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December 23, 2019

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Filing Center
201 High Street SE, Suite 100
Salem, Oregon 97301

Re: Docket UE 373
In the Matter of Idaho Power Company's Application for Authority to
Decrease its Rates for Electric Service for Costs Associated with Tax
Reform

Attention Filing Center:

Enclosed for filing is an electronic copy of Idaho Power Company's Application for Authority to Decrease its Rates for Electric Service for Costs Associated with Tax Reform. A Motion for Protective Order is being filed concurrently with this Application.

Idaho Power Company is concurrently filing revised tariff sheets reflecting the rate decrease proposed in this Application.

Sincerely,

Wendy McIndoo
Office Manager

Attachments

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 373

In the Matter of the Application of IDAHO
POWER COMPANY for Authority to
Decrease its Rates for Electric Service for
Costs Associated with Tax Reform.

**APPLICATION FOR AUTHORIZATION
TO DECREASE RATES**

7 Idaho Power Company (“Idaho Power” or “Company”), in accordance with ORS
8 757.210, hereby respectfully makes application to the Public Utility Commission of Oregon
9 (“Commission”) for an order: (1) approving Idaho Power’s quantification of \$1.52 million in
10 annualized Oregon jurisdictional benefits associated with federal and state income tax
11 changes (collectively referred to as “Tax Reform”) resulting from the U.S. Tax Cuts and Jobs
12 Act (“2017 Tax Act”), and (2) adjusting customer rates to reflect amortization of \$1,519,887
13 in Tax Reform benefits effective June 1, 2020, which equates to an overall decrease of 0.06
14 percent. The Company is requesting that this amount remain in customer rates until its next
15 general rate case or other proceeding where the then current tax expenses and other tax-
16 related revenue requirement components are reflected in rates. In support of this Application,
17 Idaho Power asserts as follows:

I. THE TAX ACT

18
19 On December 22, 2017, the 2017 Tax Act was signed into law (see Pub. L. No. 115-
20 97, 131 Stat 2045). Effective January 1, 2018, the 2017 Tax Act lowers the corporate tax
21 rate to 21 percent from the existing maximum rate of 35 percent, provides for expanded
22 bonus depreciation, limits the deductibility of interest expense, eliminates the alternative
23 minimum tax, repeals the manufacturing deduction, and imposes additional limitations on the
24 deductibility of executive compensation. Public utility companies, such as Idaho Power,
25 retain the full deductibility of interest expense but are no longer eligible for the bonus
26 depreciation provisions; however traditional accelerated tax depreciation methods are still

1 available. While the change in the corporate income tax rate reduced the Company's income
2 tax expense beginning in 2018, accounting rules required Idaho Power to remeasure
3 deferred income tax assets and liabilities as of the date of the enactment, reducing net
4 deferred tax liabilities in 2017, as well as causing an increase in income tax expense for
5 2017.

6 **II. THE 2017 PROFORMA ANALYSIS**

7 As a result of the 2017 Tax Act, the Company analyzed the provisions to determine *all*
8 the impacts to the Company's financial statements by performing a 2017 proforma analysis,
9 included as Confidential Exhibit No. 201 to the Direct Testimony of Mr. Gene Marchioro,
10 comparing actual 2017 financial statement income tax expense with a quantification of the
11 impact to the Company's income tax expense had Idaho Power been subject to the 2017
12 Tax Act provisions for the 2017 year. The Company's 2017 proforma analysis also includes
13 the reduction of the Idaho state tax rate that was enacted in early 2018. In addition to current
14 tax expense reductions, Tax Reform caused adjustments to 2017 deferred tax expense,
15 reducing amounts customers owe in the future. The Oregon jurisdictional share of the
16 estimated Tax Reform benefits resulting from the 2017 proforma analysis is \$1,158,335.

17 **III. RECOMMENDED RATEMAKING TREATMENT**

18 In Docket No. UM 1928, the Company filed an application to defer for later ratemaking
19 treatment impacts associated with the 2017 Tax Act for the period January 1, 2018, through
20 December 31, 2018. On May 30, 2018, the Commission issued Order No. 18-199 approving
21 a term sheet between Staff, the Oregon Citizens' Utility Board ("CUB"), and Idaho Power
22 providing for the give back of \$1,483,736 in tax benefits annually to Oregon customers
23 effective June 1, 2018. Idaho Power, Staff, and CUB agreed that the annual benefit of
24 \$1,483,736 reflects a reasonable quantification of all tax benefits resulting from Tax Reform.

25 Also as part of the term sheet approved with Order No. 18-199, Idaho Power, Staff,
26 and CUB agreed the \$1,438,736 annualized Tax Reform benefits will remain in customer

1 rates until May 31, 2020, to provide customers with the full 24 months of benefits associated
2 with calendar years 2018 and 2019. Order No. 18-199 approved amortization of Tax Reform
3 benefits in customer rates associated with 2018 while Order No. 19-182 approved
4 amortization of Tax Reform benefits in customer rates associated with 2019. Amortization
5 of Tax Reform benefits associated with the calendar year 2019 will be complete May 31,
6 2020. As such, the Company is proposing to update the quantification of Tax Reform
7 benefits to be included in customer rates beginning June 1, 2020.

8 After a review of the methodology performed to compute the Tax Reform benefits
9 currently included in customer rates, the Company confirmed it is appropriate to continue to
10 provide customers \$1,158,335 in annualized Tax Reform benefits as this amount is
11 representative of both the current and deferred tax expense reductions resulting from Tax
12 Reform. However, Idaho Power is proposing to update the level of benefits associated with
13 the Valmy levelized revenue requirement and other income tax benefits.

14 Order No. 18-199 approved \$41,402 in Tax Reform benefits associated with the Valmy
15 levelized revenue requirement as these benefits were not captured in the Company's 2017
16 proforma analysis. These benefits include income tax expense reductions associated with
17 Unit 1, Unit 2, and the common facilities at Valmy. Because cessation of Idaho Power's Unit
18 1 operations and full depreciation of the investments will occur December 31, 2019, Idaho
19 Power received approval, as part of Docket No. UE 363, to remove all revenue requirement
20 amounts associated with Unit 1 effective January 1, 2020. Consistent with the term sheet
21 approved by the Commission with Order No. 18-199, any updates to the Valmy levelized
22 revenue requirement resulting from Tax Reform are to be updated through the Company's
23 tax reform proceedings rather than the Valmy levelized revenue requirement proceedings.
24 Therefore, Idaho Power has reduced the Tax Reform benefit associated with the 2017
25 proforma analysis by \$27,143 to remove income tax expense reductions associated with
26 Valmy Unit 1.

1 Finally, as agreed to in Docket No. UM 1928, the Company has quantified other
2 income tax benefit amounts of \$388,695 associated with the reversal of Excess Deferred
3 Income Tax amounts pursuant to the average rate assumption method, resulting in a total of
4 \$1,519,887 in Tax Reform benefits. Idaho Power is requesting authorization to begin
5 amortization in customer rates of the \$1.52 million in Tax Reform benefits associated with
6 the calendar year 2020 effective June 1, 2020. Consistent with Commission Order No. 18-
7 199, Idaho Power proposes to allocate the annual benefit to the Company's approximately
8 19,200 Oregon customers as a uniform percentage decrease to all base rate components
9 except the service charge. Attachment 1 to the Application presents a summary of the
10 proposed revenue impact for each customer class.

11 Order No. 18-199 requires Idaho Power file a deferral request to begin tracking tax
12 reform benefits beginning January 1, 2020. To facilitate this ratemaking treatment,
13 concurrent with this Application, Idaho Power is requesting reauthorization to defer Tax
14 Reform benefits for the calendar year 2020 in Docket No. UM 1928(2). Also concurrent with
15 this Application, Idaho Power is filing Advice No. 19-13 requesting approval of the revised
16 tariff sheets reflecting the incremental decrease of \$36,151 effective June 1, 2020.

17 **IV. COMMUNICATIONS AND SERVICE OF PLEADINGS**

18 Idaho Power wishes to waive paper service in this docket. Communications regarding
19 this Application should be addressed to:

20 Lisa D. Nordstrom
21 Idaho Power Company
22 1221 West Idaho Street (83702)
23 P.O. Box 70
24 Boise, Idaho 83707
lnordstrom@idahopower.com
dockets@idahopower.com

Jocelyn Pease
McDowell Rackner & Gibson, PC
419 SW 11th Avenue, Suite 400
Portland, Oregon 97205
dockets@mrg-law.com

24 **V. REQUEST FOR RELIEF**

25 Effective June 1, 2018, Order No. 18-199 approved \$1,438,736 in annualized Tax
26 Reform benefits to remain in customer rates until May 31, 2020, to provide customers with

1 the full 24 months of benefits associated with calendar years 2018 and 2019. Because
2 amortization of Tax Reform benefits associated with the calendar year 2019 will be complete
3 May 31, 2020, the Company is proposing to update the quantification of Tax Reform benefits
4 to be included in customer rates beginning June 1, 2020. Therefore, the Company is
5 requesting the Commission (1) approve Idaho Power's quantification of \$1.52 million in
6 annualized Oregon jurisdictional benefits associated with Tax Reform resulting from the 2017
7 Tax Act, and (2) adjust customer rates to reflect amortization of \$1,519,887 in Tax Reform
8 benefits effective June 1, 2020, which equates to an overall decrease of 0.06 percent.

9 Respectfully submitted this 23rd day of December 2019.

10 McDOWELL RACKNER & GIBSON PC

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12 _____
13 JOCELYN PEASE
14 McDowell Rackner & Gibson PC
15 419 SW 11th Avenue, Suite 400
16 Portland, Oregon 97205
17 Telephone: (503) 290-3620
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19 dockets@mrg-law.com

20 LISA D. NORDSTROM
21 Idaho Power Company
22 1221 West Idaho Street (83702)
23 P.O. Box 70
24 Boise, Idaho 83707

25 Attorneys for Idaho Power Company
26

UE 373

Attachment 1

to

Application for Authority to Decrease Rates

ATTACHMENT 1

**Idaho Power Company
Calculation of Revenue Impact
State of Oregon
Tax Reform
Effective June 1, 2020**

**Summary of Revenue Impact
Current Base Revenue to Proposed Base Revenue**

Line No	Tariff Description	Rate Sch. No.	Average Number of Customers	Normalized Energy (kWh)	Current Base Revenue	Mills Per kWh	Total Adjustments to Base Revenue	Proposed Base Revenue	Mills Per kWh	Percent Change Base to Base Revenue
<u>Uniform Tariff Rates:</u>										
1	Residential Service	1	13,472	182,860,882	\$17,744,879	97.04	(\$11,048)	\$17,733,831	96.98	(0.06%)
2	Residential Service - Time-of-Day Pilot ¹	5	0	0	\$0	0.00	\$0	\$0	0.00	---
3	Small General Service	7	2,665	18,824,509	\$2,033,369	108.02	(\$1,139)	\$2,032,230	107.96	(0.06%)
4	Large General Service	9	949	138,034,664	\$10,913,157	79.06	(\$7,214)	\$10,905,943	79.01	(0.07%)
5	Dusk to Dawn Lighting	15	0	432,863	\$107,901	249.27	(\$72)	\$107,828	249.10	(0.07%)
6	Large Power Service	19	7	288,443,211	\$18,169,474	62.99	(\$12,194)	\$18,157,280	62.95	(0.07%)
7	Agricultural Irrigation Service	24	2,050	66,993,996	\$6,709,535	100.15	(\$4,383)	\$6,705,153	100.09	(0.07%)
8	Unmetered General Service	40	2	5,388	\$390	72.30	(\$0)	\$389	72.25	(0.07%)
9	Street Lighting	41	26	890,836	\$148,333	166.51	(\$99)	\$148,234	166.40	(0.07%)
10	Traffic Control Lighting	42	8	22,402	\$2,229	99.48	(\$1)	\$2,227	99.41	(0.07%)
11	Total Uniform Tariffs		19,179	696,508,751	\$55,829,266	80.16	(\$36,151)	\$55,793,115	80.10	(0.06%)
12	Total Oregon Retail Sales		19,179	696,508,751	\$55,829,266	80.16	(\$36,151)	\$55,793,115	80.10	(0.06%)

¹ Time-of-Day Pilot customer forecast is included in Schedule 01. 12 months of historical billing data does not yet exist for Time-of-Day Pilot to provide basis for forecasting.

ATTACHMENT 1

**Idaho Power Company
Calculation of Revenue Impact
State of Oregon
Tax Reform
Effective June 1, 2020**

**Summary of Revenue Impact - Rates 9, 19, and 24 Distribution Level Detail
Current Base Revenue to Proposed Base Revenue**

Line No	Tariff Description	Rate Sch. No.	Average Number of Customers	Normalized Energy (kWh)	Current Base Revenue	Mills Per kWh	Total Adjustments to Base Revenue	Proposed Base Revenue	Mills Per kWh	Percent Change Base to Base Revenue
<u>Uniform Tariff Rates:</u>										
1	Large General Secondary	9S	943	119,604,569	\$9,589,128	80.17	(\$6,334)	\$9,582,794	80.12	(0.07%)
2	Large General Primary	9P	5	15,581,878	\$1,134,364	72.80	(\$754)	\$1,133,610	72.75	(0.07%)
3	Large General Transmission	9T	1	2,848,217	\$189,665	66.59	(\$126)	\$189,539	66.55	(0.07%)
4	Total Schedule 9		949	138,034,664	\$10,913,157	79.06	(\$7,214)	\$10,905,943	79.01	(0.07%)
5	Large Power Secondary	19S	0	0	\$0	0.00	\$0	\$0	0.00	0.00%
6	Large Power Primary	19P	6	172,937,798	\$11,067,822	64.00	(\$7,425)	\$11,060,397	63.96	(0.07%)
7	Large Power Transmission	19T	1	115,505,413	\$7,101,652	61.48	(\$4,769)	\$7,096,883	61.44	(0.07%)
8	Total Schedule 19		7	288,443,211	\$18,169,474	62.99	(\$12,194)	\$18,157,280	62.95	(0.07%)
9	Irrigation Secondary	24S	2,050	66,993,996	\$6,709,535	100.15	(\$4,383)	\$6,705,153	100.09	(0.07%)
10	Irrigation Transmission	24T	0	0	\$0	0.00	\$0	\$0	0.00	0.00%
11	Total Schedule 24		2,050	66,993,996	\$6,709,535	100.15	(\$4,383)	\$6,705,153	100.09	(0.07%)

(1) Updated June 2020 - May 2021 Test Year

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 373

In the Matter of the Application of IDAHO
POWER COMPANY for Authority to
Decrease its Rates for Electric Service for
Costs Associated with Tax Reform.

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

COURTNEY WAITES

December 23, 2019

1 **Q. Please state your name, business address, and present position with Idaho**
2 **Power Company (“Idaho Power” or “Company”).**

3 A. My name is Courtney Waites. I am employed by Idaho Power as a Senior Regulatory
4 Analyst in the Regulatory Affairs Department. My business address is 1221 West
5 Idaho Street, Boise, Idaho 83702.

6 **Q. Please describe your educational background.**

7 A. In December of 1998, I received a Bachelor of Arts degree in Accounting from the
8 University of Alaska in Anchorage, Alaska. In 2000, I earned a Master of Business
9 Administration degree from Alaska Pacific University. I have attended New Mexico
10 State University’s Center for Public Utilities and the National Association of Regulatory
11 Utility Commissioners “Practical Skills for the Changing Electric Industry” conference,
12 the Electric Utility Consultants, Inc.’s “Introduction to Rate Design and Cost of Service
13 Concepts and Techniques for Electric Utilities” conference, Edison Electric Institute’s
14 “Introduction to Public Utility Accounting” course, Edison Electric Institute’s “Electric
15 Rates Advanced” course, SNL Knowledge Center’s “Essentials of Regulatory Finance”
16 course, and the Financial Accounting Institute’s “Utility Finance and Accounting”
17 seminar.

18 **Q. Please describe your work experience.**

19 A. I began my employment with Idaho Power in December 2004 in the Accounts Payable
20 Department. In 2005, I accepted a Regulatory Accountant position in the Finance
21 Department where one of my tasks was to assist in responding to regulatory data
22 requests pertaining to financial issues. In 2006, I accepted my current position,
23 Regulatory Analyst, in the Regulatory Affairs Department. My duties as a Regulatory
24 Analyst include providing support for the Company’s various regulatory activities,
25 including tariff administration, regulatory ratemaking, and compliance filings, and the
26 development of various pricing strategies and policies.

I. OVERVIEW

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Q. What is the Company requesting in this case?

A. The Company is requesting the Public Utility Commission of Oregon (“Commission”) (1) approve Idaho Power’s quantification of \$1.52 million in annualized Oregon jurisdictional benefits associated with federal and state income tax changes (collectively referred to as “Tax Reform”) resulting from the U.S. Tax Cuts and Jobs Act (“2017 Tax Act”), and (2) adjust customer rates to reflect amortization of \$1,519,887 in Tax Reform benefits effective June 1, 2020. The Company is requesting that this amount remain in customer rates until its next general rate case or other proceeding where the then current tax expenses and other tax-related revenue requirement components are reflected in rates.

Q. How is the Company’s case organized?

A. My testimony begins with an overview of the income tax changes resulting from the 2017 Tax Act and the subsequent impact on Idaho Power’s revenue requirement computation. My testimony then presents the 2017 proforma analysis performed by the Company to quantify estimated benefits of the 2017 Tax Act. Finally, my testimony concludes with the Company’s proposed ratemaking treatment of the Tax Reform benefits. The Direct Testimony of Company witness Gene W. Marchioro discusses in detail the 2017 proforma analysis performed and the quantification of other income tax benefits. To facilitate Idaho Power’s proposed ratemaking treatment, concurrent with the Application the Company is requesting reauthorization to defer for the calendar year 2020 Tax Reform benefits in Docket No. UM 1928(2).

II. THE 2017 TAX ACT

Q. Please describe the 2017 Tax Act.

A. The 2017 Tax Act lowered the corporate tax rate to 21 percent from the existing maximum rate of 35 percent and modified or eliminated certain federal income tax

1 deductions for corporations. While the change in the corporate income tax rate
2 reduced the Company's income tax expense beginning in 2018, accounting rules
3 required Idaho Power to remeasure deferred income tax assets and liabilities as of the
4 date of the enactment, significantly reducing net deferred tax liabilities, as well as
5 causing an increase in income tax expense for 2017. Mr. Marchioro's testimony
6 describes the 2017 Tax Act and its impact on Idaho Power's financial statements in
7 more detail.

8 **Q. How does the 2017 Tax Act impact Idaho Power's revenue requirement**
9 **computation?**

10 A. The 2017 Tax Act contains provisions that resulted in changes to Idaho Power's
11 financial statements. For example, the Company's income tax expense included in
12 the revenue requirement computation approved in the last general rate case was
13 calculated in accordance with the Internal Revenue Code of 1986. The 2017 Tax Act
14 amended sections of the 1986 code, including the reduction in the federal corporate
15 income tax rate from 35 percent to 21 percent, thereby impacting Idaho Power's
16 income tax expense.

17 **Q. Please describe the Company's analysis of the 2017 Tax Act provisions.**

18 A. Idaho Power performed a proforma analysis, included as Confidential Exhibit No. 201
19 to Mr. Marchioro's testimony, comparing actual 2017 financial statement income tax
20 expense with a quantification of the impact to the Company's income tax expense had
21 Idaho Power been subject to the 2017 Tax Act provisions for the 2017 year. The
22 Company's 2017 proforma analysis also included the reduction to the Idaho state tax
23 rate that was enacted in early 2018. The results of the 2017 proforma analysis
24 included a current tax expense reduction of \$11,310,551 and a deferred tax expense
25 reduction of \$15,690,259, for a total revenue reduction of \$27,000,810 on a system
26

1 basis. The Oregon jurisdictional share of the estimated Tax Reform benefits is
2 \$1,158,335.

3 **Q. Did the Company quantify any additional Tax Reform benefits?**

4 A. Yes. Idaho Power's 2017 proforma analysis does not include Tax Reform benefits
5 associated with the North Valmy Power Plant ("Valmy) levelized revenue requirement.
6 Those computations were performed separately and result in a benefit of \$41,402 on
7 an Oregon jurisdictional basis for a total benefit associated with Tax Reform of
8 \$1,199,737.

9 **Q. You indicated the 2017 Tax Act became effective January 1, 2018. Has Idaho
10 Power provided any of the Tax Reform benefits to Oregon customers yet?**

11 A. Yes. In Docket No. UM 1928, the Company filed an application to defer for later
12 ratemaking treatment impacts associated with the 2017 Tax Act for the period January
13 1, 2018, through December 31, 2018. On May 30, 2018, the Commission issued Order
14 No. 18-199 approving a term sheet between Staff, the Oregon Citizens' Utility Board
15 ("CUB"), and Idaho Power providing for the give back of \$1,483,736 in tax benefits
16 annually to Oregon customers effective June 1, 2018. Idaho Power, Staff, and CUB
17 agreed that the annual benefit of \$1,483,736 reflects a reasonable quantification of all
18 tax benefits resulting from Tax Reform.

19 **Q. Idaho Power's quantification of the current and deferred tax benefits associated
20 with Tax Reform was \$1,199,736, but the term sheet approved with Order No. 18-
21 199 included annualized Tax Reform benefits of \$1,438,736. Please describe the
22 difference.**

23 A. The additional Tax Reform benefits of \$283,999 represent other income tax benefits
24 not quantifiable on a 2017 proforma basis and agreed to by Idaho Power, Staff, and
25 CUB for settlement purposes.
26

1 **Q. How long will the \$1.44 million in Tax Reform benefits remain in customer rates?**

2 A. As part of the term sheet approved with Order No. 18-199, Idaho Power, Staff and
3 CUB agreed the \$1,438,736 annualized Tax Reform benefits will remain in customer
4 rates until May 31, 2020, to provide customers with the full 24 months of benefits
5 associated with calendar years 2018 and 2019. Order No. 18-199 approved
6 amortization of Tax Reform benefits in customer rates associated with 2018 while
7 Order No. 19-182 approved amortization of Tax Reform benefits in customer rates
8 associated with 2019. Amortization of Tax Reform benefits associated with the
9 calendar year 2019 will be complete May 31, 2020.

10 **Q. You indicated the term sheet approved with Order No. 18-199 determined Tax**
11 **Reform benefits associated with calendar years 2018 and 2019. What is Idaho**
12 **Power's proposal with respect to the quantification of Tax Reform benefits for**
13 **the calendar year 2020?**

14 A. After a review of the methodology performed to compute the Tax Reform benefits
15 currently included in customer rates, the Company confirmed it is appropriate to
16 continue to provide customers \$1,158,335 in annualized Tax Reform benefits as this
17 amount is representative of both the current and deferred tax expense reductions
18 resulting from Tax Reform. However, Idaho Power is proposing to update the level of
19 benefits associated with the Valmy levelized revenue requirement and other income
20 tax benefits.

21 **Q. Please explain the update to the tax benefits associated with the Valmy levelized**
22 **revenue requirement.**

23 A. Order No. 18-199 approved \$41,402 in Tax Reform benefits associated with the Valmy
24 levelized revenue requirement as these benefits were not captured in the Company's
25 2017 proforma analysis. These benefits include income tax expense reductions
26 associated with Unit 1, Unit 2, and the common facilities at Valmy. Because cessation

1 of Idaho Power's Unit 1 operations and full depreciation of the investments will occur
2 December 31, 2019, Idaho Power received approval, as part of Docket No. UE 363,
3 to remove all revenue requirement amounts associated with Unit 1 effective January
4 1, 2020. Included in the \$3.17 million rate reduction are income tax expense amounts
5 based on provisions of the Internal Revenue Code of 1986 *prior* to the 2017 Tax Act,
6 meaning the rate reduction proposed in Docket No UE 363 is greater than the
7 decreased revenue requirement Idaho Power will experience. Consistent with the
8 term sheet approved by the Commission with Order No. 18-199, any updates to the
9 Valmy levelized revenue requirement resulting from Tax Reform are to be updated
10 through the Company's tax reform proceedings rather than the Valmy levelized
11 revenue requirement proceedings.

12 **Q. Has Idaho Power updated the quantification of the Tax Reform benefits**
13 **associated the Valmy levelized revenue requirement?**

14 A. Yes. The \$3.17 million rate reduction proposed by the Company in Docket No. UE
15 363 includes \$27,143 in income tax expense amounts based on provisions of the
16 Internal Revenue Code of 1986 prior to the 2017 Tax Act. Therefore, Idaho Power
17 has reduced the Tax Reform benefit of \$1,158,335 associated with the 2017 proforma
18 analysis by \$27,143, resulting in Tax Reform benefits of \$1,131,192.

19 **Q. What is the Company's proposed update to other income tax benefits?**

20 A. Idaho Power has quantified other income tax benefits of \$388,695, for a proposed total
21 Oregon jurisdictional Tax Reform benefit for the calendar year 2020 of \$1,519,887.
22 Mr. Marchioro's testimony discusses the quantification of all components of the \$1.52
23 million in Tax Reform benefits in more detail.

24 **Q. Is the Company proposing to update this amount annually?**

25 A. No. Idaho Power is proposing the annualized Tax Reform benefit of \$1.52 million
26 remain in customer rates until the Company files its next general rate case or other

1 proceeding where the then current tax expenses and other tax-related revenue
2 requirement components are reflected in rates. Similar to the development of a test
3 period for a general rate case, Idaho Power has quantified Tax Reform benefits using
4 a 2017 proforma analysis along with a 2018 known and measurable adjustment and
5 believes this ratemaking approach is a reasonable method for providing customers tax
6 reform benefits outside of a general rate revision. Mr. Marchioro will explain in more
7 detail why annual revisions are not practical.

8 **Q. What is the Company's proposed ratemaking treatment of the \$1.52 million in**
9 **Tax Reform benefits?**

10 A. Order No. 18-199 requires Idaho Power file a deferral request to begin tracking tax
11 reform benefits beginning January 1, 2020. To facilitate this ratemaking treatment,
12 concurrent with the Application, Idaho Power is requesting reauthorization to defer for
13 the calendar year 2020 \$1.52 million in Tax Reform benefits in Docket No. UM 1928(2).
14 The Company is proposing to continue to file annual requests for reauthorization of
15 deferred accounting of the Tax Reform benefits in Docket No. UM 1928 no later than
16 December 31 of each calendar year. Similar to Tax Reform benefits approved with
17 Order No. 18-199, Idaho Power agrees to forgo application of an earnings test for the
18 \$1.52 million in benefits.

19 **Q. How is Idaho Power proposing to address the amortization of the Tax Reform**
20 **benefits?**

21 A. Idaho Power is requesting authorization to begin amortization in customer rates of the
22 \$1.52 million in Tax Reform benefits associated with the calendar year 2020 effective
23 June 1, 2020. The Company will continue to annually request amortization of deferred
24 amounts with a rate effective date of June 1, coincident with the rate change
25 associated with the Company's Annual Power Cost Update.

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1 **Q. How does Idaho Power propose to allocate the \$1.52 million in Tax Reform**
2 **benefits to each class of customers?**

3 A. Consistent with Commission Order No. 18-199, the Company proposes to allocate the
4 annual benefit of \$1.52 million as a uniform percentage decrease to all base rate
5 components except the service charge.

6 **Q. Has the Company prepared a schedule that presents the revenue spread results**
7 **for each customer class under Idaho Power's proposed allocation**
8 **methodology?**

9 A. Yes. Attachment 1 to the Application presents a summary of the proposed revenue
10 impact for each customer class. The Company's proposal to begin amortization of
11 \$1.52 million of Tax Reform benefits in customer rates on June 1, 2020, will replace
12 the \$1.48 million of Tax Reform benefits currently in amortization, resulting in reduction
13 of \$36,151, or an overall decrease of 0.06 percent.

14 **Q. Does this conclude your testimony?**

15 A. Yes, it does.
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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE 373

In the Matter of the Application of IDAHO
POWER COMPANY for Authority to
Decrease its Rates for Electric Service for
Costs Associated with Tax Reform.

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

GENE W. MARCHIORO

December 23, 2019

1 **Q. Please state your name, business address, and present position with Idaho**
2 **Power Company (“Idaho Power” or “Company”).**

3 A. My name is Gene W. Marchioro. My business address is 1221 West Idaho Street,
4 Boise, Idaho 83702. I am employed by Idaho Power as the Corporate Tax Director.

5 **Q. Please describe your educational background.**

6 A. I graduated from Boise State University in 1989, receiving a Bachelor of Business
7 Administration degree in Accounting. I am a Certified Public Accountant licensed in
8 the state of Idaho. I have also completed the University of Idaho’s Utility Executive
9 Course in 2006. Over the course of my professional career I have participated in
10 numerous seminars, conferences, and trainings related to income taxation, financial
11 reporting for taxes, and utility industry issues.

12 **Q. Are you a member of any professional societies or associations?**

13 A. Yes. I am a current board member and past Chairman of the Board for the Associated
14 Taxpayers of Idaho. I am a member of the Taxation Committee of the Edison Electric
15 Institute. Additionally, I am also a member in both the American Institute of Certified
16 Public Accountants and the Idaho Society of Certified Public Accountants.

17 **Q. Please describe your work experience with Idaho Power.**

18 A. I began my employment with Idaho Power in June 2001 in the Corporate Tax
19 Department as the Tax Research Coordinator. In 2003 I was promoted Corporate Tax
20 Director, the position which I hold today. Prior to joining Idaho Power I was a Senior
21 Tax Manager at Deloitte & Touche LLP.

22 In my position with Idaho Power I am responsible for all tax planning,
23 compliance filings, financial reporting, regulatory filings, and examinations related to
24 the Company’s income, property, sales, and other taxes.

25 **Q. What is the purpose of your testimony in this case?**

26

1 A. The purpose of my testimony is to describe the Company's 2017 proforma analysis
2 prepared to quantify federal and state income tax changes (collectively referred to as
3 "Tax Reform") resulting from the U.S. Tax Cuts and Jobs Act ("2017 Tax Act") and
4 why continued use of the analysis is appropriate to quantify current and deferred tax
5 expense reductions until the Company's next general rate case. I will also describe
6 the Company's updated quantification of other income tax benefits.

7 **Q. Please summarize your exhibits.**

8 A. Confidential Exhibit No. 201 summarizes the 2017 proforma analysis results and the
9 derivation of the Oregon jurisdictional share of the Tax Reform benefits the Company
10 is proposing to include in customer rates. Exhibit No. 202 presents the revenue
11 requirement impact of the other income tax benefits.

12 **Q. How did the Tax Act impact Idaho Power's financial statements?**

13 A. On December 22, 2017, the 2017 Tax Act was signed into law (see Pub. L. No. 115-
14 97, 131 Stat 2045). Effective January 1, 2018, the 2017 Tax Act lowers the corporate
15 tax rate to 21 percent from the existing maximum rate of 35 percent, provides for
16 expanded bonus depreciation, limits the deductibility of interest expense, eliminates
17 the alternative minimum tax, repeals the manufacturing deduction, and imposes
18 additional limitations on the deductibility of executive compensation. Public utility
19 companies, such as Idaho Power, retain the full deductibility of interest expense but
20 are no longer eligible for the bonus depreciation provisions; however traditional
21 accelerated tax depreciation methods are still available.

22 While the change in the corporate income tax rate reduced the Company's
23 income tax expense beginning in 2018, accounting rules required Idaho Power to
24 remeasure deferred income tax assets and liabilities as of the date of the enactment,
25 reducing net deferred tax liabilities in 2017, as well as causing an increase in income
26

1 tax expense for 2017. As a result, the Company analyzed the provisions of the Tax
2 Act to determine *all* the impacts to the Company's financial statements.

3 **Q. How did the Company quantify the estimated impacts of the 2017 Tax Act**
4 **provisions on Idaho Power's financial statement income tax expense?**

5 A. Idaho Power performed a 2017 proforma analysis, included as Confidential Exhibit No.
6 201 to my testimony, comparing actual 2017 financial statement income tax expense
7 with a quantification of the impact to the Company's income tax expense had Idaho
8 Power been subject to the 2017 Tax Act provisions for the 2017 year. The Company's
9 2017 proforma analysis also includes the reduction of the Idaho state tax rate that was
10 enacted in early 2018.

11 Tax Reform results in a current tax expense reduction of \$11,310,551, serving
12 as an immediate cash savings. In addition to current tax expense reductions, Tax
13 Reform caused adjustments to 2017 deferred tax expense of \$15,690,259, reducing
14 amounts customers owe in the future, for a total revenue reduction of \$27,000,810 on
15 a system basis. The Oregon jurisdictional share of the estimated Tax Reform benefits
16 is \$1,158,335. As Company witness Courtney Waites describes in her testimony,
17 Idaho Power performed a separate analysis to determine the impact of the 2017 Tax
18 Act on the North Valmy power plant levelized revenue requirement as these amounts
19 were excluded from the 2017 proforma analysis. The result was a reduction of
20 \$27,143 in Tax Reform benefits on an Oregon jurisdictional basis, for total Tax Reform
21 benefits of \$1,131,192.

22 **Q. The \$1,158,335 in Tax Reform benefits was based on a 2017 proforma analysis.**
23 **Has Idaho Power performed a 2018 proforma analysis to update its estimate of**
24 **Tax Reform benefits now that more recent financial data is available?**

25 A. No. To do so Idaho Power would be required to apply the prior provisions of the
26 Internal Revenue Code of 1986 to the Company's 2018 financial results in order to

1 generate a proforma income tax expense for comparison to actual 2018 income tax
2 expense. This process would be very labor intensive and would not provide the
3 Commission with a more informed result of how Tax Reform lowered income tax
4 expense than that contained in the 2017 proforma analysis.

5 **Q. What makes the recreation of the analysis labor intensive?**

6 A. An example of the extensive work required can be illustrated with the reimplementation
7 of bonus depreciation for 2018, a provision of the tax code that was eliminated for rate
8 regulated entities with the Tax Act. The determination of what the impact would have
9 been had this provision been in place for 2018 would be a large undertaking as it would
10 essentially require a second set of plant-related tax records be developed and
11 maintained. Additionally, other significant income tax items would need to be
12 addressed, including unwinding the accounting for excess deferred income taxes,
13 remeasuring deferred tax balances at the previous higher corporate tax rate, and
14 recreating the manufacturing deduction. Reimplementing these pieces alone would
15 require the Company to develop a second system to recompute Idaho Power's income
16 tax accruals for tax laws that are no longer in effect as the Company's income tax
17 accounting system cannot compute historical "what if" scenarios without developing
18 an entirely new system.

19 **Q. Would an updated proforma analysis provide the Commission with a better
20 basis for determining rates for 2020 and beyond?**

21 A. No. The Company believes its 2017 analysis provides a thorough and representative
22 view of the impacts of the 2017 Tax Act on its revenue requirement. As previously
23 discussed, developing a 2018 proforma analysis would involve a very labor intensive
24 process to create a secondary income tax system for laws that no longer exist and
25 may require other adjustments similar to those utilized to develop a general rate case
26 test year. The result would be an analysis based on a historical period that reflects

1 the impacts of the 2017 Tax Act, including certain adjustments to ensure that it
2 provides an accurate representation. Therefore, a 2018 proforma analysis would
3 contain the same type of information provided by the 2017 proforma analysis, just
4 utilizing a different historical base period. For this reason, the Company does not
5 believe a re-creation of this analysis would provide additional meaningful information
6 for use by the Commission in setting rates effective June 1, 2020, and beyond.

7 Therefore, given the labor intensive nature of updating the proforma analysis
8 and the limited incremental value an updated analysis would provide, the Company
9 believes continued use of the 2017 proforma analysis for current and deferred tax
10 expense reductions is a fair and balanced methodology for computing customer
11 benefits.

12 **Q. Is Idaho Power's income tax accounting different from that of many of its peer**
13 **utilities?**

14 A. Yes. For regulatory accounting purposes, Idaho Power is authorized to use the "flow-
15 through" method of accounting for income taxes. Flow-through accounting allows the
16 current tax benefit or expense of a temporary book-to-tax difference to impact income
17 tax expense. Under Generally Accepted Accounting Principles ("GAAP"), a deferred
18 tax is created for temporary differences thereby offsetting any current tax impacts; this
19 is known as the "normalization" method. Thus, the flow-through method can increase
20 or decrease financial accounting income tax expense, whereas the normalized method
21 has no impact to income tax expense.

22 Flow-through accounting typically results in lower accumulated deferred
23 income tax ("ADIT") balances being recorded and thereby creates regulatory assets
24 and liabilities for taxes in order to properly state ADIT under GAAP. Tax Reform not
25 only decreased Idaho Power's ADIT balances but also significantly reduced its related
26 income tax regulatory assets and liabilities. The Tax Reform adjustments related to

1 Idaho Power's ADIT created excess deferred income taxes ("EDIT") which was
2 recorded as a regulatory liability. Regulated utilities following normalized accounting
3 generally record more ADIT than a flow-through company and, in turn, would likely
4 have greater EDIT balances because of Tax Reform.

5 **Q. Company witness Courtney Waites indicates Idaho Power is proposing an**
6 **update to the other income tax benefit amount. Please describe this update.**

7 I. In Docket No. UM 1928, Staff noted that calculation of EDIT amounts to flow back to
8 customers require a complex asset by asset calculation that would not be available
9 until late 2018.¹ As a result, Idaho Power, Staff, and the Oregon Citizens' Utility Board
10 ("CUB"), agreed for settlement purposes only, that the Company would provide other
11 income tax benefits of \$283,999 annually for the calendar year 2018 and 2019.²
12 Beginning in 2018, the EDIT balance began reversing pursuant to the average rate
13 assumption method (or ARAM), as required by the Internal Revenue Code. This
14 amortization, an income tax benefit, results in a corresponding reduction in net
15 accumulated deferred income tax liabilities, thereby *increasing* rate base by an
16 equivalent amount. The revenue requirement impact of the expense reduction and
17 rate base increase is a revenue requirement reduction of \$388,695 on an Oregon
18 jurisdictional basis.

19 **Q. Please summarize the components of the Tax Reform benefit the Company is**
20 **proposing to provide to Oregon customers.**

21 A. Idaho Power is proposing to provide \$1,519,887 in Tax Reform benefits to Oregon
22 customers, including \$1,158,335 in current and deferred tax expense reductions offset
23

24 ¹ *In the Matter of Idaho Power Co., Application for Deferred Accounting Related to the US Tax Cuts*
25 *and Jobs Act*, Docket UM 1928, Staff Report for the May 29, 2018 Public Meeting at 7 (May 24,
2018).

26 ² Docket UM 1928, Order No. 18-199, Appendix A at 13 (May 30, 2018)

1 by \$27,143 associated with the North Valmy power plant levelized revenue
2 requirement, and the addition of \$388,695 in other income tax benefits.

3 **Q. Does this complete your testimony?**

4 A. Yes, it does.

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Idaho Power/201
Witness: Gene W. Marchioro

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

IDAHO POWER COMPANY

Exhibit Accompanying Direct Testimony of Gene W. Marchioro

CONFIDENTIAL

December 23, 2019

**THIS EXHIBIT IS
CONFIDENTIAL AND WILL
BE PROVIDED IN A
SEPARATELY SEALED
ENVELOPE PURSUANT TO
OAR 860-001-0070.**

Idaho Power/202
Witness: Gene W. Marchioro

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

IDAHO POWER COMPANY

Exhibit Accompanying Direct Testimony of Gene W. Marchioro

December 23, 2019

Idaho Power Company
Summary of Revenue Requirement - Oregon
 Other Income Tax Benefits

RATE BASE

Total Electric Plant in Service	\$	-
Less: Accumulated Depreciation		-
Less: Amortization of Other Plant		-
Net Electric Plant in Service	\$	-
Less: Accumulated Deferred Income Taxes		(312,928)
TOTAL COMBINED RATE BASE	\$	312,928

NET INCOME

Total Operating Revenues	\$	-
Operating Expenses		
Operation and Maintenance Expenses	\$	-
Depreciation Expenses		-
Amortization of Limited Term Plant		-
Taxes Other Than Income		-
Regulatory Debits/Credits		-
Provision for Deferred Income Taxes		(312,928)
Investment Tax Credit Adjustment		-
Current Income Taxes		-
Total Operating Expenses	\$	(312,928)
Operating Income	\$	312,928
Add: IERCO Operating Income		-
Consolidated Operating Income	\$	312,928

Proposed Rate of Return 7.76%

Earnings Deficiency	\$	(288,645)
Net-to-Gross Tax Multiplier		1.34662
OTHER INCOME TAX BENEFITS REVENUE REQUIREMENT	\$	(388,695)