

Docket No. 20000-519-EA-17
Witness: Nikki L. Kobliha

BEFORE THE WYOMING PUBLIC SERVICE
COMMISSION

ROCKY MOUNTAIN POWER

Rebuttal Testimony of Nikki L. Kobliha

November 2017

1 **Q. Please state your name, business address, and present position with PacifiCorp.**

2 A. My name is Nikki L. Kobliha and my business address is 825 NE Multnomah Street,
3 Suite 2000, Portland, Oregon 97232. My present position is Vice President, Chief
4 Financial Officer and Treasurer for PacifiCorp. I am testifying on behalf of Rocky
5 Mountain Power (“Company”), a division of PacifiCorp.

6 **QUALIFICATIONS**

7 **Q. Briefly describe your educational and professional background.**

8 A. I received a Bachelor of Business Administration with a concentration in Accounting
9 from the University of Portland in 1994. I became a certified public accountant in 1996.
10 I joined the Company in 1997 and have taken on roles of increasing responsibility
11 before being appointed Chief Financial Officer in 2015.

12 **Q. What are your responsibilities as Vice President, Chief Financial Officer and
13 Treasurer?**

14 A. I am responsible for all aspects of the Company’s finance, accounting, income tax,
15 internal audit, Securities and Exchange Commission reporting, treasury, credit risk
16 management, pension, and other investment management activities.

17 **PURPOSE AND SUMMARY OF REBUTTAL TESTIMONY**

18 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

19 A. In support of the Company’s request that the Public Service Commission of Wyoming
20 (“Commission”) approve its application for innovative or non-traditional ratemaking
21 for the wind repowering project, my testimony responds to corporate tax rate issues
22 raised in the direct testimony of Wyoming Industrial Energy Consumers (“WIEC”)
23 witness Mr. Kevin C. Higgins.

1 I provide the Company’s current high-level view of the likelihood of federal tax
2 reform, and I provide an assessment of the most likely change in the effective corporate
3 tax rate assuming tax reform is actually enacted. This assessment is the basis for
4 Company witness Mr. Rick T. Link’s tax-related sensitivity analysis. This analysis
5 shows that the wind repowering project still provides a significant benefit to customers
6 even with a major reduction in the corporate tax rate.

7 **Q. Please summarize your testimony.**

8 A. The customer benefits of the wind repowering project are demonstrated in the
9 economic analysis presented by Mr. Link. Because the project economics rely heavily
10 on tax benefits, the Company’s due diligence involves thorough consideration of all the
11 tax-related risks associated with repowering.

12 Changes in the federal corporate income tax rate remain highly uncertain. Based
13 on the Company’s assessment of the current political environment, a 25 percent
14 effective corporate tax rate is a reasonable estimate for the Company’s tax rate
15 sensitivity analysis. At this point, it is also reasonable to assume continued availability
16 of the 100 percent production tax credit (“PTC”) under the current phase-out
17 provisions.

18 If tax reform is enacted, under the most likely compromise outcome, the change
19 is unlikely to eliminate the customer benefits of the project. Moreover, any tax rate
20 change will likely be known by early 2018, before the Company moves forward under
21 contracts for the wind repowering project. Thus, the Company will evaluate changes in
22 tax law as part of its overall reassessment of the project economics before committing
23 to repowering.

1 **CONSIDERATIONS RELATED TO FEDERAL CORPORATE INCOME**
2 **TAX REFORM**

3 **Q. Mr. Higgins states that the economic value of the wind repowering project may be**
4 **adversely impacted if the federal corporate income tax rate decreases and that the**
5 **Company has not addressed this risk in its filing (Higgins Direct page 25, lines 8-**
6 **20 through page 26, lines 1-14.) What is the current status of proposed tax reform?**

7 A. Since the Company filed its application, the political environment surrounding
8 potential federal tax reform has become somewhat more clear because there are now
9 competing bills in the House and Senate that contain specific details of each proposal.
10 Despite the fact that specific legislation has now been proposed, however, there are
11 major differences between the House and Senate versions of corporate tax reform and
12 a great deal of uncertainty remains over the final exact nature of corporate income tax
13 reform, and, indeed, whether final legislation will pass both houses of Congress and be
14 signed into law.

15 **Q. Please provide a general overview of the major corporate tax implications of the**
16 **House and Senate versions of the Tax Cuts and Jobs Act.**

17 A. At this time, both the House and Senate versions of the Tax Cuts and Jobs Act reduce
18 the current top corporate income tax rate from 35 percent to 20 percent. The House
19 version would make the corporate income tax rate cut effective as of January 1, 2018,
20 while the Senate version would delay the income tax rate cut until January 1, 2019. In
21 addition to changes in the statutory tax rate, both versions also include provisions that
22 would potentially change the deductions available to the Company.

1 **Q. Does the current legislation pose any procedural problems that make its passage**
2 **uncertain?**

3 A. Yes. Republicans will likely need to use budget reconciliation to pass any tax reform
4 bill in the Senate, which requires only a simple majority of votes when associated with
5 temporary budget measures, rather than the 60 votes required for permanent tax law
6 changes. Normally, 60 Senators are required to end debate in the Senate. This generally
7 means that 60 votes are required to pass legislation in the Senate versus a bare majority
8 of 51 votes (50 in case of a tie with the Vice President casting the deciding vote).
9 However, under the Senate Rules, the reconciliation process can be used to pass
10 budgetary legislation, like tax reform, with a bare majority of the Senate. An important
11 caveat is that the budget-reconciliation process cannot be used if the legislation creates
12 an increase in the deficit after 10 years.

13 **Q. Please explain the difference between the effective tax rate the Company used its**
14 **sensitivity modeling and a statutory tax rate.**

15 A. The 25 percent tax rate the Company assumed for purposes of its sensitivity modeling
16 is an *effective* tax rate, not a *statutory* tax rate. An effective tax rate accounts for the
17 base statutory rate, but also incorporates numerous other factors, including the impact
18 of excluding certain deductions from taxable income (*i.e.*, a broadening of the tax base
19 to which the new tax rate is applied). Even though both the House and Senate versions
20 of the Tax Cuts and Jobs Act propose a 20 percent statutory corporate tax rate, the
21 effective tax rate will be higher if deductions are eliminated or limited to meet
22 budgetary limitations.

1 **Q. Based on your review of the House and Senate versions of the Tax Cuts and Jobs**
2 **Act, what effective tax rate do you believe is a reasonable outcome for purposes of**
3 **modeling the economics of the repowering project?**

4 A. Based on the deep political divisions between the two parties on the goals of tax reform
5 and the large economic impact surrounding all the major areas of tax reform, the
6 Company believes that at this time it is pure speculation to try to determine the ultimate
7 outcome of tax reform in 2017. Therefore, for purposes of modeling a tax sensitivity
8 for repowering, the Company assumed, as a reasonable proxy for tax reform impacts,
9 a congressional compromise on the corporate income tax rate, reducing the rate to an
10 effective rate of 25 percent, as compared to the current statutory rate of 35 percent.

11 **Q. Does the Company believe that tax reform will impact the phase-out of PTCs?**

12 A. No. Even if tax reform is passed, the Company does not believe it will impact the
13 existing phase-out of the PTC previously enacted by the Protecting Americans from
14 Tax Hikes Act (“PATH Act”). Although the House bill contains provisions regarding
15 modification of the PTC, the Senate bill does not and some key Republican senators
16 have indicated that the final bill will retain the current PATH Act phase-outs and current
17 four-year safe harbor.

18 **Q. Under the most likely schedule for tax reform legislation, will the Company have**
19 **time to assess tax changes before irrevocably committing to the wind repowering**
20 **project?**

21 A. Yes. The Company believes that the window for Congress to enact tax reform
22 legislation is likely to close by early 2018 given the run-up to the mid-term
23 Congressional elections. Thus, in early 2018, the Company should know the outcome

1 of potential legislative changes that might impact corporate tax rates and impact the
2 customer value of the repowering project. This will give the Company time to assess
3 tax law changes, if any, on an individual facility basis before moving forward with the
4 repowering project.

5 **Q. Has the Company accounted for the possibility of a lower 25 percent federal**
6 **income tax rate in its updated economic assessment of the wind repowering**
7 **project?**

8 A. Yes. As discussed by Mr. Link in his rebuttal testimony, the Company has evaluated
9 the wind repowering project under a sensitivity that reflects a potential adjustment to
10 the corporate tax rates and found that the project still provides customer benefits.

11 **Q. Does this conclude your rebuttal testimony?**

12 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE)
APPLICATION OF ROCKY MOUNTAIN)
POWER FOR AN ORDER APPROVING) DOCKET NO. 20000-519-EA-17
NONTRADITIONAL RATEMAKING) (RECORD NO. 14780)
RELATED TO WIND REPOWERING)

AFFIDAVIT, OATH AND VERIFICATION

Nikki L. Kobliha (Affiant) being of lawful age and being first duly sworn, hereby deposes and says that:

Affiant is the Vice President, Chief Financial Officer and Treasurer for PacifiCorp, which is a party in this matter.

Affiant prepared and caused to be filed the foregoing testimony. Affiant has, by all necessary action, been duly authorized to file this testimony and make this Oath and Verification.

Affiant hereby verifies that, based on Affiant's knowledge, all statements and information contained within the testimony and all of its associated attachments are true and complete and constitute the recommendations of the Affiant in her official capacity as Vice President, Chief Financial Officer and Treasurer.

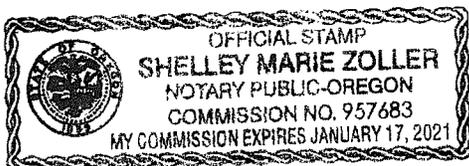
Further Affiant Sayeth Not.

Dated this 17 day of November, 2017

Nikki L. Kobliha
Vice President, CFO & Treasurer
825 NE Multnomah, Ste 2000
Portland, Oregon
503-813-5645

STATE OF Oregon)
) SS:
COUNTY OF Multnomah)

The foregoing was acknowledged before me by Shelley Zoller on this 17th day of November, 2017. Witness my hand and official seal. Signed before me by Nikki Kobliha



Shelley Zoller
Notary Public
State of Oregon