BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of PACIFIC POWER & LIGHT COMPANY Petition for an Order Approving Deferred Accounting Related to Federal Tax Act.	DOCKET UE-171219 PACIFIC POWER'S AMENDED PETITION FOR ACCOUNTING ORDER

I. INTRODUCTION

1 In accordance with WAC 480-07-370(3), and consistent with WAC 480-07-395(5), Pacific Power & Light Company (Pacific Power), a division of PacifiCorp, now seeks to amend the Petition for Accounting Order previously filed with the Washington Utilities and Transportation Commission (Commission) on December 28, 2017.
The original petition sought an order authorizing the company to defer the expected impacts associated with the income tax changes enacted by the federal "To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" (Tax Act) that was signed into law on December 22, 2017.

2 Pacific Power submits this amended petition for approval to amortize over a one-year time period beginning January 1, 2019, the 2018 deferral balance of the impact of the lower current income tax expense. In addition, Pacific Power requests approval to defer the 2019 deferral balance with a subsequent one-year amortization beginning January 1, 2020. Finally, Pacific Power requests approval to defer the remaining impacts of the Tax Act for treatment through a subsequent rate case. Pacific Power requests that the Commission issue an accounting order effective January 1, 2019, that allows the company to make the accounting changes necessary to achieve this outcome.

The company's request provides customers with an immediate benefit associated with the company's reduced tax rates, while also preserving the opportunity to preserve longer-term rate stability by offsetting future rate pressures with the deferred tax benefits of the Tax Act.

II. BACKGROUND

3 Pacific Power is an electric utility and public service company doing business in the state of Washington under RCW 80.04.010, and its public utility operations, retail rates, service, and accounting practices are subject to the Commission's jurisdiction. PacifiCorp also provides retail electricity service under the name Pacific Power in Oregon and California and under the name Rocky Mountain Power in Idaho, Utah, and Wyoming. The company's principal place of business is 825 NE Multnomah Street, Suite 2000, Portland, Oregon, 97232.

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III. PROPOSED ACCOUNTING ORDER

A. Pacific Power's request to defer rate impact of Tax Act

5 The Tax Act was enacted December 22, 2017, and the majority of the provisions became effective on January 1, 2018. The company identified six notable items related to the Tax Act that affect the company's annual revenue requirement as follows:

- The federal corporate income tax rate reduction from 35 to 21 percent;
- The requirement to normalize excess deferred income taxes associated with public utility property utilizing the average rate assumption method (ARAM);
- The elimination of the allowance for bonus depreciation for public utility property;
- The repeal of the domestic production activities deduction section 199 (DPAD);
- The repeal of the exclusion from income contributions in aid of construction (CIAC) received from governments of public purposes; and
- The repeal of the deduction and imposition of certain limitations with respect to certain expenditures.

6 On December 28, 2017, Pacific Power filed a petition in this docket to defer the rate impact of the Tax Act to track and preserve the customer savings for later ratemaking treatment.

B. Pacific Power's Depreciation Study

7 Pacific Power recently filed a Depreciation Study with a proposed effective date of January 1, 2021.[1] The proposed effective date is intended to coincide with the rate effective date from the company's next general rate case. Pacific Power's Depreciation Study identified an increase in Washington depreciation rates, which is driven by several factors, including the impact of incremental capital additions in steam plant, the shortening of terminal lives for several coal-fired units, including the Jim Bridger Plant

[1] *In the Matter of Pac. Power & Light Co. For an Order Approving a Change in Depreciation Rates Applicable to Electric Property,* Docket UE-180778, Petition at 1 (Sept. 13, 2018).

and Colstrip Unit 4, and revised depreciation rates to account for the impact of repowering the company's wind generation facilities in 2019 and 2020.[2] Adoption of the proposed depreciation rates would result in an increase of approximately $38 million in annual Washington-allocated depreciation expense.[3]

C. Pacific Power's proposal to mitigate impact of revised depreciation expense with Tax Act benefits.

8 The Tax Act impacted the company's revenue requirement in two key ways. First, the decreased tax rate reduced the company's *current* income tax expense. Second, the decreased tax rate also created additional excess deferred income taxes (EDIT).[4] The company's proposal here would pass back to customers the benefits of the reduced *current* income tax expense, while using the additional EDIT to offset the impact of the upcoming change in depreciation expense.

9 To pass back the benefits of lower current income tax expense, the company proposes to continue to defer the impact of the Tax Act, while also beginning to amortize the deferred balance reflecting the changes to the current income tax expense. Specifically, Pacific Power now proposes to amortize the 2018 deferral balance and reduce customer rates to reflect changes to current income tax expense from the Tax Act. The company proposes to implement the change through new tariff Schedule 197, Federal Tax Act Adjustment, which will be effective January 1, 2019. Tariff Schedule 197 would be set to credit the annual current tax impact of $8,303,255 to customers. This reduction would lower customers' rates to reflect the company's annual reduction in current income tax expense until base rates can be reset in the next general

[2] *Id.* at 3-5.
[3] *Id.* at 5.
[4] These balances must be normalized using the average rate assumption (ARAM) method of accounting.

rate case. The company also proposes to continue amortizing the Tax Act's impact on current income tax expense each year until the next general rate case, *i.e.*, the 2019 deferral will be amortized in 2020 and the 2020 deferral will be amortized in 2021, or as otherwise decided on in the company's 2020 general rate case.

10 As more fully described below, Pacific Power is basing its calculation of the impacts of the Tax Act on the most recently filed December 31, 2017 Commission Basis Report (CBR). For Pacific Power, the use of the 2017 CBR is reasonable because the test period from the company's last full general rate case was calendar year 2013, and there have been a number of Commission-authorized changes to base rates since then.[5] For example, since the last general rate case, Pacific Power filed an expedited and limited-issue rate filing in 2015 that resulted in a multi-year rate plan that, among other things, brought discrete capital additions into rates in a phased process. The second-step increase resulting from the 2015 limited-issue rate filing went into effect on September 15, 2017. Pacific Power's use of the 2017 CBR to calculate the impacts of the Tax Act appropriately reflects Commission-approved changes to rates and rate base that have occurred since Pacific Power's last general rate case and results in a more accurate calculation of the benefits to customers associated with the Tax Act.

11 Similarly, Pacific Power's proposal to timely return the benefit of the change in the current tax rate back to customers through a rolling deferral and amortization process during 2019, 2020, and 2021 avoids the need to reset base rates. Given the time since Pacific Power's last general rate case, it would be difficult to propose a single change to

[5] The company's last full general rate case was Docket UE-140762, which used a calendar year 2013 test period. The 2015 rate case, Docket UE-152253, was filed as a limited-issue expedited rate filing and therefore did not include the comprehensive update to test period costs that occurs in a more traditional rate case filing.

base rates without also examining the other myriad changes that impact base rates; this type of examination of the totality of inputs to rates is best-suited for a general rate case. Pacific Power's next rate case will address the impact to base rates of the decrease in the current tax rate; in the meantime, the rolling deferral and amortization proposal ensures accurate, efficient, and timely return to customers of the tax benefits of the Tax Act.

12 The second component of Pacific Power's proposal is to continue to defer the balance created by the reduction in the accumulated liability balances associated with EDIT. The company has estimated Washington customers' share of EDIT balances accrued by the end of December 31, 2020, will be approximately $36 million on a grossed-up basis. Pacific Power proposes to address the appropriate treatment of this deferral balance as part of its next general rate case.

D. Proposed deferred accounting

13 Pacific Power proposes to continue to record deferred amounts related to the reduction in federal corporate income tax rate in FERC Account 254—Other Regulatory Liabilities with the corresponding entry to FERC Account 449.1—Provision for Rate Refunds and related income tax effects to FERC 190—Accumulated Deferred Income Taxes, FERC 236—Taxes Accrued, FERC 409.1—Income Taxes – Utility Operating Income and FERC 411.1—Provision for Deferred Income Taxes – Credit, Utility Operating income. If this petition is denied, the collection of revenue requirement at the higher tax rate will remain in general business revenues (FERC accounts 440—Residential Sales, 442—Commercial and Industrial Sales, and 444—Public Street and Highway Lighting).

14 In addition, Pacific Power proposes to continue to record deferred amounts related to excess deferred income tax liabilities in FERC Account 254—Other Regulatory

Liabilities and FERC Account FERC 182—Other Regulatory Assets with offsetting amounts to FERC 190—Accumulated Deferred Income Taxes, FERC 281—Accumulated Deferred Income Taxes – Accelerated Amortization, FERC 282—Accumulated Deferred Income Taxes – Other Property, and FERC 283—Accumulated Deferred Income Taxes – Other. If this petition is denied, the changes related to excess deferred income tax liabilities will be recorded in FERC 190—Accumulated Deferred Income Taxes, FERC 281—Accumulated Deferred Income Taxes – Accelerated Amortization, FERC 282—Accumulated Deferred Income Taxes – Other Property, FERC 283—Accumulated Deferred Income Taxes – Other, FERC 410.1—Provisions for Deferred Income Taxes, Utility Operating Income, and FERC 411.1—Provision for Deferred Income Taxes – Credit, Utility Operating income.

15 The company requests that it be allowed to accrue interest on the unamortized balance of the current tax deferral at the quarterly rate published by the Federal Energy Regulatory Commission (FERC). When the Tax Act was enacted, the change in federal tax rate reduced the accumulated deferred income taxes (ADIT) liability and the reduction was reclassified under three groups of EDIT (discussed below). In total, the restated ADIT and new EDIT balances maintain the same reduction to rate base as before the change in tax rate. Because EDIT is a reduction to rate base, deferral of the EDIT amortization will also be treated as a rate base deduction, and as such, will not accrue a carrying charge.

E. Estimate of amounts

a. Methodology used to calculate revenue requirement impact of Tax Act.

16 The company calculated the estimated amounts subject to its request for an accounting order using its most recent 2017 CBR.

17 The reduction of the federal corporate income tax rate from 35 to 21 percent impacts the company's revenue requirement in three ways: first, it reduces current income taxes; second, it creates a reduction to the ADIT liability; and non-protected, non-property related items; and third, it reduces the company's FERC open access transmission tariff, which reduces third-party wheeling revenues.

18 To calculate the revenue requirement impact, the company used a "price change" approach in which the company reduced revenues to reflect the lower revenue requirement when comparing the CBR under the prior federal tax rate of 35 percent to the new federal tax rate of 21 percent, attached as Exhibit 1, page 1. To ensure revenues were not impacted by any change in return on equity, the company maintained the same earned return on equity before accounting for the change to the corporate income tax rate.

19 The results are summarized in Table 1 below:

TABLE 1

Tax Impact	
$ Thousands	**Washington**
Current Taxes	$ (8,707,249)
Wheeling Revenue Offset	403,955
ARAM Amortization	(3,124,706)
TOTAL	$(11,427,960)

20 To prepare the comparison, the company modified its 2017 CBR to include all the plant additions for 2018 to correctly calculate the impact the tax law change will have on revenue requirement, as shown on page 2 of Exhibit 1, forming the starting point in Exhibit 1, page 1. The company then made the following adjustments:

- Changed the federal tax rate;
- Adjusted for tax related changes such as the change in section 199, changes to employees meals deductibility, and the elimination of the deduction for transit passes (Exhibit 1, page 3);
- Added the ARAM amortization (Exhibit 1, page 4);
- Adjusted the accumulated deferred income tax balances (Exhibit 1, page 5); and
- Adjusted wheeling revenues for the tax law impact (Exhibit 1, page 6).

b. Calculation of EDIT balance

21 The Tax Act impacted three groups of ADIT: protected property related items; non-protected property related items and non-property related items. The decrease to the tax rate reduces the future ADIT liability by reflecting the lower income tax rate that will be due when the temporary differences reverse. This reduction (EDIT) was calculated by measuring the temporary differences at the new combined federal and state statutory income tax rate compared to the ADIT balance existing under the old statutory income tax rate. EDIT were recorded to a regulatory liability resulting in no immediate net change to the rate base upon which the company earns a return.

22 The treatment of the regulatory liability associated with property-related timing differences is governed by normalization rules. The Tax Act provides that EDIT on public utility property (*e.g.*, temporary differences that result from different depreciation methods and lives) or protected property related ADIT must be normalized using the ARAM of accounting.[6] Under 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

[6] Violations of the income tax normalization provisions associated with public utility property would result in (i) a prohibition against the public utility's claim to accelerated depreciation with respect to all public utility property and (ii) imposition of an additional tax on the public utility wherein the tax for the taxable year will increase by the amount by which it reduces its excess tax reserve more rapidly than permitted under a normalization method of accounting.

regulated operating expense. Thus, while excess ADIT was calculated based on balances at the time of the enactment of the rate change that excess would not begin to reverse until book depreciation exceeds tax depreciation.

23 Pacific Power also has non-protected property related EDIT. While the Tax Act does not require that non-protected property related to EDIT be normalized using ARAM, the company has historically treated it that way, and it is treated that way in the amounts in Table 1.

24 The non-property EDIT are not subject to the income tax normalization rules imposed by the Tax Act and can be used to satisfy other regulatory assets or deferred and amortized over a period prescribed by the regulatory jurisdiction. Based on the 2017 CBR, the impact of the Tax Act on the non-property related EDIT was $46.5 million total-company and $1.0 million allocated to Washington. The company is proposing to defer this balance to a regulatory liability and address treatment as part of its next general rate case.

25 The EDIT balances and amortization expenses are shown in Tables 2 and 3 below:

TABLE 2

Excess Deferred Income Tax Balance as of December 31, 2017		
$ Thousands	**Total Company**	**Washington**
Property Related		
Protected	$1,321,076	$82,148
Non-Protected	277,896	20,865
Non-Property Related	46,534	1,000
TOTAL	$1,645,506	$104,013

TABLE 3

Excess Deferred Income Tax Amortization	
$ Thousands	**Washington**
Property Related	
ARAM (includes protected and non-protected property)	$2,540
Non-Property Related [(1)]	-
TOTAL	$2,540

(1) The company is proposing to amortize the Non-Property related over five years beginning with the rate effective date of the next general rate case, or at another time as approved by the UTC.

F. Pacific Power's proposal provides concrete customer benefits.

a. Proposal provides longer-term rate stability.

26 The Commission has historically emphasized the need for "gradualism in rate change[s]" and "stability of rates."[7] Pacific Power's proposal here advances both principles. Pacific Power's balanced approach provides customers the full benefit of the Tax Act, including an immediate reduction in rates, while also reserving treatment of the EDIT balance until the company's next general rate case where the benefits have the potential to offset anticipated upward pressure on rates.

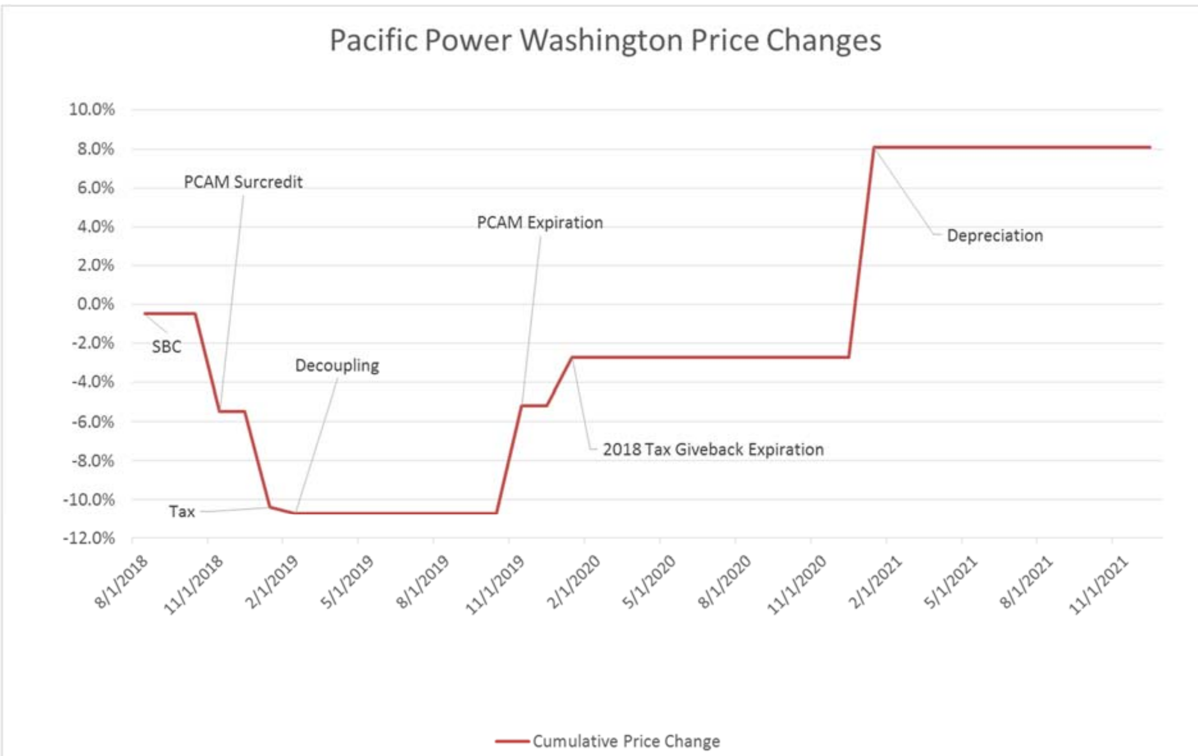
27 Over the next several years, Pacific Power's rates will be impacted by several countervailing adjustments that will increase volatility. For example, Pacific Power has recently decreased rates due to the reduction in the System Benefits Charge and the credit associated with amortization of the Power Cost Adjustment Mechanism (PCAM) deferral balance. The company's upcoming December 1, 2018 decoupling filing is also projected to further reduce rates. These recent and upcoming rate decreases are expected to be

[7] *Wash. Util. & Transp. Comm'n v.Puget Sound Energy, Inc.*, Docket UE-072300, Order 12 at ¶68 (October 8, 2008) (discussing the factors that are considered in determining the rate spread in a general rate case).

short-lived, however, because of the expiration of certain current customer credits and the expected rate impact of the company's planned 2020 general rate case, which will potentially implement changes to the company's inter-jurisdictional cost allocation methodology and the impacts of the Depreciation Study.

28 Figure 1 below illustrates the impact of various recent and near future rate changes that customers are facing:

Figure 1



29 The red line shows the cumulative impact of the recent and expected rate changes, including the decrease in the System Benefits Charge and the decrease associated with amortization of the PCAM deferral balance, both of which have already occurred. Figure 1 shows a sharp decrease in rates on January 1, 2019, which corresponds to that rate impact assuming an immediate customer cash credit of the full impact of the Tax Act. The additional rate decrease on February 1, 2019, represents the net impact of the expiration of the current decoupling credit and the new projected decoupling credit that the company will be filing on December 1, 2018. In the following months, rates would go up significantly as the result of the expiration of the PCAM sur-credit and the rate increase associated with the Depreciation Study. The expiration of the PCAM sur-credit represents an approximate 5.5 percent increase in rates, and implementation of the new depreciation rates would increase rates by approximately 10.9 percent.

30 Figure 1 does not include any other potential rate changes that could occur as a result of the next general rate case but is instead illustrative of the multiple rate pressures that are converging in the next several years. Pacific Power acknowledges that the Commission, not the company, ultimately controls rate changes and further acknowledges that no pending rate case is before the Commission. However, Pacific Power has been and continues to be transparent in its future plans and is proactively attempting to manage multiple rate pressures between now and the time of its anticipated rate case filing in the 2020 time period to provide rate stability to customers.

31 By reserving the EDIT balance until the company's next general rate case, the company can smooth the sharp edges shown in Figure 1 and provide stability for its Washington customers, which is a value the Commission has expressly endorsed. This allows the Commission to take advantage of the benefits of tax reform for customers today and support efforts to smooth rates and provide rate stability for customers.

IV. AMORTIZATION PROPOSAL

32 As discussed above, Pacific Power proposes to amortize the 2018 deferral balance associated with current income tax expense over one year beginning January 1, 2019, through a new tariff schedule. The company proposes to continue amortizing the annual benefits in the following calendar year until base rates can be reset in the next general rate case.

33 To determine the proposed Schedule 197 prices by rate schedule, the company first determined the overall average credit by dividing the annual current tax benefit, or $8,303,255, by total energy in 2017 to produce an average credit of -0.201cents per kWh.

34 To ensure consistency with the period under which the company calculated the $8.3m of benefit from federal income tax changes, the company used energy from calendar year 2017 to calculate and allocate the credit. Since federal income taxes in the company's class cost of service model are allocated on rate base, the relative differences in allocated rate base from the company's 2014 general rate case were used to determine rate schedule specific credit values. This is appropriate because the company earns a return on rate base and is ultimately taxed upon that return. Exhibit 3 to this filing shows the derivation of the relative differences in allocated rate base by rate schedule from the last rate case. Proposed rates by rate schedule were calculated by multiplying the average -0.201 cents per kWh credit by the relative differences in allocated rate base cost per kWh for each rate schedule from the class cost of service study in the last rate case. Using the relative differences in allocated rate base on a per kWh unitized basis appropriately accounts for differences in class energy consumption between the historical test period in the last rate case and calendar year 2017, which the company used to estimate the benefits of federal income tax changes. Schedule 33 and Schedule 47 Partial Requirements Service prices were set to the same level as Schedule 36 and Schedule 48T prices respectively because those two schedules are not included in cost of service.

35 Prices and impacts by rate schedule for proposed Schedule 197 are shown on Exhibit 4 to this filing. The total impact in this filing is a decrease of 2.3 percent of total base revenues with an average 2.5 percent decrease for residential customers. Exhibit 5 shows a billing comparison between present and proposed rates for a residential customer at various levels of monthly usage. The average residential customer who uses 1,200 kWh in a month would see a $2.89 bill decrease. The proposed tariff sheets are provided as Exhibit 6. Consistent with WAC 480-100-195(3), PacifiCorp will post these tariffs for public inspection under WAC 480-100-193.

V. CONCLUSION

36 Pacific Power respectfully requests that the Commission authorize Pacific Power to amortize the 2018 deferral balance through new tariff Schedule 197, Federal Tax Act Adjustment, effective January 1, 2019, and continue to amortize the Tax Act's impact on current income tax expense each year until the next general rate case. Pacific Power additionally requests that the Commission authorize Pacific Power to continue deferring the remaining impacts of the Tax Act for treatment through a subsequent rate case, consistent with the proposal set forth herein.

37 Pacific Power's amended petition would not only reduce the rate pressure from the Depreciation Study and the company's 2020 general rate case, but also provide Pacific Power customers with greater flexibility around the future of certain generation assets.

Respectfully submitted this 20th day of November, 2018.

/s/
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