

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE:

TAX CUTS AND JOBS ACT OF 2017

DOCKET NO. TF-2018-

BLACK HILLS ENERGY'S TAX REFUND PROPOSAL

Black Hills/Iowa Gas Utility Company, LLC, d/b/a Black Hills Energy ("Black Hills Energy" or "Company") hereby submits to the Iowa Utilities Board ("Board"), its proposal addressing how the utility would provide to customers the appropriate benefits of the 2018 federal tax rate reduction (the "Proposal"). In support of this Proposal, Black Hills Energy states:

I. BACKGROUND

1. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act")¹ was signed into law. Among other things, the Act reduced the federal corporate income tax rate from 35% to 21% beginning on January 1, 2018.
2. On January 18, 2018, the Board issued an "Order Initiating Investigation," opening Docket No. INU-2018-0001 to investigate the impact of the Act on Iowa utilities required to be rate-regulated.
3. On January 25, 2018, Black Hills Energy participated in a workshop at the Board along with other Iowa regulated utilities.

¹ Tax Cuts and Jobs Act, Public Law No. 115-97; Statute 131 Stat. 2054 (December 22, 2017).

4. On January 26, 2018, Black Hills Energy filed with the Board its workshop presentation.
5. On February 27, 2018, the Board issued an “Order Requiring Filing and Additional Information,” which required the Company to file with the Board, within 30 days of the Order, a proposal on how the utility would provide to customers the appropriate benefits of the 2018 federal tax rate reduction. The Order requires the utility to file any associated tariffs, if necessary, and to notify the Board if approval is needed regarding accounting treatment of excess Accumulated Deferred Income Taxes (“ADIT”).

II. PROPOSAL

6. Black Hills Energy proposes to use its tariff as the primary mechanism for providing its customers with the appropriate benefits of the federal tax rate reduction. Exhibit A to this Proposal contains both redlined and clean updated tariff sheets for approval by the Board. A full explanation of the tariff updates is set forth below.
7. Black Hills Energy calculated the tax savings from the lowering of the federal income tax rate under the Act from 35% to 21% by taking the difference between (1) the cost of service approved by the Board in Black Hills Energy’s most recent rate case²; and (2) the cost of service that would have resulted had the provision for federal income taxes been based upon the corporate income tax rate approved in the Act. The result of this calculation is an annual cost of service savings to Black Hills Energy’s customers in the

² [Docket RPU-2010-0002]

- amount of \$1,615,277. This amount is exclusive of any cost savings relating to capturing excess ADIT for the benefit of customers consistent with tax normalization requirements. A detailed calculation of the tax savings may be found in Exhibit B.
8. Under the Proposal, Black Hills Energy will refund the \$1,615,277³. Each year until its next rate case, Black Hills Energy will provide its customers with a one-time separate line bill credit for 61.4% of the tax savings and a volumetric credit returned to the customers through the Company's purchased gas adjustment ("PGA") for the remaining 38.6% of the tax savings. Assuming approval of the Proposal by the Board, the customer refund for 2018 will occur in May of this year. The refund in future years will occur in January of that year and will continue until Black Hills Energy's next rate proceeding.
 9. The 61.4% and 38.6% allocations of the tax savings between the fixed bill credit and the volumetric PGA credit are intended to match the percentage allocations approved by the Board in Black Hills Energy's last rate case in 2010 for the amount of total non-gas or non-PGA costs recovered through the monthly customer charge (61.4%) and the amount of total costs recovered through the commodity charge (38.12%).

³ The allocation of the refund is based on customer counts as of December 2017, and the fixed charges calculated will apply in all years. For example, the residential fixed refund of \$5.05 will be credited to all customers so the total amount actually credited may be more or less based on the number of customers at the time the credit is refunded on bills. The refund calculation assumes 141,280 residential customers, which was Black Hills Energy's residential customer count as of December 2017. As of February 2018, Black Hills Energy had 141,694 residential customers, which would result in Black Hills Energy paying out an additional \$2,090.70 to residential customers if the refund had been issued to customers in February 2018.

10. The allocation of the tax savings between the bill credit and the PGA credit will reasonably assign the refund to customers within each class, so customers who use more gas and pay more of the revenue, and thus, more of the utility's tax expense, will receive an appropriate amount of the tax refund. The tax savings is also allocated among Black Hills Energy's customer classes based upon the allocation to customer classes approved by the Board in Black Hills Energy's last rate case.
11. Exhibit C to this Proposal shows how the refund is (a) allocated between customer classes, (b) allocated to the annual one-time separate line bill credit and (c) allocated to the volumetric credit in the PGA. As noted above, each Black Hills Energy residential customer will receive an annual one-time separate line bill credit on their bill in May 2018 of \$5.05. In addition to the \$5.05 annual one-time bill credit, residential customers - on average - will receive a \$3.17 benefit as a result of the volumetric credit to the PGA. The total annual refund to residential customers is \$8.22.⁴ Non-residential customers - on average - will receive a \$21.05 total annual refund. Transportation customers will receive the same refund amounts as sales customers, but their credits will be a fixed amount, since they would not benefit from a credit to the PGA.
12. Under the Proposal, the one-time bill credit and volumetric credit to the PGA will be provided to Black Hills Energy customers in January of each succeeding year until the Company's base rates are changed in its next rate

⁴ The actual volumetric credit realized by customers will vary for each customer due to the difference in volumes consumed by the customer.

case. At that point in time, the tax savings will be reflected in the new base rates for the benefit of the customers.

13. Black Hills Energy proposes no change to the investment tracker mechanism, since the return on investment used in that mechanism equals the company's cost of debt as approved by the Board in the company's last rate case. Since there is no tax gross up of an equity return in that mechanism, no tax savings are attributable to the mechanism.
14. The Proposal also does not take any action relating to accumulated deferred income taxes (ADIT), which reflects the difference in rate base resulting from standard and accelerated depreciation rates. Black Hills Energy is proposing to defer any issues regarding the amount of tax savings relating to excess ADIT and how those savings should be passed on to customers to the Company's next general rate case filing with the understanding that Black Hills Energy's customers are entitled to the benefits.

III. ALTERNATIVE APPROACHES

13. Black Hills has considered other approaches to calculating the tax reform credits. For example, if the company used the exhibits approved by the Board in the company's last rate case in 2010 and refreshed rate base to reflect 2017 net plant, the credit would be \$2.22 million. Black Hills believes alternate approaches are not appropriate for several reasons. First, that approach was rejected by the Federal Energy Regulatory Commission (FERC) in 1987⁵ when a similar tax reform occurred. Second, updating

⁵ FERC Docket RM87-4-000, Order 475, June 26, 1987

variables other than tax rates essentially turns this issue into a mini rate review process. Third, Black Hills has proposed a simple process that will identify one amount that can be refunded to customers this summer and again in January of each year until the company's next rate review application.

14. Black Hills Energy has provided the Board with its capital plan over the next three years, as well as its rate case plans. If the Board has remaining questions regarding this Proposal, the company welcomes the opportunity to discuss them at a workshop. If the Board elects to order a workshop, then Black Hills Energy encourages the Board to conduct any such workshop immediately so these tax savings refund credits can be passed to customers in May.

IV. CONCLUSION

14. Black Hills Energy respectfully requests that the Board:
 - a. Issue an Order approving and authorizing the Company's proposed Tariff's found in Exhibit A with an effective date of April 26, 2018; and
 - b. If the Board determines that a workshop is appropriate or necessary, conduct a workshop as soon as possible to address all remaining questions or issues related to this proposal.

WHEREFORE, Black Hills Energy respectfully requests the Board approve this Proposal addressing how it would provide to customers the appropriate benefits of the 2018 federal tax rate reduction.

Dated: March 26, 2018

Respectfully submitted,

Black Hills/Iowa Gas Utility Company,
LLC d/b/a Black Hills Energy

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