DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF

FROM: KARL T. KLEIN
DEPUTY ATTORNEY GENERAL

DATE: MARCH 8, 2019

SUBJECT: PROPOSED PHASE II SETTLEMENT REGARDING PACIFICORP DBA ROCKY MOUNTAIN POWER IN THE COMMISSION'S INVESTIGATION INTO THE IMPACT OF FEDERAL TAX CODE REVISIONS ON UTILITY COSTS AND RATEMAKING; CASE NO. GNR-U-18-01.

On May 31, 2018, the Commission entered an order approving an initial settlement stipulation signed by Rocky Mountain Power, a division of PacifiCorp ("Company"), Commission Staff, and intervenors Idaho Irrigation Pumpers Association, Inc., PacifiCorp Idaho Industrial Customers, and Monsanto Company (the sole intervenors in this multi-utility case as it relates to the Company). The settlement stipulation set up a two-phase process by which the Company would return to customers 100% of the tax benefits the Company has realized under new tax laws that decreased the Company's corporate tax rate and expenses. The Phase I Stipulation required the Company to refund $6,185,000 to Idaho retail customers effective June 1, 2018, as a preliminary portion of the current tax benefits the Company realized under the tax laws. The refund would be passed to customers through Electric Service Schedule 197—Federal Tax Act Adjustment. The Phase I Stipulation provided for a Phase II of the case in which the parties would have an opportunity to review balances remaining after accounting for the reduction to rates proposed in Phase I, and to propose ratemaking treatment for the remaining deferred balances. *See* Order No. 34072.

On March 5, 2019, the Company filed a Phase II Stipulation signed by all parties to settle the remaining issues in the case. The Phase II Stipulation provides, in summary:

1. Effective June 1, 2019, Schedule 197 rates would be revised to refund to Idaho retail customers about $7,589,000 annually, for an increase to the Phase I refund of about

$1,400,000. The revised Schedule 197 would remain in effect until rates are set in the Company's next general rate case.

2. Starting June 1, 2019, the Company will use the Energy Cost Adjustment Mechanism (ECAM) to amortize over two years the $1,141,000 deferred balance of the current tax savings from January 1, 2018 through May 31, 2019 that has not yet been returned to customers.
3. The Idaho-allocated Excess Deferred Income Taxes (EDIT) resulting from the new tax laws include protected property-related EDIT of $105,924,604, with estimated annual amortizations of $2,564,410 in 2018, $2,352,309 in 2019, and $2,306,632 in 2020; and non-protected and non-property EDIT of $14,883,505. As the EDIT balances amortize in rates, the amounts will include a rate base carrying charge offset to account for the corresponding increase in rate base associated with the amortized EDIT until the next Idaho general rate case.
4. The actual annual ARAM amortization of protected property-related EDIT, and the annual straight-line amortization of non-protected property and non-property EDIT, will be reduced by a rate base offset calculated at the pre-tax weighted average cost of capital of 9.312% on the after-tax EDIT amounts until the EDIT rate base balances are updated and included in the next Idaho general rate case.
5. The actual annual ARAM amortization of protected property EDIT, less the associated rate base offset, will be refunded to Idaho retail customers in the subsequent year through the ECAM under Schedule 94 and will not be subject to the sharing band. Additionally, the non-protected property and non-property EDIT will be amortized over seven years ($2,126,215 per year less the rate base offset), beginning June 1, 2019, and be used in part to offset the 2013 incremental depreciation expense deferral approved by Commission Order 32910 in Case No. PAC-E-13-04. Both will be included in Idaho retail customer rates in the ECAM until the rate effective date in the next general rate case and will not be subject to the sharing band. The Parties may propose to change the seven-year amortization period for the unamortized portion of the non-protected property and non-property EDIT balance in the next Idaho general rate case.

6. The tax savings to be passed through the ECAM to customers effective June 1, 2019 will be accomplished by multiplying Idaho retail energy for June 1, 2019 through May 31, 2020 by $0.957 per megawatt hour ("MWh").
7. Effective June 1, 2020, the Company will update the tax amortization rate to include any over or under collection from the prior period along with the 2019 protected property EDIT amount updated based on actual tax return data and reduced for the corresponding rate base carrying charge offset. The current estimated rate before these true-ups is $0.853 per MWh.
8. When the Company files its next Idaho general rate case, the Company's application will reflect information relating to the tax laws, including: current federal income taxes calculated using the test period data; annual amortization and updated balances of protected property EDIT for the test period; annual amortization and updated balances of non-protected property and non-property EDIT for the test period; and the Schedule 197 rider will end with the rate effective date of the general rate case.
9. The on-going incremental depreciation expense associated with the 2013 depreciation study will be included in base rates beginning on the effective date of the rates set in the next Idaho general rate case. Any deferred balance associated with the 2013 depreciation will be trued-up in the next ECAM following the rate effective date in the next general rate case.
10. With respect to rate design, the above-described rate reductions will be passed through to customers under Schedule 197 or Schedule 94.
11. The $7,589,000 will be allocated to customer classes using the cost of service F101 – Rate Base factor. The rate reduction will be allocated to all retail tariff customers taking service under the Company's electric service schedules based on the rate base allocation to each customer class from the Company's class cost of service study as filed in Case No. PAC-E-11-12.
12. To avoid impacting demand-side management programs, Schedule No. 191, Customer Efficiency Services Rate Adjustment will be applied to customers' bills prior to applying the proposed Schedule 197 sur-credit.
13. The Parties recommend the Commission approve the Phase II Stipulation as being in the public interest, and state that its terms are fair, just, and reasonable.

STAFF RECOMMENDATION

Staff recommends the Commission process the Phase II Stipulation by Modified Procedure with comments due twenty-one days from issuance of a Notice of Proposed Settlement and Notice of Modified Procedure and reply comments due seven days later.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Proposed Settlement and Notice of Modified Procedure setting a twenty-one day comment period and a seven day reply comment period?

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Karl T. Klein
Deputy Attorney General

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