BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF SOUTH DAKOTA

In the Matter of Staff's Request to Investigate the Effects of the Tax Cuts and Jobs Act on South Dakota Utilities	)))	Docket No. GE17-003

Initial Comments of MidAmerican Energy Company

MidAmerican Energy Company ("MidAmerican") files these comments in response to the South Dakota Public Utilities Commission's ("Commission") Order Requiring Comments; Order Requiring Rate in Effect January 1, 2018, Are Subject to Refund; Order Granting Intervention.[1] In the Order, the Commission requested initial comments from the utilities regarding the general effects of the Tax Cuts and Jobs Act of 2017 (the "Act") on the cost of service and possible mechanisms for adjusting rates. This filing provides MidAmerican's initial comments for its electric and gas utility operations.

First and foremost, MidAmerican is committed to providing the benefits of the Act to our South Dakota customers. The question is how those benefits are given to customers in a way that fulfills MidAmerican's commitment to maintaining low and stable rates for customers now and for many years into the future. MidAmerican commends the Commission for indicating that it will take a flexible approach and consider each utility's position when determining what action(s) to take in response to the Act. MidAmerican looks forward to working with Commission staff and other interested stakeholders to develop and implement a mechanism for adjusting rates as of January 1, 2018, to provide the benefits of the Act to customers consistent with MidAmerican's long-term goals for rate stability.

[1] *In the Matter of Staff' Request to Investigate the Effects of the Tax Cuts and Jobs Act on South Dakota Utilities*, Docket No. GE17-003 (December 29, 2017) (the "Order").

The primary change made by the Act is the reduction of the corporate tax rate from 35% to 21%. The difference in tax rate has an impact on MidAmerican's federal tax expense. As a component of customer rates, this reduction in tax expense should benefit customers since it is a reduction in MidAmerican's cost of providing service. Based on preliminary calculations using forecast 2018 data, MidAmerican estimates the impacts of the corporate tax rate reduction will result in a reduction in the 2018 revenue requirement for the electric utility of $2.1 million. Using the same 2018 forecast data, MidAmerican estimates that the reduction in the gas utility revenue requirement for 2018 would be $2.2 million.

MidAmerican notes, however, that the Act has other impacts that are not necessarily a direct reduction in utility costs. For example, the Act eliminated the use of bonus depreciation and repealed the deduction for qualified production activities (which included electric generation) income. While these impacts may be less significant than the reduction in the corporate tax rate, they will have the effect of increasing MidAmerican's cost of service compared to prior tax law. In addition, the Act is likely to be negative to MidAmerican's credit quality due to the combination of a lower tax rate and the loss of bonus depreciation. The negative impact could be softened if some of the lower revenue requirement from tax reform is allowed to be retained for infrastructure investment or other expenses.[2] The Commission should consider these impacts as it reviews utility proposals to implement the Act. Despite these negative impacts, MidAmerican desires to take action to address the tax rate changes in an efficient way that provides customers with benefits quickly.

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[2] *See e.g.*, Press Release, Moody's Investor Services, Moody's Changes Outlooks on 25 U.S. Regulated Utilities Primarily Impacted By Tax Reform (January 19, 2018) (available at https://www.moodys.com/research/Moodys-changes-outlooks-on-25-US-regulated-utilities-primarily-impacted-PR_378086).

To accomplish the goal of implementing a customer benefit quickly, MidAmerican plans to work with Commission staff and other stakeholders to develop a Tax Expense Revision Mechanism ("TERM") to reduce the cost of electricity consistent with the reduced tax expense. MidAmerican plans to file a TERM as a proposed tariff, which will provide an opportunity for interested parties to comment on the proposal before it is considered by the Commission. Of course, MidAmerican will work with Commission staff and other stakeholders as appropriate to address concerns prior to filing. MidAmerican's initial thinking on how the TERM would work is as follows:

Step 1: At the beginning of each year, MidAmerican will estimate its annual corporate tax expense and calculate the difference in the revenue requirement for that year between the prior 35% corporate tax rate and the currently applicable 21% rate.

Step 2: MidAmerican would calculate and propose a negative factor (either on a cents per kWh basis or on a percentage of pretax bill basis) designed to return the benefits of the reduced federal corporate tax rate to customers. The annual factor would be applied to a sales forecast for that same year. If the factor is applied as a cents per kWh, MidAmerican will calculate the factor by customer class to ensure that no customer class gets a disproportionate amount of the benefits at the expense of other classes of customers.

Step 3: MidAmerican would file a proposed TERM factor annually for Commission approval. Initially, it appears that making this filing at the same time as the revisions to MidAmerican's Energy Cost Adjustment ("ECA") clause each year would be efficient and would minimize the changes to customer costs each year.

Step 4: MidAmerican would review the actual tax expense and sales from the prior year and "true up" the factors based on actual tax expense and sales. The sum of the Step 4 true up and the Step 2 calculations would determine the proposed TERM factor for the next year. MidAmerican would repeat these four steps to develop a new TERM factor each year until the next rate proceeding, at which point the base rates would adjust to the applicable corporate tax rate.

On the gas side, MidAmerican is planning to propose a slightly different solution designed to ensure long-term rate stability for customers. MidAmerican's gas utility is projected to need a rate case more quickly than the electric utility. To provide long-term rate stability and to avoid rate case expense, MidAmerican is currently planning to propose a split between a TERM factor calculation (like that described above for the electric utility) and a regulatory liability account. The regulatory liability account would be used to offset rate base until the next rate proceeding, at which time the Commission would determine the final disposition of the regulatory liability account (i.e., used to reduce rate base or cost of service). MidAmerican will work with Commission staff and other stakeholders to further refine this concept in advance of a tariff filing.

MidAmerican recognizes there are other mechanisms to return the tax expense reduction to customers and that the Commission applied a different mechanism to implement the Tax Reform Act of 1986, which was a change in base rates. However, a different time and a different situation for the utilities calls for a different strategy. The TERM described above is designed to establish an accurate calculation of the actual impacts of the tax change, without requiring a rate proceeding or a process to adjust base rates. Further, to the extent there are changes in the corporate tax rate in the future (before MidAmerican's next rate case), the TERM could be used to capture those changes quickly and efficiently. While the TERM proposed here would require some ongoing administration, it offers flexibility and provides the ability to calculate the actual tax savings on an annual basis. Similarly, the regulatory liability proposal on the gas side is designed to provide customer benefits both for the near-term and the long-term because it is a strategy to mitigate the need for a rate proceeding in the near-term.

Concerning riders, the main impact is to MidAmerican's Transmission Cost Recovery ("TCR") clause. MidAmerican is currently working to file revisions to its formula rates at the Federal Energy Regulatory Commission ("FERC") consistent with FERC's jurisdiction over the Midcontinent Independent System Operator, Inc. ("MISO"). The revisions that MidAmerican is developing will reduce the tax expense included in MidAmerican's rate templates. MidAmerican expects the updated rate templates will be in effect for the March billing period and that the January and February billing periods will be adjusted to reflect the lower tax rate. MidAmerican will inform the Commission when it makes the updates to the rate templates.

MidAmerican notes that the TCR applies only to the recovery of MidAmerican's administrative costs for its participation in MISO and the costs associated with the multi-value value transmission projects ("MVPs") and the portion of other cost-shared transmission projects (e.g., a portion of certain generation interconnection projects). MidAmerican's non-cost-shared projects are not recovered through the TCR. The cost for the MVPs and the shared portion of other transmission projects are collected through the TCR clause based on MidAmerican's rate template, as well as the templates filed by other MISO members. The actual reduction in the corporate tax expense for these projects will depend to a great extent on filings made by other utilities, which are not expected to be available until March. However, to provide benefits to customers quickly, MidAmerican is estimating the effect of the corporate tax rate change for all MVPs and will include this estimated effect in its forthcoming 2018 TCR factor filing. If the actual charges differ significantly from estimates, adjustments will be incorporated in the quarterly factor evaluations and included in the 2018 annual reconciliation.

MidAmerican also plans to modify the ECA clause tariff to reflect the change in the income tax gross-up factor for production tax credits due to the change in the corporate tax rate.

MidAmerican reiterates its commitment to providing the benefits of the Act to its customers in a manner that ensures the best outcome for customers. MidAmerican believes that the TERM proposed above will provide the benefits of the Act in a manner that is efficient, effective and accurately reflects the tax savings that MidAmerican will realize as a result of the Act. MidAmerican's initial review is that providing all benefits to electric customers through the TERM is the best outcome for customers. On the gas side, a split between the TERM and a regulatory liability account will provide benefits to customers immediately, and provide long-term opportunities to avoid rate case filings and expenses. MidAmerican looks forward to working with Commission staff and other stakeholders to implement mechanisms that fulfill the goals of the Commission and MidAmerican's South Dakota electric and gas customers.

Dated this 1st day of February, 2018.

Respectfully Submitted,

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