

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

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IN RE:  TAX CUTS AND JOBS ACT OF 2017	DOCKET NO. INU-2018-0001
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**ORDER REQUIRING FILING AND ADDITIONAL INFORMATION**

(Issued February 27, 2018)

On January 18, 2018, the Utilities Board (Board) issued an “Order Initiating Investigation,” opening Docket No. INU-2018-0001 to investigate the impact of the Tax Cuts and Jobs Act of 2017 (the Act) on Iowa utilities required to be rate-regulated. The purpose of the investigation is to determine whether the retail rates of each utility required to be rate-regulated are still just and reasonable in light of the Act. The Board set a workshop for January 25, 2018, and required affected utilities to prepare a presentation addressing five questions posed by the Board in the order.

Iowa American Water Company (IAW), Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy (Black Hills), MidAmerican Energy Company (MidAmerican), and Interstate Power and Light Company (IPL) participated in the January 25, 2018, workshop by offering presentations. Liberty Utilities (Midstates Natural Gas) d/b/a Liberty Utilities (Liberty) was represented by counsel but did not present at the workshop.

At the workshop, the participating utilities indicated that the Act would have two primary impacts. First, the reduction in the federal income tax rate from 35

percent to 21 percent would reduce the federal tax expense for each utility, potentially resulting in a reduced annual revenue requirement. The participating utilities presented potential options on how to modify current rates to accommodate the reduced revenue requirements as a result of the Act, such as modifying the rates charged by customer class based on the percentage reduction in overall revenue requirement, passing the savings back to customers through a rider or similar mechanism, or leaving rates unchanged and using the tax savings to defer a future rate case.

The second primary impact of the Act involves the long-term effect of the reduced tax rate. Currently, utilities required to be rate-regulated maintain an Accumulated Deferred Income Tax (ADIT) account. This is an accounting device that recognizes the timing differences between the time when a tax expense can be deducted according to Internal Revenue Service (IRS) rules (i.e., accelerated depreciation) and the time when the tax expense is reflected on the utility's income statement under generally acceptable accounting principles (i.e., straight-line depreciation). The difference between the two is the accumulated deferred income tax; this represents money the utility has collected to pay future income taxes.

The Act would reduce the total taxes paid on each asset, meaning that utilities have collected more in rates from customers than they will be liable for in taxes, increasing the funds in the ADIT account beyond what the utility will owe in future income taxes (otherwise known as excess deferred income taxes). At the workshop,

most of the participating utilities indicated that the excess ADIT funds should be returned to customers pursuant to the IRS's normalization rules, which tie the rate of refunds to the depreciable life of the underlying assets. During their presentations, the participating utilities stressed that the impact of the excess ADIT funds would be more difficult to calculate and should be addressed in a future rate case once the Board and participating utilities can gather more information about the normalization process.

The Board concludes that the 2018 tax rate reduction should be addressed separately from the long-term excess funds impact. As demonstrated at the workshop, the Board recognizes that each participating utility has distinct rate and rate design concerns that may be best considered through individual investigation and action. The Board will require each utility required to be rate-regulated to file a proposal addressing its 2018 tax rate reduction savings and the appropriate mechanism to give customers the benefit of these savings, along with any associated tariffs. This process will allow the Board to tailor the mechanism to each utility, as well as avoid the need for the exchange of potentially confidential information between utilities. The Board notes that this process will also allow quicker investigation, review, and implementation than using a single docket to consider multiple proposals.

The Board also finds that additional information on the impact of the Act on utility rates is crucial and will keep Docket No. INU-2018-0001 open for additional

investigation of common issues. Issues regarding excess ADIT funds and associated IRS normalization rules have already been identified. Over the course of the Board's investigation, other issues may arise which require the utilities to file additional information. The Board will also require each utility required to be rate-regulated to notify the Board if any Board approval is needed regarding the accounting treatment of excess ADIT funds or of any other issue the utility believes the Board should consider in this docket.

Due to scheduling conflicts, Liberty did not make a public presentation regarding the information sought by the Board in its "Order Initiating Investigation" issued January 18, 2018, although it filed a presentation on January 22, 2018. The Board will allow Liberty to file an updated presentation in the Board's Electronic Filing System before it files its 2018 tax savings proposal pursuant to this order, if Liberty believes an updated presentation is appropriate.

**IT IS THEREFORE ORDERED:**

1. Within 30 days of the date of this order, each utility required to be rate-regulated in Iowa shall file a proposal with the Utilities Board addressing how the utility would provide to customers the appropriate benefits of the 2018 federal tax rate reduction. The proposal should include any associated tariffs, if applicable.
2. Docket No. INU-2018-0001 will remain open to continue the investigation into how the Tax Cuts and Jobs Act of 2017 will impact utilities required

to be rate-regulated and their customers. Utilities required to be rate-regulated shall notify the Utilities Board if approval is needed regarding accounting treatment of excess ADIT, or of any other issue that should be considered in Docket No. INU-2018-0001.

3. Within seven days of the date of this order, Liberty Utilities (Midstates Natural Gas) d/b/a Liberty Utilities may file an updated presentation in the Utilities Board Electronic Filing System, if appropriate.

**UTILITIES BOARD**

/s/ Geri D. Huser

/s/ Nick Wagner

ATTEST:

/s/ Trisha M. Quijano  
Executive Secretary, Designee

/s/ Richard W. Lozier Jr.

Dated at Des Moines, Iowa, this 27<sup>th</sup> day of February, 2018.