



825 NE Multnomah, Suite 2000
Portland, Oregon 97232

December 31, 2019

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, OR 97301-3398

Attn: Filing Center

RE: UM 1917(2)—PacifiCorp's Application for Reauthorization of Deferred Accounting Related to Federal Tax Act

PacifiCorp d/b/a Pacific Power submits for filing its Application for Reauthorization of Deferred Accounting Related to Federal Tax Act.

It is respectfully requested that all formal data requests to the company regarding this filing be addressed to the following:

By email (preferred): datarequest@pacificorp.com

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah Street, Suite 2000
Portland, OR 97232

Please direct any informal inquiries to Cathie Allen, Regulatory Affairs Manager, at (503) 813-5934.

Sincerely,

Etta Lockey
Vice President, Regulation

Enclosure

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1917(2)

In the Matter of

PACIFICORP d/b/a PACIFIC POWER

Application for Reauthorization of Deferred
Accounting Related to Federal Tax Act.

**APPLICATION FOR
REAUTHORIZATION OF
DEFERRED ACCOUNTING**

I. INTRODUCTION

In accordance with Oregon Revised Statutes (ORS) 757.259(2)(e) and Oregon Administrative Rules (OAR) 860-027-0300, PacifiCorp d/b/a Pacific Power applies to the Public Utility Commission of Oregon (Commission) for an order reauthorizing deferral of Oregon's allocated share of the impacts associated with the income tax provisions enacted by the federal Tax Act.¹ PacifiCorp respectfully requests reauthorization for deferral for 12 months beginning January 1, 2020.

II. CONTACT INFORMATION

Communications regarding this application should be addressed to:

Oregon Dockets
PacifiCorp
825 NE Multnomah St., Suite 2000
Portland, OR 97232
Email: oregondockets@pacificorp.com

Matthew McVee
Chief Regulatory Counsel
PacifiCorp
825 NE Multnomah St., Suite 1800
Portland, OR 97232
Phone: 503-813-5585
Email: matthew.mcvee@pacificorp.com

In addition, PacifiCorp requests that all data requests regarding this application be sent to the following:

¹ An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, Pub. L. No. 115-97, 131 Stat 2054 (2017).

By email (preferred): datarequest@pacificorp.com

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah St., Suite 2000
Portland, OR 97232

Informal questions may be directed to Cathie Allen, Regulatory Affairs Manager, at 503-813-5934.

III. BACKGROUND

The Tax Act contains provisions that will result in comprehensive changes to PacifiCorp's financial statements. The most notable impact is the reduction in the federal corporate income tax rate from 35 percent to 21 percent. The Tax Act also requires the use of a normalization method of accounting for excess deferred income taxes associated with public utility property and eliminates the allowance for bonus depreciation for public utility property. The Tax Act also repeals the domestic production activities deduction section 199, the exclusion of income contributions in aid of construction received from governments of public purposes, and the deduction and imposition of certain limitations with respect to certain expenditures.

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).² On December 28, 2017, PacifiCorp filed an application requesting authority to defer the

² The Tax Act impacted three groups of accumulated deferred income tax (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. A normalization method of accounting must be used for protected EDIT balances.

expected impact to both current income taxes and EDIT associated with the income tax provisions of the Tax Act until the income tax changes are reflected in base rates. On January 18, 2019, the Commission issued Order No. 19-017 approving PacifiCorp's initial deferral application for 2018 activity.

On December 31, 2018, PacifiCorp filed an application requesting reauthorization of the deferral of the impact of the Tax Act from January 1, 2019, through December 31, 2019. The Commission has not yet taken action on PacifiCorp's request for deferral of 2019 activity in this docket³; without presupposing the Commission's decision related to PacifiCorp's December 13, 2018 filing, PacifiCorp is respectfully requesting reauthorization of the deferral of the impact of the Tax Act from January 1, 2020, through December 31, 2020, at this time in compliance with OAR 860-027-0300(2) and (4).

IV. OAR 860-027-0300(3) and (4)

A. Description of Utility Expense

As described above, the Tax Act's decrease to the corporate income tax rate impacts the company's revenue requirement by reducing the company's current income tax expense and creating additional EDIT.

B. Reasons for Deferral

Reauthorization of deferred accounting is necessary to capture the impacts associated with decreased income tax expense and EDIT for the benefit of customers until such time as these changes can be incorporated into base rates or otherwise passed on to customers.

³ Consistent with Order 19-304, the deferred amortization of protected EDIT for 2018, 2019, and 2020 was approved by the Commission to offset the offset the Oregon-allocated net book value of the undepreciated plant that is replaced as a result of repowering. *See In the Matter of PacifiCorp dba Pacific Power's 2019 Renewable Adjustment Clause*, Docket UE 352, Order No. 19-304 (Sept. 16, 2019).

C. Proposed Accounting

If this application is approved, PacifiCorp proposes to record deferred amounts related to the reduction in federal corporate income tax rate in FERC Account 229 – Accumulated Provision for Rate Refund with the corresponding entry to FERC Account 449.1 – Provision for Rate Refunds and related income tax effects to FERC Account 190 – Accumulated Deferred Income Taxes, FERC Account 236 – Taxes Accrued, FERC Account 409.1 – Income Taxes-Utility Operating Income and FERC Account 411.1 – Provision for Deferred Income Taxes – Credit, Utility Operating income. If this application 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). In addition, if this application is approved, PacifiCorp proposes to record deferred amounts related to excess deferred income tax liabilities in FERC Account 254 – Other Regulatory Liabilities and FERC Account 182 – Other Regulatory Assets with offsetting amounts to FERC Account 190 – Accumulated Deferred Income Taxes, FERC Account 281 – Accumulated Deferred Income Taxes – Accelerated Amortization, FERC Account 282 – Accumulated Deferred Income Taxes – Other Property, and FERC Account 283 – Accumulated Deferred Income Taxes – Other. If this application is denied, the changes related to excess deferred income tax liabilities will be recorded in FERC Account 190 – Accumulated Deferred Income Taxes, FERC Account 281 – Accumulated Deferred Income Taxes – Accelerated Amortization, FERC Account 282 – Accumulated Deferred Income Taxes – Other Property, FERC Account 283 – Accumulated Deferred Income Taxes – Other, FERC Account 410.1 – Provisions for Deferred Income Taxes, Utility Operating Income, and FERC Account 411.1 – Provision for Deferred Income Taxes – Credit, Utility Operating income.

D. Estimate of Amounts

PacifiCorp estimates the following amounts related to the 2020 impacts of the Tax Act.

2020 Current Income Tax Expense	2020 Protected Property EDIT Amortization w/ Gross-Up
\$46.7 million	\$23.8 million

E. Notice

A copy of the Notice of Application is included as Exhibit A. This notice will be served to the service list in docket UM 1917.

F. Description and Explanation of Entries in the Deferred Account to Date

The deferral related to 2020 current income tax expense is \$46.7 million and the deferral related to 2020 protected EDIT amortization is projected to be \$23.8 million, including gross-up.

During the time since the company’s applications in UM 1985 and UM 1917, the company has made two changes, as quantified in Attachment A.

First, while total EDIT has not changed, there has been a correction in classification between protected and non-protected since the balances were presented in UM 1917. The misclassification was identified during the process of extracting non-protected property EDIT balances from the company’s tax fixed asset system so that they can be deferred and returned to customers over a period of time approved by the Commission. The classification correction resulted in more EDIT classified as protected and less classified as non-protected.

Second, PacifiCorp will be using the Reverse South Georgia Method (RSGM) to amortize protected EDIT, retroactive to January 1, 2018, because its books and underlying records do not contain the necessary vintage account data to use the Average Rate

Assumption Method (ARAM) as originally contemplated. The amortization of PacifiCorp's protected EDIT for 2018, 2019, and 2020 is greater under the RSGM as compared to the company's ARAM projections.⁴

G. Explanation Why PacifiCorp's Books and Underlying Records do not Contain the Necessary Vintage Account Data to use the ARAM.

The underlying reason is situs book depreciation on system-allocated assets. PacifiCorp depreciates system-allocated assets using a base composite life; this base level of book depreciation is system-allocated. An incremental amount of book depreciation is calculated for jurisdictions that approve a composite life different from the base or otherwise approve accelerated book depreciation for system-allocated assets; this incremental amount of book depreciation is situs allocated.

Book depreciation is required at a jurisdictional level by vintage and tax class to have the necessary vintage account data to utilize the ARAM. Because it is not maintained at this level for book accounting purposes, PacifiCorp relies on its tax fixed asset system to produce the necessary vintage account data for tax purposes by performing a procedure to allocate book depreciation.

As presently configured, the book depreciation allocation procedure cannot process situs book depreciation on system-allocated assets in a manner that impacts only the vintage account data of the respective jurisdiction with the situs book depreciation. As a result, the situs book depreciation must be accounted for separately as a tax class of its own, thereby

⁴ Pursuant to the 2019 Renewable Adjustment Clause Settlement, the non-protected EDIT, including the deferred amortization of protected EDIT for 2018, 2019, and 2020, will be used to offset the Oregon-allocated net book value of the undepreciated plant that is replaced as a result of repowering. *See In the Matter of PacifiCorp dba Pacific Power's 2019 Renewable Adjustment Clause*, Docket UE 352, Order No. 19-304 (Sept. 16, 2019).

rendering the jurisdictional vintage account data to which the EDIT is actually attached incomplete for the purposes of using the ARAM.

H. How the Issues with Situs Book Depreciation are Addressed by the RSGM

Unlike the ARAM, book depreciation is not required at the jurisdictional level by vintage and tax class for the amortization of EDIT when using the RSGM. The RSGM requires only the use of a remaining regulatory life for an asset or group of assets to amortize the EDIT straight line.

To implement the RSGM, the company has categorized Oregon-allocated protected EDIT at the level of detail presented in our most recently filed depreciation study. The protected EDIT is then amortized straight-line over Oregon's approved remaining regulatory life for each respective asset or group of assets. For tax years 2018 to 2020, the remaining lives are based on Oregon's most recently approved depreciation study. Beginning in 2021, the remaining lives will be updated to match those approved in the presently pending depreciation study and then again for each depreciation study approved thereafter.

I. Application of Statutory Requirements for Using the RSGM to PacifiCorp's Facts and Forthcoming EDIT Normalization Guidance

Although there are uncertainties with respect to the proper application of section 13001(d) of the TCJA, the company has carefully considered this matter and, based on our facts and circumstances, have concluded that PacifiCorp's use of the RSGM is permitted as a normalization method of accounting.

In Notice 2019-33, the IRS announced its intent to issue guidance to clarify the EDIT normalization requirements, which may include guidance on the use of the RSGM; the company anticipates this guidance will be issued in 2020. In comments submitted in

response to Notice 2019-33, the Edison Electric Institute has requested that the IRS issue transitional guidance that allows taxpayers to correct potential normalization violations on a prospective basis and that the violations be forgiven without penalty. If uncertainties still exist after the guidance is issued, the company will evaluate the need to file a private letter ruling request.


J. Reasons for Continuation of Deferred Accounting

As stated above, reauthorization of deferred accounting is necessary to capture the continuing impacts associated with decreased income tax expense and EDIT for the benefit of customers until such time as these changes can be incorporated into base rates or otherwise passed on to customers.

VI. CONCLUSION

PacifiCorp respectfully requests that the Commission authorize the company to continue deferring the Oregon-allocated share of the impacts associated with the Tax Act. A Commission decision on PacifiCorp's request for reauthorization of deferral for 2019 activity is pending; without presupposing the Commission's decision, PacifiCorp is respectfully requesting reauthorization of the deferral of the impact of the Tax Act from January 1, 2020, through December 31, 2020, at this time in compliance with OAR 860-027-0300(2) and (4).

Respectfully submitted this 31st day of December, 2019.

By: 
Matthew McVee
Chief Regulatory Counsel
PacifiCorp d/b/a Pacific Power

Attachment A

EXCESS DEFERRED INCOME TAX (EDIT)

Excess Deferred Income Tax: Corrected				
Category	EDIT	Gross-Up Factor	Gross-Up	Reg. Liability
Property: Protected	(341,769,122)	0.326024	(111,425,034)	(453,194,156)
Property: Non-Protected	(75,116,578)	0.326024	(24,489,829)	(99,606,407)
Non-Property	(11,891,678)	0.326024	(3,876,976)	(15,768,654)
Total	(428,777,378)		(139,791,839)	(568,569,217)

1st Supplemental Response to OPUC Data Request 7				
Category	EDIT	Gross-Up Factor	Gross-Up	Reg. Liability
Property: Protected	(323,605,791)	0.326024	(105,503,347)	(429,109,138)
Property: Non-Protected	(93,279,909)	0.326024	(30,411,516)	(123,691,425)
Non-Property	(11,891,678)	0.326024	(3,876,976)	(15,768,654)
Total	(428,777,378)		(139,791,839)	(568,569,217)

Difference				
Category	EDIT	Gross-Up Factor	Gross-Up	Reg. Liability
Property: Protected	(18,163,331)	0.326024	(5,921,687)	(24,085,018)
Property: Non-Protected	18,163,331	0.326024	5,921,687	24,085,018
Non-Property	0	0.326024	0	0
Total	0		0	0

AMORTIZATION OF PROTECTED EDIT

Projected Amortization of Protected EDIT: Reverse South Georgia Method				
Year	EDIT Amort.	Gross-Up Factor	Gross-Up	Reg. Liability
12/31/2018	(17,163,206)	0.326024	(5,595,622)	(22,758,828)
12/31/2019	(18,446,671)	0.326024	(6,014,063)	(24,460,734)
12/31/2020	(18,321,262)	0.326024	(5,973,176)	(24,294,438)
Total	(53,931,139)		(17,582,861)	(71,514,000)

Projected Amortization of Protected EDIT: Average Rate Assumption Method (UE 1917(1), 12/31/2018)				
Year	EDIT Amort.	Gross-Up Factor	Gross-Up	Reg. Liability
12/31/2018	(7,876,607)	0.326024	(2,567,965)	(10,444,572)
12/31/2019	(7,494,833)	0.326024	(2,443,498)	(9,938,331)
12/31/2020	(7,480,170)	0.326024	(2,438,717)	(9,918,887)
Total	(22,851,610)		(7,450,180)	(30,301,790)

Difference				
Category	EDIT	Gross-Up Factor	Gross-Up	Reg. Liability
Property: Protected	(9,286,599)	0.326024	(3,027,657)	(12,314,256)
Property: Non-Protected	(10,951,838)	0.326024	(3,570,565)	(14,522,403)
Non-Property	(10,841,092)	0.326024	(3,534,459)	(14,375,551)
Total	(31,079,529)		(10,132,681)	(41,212,210)

Exhibit A

EXHIBIT A
NOTICE
BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1917(2)

In the Matter of
PACIFICORP d/b/a PACIFIC POWER
Application for Reauthorization of Deferred
Accounting Related to Federal Tax Act.

**NOTICE OF
APPLICATION FOR
REAUTHORIZATION OF
DEFERRED ACCOUNTING**

On December 31, 2019, PacifiCorp d/b/a Pacific Power filed an application with the Public Utility Commission of Oregon (Commission) for an order reauthorizing deferral of Oregon's allocated share of the impacts associated with the income tax provisions enacted by the federal Tax Act.¹ PacifiCorp respectfully requests reauthorization for 12 months beginning January 1, 2020. To obtain a copy of the application, contact the following:

Oregon Dockets
PacifiCorp
825 NE Multnomah Street, Suite 2000
Portland, OR 97232
Email: oregondockets@pacificorp.com

Any person who wishes to submit written comments to the Commission must do so within 25 days of the date of PacifiCorp's application.

Respectfully submitted on December 31, 2019.

By:



Matthew D. McVee
Chief Regulatory Counsel

¹ An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, Pub. L. No. 115-97, 131 Stat 2054 (2017).

CERTIFICATE OF SERVICE

I certify that I electronically served a true and correct copy of PacifiCorp's **Notice of Application for Reauthorization of Deferred Accounting Related to Federal Tax Act** on the parties listed below via electronic mail in compliance with OAR 860-001-0180.

Service List UM 1917

OREGON CITIZENS' UTILITY BOARD 610 SW BROADWAY, STE 400 PORTLAND, OR 97205 dockets@oregoncub.org	PACIFICORP, DBA PACIFIC POWER 825 NE MULTNOMAH ST, STE 2000 PORTLAND OR 97232 oregondockets@pacificorp.com
JOHN FOX (C) PUBLIC UTILITY COMMISSION OF OREGON PO BOX 1088 SALEM, OR 97308 john.fox@state.or.us	WILLIAM GEHRKE OREGON CITIZENS' UTILITY BOARD 610 SW BROADWAY, STE 400 PORTLAND, OR 97205 will@oregoncub.org
MICHAEL GOETZ OREGON CITIZENS' UTILITY BOARD 610 SW BROADWAY, STE 400 PORTLAND, OR 97205 mike@oregoncub.org	MATHEW MCVEE (C) PACIFICORP 825 NE MULTNOMAH ST STE 1800 PORTLAND, OR 97232 mathew.mcvee@pacificorp.com
SOMMER MOSER (C) PUC STAFF--DEPARTMENT OF JUSTICE BUSINESS ACTIVITIES SECTION 1162 COURT ST NE SALEM OR 97301-4096 sommer.moser@state.or.us	BRAD MULLINS (C) MOUNTAIN WEST ANALYTICS 1750 SW HARBOR WAY STE 450 PORTLAND, OR 97201 brmullins@mwnalytics.com
RILEY G PECK (C) DAVISON VAN CLEVE, PC 1750 SW HARBOR WAY STE 450 PORTLAND, OR 97201 rgp@dvclaw.com	TYLER C PEPPE (C) DAVISON VAN CLEVE, PC 1750 SW HARBOR WAY STE 450 PORTLAND, OR 97201 tcp@dvclaw.com

Dated December 31, 2019.



Katie Savarin
Senior Coordinator, Regulatory Operations