BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

DOCKET NO. UM 1918

IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES FOR AN ORDER REAUTHORIZING DEFERRAL OF FEDERAL INCOME TAX EXPENSES FOR THE EFFECTS OF REVISIONS OF THE FEDERAL INCOME TAX CODE UPON AVISTA'S COST OF SERVICE	) NOTICE OF APPLICATION FOR REAUTHORIZATION OF CERTAIN DEFERRAL ACCOUNTS

Avista Corporation, dba Avista Utilities ("Avista" or "Company"), pursuant to ORS 757.259 and OAR 860-027-0300(4), applies to the Public Utility Commission of Oregon ("Commission") for an order reauthorizing 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").[1] The Company respectfully requests that this deferral be effective beginning January 1, 2019.

In support of this Application, the Company states:

Avista provides natural gas service in southwestern and northeastern Oregon and is a public utility subject to the Commission's jurisdiction under ORS 757.005(1)(a)(A).

Avista requests that all notices, pleadings and correspondence regarding this Application be sent to the following:

[1] As explained in this filing, Avista filed for authorization to defer the impact to its federal income tax (FIT) expenses due to the revisions of the federal income tax code reform during 2018 on December 29, 2017. Although authorization has not been confirmed by the Oregon Commission at this time regarding the 2018 deferral, the Company is nevertheless seeking reauthorization to continue the requested deferred accounting treatment in 2019.

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

<u>BACKGROUND</u>

On December 29, 2017, Avista 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 Act, also referred to as the Tax Cuts and Jobs Act ("TCJA"). Within the Company's filed request, the Company requested the deferral be effective beginning January 1, 2018.

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

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

Avista fully expects that all the financial impacts of changes to the federal tax code will be addressed in a manner that properly captures those impacts and are properly incorporated in customers' rates. Since the federal income tax code changes went into effective beginning January 1, 2018, Avista began deferring the impact of the changes to federal income tax expenses beginning in January 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. The Company plans to file its final 2018 quarterly update, for the period ending December 31, 2018, as soon as available in January 2019.

The Company therefore requests approval to continue to defer the impact of the changes to federal income tax expenses for 2019, beginning January 1, 2019, until such changes are reflected in customer rates.

SUMMARY OF ACCOUNTING 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") in Docket UM 1918.[2] A summary of these benefits are provided in Table No. 1 below:[3]

Table No. 1

2019 Annual Amounts		**Revenue Requirement (000s)**
Permanent or Long-Term Reductions:		**OR Natural Gas**
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)
Increremental Deferred Temporary Reductions:		
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.

[2] 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).

[3] 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 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.

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). (Non-plant related excess deferred income tax, resulted 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. This amount was deferred in 2018 and therefore is not listed in Table No. 1 above.)

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.[4]

PROPOSED ACCOUNTING

Avista proposes to record the deferred amount in FERC Account 449.1 (Provision for Rate Refunds) crediting FERC Account 229 (Accumulated Provision for Rate Refund). In absence of a deferred accounting order from the Commission, Avista would record costs associated with the deferred amount to FERC Account 182.3 (Other Regulatory Assets), FERC Account 190 (Accumulated Deferred Income Taxes), FERC Account 236 (Taxes Accrued), FERC Account 254 (Other Regulatory Liabilities), FERC Account 282 (Accumulated Deferred Income Taxes – Other Property), FERC Account 283 (Accumulated Deferred Income Taxes – Other), FERC Account 409.1 (Income Taxes-Utility Operating Income), FERC Account 410.1 (Provisions for Deferred Income Taxes, Utility Operating Income) and FERC Account 411.1 (Provision for Deferred

[4] 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 2019, versus actual amounts recorded during 2019; and 2) unanticipated tax effects from changes in tax legislation.

Income Taxes, Utility Operating Income) and FERC Account 411.1 (Provision for Deferred Income Taxes – Credit, Utility Operating income). When the amounts are returned to customers, the Company would record the amortization of the deferred federal income tax expense in FERC Account No. 407.4 – Regulatory Credits, using separate sub-accounts.

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

WHEREFORE, Avista Utilities respectfully requests that the Commission reauthorize the Company to defer in 2019 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." The Company is not proposing an adjustment to customer's retail rates through this Application at this time.

DATED this 18th day of December 2018.

Respectfully submitted,

Avista Utilities

By: Patrick Ehrbar for David J. Meyer

David J. Meyer, Vice President and Chief
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