Agenda Date: May 31, 2018
Item Numbers: A1 & A2

Dockets: UE-180375 and 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 Dockets UE-180375 and UG-180177, to take effect June 1, 2018, by operation of law.

Background

Avista Corporation (Avista or company) filed proposed new tariff revisions, electric Schedule 74 and natural gas Schedule 174, "Temporary Federal Income Tax Rate Credit" (Rate Credit) for its electric and natural gas services in Washington in Dockets UE-180375 and UG-180177. The purpose of these filings is to refund the "temporary" changes associated with the effects of the Tax Cuts and Jobs Act (TCJA). These effects include the over-collection of taxes for the interim period January 1, 2018, through April 30, 2018, and the return of certain excess deferred income taxes (EDIT). The net effect of the proposed tariffs is a decrease in annual revenue of $7.9 million and $3.2 million for electric and natural gas service, respectively.

On February 27, 2018, the company originally filed tariff revisions to refund the temporary changes associated with the effects of the TCJA for electric and natural gas service in Dockets UE-180176 and UG-180177. 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 Rate Credit to customers immediately, all of 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 settlement 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 agreement 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. Furthermore, Avista agreed to extend the effective date for UG-180176 from May 1 to June 1, 2018, for natural gas service.

On April 26, 2018, the commission issued Order 07, Final Order in Dockets UE-170485/UG-170486. In that Order, the commission directed Avista to withhold only the unprotected EDIT for resolution and distribution in Docket U-170970 for electric service. The commission also directed Avista to refund the over-collection of taxes for the interim period, January through April 2018, excess deferred income tax through its previously proposed Schedule 74 for electric

[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.

service and refile before May 1, 2018.[3] On April 30, 2018, Avista refiled the temporary Rate Credit associated with the effects of the TCJA for electric service in Docket UE-180375.

Avista, a combined electric and gas utility, serves approximately 249,000 electric and 161,000 gas customers in Eastern Washington.

Discussion

On February 27, 2018, Avista Corporation responded to Bench Request No. 9 to incorporate the permanent effects[4] 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 these dockets. Rather, these dockets pertain to the rebate of (1) over-collected tax expense for the interim period January through April, 2018, (2) reversals of protected EDIT for the period January through April, 2018, and (3) the full balance of unprotected EDIT as of January 1, 2018. Staff refers to these as temporary Rate Credits 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 EDIT: "protected" and "unprotected." Protected 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 accumulated deferred income taxes. Unprotected EDIT relates to non-plant related deferred assets/liabilities.

Avista has little control over how quickly the portion of protected EDIT can be refunded to customers. Avista estimates the amortization period for plant-related EDIT over approximately 36 years using Average Rate Assumption Method (ARAM). Avista proposed this plant-related EDIT as part of the permanent reduction to be reduced to its rebuttal revenue requirement in Docket UG-170486, and therefore 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 electric Schedule 74 and natural gas Schedule 174 as part of the temporary reduction.

Unprotected EDIT balances that were not associated with capital assets do not have refund restrictions like protected EDIT. Avista proposed that for gas service this unprotected as part of the temporary reduction of the TCJA tax benefit be refunded to customers over a one-year amortization, beginning June 1, 2018, through Schedule 174. For electric service, this unprotected EDIT has been set aside for settlement purposes in the Hydro One/Avista merger case, and so is not contained within the schedule 74 rebate.

In addition to this non-plant related EDIT, Avista also estimated the deferral balance for over-collected taxes (i.e., taxes collected at 35 percent) for the interim period January 1 through April 30, 2018, to be included in tariff Schedules 74 and 174. In Avista's response to Bench

[3] The Commission Order 07 in Dockets UE-170485/UG-170486, Page 13, paragraph 22.
[4] 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 EDIT.

Request No. 9 in Dockets UE-170485/UG-170486, Avista used the current general rate case rebuttal revenue requirement model to calculate the estimated January through April 2018, current/deferred tax expense to be deferred.[5] 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 tthrough April 2018, tax expense to be deferred.[6] Commission Order 07, Final Order in Dockets UE-170485/UG-170486, states that staff's calculation is the appropriate methodology to calculate the excess deferral.[7]

The table below reflects Temporary Federal Income Tax Rate Credits in Dockets UE-180375 and UG-180177.

	TCJA Deferred Tax Credits			
	Washington Electric		**Washington Natural Gas**	
	UE-180375		**UG-180177**	
<u>Temporary Reductions:</u>				
(in thousands)				
Non-Plant EDIT	Note: (1)		$	(1,140)
Deferral of January - April 2018, Balances				
Over-Collection of taxes	$	(5,982)	$	(1,717)
Deferral ARAM Amortization	$	(1,887)	$	(389)
Total Temporary Amounts	$	(7,869)	$	(3,246)

(1) Per Order 07 of Docket UE-170485/UG-170486, continued deferral of electric Non-Plant EDIT for resolution and distribution in Docket U-170970. Docket U-170970 (per all party settlement) requests use as offset to accelerate depreciation of Colstrip Units 3 and 4.

Revenue Impacts

The total annual revenue change in Avista's proposed filing results in a decrease of approximately $7.9 million (electric) and $3.2 million (natural gas) in annual revenues, as detailed in the following table.

[5] Avista's Response to Bench Request No. 9-SUPPLEMENTAL in Dockets UE-170485/UG-170486, Page 3.
[6] Staff's Response to Bench Request No. 9 in Dockets UE-170485/UG-170486, Page 2, line 11, Page 4, line 10.
[7] The commission Order 07 in Dockets UE-170485/UG-170486, page 13, paragraph 24.

Electric Service

Customer Class	Schedule Number	Schedule 74	Revenue Impact	Percent Change
Residential	1/2	(0.00142)	(3,355,000)	-1.4 %
General Service	11/12	(0.00188)	(1,174,000)	-1.5 %
Large General Service	21/22	(0.00144)	(2,027,000)	-1.5 %
Extra Large General Service	25	(0.00093)	(1,029,000)	-1.5 %
Pumping Service	30/31/32	(0.00130)	(174,000)	-1.5 %
Street & Area Lights	41-48	(0.00475)	(110,000)	-1.5 %
Total Change			**$ (7,869,000)**	**-1.5 %**

Natural Gas Service

Customer Class	Schedule Number	Schedule 174	Revenue Impact	Percent Change
Residential	101/102	(0.02107)	(2,516,679)	-2.5 %
Commercial	111/112/116	(0.01200)	(575,440)	-2.1 %
Industrial-Firm	121/122/126	(0.00926)	(38,113)	-1.7 %
Interruptible	131/132	(0.00784)	(7,070)	-1.7 %
Transportation	146	(0.00354)	(108,699)	-3.8 %
Total Change			**$ (3,246,000)**	**-2.4 %**

Residential Bill Impacts

The impact of these filings on a residential customer with monthly average consumption are as follows:

	Current	Proposed	Change	Percentage
Electric Schedule 1 (1000 kWh)	$89.78	$88.45	-$1.33	-1.4 %
Natural Gas Schedule 11 (65 therms)	$53.40	$52.03	-$1.37	-2.5 %

Conclusion

Staff has reviewed Avista's proposed revised tariff Schedule 74 and 174 and find them to be reasonable. Staff recommends the commission take no action, thereby allowing the revised tariff filings in Dockets UE-180375 and UG-180177 to become effective June 1, 2018, by operation of law.