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- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

APPLICATION OF DOMINION ENERGY UTAH TO PROVIDE THE IMPACTS OF THE NEW FEDERAL LEGISLATION TITLED: "AN ACT TO PROVIDE FOR THE RECONCILIATION PURSUANT TO TITLES II AND V OF THE CONCURRENT RESOLUTION OF THE BUDGET FOR FISCAL YEAR 2018"	Docket No. 17-057-26 SUBMISSION OF REPORT ON THE IMPACT OF THE TCJA ON EXCESS DEFERRED INCOME TAXES

Questar Gas Company dba Dominion Energy Utah (Dominion Energy or the Company) respectfully submits to the Utah Public Service Commission (Commission) this report detailing its estimates of all impacts of the Tax Cuts and Jobs Act of 2017 (TCJA) on excess deferred income taxes (EDIT) included in the rate-base calculation of the revenue requirement. In support of this motion, Dominion Energy states:

1. Procedural History. On December 22, 2017, the TCJA was signed into law. A major component of this act was to reduce the corporate federal income tax from 35% to 21%, starting January 1, 2018. On June 1, 2018 the Commission issued its Order Memorializing Bench Ruling Approving Settlement Stipulation, which required the Company, by the end of the first quarter of 2019, to file a report with the Commission detailing its estimates of all impacts of the TCJA on excess deferred income taxes (EDIT) included in the rate-base calculation of the revenue requirement. The order also stated that all EDIT tax benefits related to the TCJA will be returned to customers in a manner determined by the Commission in Dominion Energy's next general rate case.

2. Impact of the TCJA on deferred income taxes. In years between 1988 and 2017, when the Company claimed (and was able to use) certain tax deductions in excess of its corresponding book expenses – most particularly accelerated (including bonus) tax depreciation - it deferred its income tax liability by an amount equal to the excess of the tax deduction over the corresponding book expense multiplied by the corporate tax rate (34% or 35%, depending on the year). The cash benefit of the income tax deferral was retained by the Company, recorded as accumulated deferred income taxes (ADIT) and reflected in ratemaking as an offset to rate base. It was anticipated that the amount of the deferral would eventually be reversed as the Company paid back to the government higher income taxes when, later on in the life of the depreciable assets, book depreciation would exceed the available tax depreciation deductions. The reduction in the income tax rate enacted as part of the TCJA altered the amount of this anticipated repayment liability. When, eventually, the higher taxable income is produced, it will be taxed at 21%, not 34% or 35%. Consequently, some portion of the ADIT reserve previously recorded on the presumption that it would be taxed at 34% or 35% is rendered unnecessary for that purpose. This portion is excess deferred income taxes.

3. Calculation and Proposed Treatment of EDIT. The Company has determined that the excess deferred income tax balance at the end of 2017 was $252,244,435. Additional detail on this balance is shown in the table below:

Category	Excess Deferred Income Tax Balance (2017)	Gross Up	Total	UT Allocation
Plant-Related EDIT	$178,519,818	$ 58,715,839	$237,235,657	$230,118,587
Other Non-Plant Related EDIT	$ 11,294,098	$ 3,714,680	$ 15,008,778	$ 14,558,515
Total EDIT	$189,813,916	$62,430,519	$252,244,435	$244,677,102

Plant-Related EDIT

Section 13001 of the TCJA establishes a rule that is very similar to the one established in the Tax Reform Act of 1986 when the corporate income tax rate was reduced from 46% to 34%. Specifically, that section defines the term "excess tax reserve" as the excess of the ADIT reserve required by the normalization rules (that is, the ADIT reserve that is attributable to accelerated depreciation) as of the day prior to the TCJA tax rate reduction compared to the amount that would have been in that reserve had the new lower corporate tax rate been in effect for all prior periods. The "excess tax reserve" (which is referred to hereafter as "protected" EDIT) can be flowed through to customers no faster than the underlying timing differences reverse using the Average Rate Assumption Method ("ARAM") or, if the utility doesn't have the records necessary to apply the ARAM, ratably over the remaining life of the property.

Annual amortization of the plant-related EDIT under the ARAM method in 2018 was $5,284,619. This amortization amount includes $3,976,676 for the actual amortization of excess deferred income taxes and $1,307,943 for related income taxes. The total amount of $5,284,619 has been deferred and the Company proposes to return the amount to customers. It should be noted that a portion of this EDIT amortization applies to investment that was placed in service after the Company's 2014 rate case and this investment is not currently being paid for in customer rates. As such the Company could make an argument that a portion of this amortization amount should not be returned to customers until the next general rate case. However, due to the complexity of attempting to identify the post 2014 investment in the amortization amount and the risk of violating IRS normalization rules with an incorrect calculation, the Company proposes to return the full revenue requirement impact of the 2018 amortization amount to customers. The Company proposes to return this impact to customers through a third tax reform surcredit beginning June 1, 2019.

The calculation of this surcredit is provided in DEU Exhibits 1.11 through 1.17. As DEU Exhibit 1.11, Column E, line 2 shows, $5,124,988 is allocable to the Utah jurisdiction. This jurisdictional allocation is based on the balances in the accumulated deferred income tax account at the time of the amortization. The impact of this $5.1 million EDIT amortization on the revenue requirement is shown in DEU Exhibit 1.12. As the exhibit shows, there is a $5.1 million adjustment to revenue on line 7 and a corresponding increase to rate base on line 46. The overall impact (also adjusting for bad debt and working capital) is a $4.7 reduction in revenue requirement. This is the net benefit that will be returned to customers. The $4.7 million is then spread to the various rate classes in Exhibit 1.13 and the corresponding surcredit for each class is shown in DEU Exhibit 1.14. The Company proposes to begin assessing the third surcredit on customer bills on June 1, 2019 and to remove it on May 31, 2020. The Company proposes that the EDIT amortizations for 2019 and future years be included in the 2019 rate case calculations .

Other Non-Plant Related EDIT

There is no restriction in the tax law on the timing of flowing to customers any of the other unprotected EDIT balance. The flow through of those amounts (which are referred to hereafter as "unprotected" EDIT) can occur at whatever rate the regulator deems reasonable and appropriate because they are not plant-related. Items in this category include, in order of magnitude of the 2017 tax return, Pension expense ($18.9 million), Post-Retirements expense ($(2.6) million), Deferred Compensation Plan expense ($(1.0) million), prepaid expense ($0.7 million), and other items. Because the largest item by far is pension expense, which is a very long-term item, the Company proposes that this category be amortized over 30 years. There was no amortization of other Unprotected items booked in 2018. The Company does not plan to begin amortizing this amount until the rate effective date of the 2019 rate case. This will allow the amortization to be included in the rate case calculation and be perfectly matched to the rate effective period. Assuming the Commission approves a 30 year amortization of the $15,008,778 EDIT balance this would amount to an annual amortization of $500,293. The determination of an alternate amortization period would result in a different amortization amount. Whatever amortization period and amount is determined in this docket will be included in the 2019 general rate case.

4. Exhibits. Dominion Energy submits the following exhibits in support of its request to submit the information contained herein and the attached Tariff sheets:

Exhibit 1.11	TCJA Tax Reform EDIT Accounting Entries
Exhibit 1.12	Revenue Requirement Impact
Exhibit 1.13	Cost of Service Allocation
Exhibit 1.14	Tax Reform Surcredit 3 Calculation
Exhibit 1.15	Typical Bill Calculation
Exhibit 1.16	Rate Case Model
Exhibit 1.17	Tariff Sheets

WHEREFORE, Dominion Energy respectfully requests that the Commission accept and approve the updated Tariff sheets effective June 1, 2019. The Company also proposes that the Commission approve a 30 year amortization period for the Other Related EDIT as summarized in this report.

DATED this 27th day of March, 2019.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on March 27, 2019, a true and correct copy of the foregoing was served upon the following by electronic mail:

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