

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: May 5, 2020

REGULAR  CONSENT  EFFECTIVE DATE June 1, 2020

DATE: April 24, 2020

TO: Public Utility Commission

FROM: John Fox

THROUGH: Bryan Conway, Mike Dougherty, John Crider, and Marianne Gardner **SIGNED**

SUBJECT: IDAHO POWER COMPANY:  
(Docket No. UE 373/Advice No. 19-13)  
Application to Decrease Rates for Electric Service of Costs Associated  
with Tax Reform.

**STAFF RECOMMENDATION:**

Approve Idaho Power's Application to Decrease Rates for Electric Service of Costs  
Associated with Tax Reform.

**DISCUSSION:**

Issue

Whether the Public Utility Commission of Oregon (Commission) should approve  
amortization of Oregon-jurisdictional tax benefits in the amount of \$1,519,887 in base  
rates beginning June 1, 2020, and the related proposal that this amount remain in  
customer rates until the Company's next general rate case or other proceeding where  
the then current tax expenses and other tax related revenue requirement components  
are reflected in rates.

Applicable Rule

Under ORS 757.205(1), a public utility must file schedules showing all rates, tolls, and  
charges for services that have been established and are in force at the time. The  
Commission may approve tariff changes if they are deemed to be fair, just, and  
reasonable. ORS 757.210. Tariff revisions or corrections may be made by filing revised  
sheets with the information required under the Commission's administrative rules,

including OAR 860-022-0005 and OAR 860-022-0025. Filings that make any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the changes. ORS 757.220.

OAR 860-022-0025(2) specifically requires that each energy utility changing existing tariffs or schedules must include in its filing a statement plainly indicating the increase, decrease, or other change made with the filing, the number of customers affected by the proposed change and the resulting change in annual revenue; and the reasons or grounds relied upon in support of the proposed change.

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred are allowed in rates to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. ORS 757.259(4); OAR 860-027-0300(9).

## Analysis

### *Background*

In Order No. 18-199 the Commission:

Directed Idaho Power to file an application to reauthorize the deferral of Tax Act benefits for the calendar year 2019, no later than December 31, 2018, for the annual revenue requirement amount of \$1,483,736, consistent with the Term Sheet agreed to by Idaho Power, Staff, and the Citizens' Utility Board (CUB).

Approved amortization of the 2018 ratepayer benefits associated with the Tax Act beginning June 1, 2018 and ending May 31, 2019, consistent with the Term Sheet agreed to by Idaho Power, Staff, and CUB.

Approved Idaho Power's request to recover the incremental revenue requirement of \$2,498,886 related to the accelerated depreciation of Valmy Unit 1, beginning June 1, 2018 and ending December 31, 2019.

Directed Idaho Power to file updated base rate tariff sheets which reflect the net impact of all rate changes to go into effect on June 1, 2018.

Furthermore, in the Term Sheet agreed to by Idaho Power, Staff, and CUB approved by the Commission in Order No. 18-199, Idaho Power agreed to forgo the application of an earnings test for deferred Tax Act benefits for 2018 and 2019.

A compliance filing occurred on May 31, 2018, revising base rates effective June 1, 2018 inclusive of the 2018 Tax Act benefits as approved by the Commission.

In Order No. 19-166 the Commission:

Approved Idaho Power Company's application for an accounting order reauthorizing the Company to defer Tax Act benefits for the period between January 1, 2019 and December 31, 2019, calculated to be \$1,483,736, consistent with the Term Sheet agreed to by Idaho Power, Staff, and CUB.

In Order No. 19-182 the Commission:

Approved Idaho Power Company's application for an order approving amortization of deferred amounts associated with the income tax provisions of H.R.1, also known as the U.S. Tax Cuts and Jobs Act ("Tax Act"), for the June 1, 2019 through May 31, 2020, time period.

In Order No. 20-134 the Commission:

Approved Idaho Power Company's application for an accounting order reauthorizing the Company to defer Tax Act benefits for the period between January 1, 2020 and December 31, 2020, calculated to be \$1,519,887, consistent with the Term Sheet agreed to by Idaho Power, Staff, and CUB.

#### *Application to Decrease Rates*

In this application, UE 373, the Company seeks to increase the annual amount returned to ratepayers from \$1,483,736 to \$1,519,887, resulting in a decrease of Oregon base rate revenue from \$55.829 million dollars to \$55.793 million, or 0.06 percent.

The Company is also 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.<sup>1</sup>

#### *Staff Review*

The Company responded to a number of Staff data requests necessary to clarify and supplement the figures in the Company's application. Furthermore, telephone

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<sup>1</sup> The Company's testimony (Idaho Power/100, Waites/6-7) also indicates the intent that the \$1.152 million figure will not be updated until the next GRC and that the Company's intent to continue to file annual requests for reauthorization of deferred accounting of the Tax Reform benefits in Docket No. UM 1928.

workshops including representatives of the Company, Staff, and CUB occurred on March 10 and March 27, 2020, to discuss the particulars.

Staff's review focused on comparing the confidential results underlying the total proposed \$1,519,887 refund (Idaho Power/201, Marchioro/1) to the \$1,483,736 refund amount previously determined in 2018 (Order No. 18-199, Attachment C). The components of the proposal are summarized in the Company's application and testimony as follows:

- Continued quantification of annual tax reform benefits in the amount of \$1,158,335 based on 2017 results.
- Remove tax benefits in the amount of \$68,545 associated with the cessation of operations and full depreciation of Valmy Unit 1 on December 31, 2019.
- Increase the amount of other income tax benefits from \$283,999 to \$388,695.<sup>2</sup>

As noted in testimony, Idaho Power uses flow through accounting for ratemaking purposes.<sup>3</sup> The Company also provided the following additional information:

Significant flow-through items that would cause tax expense reported for regulatory purposes to vary from year to year include capitalized repair costs, capitalized overhead costs, avoided cost interest, Allowance for Funds Used During Construction - Borrowed, removal costs, bond redemption costs, depreciation (reversing flow-through plant adjustments), and state tax adjustments.<sup>4</sup>

Staff's preferred method of evaluating adequacy of tax reform benefits is to compare the change in the tax rate on a normalized ratemaking basis. This approach is problematic in the case of Idaho Power because of variances in tax expense from year to year as noted above.

Alternatively, the Company has provided the income tax analysis in Attachment A to this memo, which asserts a reduction in income tax of 44 percent compared to Idaho Power's most recent general rate case.<sup>5</sup> Staff has reviewed the Company's display

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<sup>2</sup> Includes expense reduction and rate base increase associated with protected EDIT amortization. See Idaho Power/200 Marchioro/6 and Idaho Power/202 Marchioro/1.

<sup>3</sup> Idaho Power/200, Marchioro/5.

<sup>4</sup> IDAHO POWER COMPANY'S RESPONSE TO STAFF'S DATA REQUEST NO. 7.

<sup>5</sup> See In the Matter of IDAHO POWER COMPANY Request for a General Rate Revision, Docket No. UE 233, Order No. 12-055, Feb 23, 2012.

comparing it to the income tax amounts underlying Order No. 12-055 and concurs with the Company's analysis. Staff's calculations were also reviewed by CUB prior to the March 27, 2020, workshop.

#### *Compliance Filing*

Idaho Power will have other base rate changes associated with the APCU in UE 366 (in addition to rate changes for Schedule 56 (UE 376) and Schedule 92 (Adv No. 20-02)) effective for the same time period, June 1, 2020, - May 31, 2021, the Company is proposing one compliance filing that incorporates the impacts of all four rate changes.

#### Conclusion

Staff concludes that the Company's proposal represents a fair, just, and reasonable return of Tax Act benefits to Idaho Power's Oregon ratepayers and recommends the Commission approve the revised tariffs.

#### **PROPOSED COMMISSION MOTION:**

Approve amortization of Oregon-jurisdictional tax benefits in the amount of \$1,519,887 in base rates beginning June 1, 2020, and the related proposal that this amount remain in customer rates until Idaho Power's next general rate case or other proceeding where the then current tax expenses and other tax related revenue requirement components are reflected in rates.

**IDAHO POWER COMPANY**  
**UE 233**  
**Income Tax Expense Analysis**

Total Income Tax Expense from 2011 Settled Test Year	32,405,509
Oregon Allocation Factor from Test Year	6.4470%
Oregon Allocated Tax Expense	2,089,182
Gross-Up Factor	1.642
Income Taxes in Oregon Base Rates	3,430,437
Proposed Tax Expense Reduction for Rate & Law Changes (incl gross-up)	(1,158,335)
Additional Net Reduction for Valmy and ARAM (incl gross-up)	(361,552)
Total Proposed Tax Expense Reduction	(1,519,887)
<b>Revised Oregon Base Rate Tax Expense</b>	<b>1,910,550</b>
<b>Reduction in Oregon Income Taxes</b>	<b>44.31%</b>