October 1, 2021

DesertLink Rate Year 2022 Projection Accounting Changes and Disclosures

The DesertLink, LLC ("DesertLink") filed rate includes Formula Rate Implementation Protocols ("Protocols"). Sections 1.a and 3.d.(iii) of the Protocols specify that, as part of the calculation of its projected Net Revenue Requirement ("Projection"), DesertLink identify changes in accounting that may affect inputs to the formula rate or the resulting charges billed under the formula rate ("Accounting Change"). Additional disclosure requirements in the Protocols are also listed below.

Accounting Changes applicable during 2020:

1. New standard or policy (Protocols Section 3.d.(iii).A.I)

   None to report.

2. Issues of first impression (Protocols Section 3.d.(iii).A.II)

   None to report.

3. Prior period adjustments (Protocols Section 3.d.(iii).A.III)

   None to report.

4. Estimation methods (Protocols Section 3.d.(iii).A.IV)

   None to report.

5. Tax elections (Protocols Section 3.d.(iii).A.V)

   Order No. 864
   In response to the requirements of Federal Energy Regulatory Commission's ("FERC" or "Commission) Order No. 864, DesertLink submitted, on April 15, 2020, a compliance tariff filing in Docket No. ER20-1573 ("April 15 Filing") that is currently pending before the Commission. While the pending revisions are not reflected in the template used for the projection for the 2022 rate year, DesertLink notes that, as stated in the April 15 Filing, the federal corporate tax rate decrease resulting from the 2017 Tax Cuts and Jobs Act does not affect rate base or result in refundable excess ADIT amounts or recoverable deficient ADIT amounts because the initial provision of transmission services and collection of revenue requirement occurred after the effective date of the 2017 TCJA changes.

   The decrease in the federal corporate tax rate reduced the regulatory asset in Account 182.3 and associated deferred tax liabilities in Accounts 282 and 283 related to accrued/capitalized AFUDC-

equity. In addition, the decrease in the federal corporate tax rate reduced the regulatory asset in Account 182.3 and associated deferred tax liabilities in Account 283 related to equity carrying charges recorded with respect to deferred pre-commercial costs. The reduction of the regulatory asset reflects the reduced the revenue requirement associated with depreciation of AFUDC-equity accrued and capitalized before the associated plant was placed in service in August 2020.

<u>NV Energy Transaction</u>
On November 17, 2020, NV Energy, Inc. ("NV Energy") and DesertLink, LLC ("DesertLink") filed an application in Docket No. EC21-23 requesting authorization for NV Energy to exercise an option to acquire a 20 percent interest in DesertLink (the "Transaction"). On January 29, 2021, the Commission authorized the Transaction which was consummated on April 30, 2021.

The Transaction is treated as a taxable sale of a portion of the assets of DesertLink. The Transaction causes a change to the tax basis of DesertLink assets (generally an increase) and to the timing of reversals of its book-tax differences that existed on the transaction date. The amounts of a company's book-tax differences determine the amounts of its deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs"). In the DesertLink formula rate, DTAs and DTLs serve as adjustments to rate base.

Importantly, the Transaction will not affect the lifetime amounts of expense recognition or associated taxable income. The estimated impact of the Transaction on DTAs and DTLs affecting rate base in the 2022 Projection is $1.19 million which is less than four-tenths of one percent of projected revenue requirement.

Other Disclosures:

6. Cost valuation (Protocols Section 3.d.(iii).B)

   None to report.

7. Reorganization/merger (Protocols Section 3.d.(iii).B)

   Please refer to "NV Energy Transaction" in item 5 above.