BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

DOCKET NO. UM 1918

IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES FOR AN ORDER AUTHORIZING DEFERRAL OF FEDERAL INCOME TAX EXPENSES FOR THE EFFECTS OF REVISIONS OF THE FEDERAL INCOME TAX CODE UPON AVISTA'S COST OF SERVICE	) QUARTERLY SUPPLEMENT TO APPLICATION FOR AUTHORIZATION OF CERTAIN DEFERRAL ACCOUNTS

BACKGROUND

On December 29, 2017, Avista Corporation, dba Avista Utilities ("Avista" or "Company"), pursuant to ORS 757.259 and OAR 860-027-0300(4), applied to the Public Utility Commission of Oregon ("Commission") for an order authorizing it to utilize deferred accounting for the impact to its federal income tax ("FIT") expenses due to the revisions of the federal income tax code caused by enactment of the "Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" ("Act"), also referred to as the Tax Cuts and Jobs Act ("TCJA"). Within the Company's filed request, the Company respectfully requested that this deferral be effective beginning January 1, 2018.

On March 23, 2018, the Staff of the Commission informally requested that each utility supplement its deferral application, no later than April 15, 2018, with the utility's calculation of its estimated deferral amounts for 2018, based on a 2018 proxy year. The Company filed its supplement to its deferral application on April 12, 2018. The Commission Staff also further requested each utility's application be supplemented quarterly thereafter. The Company's quarterly update for the period ending June 30, 2018 was filed on July 13, 2018. The Company's quarterly update for the period ending September 30, 2018 is provided herein.

QUARTERLY UPDATE

Summary of Tax Benefits

The Company described the annual calculated tax benefits and estimated deferral amounts within its April 13, 2018 filing "Supplement to Application for Authorization of Certain Deferral Accounts" ("April 13, 2018 Supplemental Filing").[1] A summary of these benefits are provided in Table No. 1 below:[2]

Table No. 1

2018 Annual Amounts		Revenue Requirement (000s)
Permanent or Long-Term Reductions:		**OR Natural Gas**
1) Annual Current/Deferred Tax Expense (35% to 21%)	$	(3,151)
2a) Annual Plant Excess ADFIT	$	(553)
Total Permanent or Long-Term Tax Benefits	**$**	**(3,704)**
Temporary Reductions:		
2b) Total Non-Plant Excess ADFIT[2]	$	(284)
3) Deferred Excess Tax/Excess Plant ADFIT[1]	$	(3,704)
Total Temporary Tax Benefits	**$**	**(3,988)**

[1]The amount of deferred tax benefits to be returned to customers will vary based on actual balances deferred during calendar 2018.

[2]Amount updated to reflect current information.

[1] 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).

[2] Table No. 1 above, item 2b) Total Non-Plant Excess ADFIT has been updated from previous filings, i.e. April 13, 2018 Supplemental Filing and July 13, 2018 Quarterly Update, to reflect current information after completion of the Company's 2017 tax return.

Per the Summary Table 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.

2) Excess deferred income tax asset/liability:
    a) Plant-related excess deferred income tax results in an on-going Oregon natural gas reduction on a revenue requirement basis of **approximately $553,000** in year one (calendar 2018).
    b) Non-plant related excess deferred income tax, results in a deferred tax "one-time" or "temporary" benefit to return to Oregon natural gas customers on a revenue requirement basis of **approximately $284,000.**

3) Deferred excess tax and deferred excess plant ADFIT – results in an annual deferral (beginning January 1, 2018) 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 $3.7 million, is the current estimate of these benefits using a "2018 proxy year" of the annual amount to be deferred during 2018.[3]

Return of Tax Benefits to Customers

As previously stated in Avista's April 13, 2018 Supplemental Filing, with regards to the "permanent" or "long-term" tax benefits, the Company is not opposed to adjusting customer rates through adjustment to base tariff schedules or by way of a separate tariff rider, crediting customers for the reduction in rates, until such time as can be incorporated in the Company's next general rate case. With regards to the "temporary" tax benefits, including both the excess non-plant ADFIT, as well as the amount deferred during 2018 and ultimately approved for refund, the Company is not opposed to returning these balances over a one-year or multi-year period through a new "temporary" tariff schedule. To the extent the Commission would prefer other means or

[3] With the limited amount of time since the legislation has been signed into law, not all impacts of the TCJA on the Company are known at this time. For example, there may be additional interpretations and rulings from government agencies related to the law which may result in additional adjustments up or down. The Company, therefore, believes it necessary to continue to track any appropriate differences through the deferred regulatory liability as a result of 1) differences between estimated amounts for 2018, versus actual amounts recorded during 2018; and 2) unanticipated tax effects from changes in tax legislation.

timing for returning these "temporary" benefits back to customers, i.e., in conjunction or timing with the Company's PGA, for example, the Company would not be opposed to such treatment.

In addition, as previously stated in the Company's first Quarterly Update filed on July 13, 2018, Avista has agreed to certain terms associated with the TCJA as a part of the all-party stipulation associated with the "Application of Hydro One Limited, acting through its indirect subsidiary, Olympus Equity LLC, for an order authorizing Hydro One to exercise substantial influence over the policies and actions of Avista Corporation" in Docket UM 1897.[4] Per Commitment 42. "Tax Cuts and Jobs Act" on pages 19-20 of Appendix A of the All-Party Settlement Stipulation:

42. Tax Cuts and Jobs Act

a) Avista and Parent agree that Avista will identify and quantify the impact on Avista of the December 22, 2017 U.S. "Tax Cuts and Jobs Act," which lowered U.S. corporate federal income tax rates from 35 percent to 21 percent and modified or eliminated certain federal income tax deductions. Avista will report on this impact in compliance with other Commission proceedings. Within this reporting, Avista will identify specific metrics of concern to Rating Agencies.

b) Regarding the deferral of net tax benefits associated with the Tax Cuts and Job Act, currently docketed as UM 1918 and UM 1923, Avista agrees that it will waive, and not seek to apply, an earnings test (see ORS 757.259(5)) when Avista decides, or is required by the Commission, to amortize the deferred tax benefit into customer rates; in other words, Avista will not use any of the deferred tax benefits to achieve its authorized ROE of 9.4% (ROE in 2018 and beyond). The Parties agree that the amount of the tax benefit has not yet been determined, but will be determined consistent with the Commission's direction in the UM 1918 and UM 1923 dockets, and other applicable docket(s) should one be opened.

As noted in the summary of tax benefits above, the Company has identified and quantified the impact of the TCJA on Avista and reported its findings in this Docket UM 1918 on April 12, 2018 and subsequent Quarterly Updates. In response to Commitment 42 b) above, the main

[4] The all-party stipulation in Docket UM 1897 has yet to be approved by this Commission.

metrics of concern to Rating Agencies regarding the impact of the TCJA is associated with the "funds from operations" (FFO) to debt ratio. Specifically, Moody's has stated:

> The change in outlook primarily reflects a degradation in key financial credit ratios, specifically the ratio of cash flow from operations to debt, funds from operations (FFO) to debt and retained cash flow to debt, as well as certain book leverage ratios. The change in outlook also reflects uncertainty with respect to the timing and extent of potential changes in regulatory recovery provisions, authorized returns and equity layers or self-help options by individual companies in response to lower cash flow.
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> "Regulated utilities will be exposed to a higher level of financial risk for the next 12 to 18 months" said Ryan Wobbrock, Vice President -- Senior Analyst. "For utility holding companies, the consolidated ratio of FFO to debt has been on a steady decline, from 19% in 2013 to 17% at year-end 2017, and we expect it to decline further toward 15% through 2019."

<u>Current Deferred Balance at September 30, 2018</u>

As of September 30, 2018 the deferred tax balance recorded on the Company's books, related to deferred excess current/deferred income tax expense and deferred excess plant ADFIT totals $2.4 million. Due to the normal seasonal pattern of natural gas, and the resulting historical decline in net income and income taxes over the summer months (June through September), this balance is expected to be similar to that estimated (as noted in Table No. 1) of $3.7 million on an annual basis. The company will continue to defer on its books of record the actual monthly deferred tax benefit and will supplement the deferred balance for calendar 2018 in January 2019 as soon as available.

WHEREFORE, Avista Utilities respectfully supplements its deferral application with the utility's calculation of estimated deferral amounts for 2018 based on a 2018 proxy year. The Company continues to request that the Commission authorize the Company to defer the impact to its federal income tax expenses due to the revisions of the federal income tax code caused by enactment of the Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018.

DATED this 10th day of October 2018.

Respectfully submitted,

Avista Utilities

By: ______________________

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Counsel for Regulatory and Governmental Affairs