Rocky Mountain Power
Docket No. 17-035-39
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Supplemental Direct Testimony of Nikki L. Kobliha

February 2018

SUPPLEMENTAL DIRECT TESTIMONY

Q. Are you the same Nikki L. Kobliha who previously provided rebuttal testimony in this case on behalf of Rocky Mountain Power ("Company"), a division of PacifiCorp?

A. Yes.

PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your supplemental direct testimony in this proceeding?

A. My supplemental direct testimony discusses the impact of the final tax reform legislation passed in December 2017 and supports the Company's request for approval of the Company's significant energy resource decision for wind repowering. In my supplemental direct testimony, I outline relevant provisions in the federal income tax reform enacted in December 2017. I confirm there are no changes to current federal income tax law on production tax credits ("PTCs"), which provide significant value to the wind repowering project.

Q. Please summarize your testimony.

A. In December 2017, the U.S. Congress passed, and the President signed, H.R 1 ("Tax Act"), which included significant federal income tax reforms. The passage of the Tax Act resolved any risk that federal tax reform posed to the wind repowering project. The Tax Act sets a new corporate income tax rate, now incorporated in the Company's updated economic analysis presented by Company witness Mr. Rick T. Link. The Tax Act also confirms the continued availability of PTCs for the wind repowering project, from which much of their economic benefit is derived. The enactment of the Tax Act therefore resolves the concerns on this issue because the impacts are now known and incorporated into the economic analysis.

SUPPLEMENTAL DIRECT TESTIMONY

Q. When was the Tax Act enacted?

A. The Tax Act was signed into law by the President on December 22, 2017.

Q. When does the Tax Act become effective?

A. The Tax Act generally becomes effective for years beginning after December 31, 2017.

Q. Does the Tax Act reduce the Company's federal income tax rate?

A. Yes, the Tax Act reduces the Company's federal income tax rate from 35 percent to 21 percent.

Q. For purposes of the repowering project, is there a difference between the federal statutory income tax rate and effective tax rate under the Tax Act?

A. No, absent the impact of the PTCs. Thus, the Company's updated economic modeling described by Mr. Link appropriately used a 21 percent tax rate.

Q. Does the reduction in the corporate tax rate directly affect the value of PTCs?

A. No, the reduction in the corporate income tax rate does not directly impact the value of the PTCs. It does, however, impact the tax gross-up value of the PTCs to customers.

Q. Does the Tax Act change any aspect of federal income tax law related to PTCs?

A. No. There were no modifications to the federal income tax code or any Internal Revenue Service guidance relating to the PTCs. Thus, there were no changes to the five-percent safe-harbor equipment purchase requirement, the 80/20 test for repowered wind facilities, and the continuous construction requirement that I discussed in my rebuttal and surrebuttal testimony (*See* Kobliha Rebuttal, lines 31-35).

Q. Are there any other provisions of the Tax Act that affect the wind repowering project?

A. Yes. Two other impacts associated with the reduction in the corporate income tax rate exist. A reduction to the corporate income tax rate reduces the tax gross-up, lowering the Company's overall rate of return on the wind repowering project. The lower tax rate also reduces the accumulated deferred income tax liability related to the use of Modified Accelerated Cost Recovery System ("MACRS") accelerated depreciation for the five-year tax life of the Wind Projects, which will increase the net rate base balance.

Bonus depreciation rules have also changed. Under prior income tax law, repowered wind projects placed in service in 2019 by the Company would have received 30 percent bonus depreciation. Repowered wind projects placed in service in 2020 would have received no bonus depreciation. The new tax reform legislation generally provides that regulated utilities like the Company will not be allowed to use bonus depreciation on projects placed in service after September 27, 2017. The Wind Projects, however, remain subject to the five-year MACRS accelerated depreciation. The impacts of the reduction in the corporate income tax rate and the elimination of bonus deprecation for regulated utilities has been fully reflected in the updated economic analysis prepared by Mr. Link.

Q. Does the reduction in the Company's federal income tax rate make the wind repowering project uneconomic?

A. No, as demonstrated in Mr. Link's updated economic analysis of the wind repowering project.

Q. At this point, do you foresee any future tax reform legislation that will materially impact the economics of the wind repowering project?

A. No. As discussed above, the federal corporate tax rate has decreased to 21 percent beginning in 2018, and there is no reason to believe that another decrease will occur in the near future. As described by Mr. Link, the wind repowering project continues to provide substantial customer benefits under the Company's new 21 percent federal tax rate.

Q. Does this conclude your supplemental direct testimony?

A. Yes.