

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PACIFIC POWER & LIGHT COMPANY,

Petitioner,

For An Accounting Order Regarding the
Tax Cuts and Jobs Act (TCJA).

DOCKET UE-171219

ORDER 01

ORDER GRANTING ACCOUNTING
PETITION; ALLOWING TARIFF
REVISIONS TO BECOME
EFFECTIVE BY OPERATION OF
LAW

BACKGROUND

- 1 The Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017, and became effective on January 1, 2018. Among other things, the TCJA reduced the federal corporate tax rate from 35 percent to 21 percent. The effect of this change reduced annual tax expense utilities pay to the IRS and required utilities to re-value the deferred federal income tax liability carried on their books. This re-valuation reduces the deferred federal income tax liability, but also creates an excess deferred income tax liability (EDIT) that represents past over-collection of deferred tax expense. The EDIT liability is owed back to customers.
- 2 On December 28, 2017, Pacific Power and Light Company (Pacific Power or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition seeking an Accounting Order under WAC 480-07-370(1)(b) authorizing the Company to defer the expected impacts of the TCJA (Petition). The Petition would allow Pacific Power to defer for later return to customers both (1) the interim over-collection of taxes from January 1, 2018, until the 21 percent tax rate is embedded in base rates, and (2) EDIT.
- 3 On November 20, 2018, Pacific Power amended its Petition to propose a mechanism for beginning to pass the benefits of the lower tax rate on to customers. The Company would pass the interim over-collection back to customers through proposed tariff Schedule 197. Proposed Schedule 197 is provided as Exhibit 6 to Pacific Power's amended Petition. The Company proposes to continue deferring EDIT.

- 4 **Current Tax Expense.** Pacific Power relies upon its most recent 2017 Commission Basis Report (CBR) as the basis for calculating the revenue impacts of the TCJA. That report was modified to include plant additions for 2018, and then adjusted to reflect the changed federal tax rate and other identified effects of the TJCA. The Commission's regulatory staff (Staff) agrees that using the 2017 CBR is reasonable because the test period from the Company's last full general rate case was calendar year 2013, and using the 2017 CBR as a basis reflects the results of the multi-year rate plan resulting from its 2015 limited-issue rate filing.
- 5 Given that Pacific Power does not intend to file a general rate case until 2020 (wherein it will embed the 21 percent tax rate in base rates), the Company proposes to use a rolling deferral and amortization process to return the benefit of the new tax rate to customers until base rates are reset. This would be implemented through proposed Schedule 197, Federal Tax Act Adjustment. Schedule 197 would return approximately \$8.3 million to customers in the first year (calendar year 2019), representing a reduction of 2.3 percent to base revenues. The typical residential customer using 1,200 kWh per month will see a billing decrease of \$2.89 per month.
- 6 Staff views Pacific Power's proposed Schedule 197 as a reasonable way to return the benefits of the lower tax rate to customers outside of a general rate case. Staff believes that the Company has calculated the over-collection fairly and proposes to return all over-collections to customers in a timely manner.
- 7 **Excess Deferred Income Taxes (EDIT).** Pacific Power also proposes in its amended Petition to continue deferring EDIT. Pacific Power has stated its intention to file a general rate case in 2020 with an effective date of January 1, 2021. The Company proposes to use the EDIT regulatory liability to offset the impact of upcoming changes in depreciation expense. The Company estimates Washington customers' share of EDIT balances accrued by the end of 2020 to be approximately \$36 million.
- 8 Staff supports Pacific Power's proposal to continue deferring EDIT. In general, Staff is supportive of utilities attempting to mitigate intergenerational inequity by using regulatory liabilities to offset the rate impact of shortening the depreciable lives of major generation assets. However, Staff believes that intergenerational inequity is best resolved in the context of a general rate case where increasing depreciation expense can be offset by the regulatory liability.

DISCUSSION

- 9 We agree with Staff that the Company's proposal to begin passing back the benefits of the TCJA is fair and reasonable, that the amended Petition should be granted, and that proposed tariff Schedule 197 should be allowed to go into effect by operation of law.
- 10 From a regulatory perspective, the TCJA created two general requirements: (1) utilities must pass the benefit of the lower tax expense on to ratepayers, and (2) utilities must identify the EDIT liability and return those dollars to ratepayers in a manner consistent with federal normalization rules and Commission policy.
- 11 Because Pacific Power does not intend to file a general rate case until 2020, the Company proposes to pass the benefit of the lower tax expense on to ratepayers through tariff Schedule 197 using a rolling deferral and amortization process. We agree with Staff that Pacific Power's proposed mechanism is a reasonable way to timely return the benefits of the lower tax rate to customers outside of a general rate case.
- 12 In addition, Pacific Power proposes to continue deferring EDIT until its next general rate case, wherein the Company anticipates the EDIT regulatory liability may offset the impact of upcoming changes in depreciation expense. We agree with Staff that the Company's proposal to continue deferring EDIT is reasonable, and that outstanding EDIT balances can be most comprehensively addressed in the Company's next general rate case. Accordingly, the Commission finds that the petition for an accounting order is fair and reasonable and should be granted, and that proposed tariff Schedule 197 should be allowed to go into effect by operation of law.

FINDINGS AND CONCLUSIONS

- 13 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric companies.
- 14 (2) Pacific Power is an electric company and a public service company subject to Commission jurisdiction.

- 15 (3) WAC 480-07-370(1)(b), allows companies to file petitions including that for which Pacific Power seeks approval.
- 16 (4) Staff has reviewed the Petition and amended Petition in Docket UE-171219, including related work papers.
- 17 (5) Staff believes the proposed accounting order Pacific Power requests is reasonable and should be granted.
- 18 (6) This matter came before the Commission at its regularly scheduled meeting on December 28, 2018.
- 19 (7) After reviewing Pacific Power's Petition filed in Docket UE-171219 on December 28, 2017, as amended on November 20, 2018, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the amended Petition should be granted. The Commission should allow the proposed tariff Schedule 197, Federal Tax Act Adjustment, to become effective January 1, 2019, by operation of law.

ORDER

THE COMMISSION ORDERS:

- 20 (1) Pacific Power and Light Company's accounting petition to pass back to customers the benefits of TCJA's lower federal income tax rate through proposed tariff Schedule 197, and to continue deferring EDIT until Pacific Power & Light Company's next general rate case, is granted.
- 21 (2) Schedule 197, Federal Tax Act Adjustment, of Pacific Power and Light Company's tariff WN U-75, will become effective on January 1, 2019, by operation of law.
- 22 (3) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order granting Petition be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.

- 23 (4) The Commission retains jurisdiction over the subject matter and Pacific Power and Light Company to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective December 28, 2018.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner