTY RELATED EDIT BALANCES?

A. The Company is required to use the ARAM to flow back or amortize the protected property related EDIT. To ensure that ratepayers receive the full benefits of the protected property related EDIT balances, I recommend that the actual required amortization amounts of the protected property related EDIT under the ARAM be deferred as a regulatory liability. As indicated previously, the amortization of the protected property related EDIT balances under the ARAM fluctuates annually. Deferring these variable amounts as a regulatory liability will ensure that ratepayers do in fact receive the full benefits associated with the protected property related EDIT balance. The appropriate use of the resulting regulatory liability for the benefit of Utah ratepayers, which would be based on the actual amortization under the ARAM, can then be addressed in the next general rate case. This would ensure that the full amount of the amortization of the protected property related EDIT under the ARAM for the period 2018 through the rate effective date of the next rate case is ultimately used to benefit Utah ratepayers.

Q. IN THE EVENT THE COMMISSION DOES NOT AGREE WITH YOUR RECOMMENDATIONS REGARDING THE FLOW BACK OF THE EDIT BALANCES TO RATEPAYERS IN THIS DOCKET, IS THERE AN ALTERNATIVE MEANS TO ENSURE THAT RATEPAYERS RECEIVE THE FULL BENEFIT OF THE TAX REFORM ACT ASSOCIATED WITH THE RESULTING PROPERTY RELATED EDIT BALANCES?

A. Yes. If the Commission is inclined to adopt RMP's proposal in this case, then modifications to RMP's proposal should be made. Instead of locking in the $92.303 million annually in the deferral calculation, the Commission could instead: 1) lock in the $65.89 million associated with the impact of the Tax Reform Act on current taxes exclusive of the EDIT impacts; and 2) require that the calculation factor in the actual property related EDIT amortization under the ARAM for each year, with the annual amortization amounts grossed up for the revenue requirement impacts.

The parties agreed in previous phases of this docket that the use of the December 31, 2017 ROOs, as modified for the impacts of the Tax Reform Act, was a reasonable means to determine the impact of the change in tax law on RMP's revenue requirements. This was calculated by RMP as $65.89 million exclusive of EDIT amortization. However, parties have not agreed on the method for returning the EDIT balances to customers and the amortization period to use for returning the EDIT balances.[7]

As indicated previously, the $92.303 million includes the 2018 property related EDIT amortization under the ARAM of $20.47 million grossed-up to a revenue requirement impact of $26.413 million. In 2019, the $20.47 million would be increased to the actual 2019 amortization under the ARAM, currently projected to be $26 million, which would be grossed up for the revenue requirement impact. If a version of the Company's proposal is preferred by the Commission, then this modification would ensure that the increase in the annual amortization under the ARAM as compared to the 2018 amount is deferred for the benefit of ratepayers who paid the EDIT balance being amortized.

OCS RECOMMENDATION

Q. COULD YOU PLEASE SUMMARIZE SOME OF THE AREAS IN WHICH YOU AND THE COMPANY ARE IN AGREEMENT IN THIS DOCKET?

A. Yes. First, I agree that it is reasonable in this proceeding to use the December 31, 2017 ROO to estimate the impacts of the Tax Reform Act on revenue requirements, prior to addressing the EDIT balances. I am not

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[7] To the best of my knowledge, the parties agree that the protected property related EDIT must be amortized based on the ARAM. While agreeing in this regard, parties may not agree on the period in which that amortization will ultimately be incorporated in rates charged to Utah ratepayers.

challenging the $65.89 million revenue requirement impact, exclusive of EDIT amortization, calculated by RMP.

I also do not challenge the EDIT amounts, by category, calculated and presented by RMP. These were previously shown in Table 1 of this testimony and include, on a Utah jurisdictional basis: 1) $612.362 million of protected property related EDIT; 2) $104.934 million of non-protected property related EDIT; and 3) $22.561 million of non-property related (non-protected) EDIT.

RMP and I also agree that the full benefits of tax reform should be passed on to ratepayers. This would include the impact on revenue requirements resulting from the Tax Reform Act as well as the return to customers of the EDIT balances. We are also in agreement that the protected property related EDIT must be amortized using the ARAM in order to ensure the Company does not violate the normalization rules.

Q. ARE THERE ANY OVERARCHING ISSUES THAT THE COMMISSION SHOULD CONSIDER IN EVALUATING THE VARIOUS PROPOSALS IN THIS DOCKET?

A. Yes. There are several key issues involving timing. No one disputes that the Tax Reform Act was signed into law in December 2017, with the lower federal corporate income tax rate of 21% effective January 1, 2018. While the Commission issued an order on April 27, 2018 in this docket that reduced rates by $61 million annually, the $61 million annual rate reduction does not fully account for the lower federal income tax rates that

RMP is now subject to. If the amortization of the EDIT balances is ignored, the Company has calculated the impacts of the Tax Reform Act as $65.89 million annually. At a minimum, rates should be reduced by the full $65.89 million to reflect the full impact of the Tax Reform Act on current income taxes being paid in customer rates to RMP. It is my opinion that it would be unfair to ratepayers to make them wait until the rate effective date in the next general rate case, which is currently anticipated to be in 2021, to realize the full benefits of the Tax Reform Act, particularly with regards to the lowering of the federal income tax rate from 35% to 21% on current income tax expense.

Additionally, the EDIT balances are amounts that ratepayers have already paid to RMP for future income tax payments that RMP will no longer be required to pay to the IRS. This raises an overall fairness issue that could be likened to intergenerational equity concerns. These prior tax obligations, which will no longer be paid to the IRS, were collected from ratepayers prior to December 31, 2017. If the refund of these collections is delayed, then at least a portion of the amounts would be returned to customers that did not pay the excess amounts to the Company. Additionally, some of the customers that paid the excess amounts may not be customers of RMP during the entirety of the period in which the excess amounts are return to ratepayers. The longer the return of the excess payments are delayed and the longer the amortization period used to return the funds, the greater the impact on overall fairness and intergenerational equity issues.

Q. GIVEN THE ISSUES IDENTIFIED ABOVE, SHOULD THE NON-PROTECTED EDIT BALANCES BE QUICKLY RETURNED TO RATEPAYERS VIA A ONE-TIME CASH REFUND?

A. While a one-time payment to return all non-protected EDIT balances to ratepayers would result in more of the excess tax payments going to the customers that paid the amounts to begin with, negative consequences could result. The non-protected EDIT balances total $324,807,000 on a total Company basis and $127,495,000 on a Utah jurisdictional basis. A significant one-time cash outlay could negatively impact the Company's credit ratings in the short term. It is my opinion that it is reasonable to amortize the non-protected EDIT balances over a number of years to temper the impacts on PacifiCorp's cash flow and to mitigate potential negative impacts on PacifiCorp's credit ratings. An amortization would allow PacifiCorp extra time to take measures to offset the potential negative impacts on its cash flow associated with the amortization and improve projected financial metrics. This could be accomplished through various means such as reduced dividend payments if needed or revisions to strategic plans and financing plans. In general, it is my opinion that the non-protected EDIT balances should be flowed back to customers over as short a period as possible while also considering other impacts of the timing of the return of the funds on the Company's operations and financial health.

Q. WHAT PERIOD DO YOU RECOMMEND BE USED FOR FLOWING THE NON-PROTECTED EDIT BALANCES TO RATEPAYERS?

A. I recommend that the Utah jurisdictional non-protected property related EDIT and the non-property related EDIT both be amortized over a five-year period beginning January 1, 2019, with rates reduced on that date to reflect the amortization.

Q. IN HIS DIRECT TESTIMONY, MR. MCDOUGAL INDICATES AT LINES 152 – 154 THAT THE COMPANY'S POWERTAX SYSTEM PRESENTLY USES ARAM TO AMORTIZE ALL PROPERTY RELATED EDIT INCLUDED IN THE SYSTEM, INCLUDING THE NON-PROTECTED PROPERTY RELATED EDIT. DOES THIS IMPACT YOUR RECOMMENDATION THAT THE NON-PROTECTED PROPERTY RELATED EDIT BE AMORTIZED OVER A FIVE-YEAR PERIOD?

A. No. As evidenced by the fact that the Company has been able to separately provide the protected and non-protected property related amortization under the ARAM for 2018 and as projected for 2019 through 2021, it has the capability of separately determining the amounts. The Company has indicated in response to OCS Data Request 3.1 that the PowerTax system can be reconfigured to amortize the non-protected property related EDIT under an alternative method, such as using a five-year amortization.

Q. WHAT IS THE FULL AMOUNT THAT YOU RECOMMEND BE REFLECTED AS A REDUCTION IN UTAH RATES EFFECTIVE JANUARY 1, 2019?

A. As shown on Exhibit OCS 2.1D, I recommend that the $61 million annual rate reduction approved by the Commission in its April 27, 2018 Order be increased to an annual rate reduction of $99,884,000. This $99.884 million reduction would remain in effect starting January 1, 2019 through the rate effective date from the Company's next Utah general rate case. As shown on Exhibit OCS 2.1D, the $99.884 million reduction consists of: 1) the $65.89 million impact of the Tax Reform Act, exclusive of the EDIT impacts, calculated by RMP based on the December 31, 2017 ROO; 2) $27.979 million for the revenue requirement impact of a five-year amortization of the $104,934,000 of non-protected property related EDIT[8]; and 3) $6,015,000 for the revenue requirement impact of a five-year amortization of the $22,561,000 non-property related EDIT.[9]

Under this proposal, the actual annual amortization of the protected property related EDIT under the ARAM would be deferred as a regulatory liability.

Q. WHAT GROSS-UP FACTOR DID YOU USE TO DETERMINE THE REVENUE REQUIREMENT IMPACT OF THE AMORTIZATIONS?

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[8] The five-year amortization of $104,934,000 would be $20,987,000 annually ($104,934,000 / 5 years), grossed up to an annual revenue requirement amount of $27.979 million.

[9] The five-year amortization of $22,561,000 would be $4,512,000 annually ($22,561,000 / 5 years), grossed up to an annual revenue requirement amount of $6.015 million.

A. I used a gross-up factor of 1.333158 to determine the impact on revenue requirement associated with the recommended annual amortizations. The factor comes directly from the restated December 31, 2017 Result of Operations model provided by the Company in which it incorporated the new federal tax rate of 21 percent. The factor includes the impacts of uncollectibles, PSC fees based on general business revenues, state income taxes and federal income taxes in order to derive the impact on revenue requirements from the amortization amounts.

Q. WHAT IS THE PROJECTED AMOUNT OF DEFERRAL UNDER YOUR RECOMMENDATION AS OF DECEMBER 31, 2020?

A. The estimated deferral calculation is presented on Exhibit OCS 2.2D. This exhibit started with Exhibit RMP__(SRM-2) as the base, modified for the impact of my recommendations. The modifications include the recommended increase to the current annual rate reduction of $61 million to $99.884 million effective January 1, 2019. The exhibit also shows the estimated amounts that would be deferred annually based on the Company’s estimated annual amortization of the protected property related EDIT balances grossed up for the revenue requirement impacts. As shown on Exhibit OCS 2.2D, I have estimated the deferral balance as of December 31, 2020 to be $69.554 million. Additionally, 3/5ths of the non-protected EDIT balances would remain to be returned to Utah ratepayers as of December 31, 2020 since only two years of amortization would have taken place as of that date. This would leave approximately

$76.5 million of non-protected EDIT to return to customers as of December 31, 2020, prior to the gross up for the revenue requirement impact.

Q. IF THE COMPANY CAN DEMONSTRATE THAT IT IS UNABLE TO MAINTAIN ITS CURRENT CREDIT RATINGS UNDER YOUR PROPOSAL, EVEN IF IT TAKES REASONABLE MEASURES TO DO SO, ARE THERE ANY MODIFICATIONS TO YOUR PROPOSAL THAT YOU WOULD OFFER THAT COULD MITIGATE THE IMPACTS IN RECOGNITION OF THE POTENTIAL DECLINE IN CREDIT RATINGS?

A. Yes. Given the sizable balance of the non-protected property related EDIT of $104.934 million on a Utah jurisdictional basis, the balance could be amortized over ten years instead of my recommended five-year period if needed to shore up the Company's financial ratios and improve the resulting credit ratings. I would recommend the longer ten-year amortization period only if the Company can clearly demonstrate that it is unable to maintain its current credit ratings even after taking reasonable steps to mitigate the impacts of the Tax Reform Act. Reasonable steps to mitigate the impacts could include reductions to dividends projected to be paid to the parent company as well as other measures within the Company's control.

As a reminder, longer amortization periods increase overall fairness concerns and intergenerational equity type concerns with regards to refunding the excess tax funds back to the Utah ratepayers who actually paid the excess amounts. It remains my opinion that the EDIT balances should be returned to ratepayers as quickly as practical.

Q. WHAT IMPACT WOULD A TEN-YEAR AMORTIZATION OF THE NON-PROTECTED PROPERTY RELATED EDIT BALANCE HAVE ON YOUR RECOMMENDED RATE REDUCTION TO BE EFFECTIVE JANUARY 1, 2019?

A. As shown on Exhibit OCS 2.3D, a ten-year amortization of the non-protected property related EDIT coupled with a five-year amortization of the non-property EDIT would increase the current $61 million annual reduction in rates to $85.89 million. Exhibit OCS 2.4D shows that the estimated deferral balance associated with the amounts not fully refunded in 2018 and the protected property related EDIT amortization would remain unchanged at $69.554 million as of December 31, 2020. The longer amortization period would also leave approximately $97.5 million of non-protected EDIT to return to Utah ratepayers as of December 31, 2020, prior to the gross up for the revenue requirement impact.

<u>FUTURE RATE MITIGATION</u>

Q. THE COMPANY HAS IDENTIFIED GRADUALISM AND RATE STABILITY AS A REASON FOR ITS DESIRE TO DEFER SOME OF THE IMPACTS OF THE TAX REFORM ACT INSTEAD OF REFLECTING THE RESULTING SAVINGS IMMEDIATELY IN RATES. DOES THIS IMPACT YOUR RECOMMENDATIONS?

A. No. No one disputes that the benefits resulting from the Tax Reform Act are owed to customers. The key difference between the Company and the OCS recommendation pertains to the timing in which Utah ratepayers should realize the full benefits of the amounts they are owed as a result of the Tax Reform Act. It remains my opinion that ratepayers should receive the benefits resulting from the Tax Reform Act as soon as is practical. While the Company may wish to retain the funds owed to ratepayers for longer periods to use to offset future cost pressures, presumably ratepayers would rather realize the benefits of the Tax Reform Act sooner rather than deferring them to offset future rate pressures.

That being said, it is my understanding that the Company is filing a new depreciation study soon. The OCS is concerned that new depreciation rates could potentially result in significant increases in annual depreciation expense thereby putting substantial upward pressure on customer rates at a future time. The Company has alluded to the OCS that the new depreciation study will result in significantly higher annual depreciation expense; however, the details are yet to be disclosed to the OCS. While a meeting has been scheduled in which it is anticipated that the Company will provide a preview of the depreciation study results, the meeting did not occur prior to this testimony being filed and a new depreciation study has not yet been provided to the OCS.

As a result of the uncertainty regarding the upcoming depreciation study and the potential impact of that study on future customer rates, I have been informed that if the OCS receives credible information demonstrating a substantial increase in customer rates in the near future, the OCS may consider revising the recommendations presented in my testimony in order to increase the deferral balances so that they are available to offset future depreciation impacts on customer rates, if warranted.

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.