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10 This Application is filed pursuant to ORS 757.259, which empowers the Commission to
11 authorize the deferral of expenses or revenues of a public utility for later incorporation into rates.

12

13 BACKGROUND

14 On December 29, 2017, Avista applied to the Public Utility Commission of Oregon
15 ("Commission") for an order authorizing it to utilize deferred accounting for the impact to its
16 federal income tax ("FIT") expenses due to the revisions of the federal income tax Act, also
17 referred to as the Tax Cuts and Jobs Act ("TCJA"). Within the Company's filed request, the
18 Company requested the deferral be effective beginning January 1, 2018.

19 The Company's cost of service includes federal income taxes that have been calculated in
20 accordance with the Internal Revenue Code of 1986. In late-2017, the United States Congress
21 passed the "Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent
22 Resolution on the Budget for Fiscal Year 2018", which amends sections of the 1986 Code. The
23 Act was signed into law by President Trump on December 22, 2017. The Act is effective for tax
24 years beginning after December 31, 2017. The Act includes extensive changes to the federal
25 income tax code for business entities, including Avista. Lowering the tax rate from 35% of
26 taxable income to 21% of taxable income is one of the provisions that will change the federal
27 income tax expense that Avista records and includes in its cost of service.

1 Beginning January 1, 2018 current federal income tax expense changed due to the lower
2 federal tax rate of 21% (down from the current 35% federal tax rate). The impact of a rate change
3 on the current tax expense is only one piece of the expected impact of the tax code reform, and
4 will not be considered in isolation. Other items impacting the Company's cost of service are
5 changes to deferred taxes, both on the income statement and on the balance sheet, amortization of
6 deferred tax amounts that represent the difference between the historical 35% rate and the revised
7 21% rate, as well as other possible items that may no longer be deductible, such as state and local
8 tax expenses. The impact of the reduction in the corporate tax rate, along with changes in allowed
9 deductions that may off-set the tax rate reduction, are not a straight forward calculation. These
10 changes flow through the Company's income statement and balance sheet.

11 All the financial impacts of changes to the federal tax code were addressed in a manner
12 that properly captures those impacts in the Company's recent approved Oregon general rate case
13 UG-366 effective January 15, 2020, and will be properly incorporated in customers' rates at that
14 time. Since the federal income tax code changes went into effective beginning January 1, 2018,
15 Avista began deferring the impact of the changes to federal income tax expenses beginning in
16 January 2018, and request to continue to do so until January 14, 2020.

17 **2018 – 2019 Deferred Tax Related Filings:**

18 **2018**

19 On March 23, 2018, the Staff of the Commission informally requested that each utility
20 supplement its deferral application, no later than April 15, 2018, with the utility's calculation of its
21 estimated deferral amounts for 2018, based on a 2018 proxy year. The Company filed its
22 supplement to its deferral application on April 12, 2018. The Commission Staff also further
23 requested each utility's application be supplemented quarterly thereafter. The Company's
24 quarterly update for the period ending June 30, 2018 and September 30, 2018, were filed on July

1 13, 2018 and October 10, 2018, respectively. The Company also filed its final 2018 quarterly
2 update, for the period ending December 31, 2018 on January 23, 2019.

3 On February 11, 2019,² through Advice No. 19-01-G, the Company proposed to return the
4 2018 deferred tax benefit to customers through separate Tariff Schedule 474 “Temporary Federal
5 Income Tax Rate Credit.” On February 19, 2019, the Commission authorized Avista to begin
6 returning the 2018 deferred tax benefits, including interest, of \$3.837 million to customers from
7 March 1, 2019 through February 29, 2020 through Tariff Schedule 474.

8 **2019**

9 For the 2019 calendar tax benefits, on December 18, 2018, the Company filed its “Notice
10 of Application for Reauthorization of Certain Deferral Accounts” to defer the calendar 2019 tax
11 benefits for the benefit of customers. The Company will file a year-end report for the twelve-
12 month period ending December 31, 2019, with final deferred tax amounts as soon as available in
13 2020. This information will be available prior to the expiration of Tariff Schedule 474
14 “Temporary Federal Income Tax Rate Credit” on February 29, 2020, discussed above, which is
15 currently returning \$3.837 million to customers from March 1, 2019 through February 29, 2020.
16 Prior to the expiration of Tariff Schedule 474 at February 29, 2020, a determination could be made
17 to the return of the 2019 deferred tax benefit by extending Tariff Schedule 474 until February 28,
18 2021.

19 **2020**

20 As noted above, all the financial impacts of changes to the federal tax code were addressed
21 in a manner that properly captures those impacts in its recent approved Oregon general rate case
22 UG-366, effective January 15, 2020, and will be properly incorporated in customers’ rates at that

² On February 15, 2019, Avista filed Supplemental Advice No. 19-01-G, updating its proposed tariff sheet to reflect interest of \$129,000, revising its deferred tax benefit to be returned to customers from \$3.708 million to \$3.837 million.

1 time. The Company therefore requests approval to continue to defer the impact of the changes to
2 federal income tax expenses for the period January 1, 2020 until January 14, 2020. The Company
3 will file a final deferred tax report for the two-week period January 1, 2020 – January 14, 2020,
4 with final deferred tax amounts as soon as available in 2020. This deferred tax amount is expected
5 to be minimal at approximately \$142,000, prior to interest. Prior to the expiration of Tariff
6 Schedule 474 at February 29, 2020, a determination could be made to the return of the deferred tax
7 benefit for the period January 1, 2019 through January 14, 2020, by extending Tariff Schedule 474
8 until February 28, 2021.

9 SUMMARY OF 2019 and 2020 ACCOUNTING BENEFITS

10 The Company described the 2018 annual calculated tax benefits and estimated deferral
11 amounts within its April 13, 2018 filing “Supplement to Application for Authorization of Certain
12 Deferral Accounts” (“April 13, 2018 Supplemental Filing”), as well as its quarterly reports filed
13 on July 13, 2018, October 10, 2018, and January 23, 2019.³

14 The Company summarized its 2019 annual calculated tax benefits and estimated deferral
15 amounts within its “Notice of Application for Reauthorization of Certain Deferral Accounts” on
16 December 18, 2018. A summary of the 2019 estimated benefits are provided in Table No. 1
17 below:

³ For purposes of this filing, “permanent” benefits represent tax changes that impact base rates on a long-term or on-going basis, such as the effect of lowering the effective tax rate to 21%; whereas “temporary” benefits represent amounts which are a one-time calculation or temporary in nature that will be returned to customers over a shorter period of time (yet to be determined).

Table No. 1

2019 Annual Amounts	Revenue Requirement (000s)
	OR Natural Gas
<u>Permanent or Long-Term Reductions:</u>	
1) Annual Current/Deferred Tax Expense (35% to 21%)	\$ (3,151)
2) Annual Plant Excess ADFIT	\$ (553)
Total Permanent or Long-Term Tax Benefits	\$ (3,704)
<u>Incremental Deferred Temporary Reductions:</u>	
3) Deferred Excess Tax/Excess Plant ADFIT ¹	\$ (3,704)
Total Temporary Tax Benefits	\$ (3,704)
¹ The amount of deferred tax benefits to be returned to customers will vary based on actual balances deferred during calendar 2019.	
² Amount updated to reflect current information.	

Per Summary Table No. 1 above, the individual components are as follows:

- 1) Annual Current and deferred income tax expense and conversion factor results in a permanent reduction in natural gas base rates necessary to reflect this tax benefit on a revenue requirement basis of **approximately \$3.2 million** annually. (The permanent effect of the tax benefits were incorporated in the natural gas rates approved in UG 366, effective January 15, 2020.)
- 2) Excess Plant deferred income tax asset/liability results in an on-going Oregon natural gas reduction on a revenue requirement basis of **approximately \$553,000** in year one (calendar 2019). (The effect of the on-going excess plant deferred income tax asset/liability were incorporated in the natural gas rates approved in UG 366, effective January 15, 2020.)
- 3) Deferred excess tax and deferred excess plant ADFIT – results in an annual deferral (beginning January 1, 2019) of current and deferred income tax expense benefit of approximately \$3.2 million, and excess plant-related ADFIT tax benefit of approximately \$553,000. These two balances, or **approximately \$3.7 million**, is the current estimate of these benefits of the annual amount to be deferred during 2019.

For the 14 day period, January 1, 2020 through January 14, 2020, the Company estimates the deferred tax benefit to be approximately \$142,000 (\$3.7 million x 14 days/365), plus interest.

1 PROPOSED ACCOUNTING

2 Avista proposes to record the deferred amount in FERC Account 449.1 (Provision for Rate
3 Refunds) crediting FERC Account 229 (Accumulated Provision for Rate Refund). In absence of a
4 deferred accounting order from the Commission, Avista would record costs associated with the
5 deferred amount to FERC Account 182.3 (Other Regulatory Assets), FERC Account 190
6 (Accumulated Deferred Income Taxes), FERC Account 236 (Taxes Accrued), FERC Account 254
7 (Other Regulatory Liabilities), FERC Account 282 (Accumulated Deferred Income Taxes – Other
8 Property), FERC Account 283 (Accumulated Deferred Income Taxes – Other), FERC Account
9 409.1 (Income Taxes-Utility Operating Income), FERC Account 410.1 (Provisions for Deferred
10 Income Taxes, Utility Operating Income) and FERC Account 411.1 (Provision for Deferred
11 Income Taxes – Credit, Utility Operating income). When the amounts are returned to customers,
12 the Company would record the amortization of the deferred federal income tax expense in FERC
13 Account No. 407.4 – Regulatory Credits, using separate sub-accounts.

14 Interest will be accrued based on the Company’s authorized rate of return. Once the
15 deferral is approved for recovery and associated amortization, interest will accrue at the Modified
16 Blended Treasury Rate similar to the Company’s other amortization accounts.

17 Pursuant to OAR 800-027-0300(3)(e)(6), a copy of the Notice of Application and list of
18 persons served with the Notice is attached to this Application as Exhibit A.

Docket No. UM 1918

**NOTICE OF APPLICATION FOR REAUTHORIZATION OF CERTAIN
DEFERRAL ACCOUNTS**

November 1, 2019

To All Parties Who Participated in UG 366:

Please be advised that on November 1, 2019, Avista Corporation, dba Avista Utilities ("Avista" or "Company"), applied to the Public Utility Commission of Oregon ("Commission") for an order reauthorizing the Company to utilize deferred accounting for the impact to its federal income tax (FIT) expenses due to the 2018 revisions of the federal income tax code. This filing has been made pursuant to ORS 757.259 and OAR 860-027-0300(4).

This Notice is being sent to all parties that participated in Avista's most recent general rate case, Docket No. UG 366, to inform them that an Application for Reauthorization has been filed. Parties wanting more information or who wish to obtain a copy of the filing can access the Application on the Commission website, or by contacting either of the following:

Avista Utilities
Attn: Patrick Ehrbar
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Spokane, WA 99220-3727
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Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
PO Box 1088
Salem, OR 97301-1088
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Any person may submit to the Commission written comments on this matter by November 25, 2019. Approval of Avista's Application will not authorize a change in the Company's rates, but will permit the Commission to consider allowing such deferred amounts in rates in a subsequent proceeding.

DATED this 1st day of November 2019.

By: 

David J. Meyer, Vice President and Chief
Counsel for Regulatory and Governmental Affairs

CERTIFICATE OF SERVICE

Docket No. UM 1918

I HEREBY CERTIFY that I have on this day, November 1, 2019, served by electronic mail the foregoing Notice of Application for Reauthorization of Certain Deferral Accounts, related to the deferral of federal income tax expenses due to the 2018 revisions of the federal income tax code, to all parties of record for Avista's most recent general rate case, Docket No. UG 366, as indicated below:

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I declare under penalty of perjury that the foregoing is true and correct.

Dated at Spokane, Washington this 1st day of November, 2019.

/s/ Jaime Majure

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