

MidAmerican Energy Company Formula Rate Template Filing

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Meeting Purpose

- The purpose of today's meeting is to review a formula transmission rate template filing MidAmerican will make with FERC in October 2015
- The filing will propose changes to how Accumulated Deferred Income Taxes are treated in Transmission rates
- The filing will also address an IRS "normalization" requirement which has surfaced in recent private letter rulings concerning using a simple average in projected cost rates as opposed to using a proration formula

Background – What is ADIT?

- ▶ Accumulated Deferred Income Taxes (“ADIT”) represents historical balances of deferred income taxes allowed to be collected from customers as tax expense via cost of service but not paid to the taxing authorities
- ▶ ADIT does not include balances of investment tax credits (“ITCs”), nor current production tax credits on alternative energy production (“PTCs”)
- ▶ The net ADIT liability represents an interest-free loan from the government resulting from the difference between income taxes collected from customers and amounts paid
- ▶ Regulators require this interest-free loan to be deducted from net plant to derive rate base for rate cases

Background – ADIT Rate Treatment

- ▶ MidAmerican’s FERC–jurisdictional transmission revenue requirements are determined using the Attachment O formula rate template
- ▶ Under the formula rate template, an allocation of the total company accumulated deferred income taxes (“ADIT”) reduces transmission rate base
- ▶ The amount of ADIT allocated to transmission is deducted from “direct” transmission net plant in order to determine the transmission rate base which is then used in the calculation of return on rate base



Issue – ADIT Policy

- ▶ Due to the short tax lives of certain renewable generation technologies relative to book lives (particularly in recent years where MidAmerican has had bonus depreciation), renewable generation projects generate a significant amount of ADIT compared to transmission assets
- ▶ An allocation of total company ADIT balances to transmission rate base instead of specific assignment has the ratemaking result of moving wind ADIT balances to transmission rate base

Change to “Direct” ADIT

- ▶ An approach similar to that adopted by other utilities (and consistent with state retail rates) will be implemented in MidAmerican’s rate template
- ▶ The template would be modified to include a separate build-up of ADIT related only to transmission plant as well as general plant and labor related ADIT items.
- ▶ The ADIT carried forward to the rate base adjustment would be the direct transmission ADIT plus allocations of general plant and labor related ADIT, using gross plant allocators and labor allocators respectively
- ▶ ADIT from production plant would not be included

Key Points

- ▶ The change is consistent with regulatory matching principles concerning development of rate base and cost of service
- ▶ The change results in transmission ADIT being specifically assigned to rate base, consistent with plant and accumulated depreciation treatment
- ▶ The proposal eliminates double counting of deferred income taxes in developing rates
 - For Iowa retail jurisdictional purposes, MVP-specific ADIT is excluded from rate base (as are the assets and depreciation), while all other ADIT associated with jurisdictional plant is included
 - Allocation of total company ADIT balances to transmission results in state jurisdictional ADIT amounts being assigned to MVPs
- ▶ IRS normalization violation results when there is an inconsistent matching of rate base and cost of service
 - A normalization violation would result in the loss of accelerated tax depreciation for the company
 - Proposed change is consistent with IRS normalization requirements

Background – IRS Normalization

- Further, for purposes of estimating ADIT in projected revenue requirements the existing rate template states that average ADIT balances are determined with reference to ending balances that do not apply the proration formula required for future test periods by IRS regulations
- In several recent private letter rulings the IRS found that the computations of ADIT for purposes of calculating average rate base without application of the proration formula for projected revenue requirement does not comply with the deferred tax normalization requirements for future test periods

Change to Proration Formula

- ▶ The template will be modified to change the footnote reference such that a proration formula will be used for projected rates
- ▶ No change for actual cost calculations where an average of beginning of year / end of year balances will continue to be used



Implementation

- ▶ Requires a FERC Section 205 rate filing to change the rate template
- ▶ The filing will show impacts to 2014 revenue requirements from implementing the change to the template
- ▶ The filing will be made on or about October 1, 2015
- ▶ Starting with 2015, MidAmerican's FERC Form No. 1 filings will include a detailed break-out of the ADIT items consistent with the rate template

MidAmerican Energy Company

Questions?

