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 and September 30, 2018, were filed on July 13, 2018 and October 10, 2018, respectively.

FINAL QUARTERLY / ANNUAL UPDATE

2018 Annual Summary of Tax Benefits and Actual Deferred Balance at December 31, 2018

As of December 31, 2018 the actual annual deferred tax balance for calendar 2018 recorded on the Company's books, related to deferred excess current/deferred income tax expense and deferred excess plant ADFIT totals \$3.434 million, compared to the estimated deferred tax balance of \$3.776 million on an annual basis, as noted in Table No. 1, item 3) below.

In estimating the expected tax benefits of the TCJA, as requested by Staff, 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 the estimated benefits were provided, as shown in Table No. 1 below:

[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).

Table No. 1

2018 Annual Amounts Per 2018 Proxy	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[2]	$	(625)
Total Permanent or Long-Term Tax Benefits	$	(3,776)
Temporary Reductions:		
2b) Total Non-Plant Excess ADFIT[2]	$	(284)
3) Deferred Excess Tax/Excess Plant ADFIT[1 / 2 / 3]	$	(3,776)
Total Temporary Tax Benefits	$	(4,060)
[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.		
[3]**Actual amount deferred during calendar 2018 totaled <u>$3.434 million</u>.**		

Per the Summary Table No. 1 above, the individual components are as follows: [2]

1) <u>Annual Current and deferred income tax expense and conversion factor</u> 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) <u>Excess deferred income tax asset/liability</u>:

    a) <u>Plant-related excess deferred income tax</u> results in an on-going Oregon natural gas reduction on a revenue requirement basis of **approximately $625,000** in year one (calendar 2018).

    b) <u>Non-plant related excess deferred income tax</u>, 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) <u>Deferred excess tax and deferred excess plant ADFIT</u> – results in an annual deferral (beginning January 1, 2018) of current and deferred income tax expense benefit estimated at **approximately $3.2 million**, and excess plant-related ADFIT tax benefit

[2] Table No. 1 above, items 2a), Annual Plant Excess ADSFIT, 2b) Total Non-Plant Excess ADFIT and 3) Deferred Excess Tax/Excess Plant ADFIT, have 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.

> of approximately **$625,000**. These two balances, or $3.8 million, was the annual estimate of these benefits using a "2018 proxy year" of the annual amount to be deferred during 2018. However, as noted above, the <u>actual deferred amount recorded</u> on the Company's books of record **<u>totaled $3.434 million</u>**.

The Company will continue to defer on its books of record the actual monthly deferred tax benefit, continuing through 2019, and/or until such time as the impact of the TCJA has been included in base rates.

<u>Return of Tax Benefits to Customers</u>

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 within its next general rate case (and deferring the difference until then), 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 timing for returning these "temporary" benefits back to customers, <u>i.e.</u>, in conjunction or timing with the Company's PGA, for example, the Company would not be opposed to such treatment.

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.

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, as well as the actual deferred amounts recorded on Avista's books of record for calendar 2018. 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, until such time as the TCJA has been fully reflected in base rates.

DATED this 23rd day of January 2019.

Respectfully submitted,

Avista Utilities

By: ______________________

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