Agenda Date: April 26, 2018
Item Number: A3

Docket: **UG-180177**
Company Name: Avista Corporation

Staff: Joanna Huang, Regulatory Analyst

Recommendation

Take no action, thereby allowing the revised Tariff Revisions filed by Avista Corporation in Docket UG-180177, to take effect May 1, 2018, by operation of law.

Background

On February 27, 2018, Avista Corporation (Avista or company) filed proposed new tariff Schedule 174, "Temporary Federal Income Tax Rate Credit" (Rate Credit) for its natural gas service in Washington. The purpose of this filing is to refund the "temporary" changes associated with the effects of the Tax Cuts and Jobs Act (TCJA). Specifically, in Schedule 174 the company proposes to refund to customers 1) over-collected tax expense for the period January through April, 2018, 2) reversals of protected excess accumulated deferred income tax (ADFIT) for the period January through April, 2018, and 3) the full balance of unprotected excess ADFIT as of January 1, 2018. The net effect of the proposed Schedule 174 is a decrease in annual gas revenue of $2.68 million or approximately 2.0 percent.

Concurrent with this filing, the company also proposed tariff Schedule 74 for its electric service in Docket UE-180176. On March 21, 2018, in response to Bench Request No. 9 in Dockets UE-170485/UG-170486 (Avista's general rate case), commission staff (staff) proposed that, rather than passing the balance back to customers immediately, the electric temporary reduction be held for consideration in Docket U-170970 (Hydro One/Avista Merger Docket).[1] Subsequently, on March 27, 2018, an all-party agreement was reached in the Hydro One/Avista Docket which proposed to use all of the electric Rate Credit in UE-180176 to offset a portion of the plant balance for Colstrip Units 3 and 4.[2]

Due to the settlement reached among all parties in the Hydro One/Avista Merger filing in Docket U-170970, on March 27, 2018, Avista withdrew UE-180176 to refund the "temporary" changes associated with the effects of the TCJA for electric service. Therefore, this memo only pertains to the <u>temporary</u> TCJA effects for Avista's <u>natural gas service</u>.

Avista, a combined electric and gas utility, serves approximately 150,000 gas customers in Eastern Washington.

---

[1] Commission Staff Response to Avista Corporation Bench Request No. 9 in Dockets UE-170485/UG-170486, Page 8, lines 10-12.
[2] Proposed Settlement Stipulation and Agreement in U-170970, Appendix A, Page 22, paragraph 76, and Attachment A to Appendix A.

Discussion

On February 27, 2018, Avista Corporation responded to Bench Request No. 9 to incorporate the permanent effects[3] of the TCJA in its general rate case rebuttal filing in Dockets UE-170485/UG-170486 which provided for a reduction to Avista's proposed base rate increase. These permanent effects are not the subject of this docket. Rather, this docket pertains to the rebate of 1) over-collected tax expense for the period January through April, 2018, 2) reversals of protected excess accumulated deferred income tax (ADFIT) for the period January through April, 2018, and 3) the full balance of unprotected excess ADFIT as of January 1, 2018. Staff refers to these as "temporary" changes because they represent discrete balances that can be passed back to customers over a short timeframe through a temporary tariff schedule.

There are two main types of excess ADFIT: "protected" and "unprotected." "Protected" excess ADFIT is associated with capital assets, and the amortization of those balances is required to be normalized over the remaining depreciable lives of the underlying capital assets that created the ADFIT. Unprotected" excess ADFIT relates to non-plant related deferred assets/liabilities.

Avista has little control over how quickly the portion of "protected" excess taxes can be refunded to customers. As required by IRS ruling, Avista estimates the amortization period for plant-related excess deferred income tax over approximately 36 years using Average Rate Assumption Method (ARAM). Avista proposed this plant-related excess deferred income tax as part of the permanent reduction to be reduced to its rebuttal revenue requirement in Docket UG-170486, and so going-forward ARAM amortization is not addressed here. However, given that ARAM amortization will have occurred between January 1 and April 30, 2018, a balance owed to customers will have accumulated over that period. Avista proposes to return this accumulated balance to customers in Schedule 174 as part of the temporary reduction.

Excess ADFIT balances that were not associated with capital assets do not have restrictions within the tax law regarding their disposition. Avista proposed this "unprotected" excess deferred income tax as part of the temporary reduction of the TCJA tax benefit to refund to customers over a one-year amortization, beginning May 1, 2018, through Schedule 174.

In addition to this non-plant related excess ADFIT to include in tariff Schedule 174, Avista also estimated the deferral balance for overcollected taxes (i.e. taxes collected at 35 percent) for January 1 to April 30, 2018, to be included in tariff Schedule 174. In Avista's response to Bench Request No. 9 in Dockets UE-170485/UG-170486, Avista used the current general rate case rebuttal model to calculate the estimated January – April 2018 current/deferred tax expense to be deferred.[4] Staff used the rate base, authorized rate of return and normalized loads from the most recently-approved general rate case (UE-150204/UG-150205) to calculate the estimated January – April 2018 tax expense to be deferred.[5] Regardless of the approach ultimately preferred by the commission, tariff Schedule 174 will be trued-up to reflect actual amounts through April. As a result, staff does not believe it is necessary for the commission to determine here whether staff's

[3] The "permanent" effects are those effects relating to a permanent reduction in the going-forward tax rate from 35 percent to 21 percent as well as the amortization of protected excess ADFIT.
[4] Avista's Response to Bench Request No. 9-SUPPLEMENTAL in Dockets UE-170485/UG-170486, Page 3.
[5] Staff's Response to Bench Request No. 9 in Dockets UE-170485/UG-170486, Page 2, line 11, Page 4, line 10.

or Avista's total temporary amounts in Schedule 174 is more appropriate to incorporate into Schedule 174, as both are estimates at this point.

The table below reflects staff's response to Bench Request No. 9 in Exhibit JH-3, Page 10, which outlines this effect. The amounts highlighted in yellow, labeled as "temporary reductions" are the amounts subject to consideration in this filing in Docket UG-180177.

Summary Table

Revenue Requirement After TCJA (000s)

	AVISTA		**STAFF**
Effective May 1, 2018	WA Gas		WA Gas
Avista Rebuttal position	**$ 6,630**	Staff original position	**$ 1,107**
		Brief Position	no change
		Staff current position	$ 1,107
Permanent Reductions:			
1) Current/Deferred Tax Expense (35% to 21%)	$ (4,655)		$ (4,033)
2a) Plant Excess ADFIT	$ (1,203)		$ (1,209)
Adjusted Avista Rebuttal (Base Tariff)	**$ 772**	**Adjusted Staff position (Base Tariff)**	**$ (4,135)**
Temporary Reductions:			
(NOTE: For natural gas service, Staff recommends these amounts be returned to customers over one year through Schedule 174 beginning May 1, 2018)			
2b) Non-Plant Excess ADFIT	$ (1,136)		$ (1,144)
3) Deferral of January-April 2018 balances	$ (1,549)		
a) FIT/DFIT Expense			$ (1,717)
b) ARAM amortization			$ (390)
Total Temporary amounts	**$ (2,685)**	**Total Temporary amounts**	**$ (3,250)**

The difference between the left column (Avista's presentation) and the right column (staff's presentation), above, primarily is due to 1) the difference in approach for estimating the overcollection over the period January through April, 2018, (as discussed above), and 2) staff's preference for disaggregating the two components of the deferral from January through April 2018, which are overcollected taxes and the ARAM amortization of a portion of protected excess ADFIT.

Revenue Impacts

The total annual revenue change in Avista's proposed filing results in a decrease of approximately $2.68 million or a 2 percent decrease in annual gas revenues, as detailed in the following table.

Customer Class	Schedule Number	Schedule 147	Revenue Impact	Percent Change
Residential	101/102	(0.01743)	(2,081,714)	-2.0 %
Commercial	111/112/116	(0.00993)	(475,994)	-1.7 %
Industrial-Firm	121/122/126	(0.00766)	(31,529)	-1.4 %
Interruptible	131/132	(0.00650)	(5,854)	-1.4 %
Transportation	146	(0.00293)	(89,909)	-3.0 %
Total Change			**$ (2,685,000)**	**-2.0 %**

Residential Bill Impacts

The impact of this filing on a residential customer with monthly average consumption of 65 therms is a decrease of $1.13 per month or 2.0 percent, for a proposed bill of $52.80 versus a current bill of $53.93.

Conclusion

Staff has reviewed Avista's proposed revised tariff Schedule 174 in the company's filing and find them to be reasonable. Staff recommends the commission take no action, thereby allowing the revised tariff filing in Docket UG-180177 to become effective May 1, 2018, by operation of law.