



June 6, 2018

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The Honorable Chair and Members  
of the Hawai'i Public Utilities Commission  
Kekuanao'a Building, First Floor  
465 South King Street  
Honolulu, Hawai'i 96813

PUBLIC UTILITIES  
COMMISSION

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C. Beck  
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Dear Commissioners:

Subject: Hawaiian Electric Companies' Treatment of the Decoupling Revenue  
Included in the RBA Balances Impacted by 2017 Tax Cuts & Jobs Act

This letter is to inform the Commission that the Hawaiian Electric Companies'<sup>1</sup> Schedule B ("Summary of Accumulated Revenue Balancing Account") in its decoupling filings has been revised as a result of the 2017 Tax Cuts & Jobs Act effective for years ending after December 31, 2017. The new provisions of IRC §451(b) supersede the prior tax method of deferring revenue recognition of revenue balancing account ("RBA") revenues for which the Companies obtained approval from the Internal Revenue Service ("IRS") in April 2014. The new provisions result in the elimination of accumulated deferred income taxes ("ADIT") associated with these revenues.

2014 Interest on Net-of-Income Tax Basis

On May 6, 2014, the Companies informed the Commission that in accordance with Decision and Order No. 31908, the Hawaiian Electric Companies received approval from the IRS to change their accounting method from the book method of RBA revenue recognition to a recognition method based on when rates are adjusted for the RBA, effective January 1, 2014.

Accordingly, in May 2014, the Companies initiated downward adjustments to the RBA balance for the related ADIT and computed interest on this net-of-income tax RBA balance for the period January 1 - April 30, 2014. Starting with May 2014, the Companies updated Schedule B to calculate interest based on a net-of-income tax RBA balance.

2017 Tax Cuts & Jobs Act – Change in Treatment

On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with the new IRC §451(b), "...the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer..."

This change supersedes the RBA tax accounting treatment (deferred until received in rates) that the IRS approved for the Companies on April 21, 2014 and that the Commission adopted in Decision and Order No. 31908 in Docket No. 2013-0141 (Decoupling Reexamination Proceeding).

<sup>1</sup> The "Hawaiian Electric Companies" or "Companies" are Hawaiian Electric Company, Inc. ("Hawaiian Electric"), Hawai'i Electric Light Company, Inc. ("Hawai'i Electric Light"), and Maui Electric Company, Limited ("Maui Electric").

IRC §451(b) eliminates the book tax temporary difference for which ADIT was provided but allows a transition to the new law, by amortizing the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) into taxable income over the next four years. Consequently, the ADIT adjustment to the basis for calculating RBA interest will decrease over this four year period down to zero by the end of 2021. The change captures the impact on cash flow related to the RBA net of taxes and results in a higher RBA interest charge calculated on the full RBA balance.

#### Schedule B Changes

In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology as a result of IRC §451(b) retroactive to January 2018, when the ADIT adjustment began. They recalculated the January to March 2018 RBA balance, subject to interest, and made an upward adjustment to "true-up" the RBA balance in April 2018.<sup>2</sup>

Starting with April 2018, Schedule B was updated to calculate interest based on the full RBA balance net of the RBA ADIT balance per the provisions of IRC §451(b). See Attachments 1 – 3 to this letter.

- Column g – RBA Balance Before ADIT – represents the beginning RBA balance (column b) plus the Variance to RBA (column e) plus the Adjustment for prior year RBA accrual (column f).
- Column h – ADIT Related to RBA Revenues – reflects the declining balance of the RBA ADIT balance as of December 31, 2017. The RBA ADIT balance will be amortized over the next 4 years on a monthly straight-line basis with the effect of reducing the tax adjustment balance down to zero by the end of 2021.
- Column i – Net Ending Balance – represents the RBA Balance Net of ADIT (column g + column h).
- Column j – Average Balance Subject to Interest – the balance subject to interest is based on the average of the prior month Net Ending Balance (including Interest) plus current month Net Ending Balance.
- Column l - The calculation of the Ending RBA balance excludes the declining RBA ADIT balance (column h). The declining RBA ADIT balance is only used to calculate interest under the provisions of IRC §451(b).

Very truly yours,



Dean K. Matsuura  
Manager, Regulatory Rate Proceedings

Enclosures

<sup>2</sup> As shown in Attachments 1-3 (Note 3), the RBA Balance was trued-up in April 2018 by \$4,510 for Hawaiian Electric, \$562 for Maui Electric, and \$1,394 for Hawai'i Electric Light.

AS CORRECTED IN APRIL 2018

HAWAIIAN ELECTRIC COMPANY, INC.  
DECOUPLING CALCULATION WORKBOOK  
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No	Month	Beginning Balance (b)	Target Revenues (c)	Recorded Adjusted Revenue (d)	Variance to RBA (e)	Adjustment for prior year RBA accrual (f)	RBA Balance Before ADIT (g)	ADIT Related to RBA Revenues (h)	Net Ending Balance (i)	Average Balance Subject to Interest (j)	Interest at 1.75%/year (k)	Ending Balance (l)
Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)												
1	2017 December	\$ 18,013,824	\$ 49,915,326	\$ 43,730,598	\$ 6,184,728	\$ (3,302,057)	\$ 49,231,536	(12,878,046)	\$ 36,553,490	29,169,047	\$ 42,538	\$ 49,231,536
2	December - Revised - Note (2)						\$ 49,231,536	(12,878,046)	\$ 36,553,490	29,169,047	\$ 42,538	\$ 49,231,536
3												
4	2018 January	\$ 49,231,536	\$ 48,948,443	\$ 43,871,232	\$ 5,077,211	\$ (3,369,650)	\$ 50,939,097	\$ (12,413,920)	\$ 38,525,177	\$ 37,539,333	\$ 54,745	\$ 50,993,642
5	February	\$ 50,993,642	\$ 45,953,154	\$ 40,430,218	\$ 5,522,935	\$ (4,185,853)	\$ 52,330,824	\$ (12,148,794)	\$ 40,181,130	\$ 39,360,528	\$ 57,430	\$ 52,388,354
6	March	\$ 52,388,354	\$ 51,603,222	\$ 46,365,780	\$ 5,237,442	\$ (3,345,112)	\$ 54,280,884	\$ (11,885,606)	\$ 42,395,018	\$ 41,318,788	\$ 60,254	\$ 54,340,938
7	April	\$ 54,340,938	\$ 49,081,567	\$ 45,638,884	\$ 3,422,723	\$ (3,430,486)	\$ 54,333,195	\$ (11,621,542)	\$ 42,711,653	\$ 42,583,481	\$ 62,101	\$ 54,395,299
8	May	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	June	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	July	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	August	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	September	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	October	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	November	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15	December	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16			\$ 195,586,408	\$ 176,308,095	\$ 19,260,311	\$ (14,331,081)					\$ 234,530	
17												
18												
19												
20	2019 January	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	February	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
22	March	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
23	April	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	May	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25	June	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	July	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
27	August	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	September	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
29	October	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30	November	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
31	December	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Sources of Data:	Sch B1	Sch B2	Cols (a)-(d)	Note (1)	Cols (h)-(e)-(f)	Note (2)	Note (2) & (3) Cols (g)-(h)	Curr Col (i)+ Prior Col (j)+(k) (l)	Cols (g)-(l)
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Note (1):  
Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019.

Note (2):  
On December 22, 2017, the 2017 Tax Cuts and Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), "... the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer...". This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31908 on Schedule A of the Decoupling Investigation, issued in Docket No. 2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	49,231,536
Composite Federal & State Income Tax Rate	25.75%
RBA ADIT Balance at 12/31/2017	12,878,046
Years	4
Annual amortization for years 2018 through 2021	3,169,511
Monthly ADIT amortization	264,126

Note (3):  
In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note (2). The January to March 2018 RBA balance subject to interest was recalculated and the RBA Balance was true-up in April 2018 for \$4,510.

Hawaii Electric Light Company, Inc.  
DECOUPLING CALCULATION WORKBOOK  
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

AS CORRECTED IN APRIL 2018

Line No.	Month	Beginning Balance (b)	Target Revenues (c)	Recorded Adjusted Revenue (d)	Variance to RBA (e)	Adjustment for prior year RBA accrual (f)	RBA Balance Before ADIT (g)	ADIT Related to RBA Revenues (h)	Net Ending Balance (i)	Average Balance Subject to Interest (j)	Interest at 3.25%/year (k)	Ending Balance (l)
Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)												
1	2017 December	\$ 3,128,648	\$ 13,230,418	\$ 12,492,192	\$ 738,226	\$ (253,086)	\$ 3,619,386	\$ (932,055)	\$ 2,687,311	\$ 2,069,477	\$ 5,578	\$ 3,619,366
2	December - Revised - Note (2)											
3												
4	2018 January	\$ 3,619,366	\$ 13,301,362	\$ 12,835,840	\$ 465,522	\$ (254,886)	\$ 3,826,002	\$ (912,637)	\$ 2,913,365	\$ 2,800,338	\$ 7,584	\$ 3,833,586
5	February	\$ 3,833,586	\$ 12,451,601	\$ 11,560,335	\$ 891,266	\$ (235,377)	\$ 4,489,475	\$ (893,219)	\$ 3,596,256	\$ 3,258,603	\$ 8,825	\$ 4,498,300
6	March	\$ 4,498,300	\$ 13,258,795	\$ 12,733,942	\$ 524,853	\$ (257,906)	\$ 4,765,247	\$ (873,801)	\$ 3,891,446	\$ 3,748,264	\$ 10,152	\$ 4,775,399
7	April	\$ 4,775,399	\$ 12,725,921	\$ 12,731,188	\$ (5,267)	\$ (258,997)	\$ 4,511,135	\$ (854,383)	\$ 3,656,752	\$ 3,779,175	\$ 10,235	\$ 4,521,370
8	May	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	June	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	July	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	August	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	September	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	October	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	November	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15	December	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Total	\$ 51,737,679	\$ 49,861,305	\$ 49,861,305	\$ 1,876,374	\$ (2,011,166)					\$ 36,796	
17												
18												
19	2018 January	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20	February	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	March	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
22	April	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
23	May	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	June	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25	July	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	August	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
27	September	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	October	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
29	November	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30	December	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Sources of Data	Sch. B1	Sch. B2	Col (c) - (d)	Note (1)	Cols (b) + (e) - (f)	Note (2)	Note (2) & (3) Cols (g) + (h)	Curr Col (i) + Prior Col (j) + (k)	Cols (g) + (k)
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Note (1)

Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019.

Note (2)

On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), "the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer." This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31808 on Schedule A of the Decoupling Investigation, issued in Doc# H-2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book-tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	3,810,386
Composite Federal & State Income Tax Rate	25.75%
RBA ADIT Balance at 12/31/2017	932,055
Years	4
Annual amortization for years 2018 through 2021	233,014
Monthly ADIT amortization	19,418

Note (3)

In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note (2). The January to March 2018 RBA balance subject to interest was recalculated and the RBA Balance was made-up in April 2018 for \$1,394.

AS CORRECTED BY APRIL 2018

**MAV ELECTRIC COMPANY, LIMITED**  
**DECOUPLING CALCULATION WORKBOOK**  
**SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT**

Line No	Month	Beginning Balance (b)	Tariffs: Revenues (c)	Recorded Adjusted Revenue (d)	Variance to RBA (e)	Adjustment for prior year RBA necessary (f)	RBA Balance Before ADIT (g)	ADIT Related to RBA Revenues (h)	Net Ending Balance (i)	Average Balance Subject to Interest (j)	Interest at 1.25%/year (k)	Ending Balance (l)
Monthly RBA Balance and Activity ( Monthly PUC Rpt., Pg. BA)												
1	2017 December	\$ 4,851,114	\$ 10,999,854	\$ 10,000,028	\$ 899,828	\$ (711,037)	\$ 5,544,314	(1,427,705)	\$ 4,116,549	\$ 3,177,327	\$ 3,310	\$ 5,544,314
2	December - Revised - Note (2)											
3												
4												
5	2018 January	\$ 5,544,314	\$ 11,706,157	\$ 10,673,809	\$ 582,328	\$ (220,318)	\$ 5,808,325	(1,398,020)	\$ 4,508,304	\$ 4,312,477	\$ 4,492	\$ 5,910,817
6	February	\$ 5,910,817	\$ 8,936,477	\$ 9,491,075	\$ 444,402	\$ (186,271)	\$ 6,158,948	(1,284,275)	\$ 4,790,873	\$ 4,651,735	\$ 4,646	\$ 6,183,794
7	March	\$ 6,183,794	\$ 11,182,019	\$ 10,411,284	\$ 781,335	\$ (212,026)	\$ 6,733,103	(1,338,520)	\$ 5,394,573	\$ 5,085,048	\$ 5,307	\$ 6,738,410
8	April	\$ 6,738,410	\$ 10,651,013	\$ 10,648,657	\$ 5,058	\$ (220,634)	\$ 6,522,832	(1,308,785)	\$ 5,214,047	\$ 5,308,064	\$ 5,328	\$ 6,528,360
9	May	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	June	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	July	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	August	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	September	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	October	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15	November	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	December	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17			\$ 47,886,148	\$ 41,175,024	\$ 1,813,122	\$ (849,249)			\$ 19,346,371	\$ 20,173		
18	2019 January	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	February	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20	March	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	April	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
22	May	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
23	June	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	July	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25	August	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	September	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
27	October	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	November	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
29	December	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30												

Sources of Data: Sch B1, Sch B2, Col (c) - (d), Note (1), Col (b)-(g)-(l), Note (2), Note (2) & (3), Col (g)-(h), Cur Col (j)- Prior Col (i)-(k)-(l), Col (g)-(h)

Note (1): Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019

Note (2): On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b)(1), the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in an applicable financial statement of the taxpayer. This change would supersede the RBA tax accounting treatment (deferred until received in interest) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31908 on Schedule A of the Decoupling Investigation, issued in Doc # 10-2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book-tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	5,544,314
Corporate Federal & State Income Tax Refs	25,756
RBA ADIT Balance at 12/31/2017	1,427,705
Years	4
Annual amortization for years 2018 through 2021	358,641
Monthly ADIT amortization	29,745

Note (3): In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note (2). The January to March 2018 RBA balance subject to interest was recalculated and the RBA balance was fixed up in April 2018 for \$552.