BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **AVISTA CORPORATION d/b/a AVISTA UTILITIES,** **Respondent.**	**DOCKETS UE-170485 and UG-170486 (*Consolidated*)**

COMMISSION STAFF RESPONSE TO AVISTA CORPORATION'S RESPONSE TO BENCH REQUEST NO. 9

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I. SUMMARY

Staff provides this Response to Avista's Response to Bench Request No. 9 for three reasons.

First, it is to provide the Commission with an analogous reference for Staff's recommendations on revenue requirements and a multi-year rate plan, similar in purpose as Avista's Bench Request No. 9 response is to Avista's recommendations on rebuttal.

Second, it is to identify some methodological shortcomings of the Company's Response to Bench Request No. 9.

Third, Staff provides this response to alert the Commission that the parties in the general rate case support using a portion of Avista's deferred federal income taxes in a separate proceeding (U-170970).

Staff's recommends that the Commission:

- Update electric revenue requirements for a three-year rate plan;
- Update natural gas revenue requirements for a three-year rate plan;
- Approve temporary rate reductions in natural gas service through Schedule 174; and
- Retain the funds that the Company proposed to return to customers through Schedule 74, consistent with the forthcoming proposed settlement in Docket U-170970.

1 The changes due to passage of the TCJA are reproduced in the table below. Note that these base

2 rate figures do not reflect any rate reductions through Schedules 74 or 174.

Revenue Requirements Increase/(Decrease) After TCJA (in thousands)		
	Avista BR 9 Response	Staff BR 9 Response
Electric, Year 1	$ 25,747	$ (14,871)
Electric, Year 2	$ 13,638	$ 8,646
Electric, Year 3	$ 14,119	$ 8,847
Natural Gas, Year 1	$ 772	$ (4,135)
Natural Gas, Year 2	$ 3,670	$ 2,446
Natural Gas, Year 3	$ 3,837	$ 2,524

3

4 **II. REQUEST A: ADFIT BALANCE AS OF DECEMBER 31, 2017**

5 Staff reviewed the Company's Response to this request, and accepts the figures presented

6 by Avista.

7

8 **III. REQUEST B: AMOUNT OF EXCESS DFIT AS OF DECEMBER 31, 2017**

9 Staff reviewed the Company's Response to this request, and accepts the figures presented

10 by Avista.

11 **IV. REQUEST C: EXCESS DFIT EXPENSE, JAN 1, 2018 – APR 30, 2018**

12 Staff prefers a different methodology than what the Company used in its Response to

13 Bench Request No. 9 on this matter. Staff recommends that the Commission use its

14 methodological approach detailed below to estimate the excess DFIT expense for both electric

15 and natural gas service. Staff supports the Company's proposal for passing back the estimated

16 excess DFIT expense for natural gas service; however, for electric serve the Commission should

1 continue to defer the estimated excess DFIT expense until it makes a decision with respect to the
2 Settlement in Docket U-170970.
3 The Company has three methodological mistakes in its calculation of an estimate for the
4 over-collection of taxes between January 1, 2018, and April 30, 2018: (1) it uses an incorrect rate
5 base to calculate an estimate of over-collections during this period; (2) it used an incorrect rate of
6 return; and (3) it used average load, rather than normalized load.
7 Staff calculates that Avista will have over-collected approximately $5,982,000 for its
8 Washington electric service, and $1,717,000 for natural gas service. For comparison, the
9 Company calculated $4.43 million for electric service and $1.16 million for natural gas service.[1]
10 Staff calculated these figures using the rate base from the Modified Historical Test Year[2]
11 in the Company's most recently-approved revenue requirement change, which was in Dockets
12 UE-150204 and UG-150205. Using these rate base figures is appropriate—rather than those from
13 the pending general rate case, as the Company did in its Response to Bench Request No. 9—
14 because the Company is collecting rates established in Dockets UE-150204 and UG-150205
15 between January 1, 2017 and April 30, 2017.
16 Similarly, it is also appropriate to use the authorized rate of return from the 2015 general
17 rate case, and not the *proposed* authorized rate of return from the pending 2017 rate cases in
18 these dockets.
19 Finally, Staff uses the normalized load from the four months in question. In contrast, the
20 Company used four-twelfths of annual load. The distinction is relevant, as these four months are

[1] Table 3, page 6 of Avista response to Bench Request No. 9.
[2] There is an argument that there is an *implied* rate base in the 2015 GRC revenue requirement figures, when one includes the attrition adjustments made to revenue requirements. However, it is inappropriate to consider the attrition adjustment, and to arrive at an "implied" rate base from that adjustment. An attrition adjustment is a revenue allowance that is not tied to specific plant additions.

1 colder than average. For example, in natural gas service these four months represent almost half
2 (49.4%) of natural gas sales for the entire year.
3 For Staff's calculations, please refer to the tabs titled "2015 GRC Embedded Tax" in
4 Attachments A (page 13) and B (page 11).
5 These methodological differences in deriving estimates aside, actual over-collection
6 should be known sometime after May 2018. Staff supports the Company's proposal to compare
7 these estimates to the "actual amounts recorded and deferred as excess collected." As the
8 Company explained, "Any difference, up or down, in the tax benefit deferral balance could be
9 updated by revising and extending the tariff Schedules 74/174 in Year 2 of the Three-Year Rate
10 plan, if necessary, or deferred until the next general rate case."[3]

11 **V. REQUEST D: AMORTIZATION OF PARTS B & C**

12 The funds described in Requests B and C can be split into two categories: protected, and
13 unprotected.
14 Due to the IRC Sec 168(i)(9)(A)(ii), or "the ARAM provision", the Company and the
15 Commission have little discretion over how quickly "protected" excess taxes can be returned to
16 customers. However, the Commission has considerable discretion over the return of
17 "unprotected" funds.
18 The Company has proposed that "unprotected" funds should be returned to customers
19 over a one-year amortization period, through Schedules 74 (electric) and 174 (natural gas). In
20 addition to the unprotected funds, the Company also proposes to include the protected funds that
21 the Company has deferred from January through April. (The average rate assumption method, or
22 ARAM, provision allows for the return of the amounts shown in Adjustment 5.05 in Attachments

[3] Avista's response to Bench Request No. 9, page 7.

1 A and B to customers over these four months.) The Company refers to the totality of the

2 unprotected funds, and the four months of protected funds, as temporary reductions to revenue

3 requirements.

4 These funds are shown in Adjustments 5.03, 5.04, and 5.05 in Attachments A and B.

5 Staff agrees with the Company's proposal for a one-year amortization, but only in the

6 case of natural gas service. Staff calculates this temporary revenue requirement reduction to total

7 $3,251,000. The cumulative effect is shown in the table below:

Adj.	Title	Amount
Attachment B, 5.03	Non-Plant Excess ADFIT	$ (1,144)
Attachment B, 5.04	Jan-Apr Deferral FIT/DFIT Exp	$ (1,717)
Attachment B, 5.05	Jan-Apr Deferral ARAM Amort	$ (390)
	TOTAL	$ (3,251)

8

9 For electric service, Staff recommends that the Commission order the Company to continue to

10 defer these funds for the time being, rather than to return these funds as proposed by the

11 Company. The reason for this recommendation is that *all* parties to this case are also parties to a

12 settlement-in-principle in Docket U-170970,[4] where these funds are spoken for. These amounts

13 total $18,295,000. Please refer to the table below:

14

Adj.	Title	Amount
Attachment A, 5.03	Non-Plant Excess ADFIT	$ (10,423)
Attachment A, 5.04	Jan-Apr Deferral FIT/DFIT Exp	$ (5,982)
Attachment A, 5.05	Jan-Apr Deferral ARAM Amort	$ (1,889)
	TOTAL	$ (18,294)

15

[4] Pending consideration of the settlement by the Public Counsel Unit of the Attorney General's Office (Public Counsel), it may be an all-party settlement. *In the Matter of the Joint Application of Hydro One Limited and Avista Corporation for an Order Authorizing Proposed Transaction*, Letter to Steven King dated March 16, 2018, notifying the Commission of a settlement in principle.

1

2 The settlement-in-principle in Docket U-170970 calls for "the use of a portion of Avista's

3 deferred federal income taxes, for the purpose of accelerating the depreciation schedule for

4 Colstrip Units 3 and 4. . . ."[5] Details regarding the proposed use of the deferred income taxes will

5 be provided when the settlement is filed on or before March 27, 2018. Consistent with the

6 settlement-in-principle, Staff recommends reserving these funds for use in reducing the

7 depreciable balance of Colstrip Units 3 & 4, rather than producing temporary reductions in rates

8 for electric service.

9 If the funds are not to be used as recommended above, Staff supports the Company's

10 proposal for a one-year amortization. A quick amortization of these funds is best-suited to

11 returning these funds to the customers that they were collected from.

12 **V. REQUEST E: REVENUE REQUIREMENT REVISIONS PER TCJA**

13 **A. Revenue Conversion Factor**

14 The revenue conversion factor Staff used in its October 27, 2017 response testimony was

15 0.619659 for <u>electric</u> service. Updating for the effects of the TCJA produces a new revenue

16 conversion factor of 0.753125.

17 The revenue conversion factor Staff used in its October 27, 2017 response testimony was

18 0.619798 for <u>natural gas</u> service. Updating for the effects of the TCJA produces a new revenue

19 conversion factor of 0.753293.

20 This change produces a <u>permanent</u> reduction in revenue requirements, which are further

21 detailed below.

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[5] *Id.*

1 **B. FIT/DFIT Expense Adjustments**

2 Staff captures the effects of adjustments that are a function of the new tax rate in
3 Adjustment 5.01 in Attachment A (electric) and Attachment B (natural gas). Those adjustments
4 are an annual revenue requirement reduction of $17,956,000 and $3,836,000, respectively. These
5 adjustments are also permanent reductions in revenue requirements.

6 **C. Protected DFIT**

7 Excess protected DFIT produces a reduction in revenue requirement of $5,742,000 per
8 year for electric service.[6] These funds are returned to customers in accordance with the ARAM
9 provision. See adjustment 5.02 in Attachment A.

10 Excess protected DFIT produces a reduction in revenue requirement of $1,209,000 per
11 year for natural gas service. Again, these funds are returned to customers in accordance with the
12 ARAM provision. See adjustment 5.02 in Attachment B.

13 **D. Unprotected DFIT**

14 As previously noted, the Company has proposed that these funds should be returned to
15 customers through a one-year amortization schedule that produces a temporary reduction to
16 revenue requirements.

17 For electric service, Staff recommends continuing to defer these funds, at least until the
18 Commission enters a decision on the settlement agreement that will be filed shortly in Docket U-
19 170970.

20 Excess unprotected DFIT is calculated to be a $1,144,000 temporary reduction in natural
21 gas revenue requirements, through Schedule 174. See adjustment 5.03 in Attachment B.

[6] Although the settlement-in-principle in Docket U-170970 makes use of protected DFIT, the settlement would not affect the annual reduction proposed here.

1 **E. Year One Revenue Requirement Impacts**

2 *1. Electric*

3 For electric service, Staff's originally-filed position was a $10,034,000 increase in
4 revenue requirement. On brief, Staff adopted Avista's property tax adjustment 3.06, which added
5 a further $694,000 to the recommended revenue requirement increase, or a $10,728,000 total.

6 After incorporating permanent reductions from the TCJA, Staff's revenue requirement
7 recommendation for the first year of electric service is a reduction of $14,871,000. Please refer to
8 Adjustments 5.01 and 5.02 in Attachment A. The effects are illustrated in the table below.

Item name	Year One Revenue Requirement (thousands)
Staff Electric Year 1 Revenue Requirement, on brief	$ 10,728
Attachment A, 5.01: FIT/DFIT Expense Adj	$ (17,956)
Attachment A, 5.02: Excess Tax PF ARAM Amort	$ (5,742)
Conversion factor change	$ (1,901)
TOTAL	$ (14,871)

9

10 Temporary reductions through the proposed Schedule 74 would reduce rates by another
11 $18,295,000 for the first year of rates. However, Staff favors retaining these funds for use in
12 Docket U-170970. Nonetheless, the calculation of this figure is shown in the table below.

Adj.	Title	Amount
Attachment A, 5.03	Non-Plant Excess ADFIT	$ (10,423)
Attachment A, 5.04	Jan-Apr Deferral FIT/DFIT Exp	$ (5,982)
Attachment A, 5.05	Jan-Apr Deferral ARAM Amort	$ (1,889)
	TOTAL	$ (18,294)

13

14 *2. Natural Gas*

15 For natural gas service, Staff's originally-filed position was a $1,107,000 increase in revenue
16 requirement.

1 After incorporating permanent reductions from the TCJA, Staff's revenue requirement

2 recommendation for the first year of natural gas service is a reduction of approximately

3 $4,135,000. Please refer to Adjustments 5.01 and 5.02 in Attachment B. The effects are

4 illustrated in the table below.

Item name	Year One Revenue Requirement (thousands)
Staff Natural Gas Year 1 Revenue Requirement	$ 1,107
Attachment B, 5.01: FIT/DFIT Expense Adj	$ (3,836)
Attachment B, 5.02: Excess Tax PF ARAM Amort	$ (1,209)
Conversion factor change	$ (196)
TOTAL	$ (4,134)

5

6 Temporary reductions, through the proposed Schedule 174, reduce rates by another $3,251,000

7 for the first year of rates. Staff supports the Company's proposal on this matter. The calculation

8 of this amount is shown in the table below.

Adj.	Title	Amount
Attachment B, 5.03	Non-Plant Excess ADFIT	$ (1,144)
Attachment B, 5.04	Jan-Apr Deferral FIT/DFIT Exp	$ (1,717)
Attachment B, 5.05	Jan-Apr Deferral ARAM Amort	$ (390)
	TOTAL	$ (3,251)

9

10 *3. Year Two and Three Revenue Requirement Impacts (Rate Plan)*

11 Impacts on Staff's revenue requirements in Years Two and Three of the proposed rate

12 plan are few, but significant. These changes are:

13 - The aforementioned change in the Revenue Conversion Factor; and

14 - A change in the after-tax return on net plant component of the Year One Escalation Base.

15 The change in the after-tax return on net plant component of the Year One Escalation

16 base then "echoes" into the Year 2 and Year 3 revenue requirement increases. This change is a

1 result of refreshing the Tax Gross-Up factor used to calculate the after-tax return on net plant.

2 This change is highlighted in orange in the electronic copy of Attachment C.

3 Like the Company, Staff is not recommending a change to the composite revenue

4 escalator in response to the passage of the TCJA. (See the discussion in "Bonus Depreciation

5 Impacts" below.)

6 Staff's revenue requirement increases or decreases, for all three years of the rate plan, are

7 shown in the table below.

Staff's 3-Year Rate Plan Revenue Requirement Increases/(Decreases) (thousands)

	Electric	Natural Gas
Year 1	$ (14,871)	$ (4,135)
Year 2	$ 8,646	$ 2,446
Year 3	$ 8,847	$ 2,524

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9 **VI. REQUEST F: WORKPAPERS**

10 Supporting workpapers in electronic format are provided. These workpapers are adapted

11 from Staff's revenue requirement exhibits, as filed on October 27, 2017. The filenames of

12 workpapers are produced below.

13 - Attachment A: Exh JH-2 Electric RR. TCJA 3-19-18.xlsx

14 - Attachment B: Exh JH-3 Gas RR Model TCJA 3-19-18.xlsx

15 - Attachment C: 170485-86-Staff-Hancock-Exh-CSH-2r-CSH-6 –
16 TCJA.xlsx

17 **VII. BONUS DEPRECIATION IMPACTS**

18 The Company included in its Response to Bench Request No. 9 a discussion on the

19 impact of bonus depreciation on net plant growth. This is relevant, because changes in bonus

20 depreciation cause changes in the growth of ADFIT, which is a reduction to rate base; this

21 therefore causes a change in the growth of Net Plant. There is, however, no evidence in the

1 record supporting the bonus-depreciation-adjusted Net Plant growth rates that the Company
2 provides. Importantly, the Company merely wishes to note the impact of bonus depreciation; it is
3 *not* proposing to modify its revenue growth factors (K-Factor) thereby modifying its proposed
4 revenue requirements for Years Two and Three of the rate plan.
5 For informational purposes only, Staff provides the revenue requirement increases for
6 Years Two and Three, if one were to adopt the Net Plant After DFIT growth rates, adjusted for
7 the elimination of bonus depreciation.
8 For electric service, the revenue requirement increase in Year Two would be
9 $10,212,000, and in Year Three would be $10,491,000.[7]
10 For natural gas service, the revenue requirement increase in Year Two would be
11 $2,812,000, and in Year Three would be $2,916,000.[8]

[7] This is based on a Composite Revenue Escalator of 2.74%, not the 2.67% stated on page 11 of Avista's response to Bench Request No. 9.
[8] This is based on a Composite Revenue Escalator of 3.68%, not the 3.58% stated on page 11 of Avista's response to Bench Request No. 9.