

1 BEFORE THE PUBLIC UTILITY COMMISSION

2 OF OREGON

3 DOCKET NO. UM 1918

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6	IN THE MATTER OF THE APPLICATION OF	)	QUARTERLY SUPPLEMENT TO
7	AVISTA UTILITIES FOR AN ORDER	)	APPLICATION FOR
8	AUTHORIZING DEFERRAL OF FEDERAL	)	AUTHORIZATION OF CERTAIN
9	INCOME TAX EXPENSES FOR THE EFFECTS	)	DEFERRAL ACCOUNTS
10	OF REVISIONS OF THE FEDERAL INCOME	)	
11	TAX CODE UPON AVISTA’S COST OF SERVICE	)	

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15 **BACKGROUND**

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

24 On March 23, 2018, the Staff of the Commission informally requested that each utility  
 25 supplement its deferral application, no later than April 15, 2018, with the utility’s calculation of its  
 26 estimated deferral amounts for 2018, based on a 2018 proxy year. The Company filed its

1 supplement to its deferral application on April 12, 2018. The Commission Staff also further  
2 requested each utility’s application be supplemented quarterly thereafter. The Company’s  
3 quarterly update is provided herein.

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## QUARTERLY UPDATE

### Summary of Tax Benefits

7 On November 1, 2017, in compliance with Commission Order No. 17-344 in Docket No.  
8 UG 325 (Avista General Rate Case proceeding), Avista’s Commission-approved natural gas base  
9 tariffs went into effect. Near to this timing, the effective date of the TCJA was January 1, 2018.  
10 Given Avista’s existing base rates reflect an effective date of November 1, 2017, so close to the  
11 effective date of the TCJA, for purposes of determining “permanent” benefits and “temporary”  
12 benefits,<sup>1</sup> the Company used its recently approved general rate case data and information to  
13 establish the calculated amounts.<sup>2</sup> The Company described the annual calculated tax benefits and  
14 estimated deferral amounts within its April 13, 2018 filing “Supplement to Application for  
15 Authorization of Certain Deferral Accounts” (“April 13, 2018 Supplemental Filing”). A summary  
16 of these benefits are provided in Table No. 1 below:

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<sup>1</sup> 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).

<sup>2</sup> The data and information in general rate case Docket No. UG 325 was reviewed by all parties to that proceeding and a Settlement between the parties was ultimately approved by the Commission. The Company, therefore, updated its final approved natural gas revenue requirement model to reflect a 21% effective tax rate.

**Table No. 1**

2018 Annual Amounts	Revenue Requirement (000s)
	<b>OR</b>
	<b>Natural Gas</b>
<b><u>Permanent or Long-Term Reductions:</u></b>	
1) Annual Current/Deferred Tax Expense (35% to 21%)	\$ (3,151)
2a) Annual Plant Excess ADFIT	\$ (553)
<b>Total Permanent or Long-Term Tax Benefits</b>	<b>\$ (3,704)</b>
<b><u>Temporary Reductions:</u></b>	
2b) Total Non-Plant Excess ADFIT	\$ (194)
3) Deferred Excess Tax/Excess Plant ADFIT <sup>1</sup>	\$ (3,704)
<b>Total Temporary Tax Benefits</b>	<b>\$ (3,898)</b>
<sup>1</sup> The amount of deferred tax benefits to be returned to customers will vary based on actual balances deferred during calendar 2018.	

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 \$194,000**.
- 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.<sup>3</sup>

<sup>3</sup> 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.

1 **Return of Tax Benefits to Customers**

2 How and when the tax benefit balances are ultimately returned to customers and adjusted  
3 in customer rates is yet to be determined. As previously stated in Avista’s April 13, 2018  
4 Supplemental Filing, with regards to the “permanent” or “long-term” tax benefits, the Company is  
5 not opposed to adjusting customer rates through adjustment to base tariff schedules or by way of a  
6 separate tariff rider, crediting customers for the reduction in rates, until such time as can be  
7 incorporated in the Company’s next general rate case. With regards to the “temporary” tax  
8 benefits, including both the excess non-plant ADFIT, as well as the amount deferred during 2018  
9 and ultimately approved for refund, the Company is not opposed to returning these balances over a  
10 one-year or multi-year period through a new “temporary” tariff schedule. To the extent the  
11 Commission would prefer other means or timing for returning these “temporary” benefits back to  
12 customers, i.e., in conjunction or timing with the Company’s PGA, for example, the Company  
13 would not be opposed to such treatment.

14 In addition, as agreed to in the all-party stipulation<sup>4/5</sup> associated with the “Application of  
15 Hydro One Limited, acting through its indirect subsidiary, Olympus Equity LLC, for an order  
16 authorizing Hydro One to exercise substantial influence over the policies and actions of Avista  
17 Corporation” in Docket UM 1897, Avista and Hydro One have agreed to certain terms associated  
18 with the Tax Cuts and Jobs Act (TCJA). Per Commitment 42. “Tax Cuts and Jobs Act” on pages  
19 19-20 of Appendix A of the All-Party Settlement Stipulation:

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<sup>4</sup> The all-party stipulation in Docket UM 1897 was entered into by and among all of the parties in that case: Hydro One and Avista (“Applicants”); the Staff of the Public Utility Commission of Oregon (“Staff”); the Oregon Citizens’ Utility Board (“CUB”); the Alliance of Western Energy Consumers (“AWEC”) ; and the Laborers’ International Union of North America with its affiliated District Council and Local Unions (“LIUNA”) , (together the “Parties” and individually a “Party”).

<sup>5</sup> The all-party stipulation in Docket UM 1897 is yet to be approved by this Commission.

1           **42. Tax Cuts and Jobs Act**

- 2           a) Avista and Parent agree that Avista will identify and quantify the impact on Avista  
3           of the December 22, 2017 U.S. “Tax Cuts and Jobs Act,” which lowered U.S.  
4           corporate federal income tax rates from 35 percent to 21 percent and modified or  
5           eliminated certain federal income tax deductions. Avista will report on this impact  
6           in compliance with other Commission proceedings. Within this reporting, Avista  
7           will identify specific metrics of concern to Rating Agencies.
- 8           b) Regarding the deferral of net tax benefits associated with the Tax Cuts and Job Act,  
9           currently docketed as UM 1918 and UM 1923, Avista agrees that it will waive, and  
10          not seek to apply, an earnings test (see ORS 757.259(5)) when Avista decides, or is  
11          required by the Commission, to amortize the deferred tax benefit into customer  
12          rates; in other words, Avista will not use any of the deferred tax benefits to achieve  
13          its authorized ROE of 9.4% (ROE in 2018 and beyond). The Parties agree that the  
14          amount of the tax benefit has not yet been determined, but will be determined  
15          consistent with the Commission’s direction in the UM 1918 and UM 1923 dockets,  
16          and other applicable docket(s) should one be opened.

17           As noted in the summary of tax benefits above, the Company has identified and quantified  
18          the impact of the TCJA on Avista and reported its findings in this Docket UM 1918 on April 12,  
19          2018. The Company will also identify specific metrics of concern to Rating Agencies (per  
20          Commitment 42) and provide this information with in its Quarter 2, update to be filed in October  
21          2018.

22           Regarding the deferral of net tax benefits associated with the TCJA, currently docketed as  
23          UM 1918 and UM 1923, in accordance with Commitment 42 above, Avista agrees that it will  
24          waive, and not seek to apply, an earnings test (see ORS 757.259(5)) when Avista decides, or is  
25          required by the Commission, to amortize the deferred tax benefit into customer rates.

26          **Current Deferred Balance at June 30, 2018**

27           As of June 30, 2018 the deferred tax balance recorded on the Company’s books, related to  
28          deferred excess current/deferred income tax expense and deferred excess plant ADFIT totals \$2.5  
29          million. Due to the normal seasonal pattern of natural gas, and the resulting historical decline in

1 net income and income taxes over the summer months (June through September), this balance is  
2 expected to be similar to that estimated (as noted in Table No. 1) of \$3.7 million on an annual  
3 basis. The company will continue to defer on its books of record the actual monthly deferred tax  
4 benefit and will supplement this information on or before October 15, 2018 and in January 2019 as  
5 soon as available.

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

12 DATED this 12<sup>th</sup> day of July 2018.

13 Respectfully submitted,

14 Avista Utilities

15 By: 

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