KARL T. KLEIN
DEPUTY ATTORNEY GENERAL
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
IDAHO BAR NO. 5156

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Staff of the
Idaho Public Utilities Commission

RECEIVED
2018 MAY 14 PM 2:25
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION INTO THE IMPACT OF FEDERAL TAX CODE REVISIONS ON UTILITY COSTS AND RATEMAKING	**CASE NO. GNR-U-18-01** **COMMENTS OF THE COMMISSION STAFF IN SUPPORT OF SETTLEMENT STIPULATION RE: IDAHO POWER COMPANY**

The Staff of the Idaho Public Utilities Commission comments as follows on the Settlement Stipulation and Motion to Approve Settlement Stipulation (the "Stipulation") filed by Idaho Power Company (the "Company").

BACKGROUND

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act of 2017 ("TCJA"). Effective January 1, 2018, the TCJA decreased the federal corporate tax rate from 35% to 21%. In response, the Commission opened this multi-utility case to investigate whether to adjust the rates of certain utilities that benefit from the reduced tax rate. *See* Order No. 33965. The Commission directed all affected utilities—including the Company—to immediately account for the tax benefits as a regulatory liability, and to report on how the tax changes affected them, and how resulting benefits could be passed on to customers. *See id.* at 1-2. The Company filed its report on March 30, 2018.

On April 12, 2018, the Company filed a Stipulation signed by the Company, Commission Staff, and the Industrial Customers of Idaho Power (the "Parties"). The Stipulation, if approved, would directly *decrease* customer rates by $26,497,560 million from June 1, 2018 through May 31, 2019. This direct rate reduction consists of: (1) an $18,678,936 base-rate decrease passed to customers through a uniform percentage decrease to all base-rate components except the service charge, and (2) a $7,818,624 decrease through a rate credit from the Revenue Sharing component of the Company's Power Cost Adjustment ("PCA") mechanism.[1] The $18.7 million base-rate decrease would continue until the Company's base rates change through a future general rate case or other proceeding. The initial, $7.8 million PCA credit would continue from June 1, 2018 through May 31, 2019. The credit would then decrease to $2,680,957 on June 1, 2019, and reach $0 on June 1, 2020. *See* Stipulation at 6-8.

Besides directly decreasing customers' rates, the Stipulation also would provide a non cash annual benefit of about $7.4 million that would offset certain deferred costs that customers would otherwise have to pay through rates. *See* Stipulation at 8-9.

The Stipulation would also modify the Company's Accumulated Deferred Income Tax Credit (ADITC) Revenue Sharing mechanism and extend it beyond its December 31, 2019 termination date, with the modified terms to take effect starting January 1, 2020. *See* Stipulation at 10-13.

Because some stipulated benefits would pass to customers through the PCA, which is proposed to take effect on June 1, 2018, the Parties have requested that the Commission process the Stipulation by Modified Procedure in time for an approving Order to issue by that date.

STAFF REVIEW

After thoroughly reviewing the Company's 2017 Pro-forma analysis, Staff supports the Stipulation's resolution of the TCJA's impact on the Company. Staff believes the Stipulation is in the public interest and represents a fair, just, and reasonable compromise that provides

---

[1] Order Nos. 30978, 32424, and 33149 established the Accumulated Deferred Income Tax Credit (ADITC)/Revenue Sharing component that enables the Company to either (1) amortize additional ADITC, or (2) share a portion of its revenues with customers through a credit on their bills when the Company's return on equity exceeds a certain level. The current ADITC/Revenue sharing mechanism would expire on December 31, 2019, absent this Stipulation as noted below.

customers 100% of the benefits the Company receives under the new federal and Idaho state tax rate changes.

The Stipulation provides Idaho customers a first-year benefit of $33,915,408 million, which consists of: (1) direct net base-rate reduction of $18,678,936 million, (2), an additional $7,818,624 million direct rate decrease provided through the 2018 PCA, and (3) a non cash annual benefit of $7,417,848 million that offsets other deferred costs. The total annual customer benefits decrease to $28,777,741 on June 1, 2019, and to $26,096,784 on June 1, 2020 remaining at that level until the Company's next general rate case. In its report filed on March 30, 2018, the Company illustrated the cash benefits of the TCJA to be used for a base-rate reduction was $11,178,487. Non cash benefits of $14,918,298 annually would be used to offset regulatory assets at a later date. The rate reduction provided for in the Stipulation is significantly greater than what the Company had originally proposed. Details of the Stipulation are provided in the comments below.

Current Tax Expense Reduction

The Company reports a current tax expense reduction of approximately $11.2 million, resulting in an immediate cash savings to the Company. This amount consists of: (1) the $7,179,463 of current tax expense reduction quantified through the 2017 proforma analysis that the Company submitted, (2) the $2,073,110 reduction in the North Valmy Power Plant ("Valmy") levelized revenue requirement resulting from tax reform, and (3) the $1,925,914 reduction in the tax gross-up on Allowance for Funds Used During Construction ("AFUDC") associated with the Hells Canyon Complex ("HCC") relicensing costs currently recovered from customers under Order Nos. 30722 and 32426.

Deferred Tax Reduction

As of December 2017, deferred tax amounts must be revalued at the lower corporate tax rate (21%), resulting in excess deferred federal income tax balances. Balances associated with regulated utility operations resulted in a balance sheet reclassification from deferred tax to deferred regulatory asset or liability. This revaluation affected plant (permanent tax benefit) and non plant (temporary tax benefit) balances and reduces the amount customers will owe in the future.

Direct Rate Reduction for Customers

Through negotiations, the Parties have agreed to a $26,497,560 first year benefit associated with the TCJA to be returned to customers. This amount combines the current tax expense reduction and a portion of the deferred tax reductions, allowing customers to benefit immediately from some of the non cash savings associated with the tax reform. The direct rate reduction will be provided to customers via two rate components on June 1, 2018: $18,678,936 will be provided as a base-rate reduction and $7,818,624 will be provided through the Earnings Sharing component of the PCA mechanism as shown on the Attachment No. 1 to the Stipulation.

The base-rate reduction of $18.7 million will be provided to customers as a uniform percentage decrease to all base-rate components except the service charge and will remain in place until the Company's next general rate case proceeding or until otherwise modified by the Commission.

On June 1, 2018, the Company will include a one-time credit of $4,244,015 in the PCA to return to customers the accrued January through May 2018 tax savings under Order No. 33965. The PCA will also include $3,574,609 in temporary Federal Regulatory Energy Commission ("FERC") jurisdictional tax savings for a total benefit of approximately $7.8 million returned to customers from June 1, 2018 through May 31, 2019.

Because of the TCJA, the Company's Open Access Transmission Tariff ("OATT") transmission formula rate will be reduced, thereby lowering the Company's third-party transmission revenues in base rates. These revenues are a credit to retail revenue requirements. This decrease in third-party revenues will increase the Company's retail revenue requirement starting October 1, 2019. The Stipulation (paragraph 11), if approved, would allow the Company to factor how tax reform affects the OATT into its calculations. The Company estimates that, by October 1, 2020, the total annual OATT third-party transmission revenue reduction will amount to $3,574,609. However, the Parties agreed the FERC's temporary provision for jurisdictional tax savings to Idaho retail customers depends on FERC upholding the current formula-based historical test period rate setting methodology. The Parties thus agreed the Company will cease and adjust the provision of this temporary cash benefit if FERC requires earlier recognition of TCJA benefits than would otherwise occur under the normal schedule. Furthermore, if FERC requires an out-of-cycle adjustment to the Company's OATT formula rate, the removal of this temporary cash benefit would be reflected as a change to the PCA true-up balance.

Assuming no out-of-cycle adjustment by FERC, the OATT tax savings passed through the PCA will be reduced to $2,680,957 on June 1, 2019 to reflect the impact of three months of reduced OATT third-party revenues. Beginning June 1, 2020, this credit to the PCA will be reduced to zero to reflect the impact of a full year of reduced OATT third-party transmission revenues.

Non Cash Customer Benefits to Offset Future Increases

The Stipulation provides that the Company will offset its regulatory assets with the remaining $7,417,848 of non cash annual benefits from the TCJA not returned to customers through a rate reduction, and thus decrease future rate increases. On June 1, 2018, the Company will offset the entire regulatory asset account established per Order No. 33706, which includes about $1 million of incremental deferred operations and maintenance expenses that may be associated with the Company's participation in the Energy Imbalance Market ("EIM"). The Company also will offset the $2.8 million regulatory asset approved in Order No. 34031 associated with Idaho's jurisdictional share of the Baker County settlement agreement expenses incurred through December 31, 2015 as a part of HCC relicensing. The remaining $3.6 million in non cash customer benefits will offset nonspecific current and future deferrals as allowed for recovery from customers by the Commission.

Beginning on June 1, 2019, the entire $7.4 million will accumulate each year in a regulatory liability account until the Company's next general rate case or until otherwise modified by the Commission. The liability account will offset prudent nonspecific current and future deferrals approved for recovery from customers by the Commission. Staff supports, as reasonable, allowing the accumulated amounts in this account to accrue a carrying charge at the authorized customer deposit rate.

ADITC/Revenue Sharing Mechanism

In Order No. 33149 in Case No. IPC-E-14-14, the Commission approved the extension of the Company's ADITC/Revenue Sharing mechanism through December 31, 2019. In this Stipulation, the Parties agree to extend the ADITC/Revenue Sharing mechanism beyond December 31, 2019 with modifications to be effective January 1, 2020. Staff believes the proposed modifications to the mechanism provide an additional benefit to customers that would not otherwise have been received without a comprehensive settlement in this docket.

Therefore, Staff supports the new and agreed terms of the Revenue Sharing regarding the Idaho customers' share for the Company's year-end earned Return on Equity (ROE). The Company agreed to increase the customers' share of its Idaho jurisdictional earnings beginning in 2020. When the Company's earned ROE is higher than 10%, Idaho customers and the Company will share all amounts over 10% ROE, up to and including 10.5% ROE, on an 80% customer and 20% Company sharing basis (as opposed to 75/25% currently). The Company will provide this benefit to customers as a rate reduction in the next year's PCA. If in any year, the Idaho jurisdictional ROE exceeds 10.5%, the Company and its customers will share all amounts over the 10.5% ROE as follows: (i) 55% will be provided to Idaho customers in a form of a rate reduction in the next year's PCA, (ii) 25% will be shared with Idaho customers as an offset to amounts in the Company's pension balancing account, and (iii) 20% will go to the Company.

Staff supports the Company amortizing additional cumulative amounts of up to $45 million of state and federal ADITC, if the Idaho jurisdictional year-end earned ROE falls below 9.4% (currently 9.5%) for any year beginning January 1, 2020. This will allow the Company to realize a 9.4% minimum level of actual Idaho ROE.

STAFF RECOMMENDATION

Staff believes the proposed Stipulation represents a reasonable compromise of all issues while returning all benefits from the TCJA to customers. The Stipulation is just, fair, and reasonable and in the public interest, and Staff thus recommends the Commission approve it.

Respectfully submitted this 14th day of May 2018.

Karl T. Klein
Deputy Attorney General

Technical Staff: Johan Kalala-Kasada
Donn English

i:umisc/comments/gnru18.1kkklsjk stip comments Idaho Power

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14th DAY OF MAY 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. GNR-U-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

LISA NORDSTROM
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: lnordstrom@idahopower.com
dockets@idahopower.com

MIKE YOUNGBLOOD
TIM TATUM
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: myoungblood@idahopower.com
ttatum@idahopower.com

PETER J. RICHARDSON
RICHARDSON ADAMS, PLLC
P.O. BOX 7218
BOISE, IDAHO 83702
E-mail: peter@richardsonadams.com

DR. DON READING
6070 HILL ROAD
BOISE, IDAHO 83703
E-mail: dreading@mindspring.com

Jo Nelson
SECRETARY