

**EXHIBIT**

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NOLC included in ADIT/  
Staff's Natural Gas  
Fuel Run Amortization  
Riley/Rebuttal  
Public Counsel  
ER-2018-0145  
and ER-2018-0146

Witness/Type of Exhibit:  
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Case No.:

## REBUTTAL TESTIMONY

OF

**JOHN S. RILEY**

FILED  
October 23, 2018  
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Missouri Public  
Service Commission

Submitted on Behalf of  
the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT COMPANY**  
and  
**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Case No. ER-2018-0145 and ER-2018-0146**

July 27, 2018



## TABLE OF CONTENTS

<u>Testimony</u>	<u>Page</u>
Rate Base and Cost of Service Exclusion of NOLC	2
Companies Requests for a Five Year Amortization of a NOLC	7
Normalized Natural Gas Prices for the Staff Fuel Run	9

**REBUTTAL TESTIMONY**

**OF**

**JOHN S. RILEY**

**KANSAS CITY POWER & LIGHT COMPANY  
CASE NO. ER-2018-0145**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY  
CASE NO. ER-2018-0146**

1 **Q. What is your name and what is your business address?**

2 A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Public Utility  
5 Accountant III.

6 **Q. Are you the same John S. Riley that filed direct testimony in this case?**

7 A. Yes, I am.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. The purpose of my testimony is to address the inclusion of net operating loss carryforwards  
10 in the rate base calculations of both Kansas City Power & Light Company ("KCPL") and  
11 KCP&L Greater Missouri Operations Company ("GMO") as presented in the direct testimony  
12 of Ronald A. Klote. The inclusion of NOLC in the rate base to offset accumulated deferred  
13 income tax ("ADIT") represents an incorrect discount to ADIT and therefore inflates the rate  
14 base. OPC also notes that Staff's accounting schedules reflect ADIT balances with net  
15 operation loss ("NOL") amount reductions.

16 I will also respond to KCPL and GMO proposals to include a five year amortization of NOLC  
17 in the cost of service. I will point out that a NOL should not be included in the cost of service  
18 at all but if the Commission accepts the Companies' argument for inclusion, the amortization

1 should follow the same timeframe of the ADIT payback period that corresponds with the  
2 NOL.

3 Finally, I respond to Staff's witness Mathew Young use of inflated short-term natural gas  
4 prices in its fuel run and recommend normalized pricing that avoids the inclusion of a price  
5 spike.

6 **RATE BASE AND COST OF SERVICE EXCLUSION OF NOLC**

7 **Q. What is a net operating loss?**

8 A. Simply put, a net operating loss is where a company has more expenses than revenues in a  
9 given tax year. I refer to a tax year because regulated utilities do not normally experience  
10 financial losses but can show a loss for tax purposes.

11 **Q. Could you explain how a utility incurs a tax loss but does not experience a financial loss?**

12 A. Companies are allowed to take advantage of accelerated depreciation for tax purposes. This  
13 is especially advantageous for a capital intensive utility. For example, an asset that costs  
14 \$1,000 can be placed into service that has a useful life of 20 years. In calculating depreciation  
15 for ratemaking purposes, the depreciation is \$50 a year for 20 years (\$1,000 divided by 20  
16 years). For tax purposes the asset can be depreciated over 5 years so tax depreciation is \$200  
17 a year for five years. For tax purposes, the depreciation expense is \$150 more than for  
18 ratemaking. This increase expense can lower taxable income to the point that the company  
19 shows a loss on its income tax return. Yet for ratemaking purposes, the expenses are much  
20 lower (just \$50) and the company generates a \$150 profit over the first five years. This "loss"  
21 is allowed to be carried back two years and applied to past taxable income and any remaining  
22 balance may be "carried over" to the next year's tax return and applied to the taxable income<sup>1</sup>.  
23 If the losses are large enough in size that it may be applied to several years into the future,

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<sup>1</sup> IRS Publication 542

1 then the Company would have established a net operating loss carryforward ("NOLC") for  
2 tax purposes. The tax rate applied to the difference between the \$50 that is used for  
3 ratemaking and the \$200 use for tax purposes is a tax timing difference. For that reason, taxes  
4 are deferred.

5 **Q. Is this deferral of tax owed by the Company what is referred to as accumulated deferred**  
6 **income tax or ADIT?**

7 A. That is correct. Taking advantage of accelerated depreciation, as described above, over the  
8 course of many years and the purchase of many assets builds up a large tax timing difference.

9 **Q. How is ADIT treated in the ratemaking process?**

10 A. ADIT is basically the difference between the tax expense that a company is allowed in the  
11 cost of service and the lower amount of taxes a company actually pays because of the  
12 depreciation savings. This is considered interest free money to the utility so for ratemaking  
13 purposes, the rate base that is used to set rates is reduced by the amount of ADIT to reflect the  
14 advantage the interest free money is afforded the company. It stands to reason that if the  
15 ratepayer is subsidizing (contributing cost free funds) KCPL and GMO for income tax  
16 expense then it certainly should not be subjected to an offsetting NOL amortization in either  
17 rate base or the cost of service.

18 **Q. Does accelerated depreciation always create a NOL?**

19 A. No, but the use of accelerated depreciation for tax purposes and the use of straight line  
20 depreciation for ratemaking always creates a deferred income tax. Accelerated depreciation  
21 can sometimes result in an income tax loss, but just because a utility can claim a loss does not  
22 mean it has a legitimate asset for regulatory purposes. A NOL should not be an item that has  
23 any bearing on the rate base or cost of service of a utility because a NOL is a fictitious asset  
24 and does not exist in the regulatory environment but only in the income tax return.

1 **Q. Please explain how a NOLC is a fictitious asset?**

2 A. KCPL and GMO show a NOL on its section of Great Plains Energy's consolidated tax return.  
3 GMO had hundreds of millions of tax losses on its books when GPE purchased GMO. GPE  
4 2016 10-K states:

5 **Net Operating Loss Carryforwards**

6 At December 31, 2015 and 2014, Great Plains Energy had \$656.1  
7 million and \$521.0 million, respectively, of tax benefits related to  
8 federal net operating loss (NOL) carryforwards. Approximately  
9 \$313.2 million at December 31, 2015 and 2014 are tax benefits  
10 related to NOLs that were acquired in the GMO acquisition<sup>2</sup>.

11  
12 The Companies have built up enough NOL that all of the tax losses cannot be fully utilized in  
13 one year. The Companies argue that since it cannot take advantage of the full operating loss  
14 in one tax year then it should offset the ADIT rate base adjustment, which is a liability, with  
15 a fictitious NOL regulatory asset (a carryforward) thereby raising rate base. Utilities have  
16 pressed this argument for years and some commissions have accepted the claim but the logic  
17 is a fallacy. Let's explain:

18 Income tax expense has been included in rates every year and ratepayers have been paying  
19 this expense even though KCPL and GMO have not actually paid any taxes. Taxes are  
20 reflected in rates but a NOL is not paid for (not an added cost) to the company and does not  
21 affect the cost of service. So to have the Companies insist on the inclusion of a fictitious  
22 regulatory asset that it did not pay for is in a sense double recovery from ratepayers. Having  
23 a NOLC offset for ADIT is asking the ratepayer to pay twice.

24 **Q. Are there any other publications that the Commission should consider when disallowing**  
25 **a NOL in the rate base or amortizing it in the cost of service?**

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<sup>2</sup> Page 107 of Great Plains Energy 2016 10-K financial reporting

1 A. Yes. The attached IRS private letter rulings (“PLR”) (Schedule JSR-R-1) regarding similar  
2 circumstances as the present case and also the attached article published by Deloitte<sup>3</sup>  
3 (Schedule JSR-R-2) that illustrates the PLR and other factors in casting doubt on whether a  
4 NOL should be considered for rate base or amortization. A pertinent paragraph from the  
5 Deloitte article which paraphrases important information within the PLR that addresses NOL  
6 exclusion follows:

7 The taxpayer in PLR 201418024 incurred taxable losses in excess  
8 of taxable income over a multiyear period and as of its test year had  
9 an NOL carryforward and a minimum tax credit (MTC)  
10 carryforward (attributable to the rule limiting utilization of  
11 alternative minimum tax NOL carryforwards to 90% of alternative  
12 minimum taxable income). The amount of accelerated depreciation  
13 claimed in the two loss years exceeded the amount of NOLs incurred  
14 in those years. The utility filed a general rate case with plant-based  
15 DTL balances reduced by the amounts of tax not deferred due to the  
16 NOL and MTC carryforwards. The commission issued an order with  
17 rates based on DTL balances unreduced by the effects of the  
18 carryforwards. In its analysis, the IRS stated that there is little  
19 guidance on exactly how an NOL or MTC carryforward must be  
20 taken into account in calculating DTLs pursuant to the  
21 normalization requirements, but it is clear that both must be taken  
22 into account for ratemaking purposes. The ruling indicates that the  
23 commission has stated that in setting rates it included a  
24 provision for deferred taxes based on the entire difference  
25 between accelerated tax and regulatory depreciation, including  
26 situations in which a utility had an NOL or MTC carryforward.  
27 This approach is described as allowing a utility to collect  
28 amounts from ratepayers equal to income taxes that would have  
29 been due absent the NOL and MTC carryforwards. The IRS  
30 accepted these commission assertions as true for purposes of the  
31 ruling, did not conclude that the commission had actually set rates  
32 in accordance with the assertions, and indicated that the assertions  
33 are subject to verification on audit. The IRS held that reduction of  
34 rate base by the full amount of the DTL account without regard to  
35 the balances of the NOL and MTC carryforward accounts was  
36 consistent with the normalization requirements because the

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<sup>3</sup> Article contacts are David Yankee, a partner in Deloitte Tax LLP and Brad Seltzer, a principle in Deloitte Tax LLP

1                   commission already took the carryforwards into account in setting  
2                   rates.<sup>4</sup> (Emphasis Added)

3  
4                   The IRS found the commission decision to exclude the NOL balances is acceptable because  
5                   rates were set on an included amount of income tax expense built into the cost of service. This  
6                   scenario is nearly exactly how this Commission sets rates in a general rate case. The NOL  
7                   had already been accounted for in rates by way of included income tax expense and there is  
8                   no need to make an adjustment for a company's NOLC. The conclusions drawn in this PLR  
9                   indicate that NOL and credits must be addressed when setting rates; however, the IRS found  
10                  that recognition of income tax in rates that would equal the expected amount, without a  
11                  downward adjustment for prior tax losses, was acceptable.

12 **Q.     What is the level of income tax expense Staff has included in the cost of service for each**  
13 **of these companies?**

14 **A.**     The proposed Income Statement that Staff has prepared for KCPL in Accounting Schedule  
15     09 indicates that the Missouri jurisdictional income tax included in the calculations for the  
16     cost of service is \$38,209,633. The GMO accounting schedule 09 page 1 has \$43,698,933  
17     included in the cost of service for income taxes.

18 **Q.     How long may KCPL and GMO carry a loss forward for income tax purposes?**

19 **A.**     Currently losses may be carried back two years and carried forward 20 years, however, losses  
20     generated after December 31, 2017 do not have an expiration and may be carried forward  
21     indefinite.

22 **Q.     What adjustment is OPC proposing so a NOLC is eliminated from rate base calculations**  
23 **for KCPL?**

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<sup>4</sup> Deloitte, "Determining Whether a Utility's Ratemaking Treatment of an NOL Carryforward Complies with the Normalization Requirements" Page 3 second paragraph  
DTL stands for Deferred Tax Liability

1 A. Neither Companies nor Staff eliminate NOLC from the ADIT amounts they include in rate  
2 base. Using the answers to Staff data request 0239 and 0190, KCPL displays a Federal and  
3 State total plant<sup>5</sup> NOL as a federal \$171,777,252 and state of \$22,332,049 for a combined  
4 reduction from rate base of \$192,742,994. Company workpapers filed with the case indicate  
5 that KCPL had \$175,734,901 in federal NOL and \$15,953,843 in state NOL built into its case.  
6 OPC is seeking a \$192,742,994 reduction in rate base. These numbers may be updated when  
7 KCPL provides true-up information in the next few weeks.

8 **Q. What is OPC adjustment for NOLC in GMO's rate base?**

9 A. In the same data requests used for KCPL, both 0190 and 0239 indicate that GMO carries a  
10 \$128,258,446 NOL balance within its deferred income tax accounts. The Company included  
11 workpapers in the case that indicated a total NOL of \$129,870,221 OPC is requesting a  
12 reduction to rate base of this amount.

13 **COMPANIES REQUESTS FOR A FIVE YEAR AMORTIZATION OF A NOLC**

14 **Q. The Companies have proposed a five (5) year amortization of its NOLC to offset the**  
15 **amortization of the excess deferred income tax calculations that are built into the cost of**  
16 **service in these cases.<sup>6</sup> How do you respond to this proposal?**

17 A. OPC disagrees with this proposal and offers three points of contention on why this should be  
18 denied. First, as explained previously in this testimony, a NOL does not belong in the  
19 calculation of rate base within a utility rate case. NOLs are fictitious assets due in part that  
20 ratepayers have incurred income tax expense in rates and the Companies have not paid income  
21 taxes to the IRS. The amortization of a NOL in rates is double recovery and results in a  
22 punitive action towards the ratepayer where it has already subsidized income tax expense that

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<sup>5</sup> The Company's use of the word "plant" in the description of KCPL's NOL will be revealing when OPC argues that a five year amortization violates normalization rules.

<sup>6</sup> KCPL response to Data Request MECG3-5(f)

1 is not earmarked for actual income taxes paid. Since the NOLC should not be considered as  
2 an offset to ADIT, there is no need to amortize the account.

3 Secondly, neither Company has identified any portion of its ADIT or NOL in its records as  
4 being created due to unregulated subsidiaries. Both Companies have several unregulated  
5 subsidiaries. I have pointed out earlier that GMO had millions of tax losses to carryforward  
6 when GPE purchased them. Much of GMO's prior business (Aquila) was risky and  
7 unregulated. Unregulated subsidiary tax advantages need to be excluded from the regulated  
8 business. If any portion of ADIT or NOL is due to unregulated subsidiaries, this portion  
9 would need to be identified and separated to provide an accurate cost of service. I am  
10 continuing to search for unregulated portions of ADIT and NOL because the Companies'  
11 direct filing failed to include competent and substantial evidence to show what portion of the  
12 ADIT or NOL is due to unregulated operations.

13 Lastly, should the Commission allow the inclusion of a NOL amortization within these cases,  
14 then the amortization period must follow the IRS required Average Rate Assumption Method  
15 (ARAM) that guides the flow back of the protected ADIT portion. ARAM is an amortization  
16 method that flows the excess deferred tax over the remaining life of each asset. The NOL will  
17 be subject to the same rate. The Companies' recommendations to the Commission violates  
18 the amortization methods. It stands to reason that if ARAM will be used to determine the  
19 amortization of the protected portion of the excess ADIT, then the NOL attributable to that  
20 protected portion must also flow back at the same pace. The NOL must flow back at the same  
21 rate as the associated ADIT. If any portion of the excess deferred is unprotected then it should  
22 offset at the same rate as the unprotected amortization.

1 **NORMALIZED NATURAL GAS PRICES FOR THE STAFF FUEL RUN**

2 **Q. Have you reviewed the fuel costs used by Staff to determine the fuel costs as sponsored**  
3 **by Matthew Young?**

4 **A. Yes. I reviewed the natural gas costs used in the Staff's fuel run.**

5 **Q. Are the natural gas prices used by Staff reflective of a normalized fuel cost?**

6 **A. No. The natural gas prices used by Staff for the months of May and August for KCPL are**  
7 **not reflective of a normalized fuel cost. In particular, OPC is concerned regarding the**  
8 **natural gas price of \$9.31 used in the month of August.**

9 **Q. Is this a reasonable cost to estimate natural gas cost for the month of August?**

10 **A. No. The table below shows the prices used for KCPL for July, August and September**  
11 **along with the Henry Hub prices. (Gas prices and graph are attached as JSR-R-3)**

	KCPL		Henry Hub
July	\$3.17		\$2.99
August	<b>\$9.31</b>		\$2.90
Sept	\$3.47		\$2.98

12  
13 **Q. What is the effect of using a \$9.31 price for natural gas?**

14 **A. The model will not dispatch the natural gas units because the cost with a \$9.31 price is not**  
15 **cost-effective given the market prices. Therefore, KPCL's natural gas units, including the**  
16 **combined cycle unit at Hawthorn that would be typically be in the money during summer**  
17 **peak months, were not modeled as running. This resulted in either more purchased power**  
18 **from the SPP market to meet KCPL's load or less off-system sales margin because the**  
19 **units were considered too expensive.**

1 **Q. What is your recommendation for the Commission?**

2 A. I recommend the Commission order Staff to estimate fuel costs using a normalized natural  
3 gas cost instead of the actual natural gas price in its modeling of fuel costs.

4 **Q. Does this conclude your direct testimony?**

5 A. Yes, it does.



Tax (ADIT) account balance in the context of a rate case is consistent with the requirements of the normalization provisions of the Internal Revenue Code.

The representations set out in your letter follow.

Taxpayer is a regulated public utility incorporated in State. It is wholly owned by Parent. Taxpayer distributes and sells natural gas to customers in State. Taxpayer is subject to the regulatory jurisdiction of Commission with respect to terms and conditions of service and particularly the rates it may charge for the provision of service. Taxpayer takes accelerated depreciation where available and, for the period beginning in Year A and ending in Year E, Taxpayer has, in the aggregate, produced more net operating losses (NOL) than taxable income. After application of the carryback and carryforward rules, Taxpayer represents that it has net operating loss carryforward (NOLC), produced in Year C and Year E, of \$X as of the end of Year E. The amount of claimed accelerated depreciation in Year C and Year E exceeded the amount of the NOLCs for those years. In Year D, Taxpayer produced regular taxable income as well as alternative minimum taxable income (AMTI); the regular taxable income was offset by the NOLCs from Year B and year C but could not offset the entire alternative minimum tax (AMT) liability due to the limitation in § 56(d). Taxpayer paid \$Y of AMT in Year D and had a minimum tax credit carryforward (MTCC) as of the end of year E of \$Y.

On its regulatory books of account, Taxpayer "normalizes" the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of accelerated tax depreciation) were claimed constitute "cost-free capital" to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account and also maintains an offsetting series of entries that reflect that portion of those 'tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of an NOLC. With respect to the \$Y AMT liability from Year D, Taxpayer carried that amount as an offset to the ADIT because the AMT increased the payment of tax.

Taxpayer filed a general rate case on Date A (Case). The test year used in the Case was the 12 month period ending on Date B. In establishing the income tax expense element of its cost of service, the tax benefits attributable to accelerated depreciation were normalized in accordance with Commission policy and were not flowed thru to ratepayers. In establishing the rate base on which Taxpayer was to be allowed to earn a return Commission generally offsets rate base by Taxpayer's plant based ADIT balance, using a 13-month average of the month-end balances of the relevant accounts. Taxpayer argued that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of

NOLCs or the AMT. Commission, in an order issued on Date C, did not use the amounts that Taxpayer calculates did not defer tax due to NOLCs or AMT but only the amount in the ADIT account. Taxpayer filed a petition for reconsideration based on the normalization implications of the order. On Date D, Commission rejected Taxpayer's request. Taxpayer again requested reconsideration and the Commission denied that request on Date E. Commission asserts that, in setting rates it includes a provision for deferred taxes based on the entire difference between accelerated tax and regulatory depreciation, including situations in which a utility has, such as in this case, an NOLC or AMT. Thus, Commission asserts that it has already recognized the effects of the NOCL in setting rates and there is no need to reduce the ADIT by the other amounts due to NOLCs or AMT.

Taxpayer requests that we rule as follows:

Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account without regard to the balances in its NOLC-related account and its MTCC-related account was consistent with the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

#### Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii), if the amount allowable as a deduction under section 168 differs from the amount that would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under section 168(i)(9)(B)(ii), such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii), unless such estimate or projection is

also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a "normalization method of accounting." A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A). Section 1.167(1)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(1)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(1)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) results in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(1)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to

reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(1)-1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a).

Section 1.167(1)-(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(1)-(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(1)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 55 of the Code imposes an alternative minimum tax on certain taxpayers, including corporations. Adjustments in computing alternative minimum taxable income are provided in § 56. Section 56(a)(1) provides for the treatment of depreciation in computing alternative minimum taxable income. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides

that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

In the rate case at issue, Commission has excluded from the base to which the Taxpayer's rate of return is applied the reserve for deferred taxes, unmodified by the accounts which Taxpayer has designed to calculate the effects of the NOLCs and MTCC. There is little guidance on exactly how an NOLC or MTCC must be taken into account in calculating the reserve for deferred taxes under §§ 1.167(1)-1(h)(1)(iii) and 56(a)(1)(D). However, it is clear that both must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT) for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Both Commission and Taxpayer have intended, at all relevant times, to comply with the normalization requirements. Commission has stated that, in setting rates it includes a provision for deferred taxes based on the entire difference between accelerated tax and regulatory depreciation, including situations in which a utility has an NOLC or MTCC. Such a provision allows a utility to collect amounts from ratepayers equal to income taxes that would have been due absent the NOLC and MTCC. Thus, Commission has already taken the NOLC and MTCC into account in setting rates. Because the NOLC and MTCC have been taken into account, Commission's decision to not reduce the amount of the reserve for deferred taxes by these amounts does not result in the amount of that reserve for the period being used in determining the taxpayer's expense in computing cost of service exceeding the proper amount of the reserve and violate the normalization requirements. We therefore conclude that the reduction of Taxpayer's rate base by the full amount of its ADIT account without regard to the balances in its NOLC-related account and its MTCC-related account was consistent with the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

This ruling is based on the representations submitted by Taxpayer and is only valid if those representations are accurate.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above. In particular, while we accept as true for purposes of this ruling Commission's assertions that it includes a provision for deferred taxes based on the entire difference between accelerated tax and regulatory depreciation, including situations in which a utility has an NOLC or AMT, we do not conclude that it has done so and those assertions are subject to verification on audit.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your

PLR-133813-13

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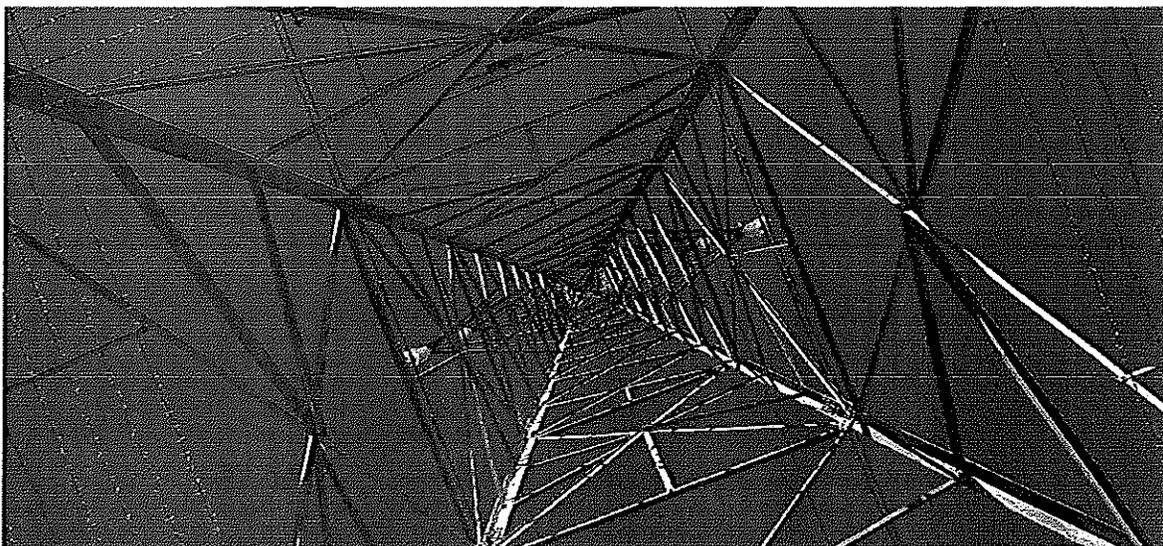
authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman  
Senior Technician Reviewer, Branch 6  
(Passthroughs & Special Industries)

cc:

## Determining whether a utility's ratemaking treatment of an NOL carryforward complies with the normalization requirements



### Situation presented

Many utilities have incurred net operating losses (NOLs) in recent years due to bonus depreciation, favorable section 481(a) adjustments, or general economic conditions. The proper treatment of the resulting NOL carryforward under the normalization requirements has been the subject of numerous ratemaking proceedings.

On May 2, 2014, the Internal Revenue Service (IRS) released Private Letter Ruling (PLR) 201418024 regarding the treatment of deferred tax assets (DTAs) for NOL carryforwards under the deferred tax normalization requirements of Treas. Reg. § 1.167(f)-1(h)(1)(iii). PLR 201418024 held that not including the NOL carryforward DTA in rate base, the methodology advocated by the public utility commission, complied with the normalization requirements in a specific circumstance.

On September 5, 2014, the IRS released PLR 201436037 and PLR 201436038, holding that failure to take into account the portion of an NOL carryforward that is attributable to accelerated depreciation in calculating the amount of a deferred tax liability (DTL) in the computation of rate base would be inconsistent with the normalization requirements and further, that any method for determining the portion of the NOL carryforward attributable to

accelerated depreciation other than the "with and without" method would be inconsistent with the normalization requirements. On September 19, 2014, the IRS released PLR 201438003 providing guidance consistent with the other two rulings issued in September. The methodologies held to comply with the normalization requirements in the more recent rulings were the methodologies advocated by the utilities.

### Issue

The methodology that was held to comply with the normalization requirements in PLR 201418024 results in a lower revenue requirement than (1) the alternatives advocated by and approved for many utilities in their rate cases and (2) the approaches held to comply with the normalization requirements in the limited number of NOL-related PLRs released in prior years. This ruling may create regulatory risk in pending and future rate cases for other utilities with NOL carryforwards.

Utilities may need to demonstrate that the rationale underlying the methodology in PLR 201418024 is inapplicable in their factual situations if not universally arguing that it simply is an inappropriate manner of analyzing the recovery of regulatory tax expense, notwithstanding the holdings of the recent three rulings

that did not indicate that the factors or rationale of PLR 201418024 are relevant in applying the normalization requirements for NOL carryforwards.

#### Background

Treas. Reg. § 1.167(1)-1(h)(1)(iii) provides that if an NOL carryforward would not have arisen (or increased), but for the use of accelerated tax depreciation, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director. This rule recognizes that depreciation-related DTLs are interest-free loans from the government extended via the reduction of current tax liability due to the use of accelerated tax depreciation, and should not reduce the rate base (or, depending on the ratemaking mechanics used by the regulator, reduce the weighted-average cost of capital) unless the depreciation-related DTLs result in a reduction of cash taxes (i.e., serve as a source of funding). This tax rule is consistent with the economics of ratemaking, but is not as prescriptive as most of the deferred tax normalization requirements and does not provide examples of specific methodologies that comply with or violate the rules. Instead, the rule effectively directs utilities to obtain private letter rulings to determine whether their public utility commissions' ratemaking treatments of depreciation-related DTLs, while in an NOL carryforward position, comply with the normalization requirements.

Prior to the 2014 ruling, the IRS had issued one PLR regarding the application of the normalization rules to NOL carryforwards and two PLRs regarding the application of the normalization rules to NOL carrybacks. The three rulings addressed fact patterns involving carryovers to tax years with different statutory tax rates than the tax rates in effect in the years the NOLs were generated, a dynamic not present in rate cases in recent years.

In PLR 8818040, the IRS held that the regulations provide that the amount of deferred taxes subject to the normalization rules in a year an NOL is generated is computed using a "with-and-without" methodology (i.e., deferred taxes equal the excess of taxes due without accelerated depreciation over the taxes due with accelerated depreciation) and using the tax rate effective for the year the tax deferral is realized. The net effect of this accounting in the NOL years was to record no deferred taxes applicable to the amount of accelerated depreciation that produced no current tax savings (i.e., that caused or increased the NOL carryforward). The IRS further ruled that the DTL should not be recorded for ratemaking purposes until 1987, the year in which the utility benefitted from the NOL attributable to accelerated depreciation, and at

the tax rate effective for 1987 (i.e., 39.95 % rather than the 46% tax rate effective for 1985 and 1986, the years the NOLs were generated). The taxpayers did not request guidance on alternative methodologies and the ruling did not address the proration methodology that was analyzed in the 1989 and 1993 rulings summarized below.

In PLR 8903080, the utility incurred an NOL in a tax year with a tax rate of 39.95%, estimated for ratemaking purposes that it would incur an NOL in a tax year with a 34% rate and carried back the NOLs to tax years with tax rates of 46% for purposes of determining ratemaking deferred taxes. For each NOL year, the utility recorded a total tax provision (i.e., sum of the current and deferred tax provisions) at the tax rate in effect for the year in which each NOL was generated (i.e., 39.95% or 34%, respectively). The current tax benefits of the years the NOLs were generated were measured at the 46% tax rates applicable to the years to which the NOL carrybacks were deducted. In each year an NOL was generated, the deferred tax expense attributable to the book-tax timing differences was recorded at a tax rate in excess of the statutory tax rates in effect for the years the NOLs were generated (as well as in excess of the enacted tax rates of the future tax years when the timing differences were expected to reverse). The tax rate differential as a result of the NOL carrybacks to the higher rate tax year was allocated pro rata to all timing items for the years the NOLs were generated. The IRS held that recording a total tax provision at the current year's statutory tax rate for each year an NOL was generated is appropriate and is consistent with the normalization requirements of Treas. Reg. § 1.167(1)-1(h)(1)(iii). This ruling also indicated that the methodology complied with the normalization requirements applicable to excess deferred income taxes under section 203(e) of the Tax Reform Act of 1986. The methodology described above was the only approach analyzed in the ruling.

In PLR 9336010, the utility incurred an NOL in a tax year with a 34% tax rate and carried back the loss to a year with a 46% tax rate. For financial reporting purposes, the utility recorded deferred taxes for all timing differences originating in the year the NOL was generated at the 34% tax rate applicable to such year (and future years). Commission staff recommended that for ratemaking purposes deferred taxes be recorded at the 46% tax rate applicable in the carryback years and that an excess DTL reducing rate base be created. The commission adopted the staff's recommendation and ordered the utility to seek a private letter ruling to determine the amortization method and period related to the excess tax reserve resulting from the interaction of the reduction in corporate

income tax rates and the NOL carryback. The utility and commission staff asserted that none of the excess tax reserve resulting from the NOL carryback resulted from the use of accelerated depreciation. The IRS disagreed and concluded that the taxpayer had not shown which particular items caused the NOL and, thus, the appropriate methodology to allocate the excess tax reserve among timing differences originating in the year the NOL was generated is a pro rata allocation to all timing differences. The IRS held that a portion of the excess deferred tax reserve resulting from the NOL carryback is attributable to the timing difference for accelerated depreciation and that only this portion of the excess tax reserve is subject to the normalization requirements for excess deferred taxes. There was no detailed discussion on exactly how the pro rata allocation was to be effectuated by the taxpayer in this ruling.

The taxpayer in PLR 201418024 incurred taxable losses in excess of taxable income over a multiyear period and as of its test year had an NOL carryforward and a minimum tax credit (MTC) carryforward (attributable to the rule limiting utilization of alternative minimum tax NOL carryforwards to 90% of alternative minimum taxable income). The amount of accelerated depreciation claimed in the two loss years exceeded the amount of NOLs incurred in those years. The utility filed a general rate case with plant-based DTL balances reduced by the amounts of tax not deferred due to the NOL and MTC carryforwards. The commission issued an order with rates based on DTL balances unreduced by the effects of the carryforwards. In its analysis, the IRS stated that there is little guidance on exactly how an NOL or MTC carryforward must be taken into account in calculating DTLs pursuant to the normalization requirements, but it is clear that both must be taken into account for ratemaking purposes. The ruling indicates that the commission has stated that in setting rates it included a provision for deferred taxes based on the entire difference between accelerated tax and regulatory depreciation, including situations in which a utility had an NOL or MTC carryforward. This approach is described as allowing a utility to collect amounts from ratepayers equal to income taxes that would have been due absent the NOL and MTC carryforwards. The IRS accepted these commission assertions as true for purposes of the ruling, did not conclude that the commission had actually set rates in accordance with the assertions, and indicated that the assertions are subject to verification on audit. The IRS held that reduction of rate base by the full amount of the DTL account without regard to the balances of the NOL and MTC carryforward accounts was consistent with the normalization requirements because the commission

already took the carryforwards into account in setting rates.

The taxpayer and its consolidated group in PLR 201436037 incurred or expected to incur NOLs resulting in NOL carryforwards. The taxpayer computed the depreciation-related portion of its DTA on a with-or-without methodology whereby the NOL carryforward was considered attributable to accelerated depreciation to the extent of the lesser of the amount of accelerated depreciation or the NOL carryforward. Other approaches were proposed by other rate case participants, including a proposal to reduce regulatory tax expense by the amount of the DTA determined to be attributable to accelerated depreciation. The IRS stated that regulations make clear that the effects of an NOL carryforward attributable to accelerated depreciation must be taken into account in determining the rate base reduction for DTLs for normalization purposes, but that the regulations provide no specific mandate on methods. The IRS stated that the with-or-without methodology provides certainty regarding correctly taking into account the depreciation-related portion of the DTA for an NOL carryforward and the prevention of the possibility of flow-through of the benefit of accelerated depreciation to ratepayers by maximizing the amount of the NOL carryforward attributable to accelerated depreciation. The IRS ruled that, under the circumstances presented, reduction of rate base by the full amount of the DTL account balances offset by a portion of the DTA for the NOL carryforward that is less than the amount attributable to accelerated depreciation computed on a with-or-without basis would be inconsistent with the normalization requirements. Further, any reduction to tax expense included in cost of service to reflect the tax benefit of an NOL carryforward would be inconsistent with the normalization requirements because such reduction would, in effect, flow through the tax benefits of accelerated depreciation deductions through to ratepayers even though the taxpayer had yet to realize the benefits.

Similarly, the taxpayer and its consolidated group in PLR 201436038 incurred or expected to incur NOLs resulting in NOL carryforwards. The taxpayer computed the depreciation-related portion of its DTA on a with-or-without methodology whereby the NOL carryforward was considered attributable to accelerated depreciation to the extent of the lesser of the amount of accelerated depreciation or the NOL carryforward. Other approaches were proposed by other rate case participants. The IRS stated that regulations make clear that the effects of an NOL carryforward attributable to accelerated depreciation must be taken into account in determining the rate base reduction for DTLs for normalization purposes, but that

the regulations provide no specific mandate on methods. The IRS stated that the with-or-without methodology provides certainty regarding correctly taking into account the depreciation-related portion of the DTA for an NOL carryforward and the prevention of the possibility of flow-through of the benefit of accelerated depreciation ratepayers by maximizing the amount of the NOL carryforward attributable to accelerated depreciation. The IRS ruled that, under the circumstances presented, reduction of rate base by the full amount of the DTL account balances offset by a portion of the DTA for the NOL carryforward that is less than the amount attributable to accelerated depreciation computed on a with-or-without basis would be inconsistent with the normalization requirements.

The utility subsidiary in PLR 201438003 forecasted that it would incur an NOL resulting in an NOL carryforward in its test period. The utility reduced its DTL used to reduce rate base by the amount of the DTA for the NOL carryforward. The utility's commission issued an order holding that it was inappropriate to include the DTA for the NOL carryforward in rate base, but stating that it intended to comply with the normalization requirements and that it would allow the utility to seek an adjustment to rates if it obtains a private letter ruling affirming the utility's position that failure to reduce its rate base offset for depreciation-related DTL by the DTA attributable to the NOL carryforward would be inconsistent with the normalization requirements. The IRS stated that regulations make clear that the effects of an NOL carryforward attributable to accelerated depreciation must be taken into account in determining the rate base reduction for DTLs for normalization purposes, but that the regulations provide no specific mandate on methods. The IRS stated that the with-or-without methodology employed by the utility provides certainty regarding correctly taking into account the depreciation-related portion of the DTA for an NOL carryforward and the prevention of the possibility of flow-through of the benefit of accelerated depreciation to ratepayers by maximizing the amount of the NOL carryforward attributable to accelerated depreciation. The IRS ruled that, under the circumstances presented, reduction of rate base by the full amount of the DTL account balance unreduced by the balance of the DTA for the NOL carryforward would be inconsistent with the normalization requirements. The IRS also ruled that use of a balance for the portion of the DTA for the NOL carryforward attributable to accelerated depreciation that is less than the amount computed on a with-and-without basis would be inconsistent with the normalization requirements. The IRS also held that assignment of a zero rate of return to the balance of the DTA for the NOL carryforward attributable to accelerated depreciation

would be inconsistent with the normalization requirements.

#### Implications

The economic and regulatory debate regarding the proper treatment of DTAs for NOL carryforwards in ratemaking involves acknowledgment that recorded DTLs resulting from enacted tax incentives, such as accelerated depreciation intended to stimulate the economy, essentially represent interest-free loans from the government to taxpayers, regardless of the industry of the taxpayer or how the taxpayer sets its prices. The interest-free loan only occurs if or to the extent the corresponding deductions result in reduction (deferral) of tax payments to the government. This does not occur when the deductions for accelerated depreciation result in or contribute to an NOL carryforward.

The normalization debate regarding the proper treatment of DTAs for NOL carryforwards in ratemaking may involve:

- Whether the full amount of the depreciation-related DTL may reduce rate base despite the existence of an NOL carryforward (i.e., whether the DTA for the portion of an NOL carryforward attributable to accelerated depreciation must be included in rate base);
- How to compute the depreciation-related portion of a DTA for an NOL carryforward; and
- Consideration of alternative approaches to reduce the revenue requirement when an NOL carryforward exists and some or all of the DTA for the NOL carryforward is included in rate base.

The IRS has exercised the discretion granted to it by the normalization regulations to assess whether the specific methodologies arising in rate cases and presented in five private letter ruling requests involving NOL carryforwards comply with the normalization requirements. The alternatives and arguments of the parties to the rate proceedings have varied in the private letter rulings issued in this area.

In PLR 201418024, the only private letter ruling on these matters resulting from a ruling request that did not seek guidance regarding use of the with-or-without methodology, the IRS instead considered a perspective presented that focused on whether the utility had recovered through rates charged amounts that compensated it for deferred tax expense attributable to depreciation deductions that had not yet resulted in savings of cash taxes in the current year or a carryback year. Whether this factor is relevant is questionable and how to determine whether this condition exists is challenging. Without explaining how to determine whether this ratemaking condition exists, the IRS held in PLR 201418024 that there is a ratemaking approach that

complies with the deferred tax normalization requirements yet permits not reducing depreciation-related DTLs due to the existence of an NOL or MTC carryforward.

In light of the analysis and holding of PLR 201418024, utilities may need to evaluate whether they have recovered depreciation-related deferred tax expense from ratepayers when NOL carryforwards have been incurred or are expected to recover depreciation-related deferred taxes from ratepayers when NOL carryforwards are forecasted. Utilities without tax adjustment clauses (i.e., "trackers") or without true-up mechanisms with regard to allowed earnings may have difficulty establishing whether or not they have actually recovered the amount of income taxes inherent in their revenue requirement or the portions of their actual revenues attributable to regulatory income tax expense. Any such analysis should also address whether it is possible or appropriate to evaluate whether a single component of regulatory tax expense (i.e., depreciation-related deferred tax expense) has been recovered through rates without regard to the other components of the tax provision (e.g., other components of the deferred tax provision, the current tax provision, investment tax credit (ITC) amortization). In analyzing the application of the facts and assumptions of PLR 201418024 to their rate situations, utilities will likely need to assess whether the income tax components of their revenue requirements in their most recent rate cases (or their actual revenues during the years NOLs were generated) are determined with reference to allowed equity returns, actual equity returns, book-tax differences, or other factors. It would also be worthy to note whether the depreciation-related portion of deferred tax expense exceeds the total or net tax provision (in light of the current tax benefit likely recorded in an NOL year).

The factor analyzed in PLR 201418024 was not mentioned in the other four NOL carryforward normalization letter rulings. In the other four private letter rulings, the IRS

consistently held that the maximum depreciation-related DTL that is allowed to reduce rate base must consider the existence of an NOL carryforward and that the depreciation-related portion of the DTA for the NOL carryforward included in rate base must be computed with reference to a with-or-without approach (sometimes referred to as a with-and-without approach in the rulings).

The IRS has also ruled that two alternative approaches proposed by parties to rate proceedings seeking to reduce revenue requirements when an NOL carryforward exists would violate the normalization requirements. These alternatives were proposed to mitigate or eliminate the effect of inclusion of a DTA related to an NOL carryforward in rate base reduction of recoverable tax expense by an amount equal to the deferred tax benefit associated with the DTA, and treatment of the DTA as zero-cost capital. Utilities should continue to assert economic, ratemaking, and tax normalization defenses against similar assertions that aim to circumvent the effects of the normalization requirements.

Lastly, it should be noted that there are a number of other pending ruling requests regarding the application of the normalization requirements to NOL carryforwards that will afford the IRS additional opportunities to provide guidance on this important issue.

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ER-2014-0370

	14-Jan	14-Feb	14-Mar	14-Apr	14-May	14-Jun	14-Jul	14-Aug	14-Sep	14-Oct	14-Nov	14-Dec
Natural Gas commodity:	2014-01	2014-02	2014-03	2014-04	2014-05	2014-06	2014-07	2014-08	2014-09	2014-10	2014-11	2014-12
Henry Hub	\$4.60	\$5.86	\$4.77	\$4.61	\$4.56	\$4.57	\$4.04	\$3.87	\$3.90	\$3.78	\$4.08	\$3.39
basis	0.0153	1.4018	0.1908	-0.2033	-0.2305	-0.1977	-0.1271	-0.104	-0.1843	-0.1679	-0.0385	-0.1624
Wellhead - SSCGP	\$4.61	\$7.26	\$4.96	\$4.41	\$4.32	\$4.37	\$3.92	\$3.76	\$3.71	\$3.61	\$4.04	\$3.23
				Wellhead - PEPL		\$4.34	\$3.88	\$3.77	\$3.75	\$3.62	\$3.90	\$3.34
						15-Jan	15-Feb	15-Mar	15-Apr	15-May		
						\$2.81	\$2.56	\$2.50	\$2.29	\$2.58		

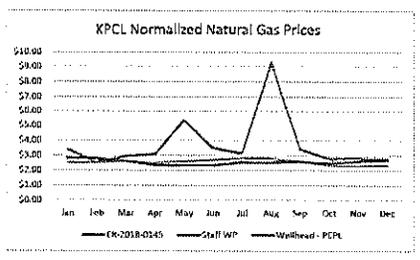
ER-2016-0285

	15-Jul	15-Aug	15-Sep	15-Oct	15-Nov	15-Dec	16-Jan	16-Feb	16-Mar	16-Apr	16-May	16-Jun
Natural Gas commodity:	2015-07	2015-08	2015-09	2015-10	2015-11	2015-12	2016-01	2016-02	2016-03	2016-04	2016-05	2016-06
Henry Hub	\$2.84	\$2.78	\$2.67	\$2.37	\$2.09	\$1.03	\$2.29	\$2.01	\$1.71	\$1.92	\$1.92	\$2.55
basis	-0.161	-0.1836	-0.1449	-0.1447	-0.0933	-0.038	-0.0914	-0.1644	-0.1773	-0.2438	-0.2602	-0.2688
Wellhead - SSCGP	\$2.68	\$2.59	\$2.52	\$2.22	\$2.00	\$1.90	\$2.20	\$1.84	\$1.53	\$1.68	\$1.66	\$2.28
KCPL WACOG	\$2.81	\$2.73	\$2.56	\$1.67	\$2.41	\$1.94	\$2.26	\$1.84	\$1.64	\$1.86	\$1.82	\$2.45
							16-Jan	16-Feb	16-Mar	16-Apr	16-May	16-Jun
							\$2.20	\$1.84	\$1.53	\$1.71	\$2.79	\$2.35
							Wellhead - PEPL					
												16-Jul
												\$2.57
												16-Aug
												\$2.62
												16-Sep
												\$2.79
												16-Oct
												\$2.76
												16-Nov
												\$2.29
												16-Dec
												\$3.43

ER-2018-0145

	17-Jul	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec	18-Jan	18-Feb	18-Mar	18-Apr	18-May	18-Jun
Natural Gas commodity:	2017-07	2017-08	2017-09	2017-10	2017-11	2017-12	2018-01	2018-02	2018-03	2018-04	2018-05	2018-06
Henry Hub	\$2.99	\$2.90	\$2.98	\$2.89	\$3.00	\$3.07	\$3.17	\$3.18	\$3.14	\$2.93	\$2.91	\$2.94
basis	(\$0.41)	(\$0.36)	(\$0.37)	(\$0.35)	(\$0.39)	(\$0.36)	(\$0.34)	(\$0.35)	(\$0.48)	(\$0.56)	(\$0.58)	(\$0.58)
Wellhead - PEPL	\$2.58	\$2.53	\$2.61	\$2.53	\$2.61	\$2.71	\$2.83	\$2.83	\$2.66	\$2.38	\$2.33	\$2.36
PEPL	3.169	2.635	2.6	2.745	2.763	2.606	2.578	2.532	2.633	2.531	2.609	2.463

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ER-2014-0370	\$4.61	\$7.26	\$4.96	\$4.41	\$4.32	\$4.37	\$3.92	\$3.76	\$3.71	\$3.61	\$4.04	\$3.23
ER-2016-0285	\$2.20	\$1.84	\$1.53	\$1.68	\$1.66	\$2.28	\$2.68	\$2.59	\$2.52	\$2.22	\$2.00	\$1.90
ER-2018-0145	\$2.83	\$2.83	\$2.66	\$2.38	\$2.33	\$2.36	\$2.58	\$2.53	\$2.61	\$2.53	\$2.61	\$2.71
Staff WP	\$3.45	\$2.56	\$2.96	\$3.09	\$3.38	\$3.55	\$3.17	\$3.31	\$3.47	\$2.79	\$2.84	\$2.79
Wellhead - PEPL	\$2.58	\$2.53	\$2.61	\$2.53	\$2.61	\$2.71	\$2.83	\$2.83	\$2.66	\$2.38	\$2.33	\$2.36



\$1.40  
\$1.40  
\$0.70  
  
\$14.00  
\$10.00