Gary A. Dodge, #0897
Phillip J. Russell #10445
HATCH, JAMES & DODGE
10 West Broadway, Suite 400
Salt Lake City, UT 84101
Telephone: 801-363-6363
Facsimile: 801-363-6666
Email: gdodge@hjdlaw.com
prussell@hjdlaw.com

Attorneys for the Utah Association of Energy Users

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**

CONFIDENTIAL PREFILED DIRECT TESTIMONY AND EXHIBITS OF

KEVIN C. HIGGINS

The Utah Association of Energy Users ("UAE") hereby submits the Confidential Prefiled Direct Testimony of Kevin C. Higgins in this docket.

DATED this 28th day of August 2018.

HATCH, JAMES & DODGE

/s/ ___________________________
Gary A. Dodge
Attorneys for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 28th day of August 2018 on the following:

ROCKY MOUNTAIN POWER

Jeff Richards	robert.richards@pacificorp.com
Yvonne Hogle	yvonne.hogle@pacificorp.com
Jana Saba	jana.saba@pacificorp.com

DIVISION OF PUBLIC UTILITIES

Patricia Schmid	pschmid@agutah.gov
Justin Jetter	jjetter@agutah.gov
Chris Parker	chrisparker@utah.gov
William Powell	wpowell@utah.gov
Erika Tedder	dpudatarequest@utah.gov

OFFICE OF CONSUMER SERVICES

Steven Snarr	stevensnarr@agutah.gov
Robert Moore	rmoore@agutah.gov
Michele Beck	mbeck@utah.gov
Cheryl Murray	cmurray@utah.gov

UTAH INDUSTRIAL ENERGY CONSUMERS

William Evans	bevans@parsonsbehle.com
Vicki Baldwin	vbaldwiin@parsonsbehle.com
Chad Baker	cbaker@parsonsbehle.com

US MAGNESIUM

Roger Swenson	roger.swenson@prodigy.net

NUCOR STEEL

Peter J. Mattheis	pjm@smxblaw.com
Eric J. Lacey	ejl@smxblaw.com
Jeremy R. Cook	jcook@cohnekinghorn.com

/s/ ____________________

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**

CONFIDENTIAL Direct Testimony of Kevin C. Higgins

On Behalf of the

Utah Association of Energy Users

August 28, 2018

I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Kevin C. Higgins. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by the Utah Association of Energy Users ("UAE").

Q. Please summarize your qualifications.

A. My academic background is in economics, and I have completed all coursework and field examinations toward a Ph.D. in Economics at the University of Utah. In addition, I have served on the adjunct faculties of both the University of Utah and Westminster College, where I taught undergraduate and graduate courses in economics. I joined Energy Strategies in 1995, where I assist private and public sector clients in the areas of energy-related economic and policy analysis, including evaluation of electric and gas utility rate matters.

Prior to joining Energy Strategies, I held policy positions in state and local government. From 1983 to 1990, I was economist, then assistant director, for the Utah Energy Office, where I helped develop and implement state energy policy. From 1991 to

1994, I was chief of staff to the chairman of the Salt Lake County Commission, where I was responsible for development and implementation of a broad spectrum of public policy at the local government level.

Q. Have you previously testified before the Utah Public Service Commission ("Commission")?

A. Yes. Since 1984, I have testified in thirty-nine dockets before the Utah Public Service Commission on electricity and natural gas matters.

Q. Have you testified previously before any other state utility regulatory commissions?

A. Yes, I have testified in approximately 180 other proceedings on the subjects of utility rates and regulatory policy before state utility regulators in Alaska, Arkansas, Arizona, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington, West Virginia, and Wyoming. I have also filed affidavits in proceedings before the Federal Energy Regulatory Commission and prepared expert reports in state and federal court proceedings involving utility matters.

Q. What is the purpose of your direct testimony?

A. My direct testimony addresses the appropriate treatment for incorporating the effects of recent federal tax reform in Utah rates. In doing so, I respond to the Supplemental Filing made by Rocky Mountain Power ("RMP" or "the Company") on June 15, 2018, and the July 10, 2018 direct testimonies of RMP witnesses Steven R. McDougal and Nikki L. Kobliha.

Q. Please provide a summary of your recommendations.

A. I recommend the following:

1. Effective January 1, 2019, going-forward rates should be decreased sufficiently to reflect the full $65.9 million revenue requirement reduction associated with the reduction in the Company's federal income tax expense.

2. In addition, the 2018 deferral balance associated with the current tax decrease of $4.9 million (plus interest)[1] should be credited to customers starting January 1, 2019 and amortized over three years. This amortization would result in a reduction to the otherwise applicable rates of $1.8 million annually.

3. Effective January 1, 2019, rates should be reduced by an additional $13.2 million per year, which is approximately one-half of the annual revenue requirement impact of the amortization of property-related excess deferred income taxes ("EDIT") using the average rate assumption method ("ARAM"). The remaining balance should be deferred as proposed by RMP.

4. A five-year amortization of non-property EDIT should commence on January 1, 2019, with rates reduced by an additional $5.8 million per year to reflect this amortization.

5. For the purposes of this proceeding, ARAM would be used to amortize the non-protected, property-related EDIT for the period beginning January 1, 2018 until the effective date of rates established in the next general rate case, consistent with RMP's

[1] I estimate that this 2018 deferral balance, including interest will be $5.418 million on December 31, 2018 ($4.89 million plus $528,000 in carrying charges). See UAE Exhibit 1.1 for this calculation.

proposal. The appropriate amortization period for the non-protected, property-related EDIT would be revisited in the next general rate case.

6. RMP's proposed two-step process for offsetting future costs with the tax benefit regulatory liability should not be adopted as a general practice.

A summary of the additional Utah revenue reduction, compared to the current $61.0 million reduction, resulting from my recommendations is presented in Table KCH-1, below. In total, my recommendations would increase the Utah revenue reduction by $25.73 million annually compared to the current $61.0 million reduction.

Table KCH-1
UAE Recommended Utah Revenue Reductions ($M)

Current Revenue Reduction	$	61.00
Additional Reduction for Current Tax Impact	$	4.89
Annual Amortization 2018 Deferral (3 Years)	$	1.81
1/2 ARAM Annual Amortization (Prop. EDIT)	$	13.21
Annual Amortization Non-Prop. EDIT (5 Years)	$	5.82
Total Utah Reduction	$	86.73

II. BACKGROUND

Q. Please briefly summarize the procedural background of this docket.

A. This docket was initiated by the Commission in December 2017 to explore the ratemaking implications of significant changes to federal tax rates resulting from the passage of 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").

Components of the Tax Reform Act that significantly impact the Company's revenue requirement include:

- The reduction to the federal income tax ("FIT") rate from 35% to 21%,
- The repeal of the domestic production activities deduction ("DPAD"),
- The elimination of bonus tax depreciation for public utility property, and
- The creation of EDIT, the "protected" portion of which must be normalized into customer rates no more rapidly than as determined using ARAM.

On January 2, 2018, UAE filed a motion for deferred accounting treatment of all benefits associated with the Tax Reform Act ("DAO Motion"), which was later supported by other parties, including the Division of Public Utilities ("Division"), the Office of Consumer Services ("Office") and the Utah Industrial Energy Consumers ("UIEC"). RMP filed comments also supporting deferral and promising to provide additional details in a later filing.[2] The Commission granted the DAO Motion, ordering RMP to defer as a regulatory liability all revenue requirement impacts of the Tax Reform Act beginning on January 1, 2018 and continuing until otherwise ordered by the Commission.[3]

In its Comments filed February 7, 2018 and Tariff Application filed March 16, 2018, RMP provided a partial estimate ("Initial Estimate") of the impacts from the Tax Reform Act that included only projected impacts from the reduction to the FIT rate and the repeal of the DPAD. Based on RMP's June 2017 Results of Operations ("ROO") Report, the Company estimated an annual reduction of approximately $76.2 million to its Utah jurisdictional revenue requirement. RMP proposed to provide rate relief of approximately $20 million to customers through Schedule 197 beginning on May 1, 2018

[2] RMP January 12, 2018 Response to the Motion for Orders for Deferred Accounting Treatment of Benefits Associated with 2018 Tax Reconciliation Act filed by the Utah Association of Energy Users January 2, 2018.
[3] Order Granting Motion for Deferred Accounting Order and Notice of Scheduling Conference issued February 28, 2018.

and to defer the remaining balance to offset future costs. The Company proposed to base its final revenue requirement impact on the December 2017 ROO to incorporate the most recent data available.

In its comments filed February 23 and April 9, 2018, UAE explained that, while it was willing to accept an immediate reduction reflecting slightly less than 100% of the Initial Estimate as a precaution against the possibility that the December 2017 ROO calculation may turn out to be materially less than the Initial Estimate, RMP's proposal to reduce rates by only $20 million was inadequate. UAE recommended that the initial reduction should be set at no less than 80% of the Initial Estimate, or approximately $61 million, and allocated to classes as proposed by RMP based on the rate base allocation from the most recent cost of service study. UAE recommended that the amount returned to customers should be adjusted at an appropriate later time to reflect 100% of the revenue requirement reduction. The Division, UIEC and the Office each recommended that rates be reduced to reflect the entire Initial Estimate of $76.2 million.

On April 16, 2018, RMP filed reply comments adopting UAE's proposal to implement a $61.0 million rate reduction effective May 1, 2018, which represents a 3.1% reduction to the Utah annual revenue requirement. RMP argued that returning the entire $76.2 million Initial Estimate could cause potential harm to the Company's credit ratings due to reduced cash flows and negative impacts to credit metrics. The Company continued to propose to defer additional impacts of the Tax Reform Act in a regulatory liability account, which RMP argued could be used to offset near-term cost pressures. For example, in the 2018 EBA proceeding, RMP presented an "alternative rate proposal" to remove the amortization of the Deer Creek Mine regulatory asset from the EBA, and offset those costs with the tax reform regulatory liability."[4]

Following the April 18, 2018 hearing in the instant docket, the Commission issued its April 27, 2018 order, approving an ongoing, annual rate reduction of $61.0 million associated with the FIT decrease and repeal of the DPAD, effective May 1, 2018. The calendar year 2018 reduction will be refunded over the May 1 – December 31, 2018 period, and a carrying charge based on the most recently approved customer deposit interest rate will apply to the non-refunded balance.

The Commission directed RMP to identify the full amount of 2018 tax savings and all forms of EDIT in its June 15, 2018 Supplemental Filing, based on the December 2017 ROO. RMP was also directed to include in its Supplemental Filing its proposals for returning ongoing and additional Tax Reform Act benefits to customers and for seeking recovery of offsets to the deferred account. The order declined at that time to adopt RMP's proposal to use deferred tax savings to offset other costs including the Deer Creek Mine costs.[5]

The Company filed its Supplemental Filing and Final Report on June 15, 2018, and the direct testimonies of Steven R. McDougal and Nikki L. Kobliha on July 10, 2018.[6]

[4] Docket No. 18-035-01, Direct Testimony of Michael G. Wilding, pp. 11-12.
[5] Order issued April 27, 2018, at pp. 16, 20-22.
[6] RMP filed an update to Mr. McDougal's Direct Testimony on August 2, 2018.

III. SUPPLEMENTAL FILING AND DIRECT TESTIMONY

Q. How does RMP describe its approach to calculating the Tax Reform Act revenue requirement impact based on the December 2017 ROO?

A. According to Mr. McDougal's Direct Testimony, the Company started with the December 31, 2017 ROO filed with the Commission on April 30, 2018. RMP updated this filing to include all of the plant additions for 2018 and a correction to the allowance for funds used during construction equity adjustment. RMP then made the following adjustments:

- Reduced the FIT rate from 35 percent to 21 percent;
- Adjusted for tax-related changes such as elimination of the DPAD, and changes to employee meals and transit passes deductibility;
- Added the ARAM amortization of protected and non-protected property-related EDIT; and
- Adjusted accumulated deferred income tax balances.

The Company quantifies a Utah revenue requirement decrease of $92.3 million as a result of these adjustments, comprised of a $65.9 million decrease to current taxes, and a $26.4 million decrease due to EDIT amortization. This amount does not include amortization of non-property-related EDIT.

Q. How does the Company propose to reflect the Tax Reform Act impact in rates?

A. RMP proposes to continue the current $61.0 million annual rate reduction until the next general rate case and defer the additional $31.3 million annually in a regulatory liability to offset Commission-approved regulatory assets and future price increases. In order to request an offset to the deferral, the Company proposes a two-step process whereby RMP would first apply for approval to establish a deferral in an appropriate docket, and once approved, file to offset the approved deferral with the tax reform regulatory liability in this docket.[7]

Notably, the current $61.0 million 2018 calendar year reduction is being credited to customers over the May 1 – December 31, 2018 period, resulting in a credit of $7.6 million per month. Consequently, RMP's proposal to continue the $61.0 million annual credit ($5.1 million per month) would actually result in a reduction to the current monthly credit in the amount of $2.5 million per month.[8]

Q. What reasons does the Company provide for continuing to defer revenue requirement impacts in excess of $61.0 million?

A. According to Mr. McDougal's Direct Testimony, the Company wants to defer the $31.3 million in order to support rate stability and gradualism.[9] In addition, Ms. Kobliha argues that if the Company were to flow back 100% of benefits immediately in all of its jurisdictions, this could result in a Cash from Operations Pre-Working Capital ("CFO Pre-WC")/Debt ratio below 20%, which could lead to a credit rating downgrade by Moody's Investors Service ("Moody's").[10]

Q. What is the CFO Pre-WC/Debt metric and how is it used by Moody's?

A. The ratio of Cash from Operations (excluding Working Capital) to total debt is one of the financial metrics used by Moody's to assess credit risk for public utilities.

---

[7] Direct Testimony of Steven R. McDougal, p. 9.
[8] See Exhibit SRM-2 to Mr. McDougal's Direct Testimony.
[9] Direct Testimony of Steven R. McDougal, pp. 6-7.
[10] Direct Testimony of Nikki L. Kobliha, pp. 3-4.

Calculating CFO Pre-WC essentially begins with net income from operating activities, which is then adjusted to exclude items that do not affect cash such as depreciation/amortization expense and deferred taxes. According to Moody's Regulated Electric and Gas Utilities Rating Methodology (June 23, 2017),[11] Moody's considers [redacted]

Q. What are PacifiCorp's current credit ratings according to Moody's?

[11] Provided in RMP's response to Data Request UIEC 12.4, Attach UIEC 12.4-1 CONF.

[12] [redacted]

[14] Highest quality, with minimal risk.

[15] Highly speculative and likely in, or very near, default, with some prospect of recovery in principal and interest.

A. On June 20, 2018, Moody's issued a press release indicating a stable rating outlook for PacifiCorp,[16] and affirming PacifiCorp's Issuer and senior unsecured ratings at A3,[17] its senior secured at A1, its preferred stock at Baa2,[18] and its short-term ratings for commercial paper and variable rate revenue bonds at P-2.[19] The press release explains the following regarding Moody's ratings rationale:

> "PacifiCorp's A3 rating is driven by the stability of its vertically integrated regulated electric utility business model, its geographic diversity, and the reasonably supportive regulatory environments in which it operates" said Laura Schumacher, Vice President/Senior Credit Officer. It also reflects the company's adequate financial metrics and its ongoing efforts to reduce its carbon intensity and grow its renewable asset base. We expect the company will continue to demonstrate financial performance that is supportive of its current ratings despite pressure from its large capital expenditure program and the negative cash flow impacts of federal tax reform.

Although PacifiCorp's rating outlook is stable, Moody's indicated that the ratings could be downgraded if PacifiCorp's capital expenditures are funded in a manner inconsistent with its current financial profile, or if adverse regulatory rulings or other factors lower its credit metrics, as demonstrated for example, by a ratio of CFO Pre-WC/Debt sustained below 20%.

Q. What CFO Pre-WC/Debt ratio did PacifiCorp achieve in recent years?

---

[16] RMP's 1st Supplemental response to UIEC 8.2, Attach UIEC 8.2-2 1st SUPP.
[17] Obligations rated A are considered upper-medium grade and are subject to low credit risk. The modifier "3" indicates a ranking in the lower end of that category.
[18] Obligations rated Baa are subject to moderate credit risk.
[19] The Prime-2 short-term rating indicates that issuers (or supporting institutions) have a strong ability to repay short-term debt obligations.

A. According to Moody's June 22, 2018 Credit Opinion, PacifiCorp's CFO Pre-WC/Debt ratio was [redacted] in 2015, [redacted] in 2016, [redacted] in 2017, and [redacted] for the twelve months ended March 2018.[20]

Q. Has the Company provided a forecast of its financial metrics post-tax reform?

A. Yes. In response to discovery, the Company provided an April 2018 confidential presentation to Moody's by Berkshire Hathaway Energy.[21] This presentation provided a PacifiCorp financial overview for the 2016-2022 period, including the Funds from Operations ("FFO")/Debt ratio, which is a similar metric to the CFO Pre-WC/Debt metric used by Moody's.[22] According to this presentation, PacifiCorp's FFO/Debt ratio is forecasted to range between [redacted] and [redacted] during 2018-2022.

RMP has also provided other analyses during the course of this proceeding. RMP's Confidential Exhibit 1, provided at the April 18, 2018 hearing, and subsequently corrected in RMP's response to Data Request OCS 8.1,[23] purports to show the FFO/Debt ratios for 2016-2020 under various Tax Reform Act customer "giveback" scenarios.

The Company also hosted a credit metrics discussion with parties on August 10, 2018, and provided a model that calculates the FFO/Debt ratio through 2020 under a "base case" scenario, and allows users to determine the FFO/Debt impact of changing certain base case assumptions.[24] Under the base case scenario, the resulting FFO/Debt

---

[20] RMP's 2nd Supplemental Response to Data Request UIEC 8.2, Confidential Attachment UIEC 8.2 2nd Supplemental.
[21] RMP's response to Data Request UIEC 12.4, Attach 12.4-3 CONF.
[22] [redacted]
[23] Confidential Attachment OCS 8.1.
[24] The model was provided in RMP's response to Data Request UIEC 12.2, Attach UIEC 12.2 CONF. A summary

ratio is [redacted]

Q. What assumptions were used in the base case in the analysis?

A. [redacted] For Utah customers, however, the base case only includes a $61.0 million annual flow-back for current taxes, beginning on May 1, 2018.[25]

Regarding EDIT, the base case assumes that protected property-related EDIT will be deferred until the next general rate case, while non-protected property and non-property EDIT are flowed back over a five-year period beginning January 1, 2019.

Q. Do you believe the annual flow-back to Utah customers needs to be limited to $61.0 million in order for PacifiCorp to achieve an acceptable FFO/Debt ratio?

A. No. Particularly on a three-year historical average basis, it is possible for PacifiCorp to maintain an FFO/Debt ratio of 20% or higher, even with a greater customer flow-back than the Company's recommended $61.0 million. Also, PacifiCorp could employ strategies such as reducing capital spending or retaining earnings in order to reduce debt issuance to improve its FFO/Debt ratio. However, my recommendation is not predicated on altering the underlying capital spending or dividend assumptions

of the results and assumptions used in the model were provided in RMP's 3rd Supplemental Response to Data Request DPU 1.2., Attach DPU 1.2 3rd SUPP CONF.

[25] See RMP's 3rd Supplemental Response to Data Request DPU 1.2.

included in the base case scenario. I estimate that my recommended rate reduction for current taxes, 2018 current tax deferral amortization, and EDIT amortization, described below, would result in an annual FFO/Debt ratio of [redacted] for 2018 (no change from RMP's assumptions), [redacted] in 2019, and [redacted] in 2020. The resulting historical three-year average FFO/Debt ratio would be [redacted] in 2018, [redacted] in 2019, and [redacted] in 2020.[26]

Q. **What do you recommend regarding the appropriate rate reduction to reflect the impact of the Tax Reform Act on current taxes?**

A. I recommend that going-forward rates be decreased sufficiently to reflect the full $65.9 million revenue requirement reduction associated with the reduction in the Company's federal tax expense, effective January 1, 2019. This requires that the approved $61.0 million annual rate reduction for the current tax impact be increased by $4.9 million on January 1, 2019. In addition, the deferral of the $4.9 million balance from 2018 (plus interest) should be credited to customers starting January 1, 2019 and amortized over three years.[27] This amortization would result in a reduction to the otherwise applicable rates of $1.8 million annually.

Q. **Please explain how the reduction to the federal corporate income tax rate from 35% to 21% impacts accumulated deferred income taxes.**

---

[26] These ratios are based on reducing the FFO for the Utah net income impact of my recommended reductions for current tax, 2018 deferral amortization, and EDIT flow-back. This assumes that these revenue reductions proportionately reduce current taxes, based on RMP's 3rd Supplemental Response to DPU 1.2, Footnote 1. See UAE Exhibit 1.2 for a summary of the estimated cash impacts.

[27] I estimate that this 2018 deferral balance, including interest will be $5.418 million on December 31, 2018 ($4.89 million plus $528,000 in carrying charges). See UAE Exhibit 1.1 for this calculation.

A. The change in the tax rate has significant implications for accumulated deferred income taxes. Deferred income taxes arise due to timing differences between when income taxes are recognized for book purposes and when income taxes are paid to the taxation authority. The use of accelerated depreciation for tax purposes typically results in tax expense paid by customers exceeding actual taxes paid to the IRS in the early years of an asset's life, giving rise to an accumulated deferred income tax liability, which is treated as an offset to rate base.

Conceptually, an EDIT liability represents income tax prepayments by customers that are now greater than the utility's expected future income tax obligations for the associated assets due to the lower tax rate. These past customer overpayments should properly be refunded to customers. RMP's net EDIT liability was collected from customers at the 35% FIT rate, and now that the rate has been reduced to 21%, the Company's anticipated future tax liability has also decreased by a comparable amount.

The Tax Reform Act requires that EDIT associated with the accelerated depreciation of public utility property, or protected EDIT, must be normalized into customer rates gradually to avoid incurring a penalty, using an amortization period that generally corresponds to the depreciable lives of the underlying assets. The protected EDIT balance cannot be reduced more rapidly than the amount determined using the ARAM, or the Company risks losing its ability to take accelerated tax depreciation for its public utility property. In contrast, non-protected EDIT is not subject to the ARAM amortization constraint.

Q. Has the Company quantified its EDIT balances?

A. Yes. In its August 2, 2018 filing, RMP updated the breakdown between protected and non-protected property-related EDIT balances from those provided in its June 15 and July 10, 2018 filings. Table KCH-2, below, summarizes the EDIT balances based on RMP's August 2, 2018 update.

Table KCH-2
EDIT Balances from RMP's August 2nd Update[28]

Item	Total Company	Utah
Property: Protected	(1,312,561,005)	(612,362,139)
Property: Non-Protected	(278,273,247)	(104,934,317)
Non-Property	(46,534,291)	(22,560,698)
Total	(1,637,368,543)	(739,857,154)

Q. What does RMP propose regarding the amortization of EDIT?

A. The Company's calculated Utah revenue requirement impact includes 2018 ARAM amortization of protected and non-protected property-related EDIT in the amount of $20.5 million before the gross-up for taxes, which equates to a $26.4 million revenue requirement decrease on a grossed-up basis.[29] Although the ARAM amortization constraint does not apply to non-protected EDIT, the Company has calculated the amortization of its non-protected property-related EDIT using ARAM, in part, because its PowerTax property-related accounting system is presently configured to use ARAM for all EDIT in the system.[30]

[28] RMP August 2, 2018 Update to Filing.
[29] The $26.4 million revenue requirement impact also includes an adjustment to reduce the accumulated deferred income tax balance by half the amortization amount (i.e., $10.2 million).
[30] Direct Testimony of Steven R. McDougal, pp. 4, 7-8.

For its non-property EDIT, which is non-protected, the Company is proposing a five-year amortization period beginning with the effective date of rates established in the next general rate case.[31]

Q. What do you recommend regarding EDIT amortization?

A. Since the protected EDIT balance cannot be reduced more rapidly than the amount determined using ARAM under normalization rules, I support RMP's use of ARAM for the protected EDIT. I also do not object *for the purposes of this proceeding* to the use of ARAM to amortize the non-protected, property-related EDIT for the period beginning January 1, 2018 until the effective date of rates established in the next general rate case.[32] I believe the question of the appropriate amortization period for the non-protected, property-related EDIT can be revisited in the next general rate case.

However, I do not support RMP's proposal to continue to defer the entire revenue requirement impact of ARAM amortization into a regulatory liability to offset regulatory assets and future price increases. Rather, I recommend that $13.2 million, or approximately one-half of the annual revenue requirement impact of ARAM amortization of property-related EDIT, be used to reduce Utah rates effective January 1, 2019.[33]

While the Company's proposal to amortize the non-property EDIT over a five-year period is reasonable, I do not recommend delaying this amortization until the next general rate case, as RMP proposes. Instead, I recommend that the five-year amortization

[31] *Id*., p. 9.
[32] In calculating the FFO/Debt ratios associated with my recommendations, I assumed that non-protected, property-related EDIT would be amortized using ARAM from 2018-2020 on a total Company basis, consistent with my proposed treatment for Utah over that same period.
[33] The calculation of the FFO/Debt ratios associated with my recommendations incorporates this cash impact for Utah only.

of non-property EDIT commence on January 1, 2019, and that rates be reduced concurrently to reflect this amortization.[34]

The normalization provisions governing the return of protected EDIT to customers creates a significant intergenerational burden on customers to the advantage of utilities; that is, past overpayments of federal income taxes by customers associated with the accelerated depreciation of public utility property can only be returned over a very extended time period. This intergenerational burden required by statute should not be exacerbated by unduly delaying the return of these past customer overpayments. My recommendation will begin to reflect the benefit of EDIT amortization in customer rates, while addressing RMP's concerns about its FFO/Debt ratio by allowing for the continued deferral of a portion of the ARAM amortization impact, as well as permitting the use of ARAM for non-protected property EDIT until the next general rate case.

Q. Please summarize the revenue requirement impacts of your recommendations.

A. The revenue requirement impacts of my recommendations are summarized in Table KCH-3, below, which was also presented in the introductory section of my testimony. In total, my recommendations would increase the Utah revenue reduction by $25.73 million annually, to $86.73 million, compared to the current $61.0 million reduction.

Table KCH-3
UAE Recommended Utah Revenue Reductions ($M)

Current Revenue Reduction	$ 61.00
Additional Reduction for Current Tax Impact	$ 4.89
Annual Amortization 2018 Deferral (3 Years)	$ 1.81

[34] See UAE Exhibit 1.3 for the adjustment associated with the non-property EDIT amortization.

1/2 ARAM Annual Amortization (Prop. EDIT)	$	13.21
Annual Amortization Non-Prop. EDIT (5 Years)	$	5.82
Total Utah Reduction	$	86.73

As I explained above, the current credit is $7.6 million per month, designed to return $61.0 million over eight months. My proposal would result in a net decrease of approximately $398,000 to the current monthly credit beginning January 1, 2019.[35]

Q. In the event that the Commission prefers that FFO/Debt ratios be even higher than those that result from your proposal, is there a variation on your proposal that should be considered?

A. Yes. While I believe that my proposal appropriately balances the public interest in passing through as much of the benefit of tax reform to customers as quickly as possible while safeguarding the financial health of RMP, in the event that the Commission wishes to decelerate the former to produce higher FFO/Debt ratios, then my proposal to reduce rates by $13.2 million to reflect a portion of the ARAM amortization of property-related EDIT could be delayed by one year to January 1, 2020. This would have the effect of increasing the FFO/Debt ratio (compared to my primary recommendation) to [redacted] in 2019 and [redacted] in 2020.[36] The three-year average FFO/Debt ratio under this alternative would be [redacted] in 2019 and [redacted] in 2020.

Q. Please describe RMP's adjustment to account for the elimination of bonus tax depreciation.

---

[35] The Utah revenue reduction resulting from my recommendations is approximately $7.227 million per month ($86.725M/ 12 months).

[36] The minor change to 2020 FFO/Debt results from the cumulative impact on debt and interest from the change to 2019 flow-back based on the model assumptions.

A. RMP included its 2018 plant additions in its calculation, on a 13-month average basis, in order to reflect the impact of the elimination of bonus tax depreciation.[37] Inclusion of the 2018 plant additions also captures the reduction to going-forward deferred income taxes that occurs as a result of the FIT reduction itself. It is my understanding that the plant additions themselves do not increase the revenue requirement impact quantified by RMP, but are included in order to capture the impact of eliminating bonus tax depreciation. In response to discovery, RMP provided a version of its analysis that excluded the plant additions adjustments. Excluding the plant additions adjustments increases the calculated Utah revenue requirement impact by $2.8 million, to $95.1 million.[38]

Q. Do you object to RMP's adjustment to include the impact of bonus tax depreciation elimination on 2018 plant additions?

A. No. RMP's approach appears reasonable, as it is designed to reflect the impact of bonus tax depreciation elimination, but not the capital costs of 2018 plant additions themselves, which are best considered within the context of a general rate case.

Q. What is your response to RMP's proposal to use the tax benefit regulatory liability to offset Commission-approved regulatory assets and future price increases?

A. I recommend against adopting as a general mechanism or policy the Company's proposed two-step process that would establish cost deferrals which would then be followed by offsets using the tax benefit regulatory liability. If, down the road, RMP has good cause to request deferred accounting treatment under any given circumstance, the

---

[37] RMP's Response to Data Request OCS 6.3.
[38] RMP's Response to Data Request OCS 6.2.

Company is free to make such a filing, which should be considered on its own merits in accordance with the standards for deferred accounting required in Utah. The determination as to whether or not deferred accounting treatment is appropriate should not be influenced by whether a regulatory liability is available to serve as an offset.

While I do not see a reason to *prohibit* as a matter of course the use of any such offsets, I would at the same time recommend *against* setting the *expectation* that the regulatory liability will be routinely used for this purpose. The tax benefit regulatory liability and any future cost deferrals, if approved, would have their own unique reasons for being approved. The underlying regulatory premise going forward should be that these items will be separately tracked and reflected in rates in the manner that best suits the circumstances that gave rise to their individual approvals. While this would not rule out using a portion of the tax benefit regulatory liability as an offset to a future cost if there is a compelling reason to do so given the facts of a situation, such an approach should not be established here as the standard or default practice.

Q. Please summarize your recommendations with respect to the appropriate Utah ratemaking treatment of the impact of the Tax Reform Act.

A. I recommend the following:

1. Effective January 1, 2019, going-forward rates should be decreased sufficiently to reflect the full $65.9 million revenue requirement reduction associated with the reduction in the Company's federal income tax expense.

2. In addition, the deferral of the $4.9 million balance from 2018 (plus interest) associated with the reduction to current taxes should be credited to customers starting

January 1, 2019 and amortized over three years. This amortization would result in a reduction to the otherwise applicable rates of $1.8 million per year.

3. Effective January 1, 2019, rates should be reduced by an additional $13.2 million per year, which is approximately one-half of the annual revenue requirement impact of ARAM amortization of property-related EDIT. The remaining balance should be deferred as proposed by RMP.

4. A five-year amortization of non-property EDIT should commence on January 1, 2019, with rates reduced an additional $5.8 million per year to reflect this amortization.

5. For the purposes of this proceeding, ARAM would be used to amortize the non-protected, property-related EDIT for the period beginning January 1, 2018 until the effective date of rates established in the next general rate case, consistent with RMP's proposal. The appropriate amortization period for the non-protected, property-related EDIT would be revisited in the next general rate case.

6. RMP's proposed two-step process for offsetting future costs with the tax benefit regulatory liability should not be adopted as a general practice.

Q. Does this conclude your direct testimony?

A. Yes, it does.