

Tori L. Giesler, Esq.
(610) 921-6658
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April 5, 2022

DATE OF DEPOSIT

APR 05 2022

VIA UPS OVERNIGHT DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility
Commission Commonwealth Keystone
Building 400 North Street, 2nd Floor
Harrisburg, PA 17120

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**Re: Petition of Pennsylvania Power Company For Approval To Distribute The
Amortized Amount of Excess Accumulated Deferred Income Taxes
Docket No. P-2022-3030987**

Dear Secretary Chiavetta:

Enclosed please find the responses of Pennsylvania Power Company to the Bureau of
Technical Utility Services data requests of March 24, 2022.

Please contact me at (610) 921-6658 with any questions you may have.

Sincerely,



Tori L. Giesler

Enclosure

c: Marc Hoffer, Bureau of Technical Utility Services (via email at mhoffer@pa.gov)

TUS – Data Request
Petition of Pennsylvania Power Company
Docket No. P-2022-3030987
April 5, 2022

QUESTION 1:

Explain how the Company is currently complying with the Internal Revenue Service Private Letter Ruling at No. PLR-101961-21 (PLR) and how the Company had planned to comply with this PLR given its previous contention that excess accumulated deferred income tax (ADIT) should be addressed in the next base rate case.

Response:

In this case, the Company highlighted two normalization issues that have been addressed by the IRS in recently published private letter rulings (“PLRs”). The first normalization issue, known as the “consistency rule,” was discussed in PLR-101961-21. Essentially, the consistency rule requires that adjustments made to book depreciation, income tax expense, accumulated deferred income taxes (“ADIT”), and rate base must be made in a consistent manner. Specifically, PLR-101961-21 (Oct.2021) explained that when cost of service is adjusted for excess ADIT amortization using the average rate assumption method (“ARAM”), rate base also must be adjusted so as not to give ratepayers the added benefit of an artificially lower rate base. In its Petition, the Company proposes a “cumulative rate base offset” intended to comply with the consistency rule so that rate base will increase as excess ADIT is amortized and refunded to customers. The Company believes this proceeding is the appropriate time to correct inadvertent inconsistencies in the prior periods of 2018-2021 and prevent additional inconsistencies from occurring. The Company seeks the Commission’s assistance both now and in future proceedings to implement practices intended to comply with the normalization rules as set forth in federal tax law and IRS guidance.

The second normalization issue, discussed in PLR 101169-21 (Oct. 2021) and PLR-113635-21 (March 2022), concerns the method for amortizing certain excess ADIT using the ARAM. In the PLRs, the IRS confirmed that cost-of-removal (“COR”) should not be part of book depreciation for purposes of computing excess ADIT amortization using the ARAM. The COR tends to increase book depreciation, resulting in the refund of depreciation-related excess ADIT faster than what the ARAM otherwise allows. In response to the PLRs, the Company is making configuration changes to its fixed asset software (Power Plan / Power Tax) so that COR and salvage value can be segregated from book depreciation. Once the configuration changes are made, COR no longer will be included with book depreciation for purposes of computing excess ADIT amortization using the ARAM. If it is determined that excess ADIT was refunded too quickly using the ARAM, the Company will propose adjustments in future proceedings / TCJA surcharge filings to correct 2018-2021 amortization to be consistent with the normalization rules. However, because the configuration changes will not be completed until June or July of 2022, the Company is not in position currently to propose any adjustments.

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QUESTION 2:

Provide a breakdown between (1) ADIT and (2) excess ADIT (broken down by protected and unprotected). Explain the amortization methodology and how many years remain on the amortization. Provide a detailed explanation, including any workpapers, as to how the monthly amortization of excess ADIT was determined, breaking down the protected and unprotected amounts as well as the net balance of the Excess ADIT beginning from the enactment of the TCJA.

Response:

See Penn Power Response to TUS Data Request No. 2 CONFIDENTIAL Attachment A. The Company amortizes all plant-related (protected and unprotected) net excess ADIT using the ARAM, which approximates the remaining service life of the underlying utility assets. The unprotected non-plant related net deficient deferred income taxes are amortized using the straight-line method over a period of 10 years. See Penn Power Response to TUS Data Request No. 4 for a detailed explanation, including workpapers, for the monthly amortization of excess ADIT.

QUESTION 3:

Provide the accounting journal entries, including supporting workpapers, showing revaluation of the ADIT balances at December 31, 2017, from the prior rate to 21 percent. This should include any regulatory liabilities that were set up for excess deferred federal income taxes

Response:

See Penn Power Response to TUS Data Request No. 2.

QUESTION 4:

Provide a detailed explanation, including workpapers, for the calculations provided in Appendix A.

Response:

See Penn Power Response to TUS Data Request No. 4 Attachment A for the detailed explanation for the calculations provided in Appendix A. See Penn Power Response to TUS Data Request No. 4 CONFIDENTIAL Attachment B for the workpapers.

QUESTION 5:

Reference page 1 of Appendix A. Provide detailed calculations and supporting documentation, including workpapers, for the calculation of lines 1 and 2 (EADIT and Rate Base Offset).

Response:

See Penn Power Response to TUS Data Request No. 4.

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QUESTION 6:

What other filings will the Company need to amend to ensure compliance with the PLR?

Response:

The Company is not aware of any amendments needed to other filings at this time in order to comply with the PLR.

QUESTION 7:

Why has the Company included a “rate base offset” during periods which it has not flowed back excess ADIT to customers?

Response:

See Penn Power Response to TUS Data Request No. 1.

QUESTION 8:

Provide any responses to the data request responses at Docket No. P-2021-3025908 that may need amended after the Company’s analysis of the PLR.

Response:

The Company is not aware of any amendments needed to the data request responses at this docket at this time in order to comply with the PLR.

QUESTION 9:

Provide Excel versions of Appendix A of this petition and to any responses provided above.

Response:

See Penn Power Response to TUS Data Request No. 2 CONFIDENTIAL Attachment A and No. 4 CONFIDENTIAL Attachment B.

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA
POWER COMPANY FOR
APPROVAL TO DISTRIBUTE THE
AMORTIZED AMOUNT OF
EXCESS ACCUMULATED
DEFERRED INCOME TAXES**

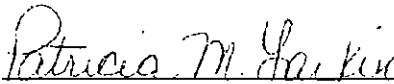
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Docket No. P-2022-3030987

VERIFICATION

I, Patricia M. Larkin, Analyst V, hereby state that the facts above set forth are true and correct to the best of my knowledge, information, and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Date: April 5, 2022


Patricia M. Larkin

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA
POWER COMPANY FOR
APPROVAL TO DISTRIBUTE THE
AMORTIZED AMOUNT OF
EXCESS ACCUMULATED
DEFERRED INCOME TAXES**

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Docket No. P-2022-3030987

VERIFICATION

I, Gregory J. Gawlik, Assistant Controller-Tax, hereby state that the facts above set forth are true and correct to the best of my knowledge, information, and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Date: April 5, 2022



Gregory J. Gawlik

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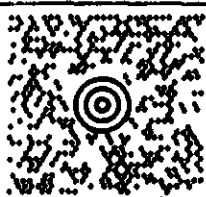
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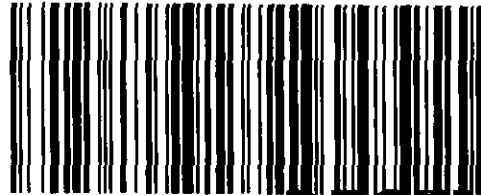
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