Attachment A

AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	WASHINGTON	DATE PREPARED:	2/27/2018
CASE NO.:	UE-170485 & UG-170486	WITNESS:	Mark Thies/E. Andrews
REQUESTER:	UTC Staff	RESPONDER:	Liz Andrews/Don Falkner
TYPE:	Bench Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Bench Request No. 9	TELEPHONE:	(509) 495-8601
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REQUEST:
Please provide the following:
A. Accumulated Deferred Federal Income Tax (ADFIT) balance as of December 31, 2017.

B. The amount of excess deferred income tax reserve as described in IRC Sec 168(i)(9)(A)(ii) as of December 31, 2017, to comply with the TCJA. Separately identify the amounts classified as protected and unprotected.

C. The amount of excess deferred income tax expense the Company is currently collecting as of January 1, 2018, until the anticipated effective date of this general rate case. Separately identify the amounts classified as protected and unprotected.

D. A proposed amortization schedule for parts B and C of this bench request along with a supporting rationale for each schedule. Please identify and describe the amortization assumption, e.g., composite, average rate, or other alternative method.

E. For the current proceeding, provide an updated revenue requirement based on the Company's rebuttal position that accounts for the change in corporate tax rate for the "going forward" tax rates (e.g., conversion factor and GRC adjustments that are a function of the new tax rate).

F. Supporting workpapers in electronic format with all formulas and links intact. See WAC 480-07-510(3)(e).

RESPONSE:

<u>Executive Summary:</u> Based on the information provided below, after giving effect to the H.R.1 - Tax Cuts and Jobs Act ("TCJA" or "Act") changes, a summary of the benefit to customers and the impact on the Company's general rate case request[1] is shown in the Summary Table below:

[1] To the extent that results of ongoing settlement discussions in the Avista/Hydro One merger docket (U-170970) may impact the calculations in this Bench Request, Avista will amend its response accordingly, well in advance of the May 1, 2018 effective date of new rates in this general rate case.

Summary Table

Effective May 1, 2018: Rate year 1	Revenue Requirement (000s)	
	WA Electric	**WA Natural Gas**
Avista Rebuttal	**$ 54,387**	**$ 6,630**
Permanent Reductions:		
1) Current/Deferred Tax Expense (35% to 21%)	$ (22,929)	$ (4,655)
2a) Plant Excess ADFIT	$ (5,712)	$ (1,203)
Adjusted Avista Rebuttal (Base Tariff)	**$ 25,747**	**$ 772**
Temporary Reductions:		
Tariff 74/174 (May 1, 2018 - April 30, 2019)		
2b) Non-Plant Excess ADFIT	$ (10,402)	$ (1,136)
3) Deferral of Jan - Apr 2018 balances	$ (6,315)	$ (1,549)
Total Tariff 74/174	**$ (16,717)**	**$ (2,685)**

- Based on the Company's rebuttal filing requesting a revenue increase of $54.4 million electric and $6.6 million natural gas, reflecting the permanent reduction to base rates of the TCJA tax benefit provides a partial offset to Avista's proposed base increase of approximately $28.6 million for electric and $5.9 million for natural gas. The net effect of the electric and natural gas general rate case proposed on rebuttal and the "permanent" TCJA adjustments, results in a **net revenue increase of $25.7 million for electric and $772,000 for natural gas** for Rate Year 1.[2]
- In addition, for Rate Year 1, there is a temporary reduction (proposed over one-year) associated with new proposed tariff Schedules 74 (electric) and 174 (natural gas), **of $16.7 million electric and $2.7 million natural gas**.[3/4]
- As can be seen in the Summary Table above, the individual components are as follows:
  1) Current and deferred income tax expense and conversion factor (or gross up to cover tax expenses) – The result of lowering the tax rate from 35% to 21% of taxable income, as well as the impact on the conversion factor, reduces current and deferred tax expense. As shown in the Summary Table above, the overall impact reduces the Company's requested revenue

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[2] As discussed in this response, tax changes impacting base rates on a long-term or on-going basis are considered "permanent" changes.

[3] Benefits which are a one-time calculation or temporary in nature, are considered "temporary" changes, and are proposed to be returned to customers over a one-year period through temporary tariff Schedules 74/174.

[4] Coincident with the response to this Bench Request No. 9, the Company is also filing with this Commission, separate electric and natural gas tariff filings for new Schedules 74 and 174. The Company proposes these tariff schedules remain in place for a one-year period May 1, 2018 through April 30, 2019. As discussed below, any true-up for changes in the tax benefit deferral balance could be updated by revising and extending the tariff Schedules 74/174 in Year 2 of the Three-Year Rate plan, if necessary, or deferred until the next general rate case.

requirement in this GRC by **approximately $22.9 million electric and $4.7 million natural gas**.[5]

2) Excess deferred income tax asset/liability – As of December 2017, as described in IRC Sec 168(i)(9)(A)(ii), deferred tax amounts were required to be revalued at the lower corporate rate (21%) resulting in excess deferred federal income tax reserve balances. Balances associated with regulated utility operations resulted in a balance sheet reclassification from deferred tax to deferred regulatory assets or liabilities. This revaluation impacted both plant (protected) and non-plant (unprotected) balances.[6] As a part of this item, amortization of deferred tax amounts that represent the difference between the historical 35% rate and the revised 21% rate have been determined.

   a) For Plant-related excess deferred income tax, the Company will amortize the plant DFIT balances (Regulatory Liability of $208.3 million electric and $45.05 million natural gas, per Table 2 below) in accordance with the TCJA's Average Rate Assumption Method (ARAM). The Company estimates the ARAM for Avista results in an amortization period of approximately 36 years. As shown in the Summary Table above, the annual permanent benefit from the plant excess deferred amortization (the benefit will change over time as the IRS ARAM is not calculated on a straight-line basis) reduces the Company's rebuttal base revenue requirement by **approximately $5.7 million electric and $1.2 million natural gas**.

   b) For non-plant related excess deferred income tax, the total benefit to return to customers is **approximately $10.4 million electric and $1.2 million natural gas** revenue requirement, per the Summary Table above. The Company proposes to return this balance to customers over a one-year amortization, beginning May 1, 2018, through separate (temporary) tariff Schedules 74 (electric) and 174 (natural gas).

3) Deferral of January 1 – April 30, 2018 TCJA benefits – As previously discussed in Avista's response to Bench Request 1, on December 29, 2017, the Company filed with the WUTC separate electric and natural gas "Petition[s] for an Order Authorizing Deferral of Federal Income Tax Expenses for the Effects of Revisions of the Federal Income Tax Code Upon Avista's Cost of Service." The Company proposed regulatory deferred accounting mechanism is necessary to capture the benefits of the TCJA until such time as the benefits are reflected in base rates and the deferred balance has been returned to customers. As shown in Table 3 of BR 9, the estimated deferred benefit for January 1 – April 30, 2018 is **approximately $6.3 million electric and $1.5 million natural gas**. The Company proposes to return this balance to customers over a one-year amortization, beginning May 1, 2018, through separate (temporary) tariff Schedule 74 (electric) and 174 (natural gas).

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[5] During the GRC hearings on January 17, 2018, Company witness Mr. Thies stated the benefits to customers related to "just the effects of current income taxes, the range [of benefits] that customers could expect to see is at this point $20 to $30 million." (Tr. p. 346) Per the Summary Table above, the current/deferred tax benefit is approximately $22.9 million electric and $4.7 million natural gas, totaling $27.6 million. The remaining benefit to be returned to customers relates to excess deferred federal income taxes, and the January - April 2018 tax benefit deferred balances.

[6] Avista has two main types of excess accumulated deferred income taxes (ADFIT) as defined by the Internal Revenue Code (IRC), "protected" and "unprotected". "Protected" excess ADFIT is generally defined as capital assets depreciated under IRC section 167, whereby these timing differences are required to be recorded and then reversed (i.e. normalized) over the depreciable lives of the capital assets that created the ADFIT. "Unprotected" excess ADFIT makes up the remainder of the Company's excess ADFIT, reflecting non-plant related deferred assets/liabilities.

- Lastly, while the Company is not otherwise proposing to modify its proposed revenue requirements for Years 2 and 3 of the Rate Plan, we believe it is important for the Commission to know that the elimination of "bonus depreciation" as a result of the TCJA affects the Company's calculated revenue growth factor (K-Factor) to the detriment of the Company by approximately **$1.8 - $2.0 million annually in Rate Years 2 and 3**. As noted in section "**Impact of Elimination of Bonus Depreciation on Years 2 and 3 of the Three-Year Rate Plan**," the elimination of Bonus Depreciation results in an increase in the plant rate base component of the "K-Factor", increasing the overall revenue growth factor that should be applied to Year 1 revenues for Rate Years 2 and 3. Avista's proposed revenue growth factors ("K-Factors") are currently 3.14% (electric) and 4.14% (natural gas). However, Avista is not proposing to revise its K-Factor upward to account for this. Accordingly, Avista's proposed K-Factors are, if anything, conservative, by failing to reflect the impact of Bonus Depreciation. Had it done so, the K-Factors would have increased from 3.14% (electric) to 3.53% and 4.14% (natural gas) to 4.55%.

Background: Included below are amounts and explanation of the impacts of the new TCJA signed into law December 22, 2017, with most provisions going into effect on January 1, 2018. The Act contains provisions that impact regulated utilities' federal tax obligations, including a reduction to the corporate income tax rate. The Company has complied with the financial accounting requirements of Accounting Standards Codification ("ASC") - 740 which required recognition of the effect of certain tax law changes to be recognized in the period of enactment, in this case, December 2017.

As discussed below, the primary provision of the TCJA was a reduction in the federal corporate tax rate from 35% to 21%, reducing the current and deferred tax expense currently included in customers' rates. Avista's current retail rates, and its proposed rebuttal revenue requirement position in this general rate case proceeding, assumed a federal corporate tax rate of 35%. As discussed in (E) below, to recognize the 21% tax rate, the Company has revised its rebuttal positon to include the impact on current and deferred tax expense within its revenue requirement models previously filed as Avista rebuttal Exh. EMA-11 and Exh. EMA-12 (included as Bench Request No. 9 – Attachments A and B).[7]

In addition, the TCJA also resulted in excess deferred income tax assets and liabilities (including both "protected" and "unprotected," as discussed in (D) below[8]) which have been included in the Company's revised base rate increase (plant excess ADFIT) or included in temporary Schedule 74/174[9] (non-plant excess ADFIT), along with amortization of the deferred estimated January 1 – April 30, 2018 benefit balance (see Revised Exh. EMA-11 and Revised Exh. EMA-12 included as Bench Request No. 9 – Attachments A and B). Workpapers associated with the TCJA benefits have been included in electronic format as Bench Request No. 9 – Attachments E (electronic folder) and Attachment F (.pdf of certain summary pages).

[7] Revised Exh. EMA-13 and Exh. EMA-14, to the extent the TCJA impacted these exhibits, has been provided as Bench Request 9 – Attachments C and D.
[8] See also footnote 6.
[9] See also footnote 3.

Detail Bench Request No. 9 response:

A. The Accumulated Deferred Federal Income Tax (ADFIT) balance as of December 31, 2017 (included on an end-of period basis), prior to adjustment for the TCJA corporate tax rate change to 21% is as follows in Table 1:

Table 1

Accumulated Deferred Federal Income Tax (ADFIT) balances at December 31, 2017:			
	Avista Utility System	WA Electric	WA Natural Gas
Plant	$ (802,685,237)	$ (400,938,920)	$ (86,717,190)
Non-Plant	$ (31,206,134)	$ (18,523,295)	$ (2,326,819)

Avista has both plant ($802,685,237 system) and non-plant ($31,206,134 system) related ADFIT balances as of December 31, 2017, as shown in Table 1. Plant related balances are recorded in FERC Account 282. Non-plant balances are recorded in FERC Accounts 190 and 283.

B. The amount of excess deferred income tax reserve as described in IRC Sec 168(i)(9)(A)(ii) as of December 31, 2017, to comply with the TCJA, separately identified as protected and unprotected, as shown in Table 2 below is as follows:

Table 2

Excess Deferred Federal Income Tax Reserve at December 31, 2017						
	Protected (normalized plant)			Unprotected (non-plant)		
	Avista Utility System	WA Electric	WA Natural Gas	Avista Utility System	WA Electric	WA Natural Gas
Excess Reserve	$ 320,850,109	$ 160,263,688	$ 34,662,678	$ 13,530,194	$ 8,042,876	$ 930,728
Gross-up for taxes	$ 96,109,097	$ 48,006,212	$ 10,383,037	$ 4,052,904	$ 2,409,205	$ 278,795
Regulatory Liability	$ 416,959,206	$ 208,269,900	$ 45,045,715	$ 17,583,098	$ 10,452,081	$ 1,209,523

Due to the 2018 tax code change, the tax assets/liabilities discussed in (A) above, were adjusted to be 21% of the associated deferred asset/liability. The difference between the original balance recorded at 35% and the new balance recorded at 21% was recorded as plant or non-plant excess ADFIT.

Avista has two main types of excess ADFIT as defined by the Internal Revenue Code (IRC), "protected" and "unprotected." Protected excess ADFIT is generally defined as capital assets depreciated under IRC section 167, whereby these timing differences are required to be recorded and then reversed (i.e. normalized) over the depreciable lives of the capital assets that created the ADFIT. Unprotected excess ADFIT makes up the remainder of the Company's excess ADFIT, mainly representing non-plant related deferred assets/liabilities, as well as plant-related tax basis adjustments (included by the Company within its "protected" balances.)

The utility plant related excess ADFIT at December 31, 2017 system-wide was $320,850,109, exclusive of the tax gross up. Embedded in the protected excess number are various basis adjustments to plant that are not specifically classified as "protected" Internal Revenue Code Section 167 amounts. The system-wide plant related deferred taxes not specifically requiring normalization treatment is $42,956,299, leaving $277,893,810 as system-wide specifically protected excess ADFIT. At this time the Company is unable to provide a Washington-allocated breakdown of the plant "unprotected"

balances. Avista uses a tax depreciation system called PowerTax to calculate tax depreciation and associated ADFIT. This system starts with Avista's book plant balances and then records what is called tax basis adjustments due to various tax timing differences. Common tax basis adjustments are accelerated depreciation which are protected, as well as unprotected items, such as Contributions in Aid of Construction (CIAC), AFUDC capitalization, and tangible repairs. These unprotected tax basis adjustments are directly tied, and essentially comingled within the basis of the underlying plant asset and associated ADFIT, and therefore are included with "protected" plant by the Company.[10]

The utility non-plant related excess ADFIT at December 31, 2017 system-wide was $13,530,194, exclusive of the tax gross up. The share allocated to Washington electric is $8,042,876 and to Washington natural gas is $930,728. On a revenue requirement basis, the amount to be returned to customers is approximately $10.4 million electric and $1.1 million natural gas. The Company is proposing to return this to customers over a one-year period beginning May 1, 2018 as discussed further in (D) below.

C. The estimated amount of excess deferred income tax expense the Company is currently collecting as of January 1, 2018, until the anticipated effective date of this general rate case (May 1, 2018), separately identified as protected and unprotected, (as well as the amount of current/deferred tax expense collected for this same period), is shown in Table 3 as follows:

Table 3

Estimated Excess Deferred Federal Income Tax and Current/Deferred Tax Expense Deferred for the Period January - April 2018 (000s)		
	WA Electric	**WA Natural Gas**
Excess ADFIT - Plant (Protected[1])	$ 1,884	$ 389
Current/Deferred Tax Expense	$ 4,431	$ 1,160
Total Deferred Balance January - April 2018[2]	$ 6,315	$ 1,549
[1] The excess ADFIT reserve as of December 31, 2017 associated with the non-plant balances are not currently being amortized. Therefore, there are no "unprotected" balances included in the January - April 2018 deferral balance.		
[2] The Company proposes to return the deferred balance from January 1 - April 30, 2018 to customers over one year starting May 1, 2018.		

As previously discussed in Avista's response to Bench Request 1, on December 29, 2017, the Company filed with the WUTC separate electric and natural gas "Petition[s] for an Order Authorizing Deferral of Federal Income Tax Expenses for the Effects of Revisions of the Federal Income Tax Code Upon

[10] The PowerTax system will be using a required Average Rate Adjustment Mechanism (ARAM) to reverse over time the excess ADFIT. As PowerTax is currently set up, both Section 167 plant differences and non-Section 167 plant related tax basis adjustments will use the software's ARAM calculations to turnaround excess ADFIT. If anything other than the ARAM method is required to be used for any basis and related ADFIT that is tracked in PowerTax, there would have to be a manual adjustment within the system to override the ARAM computation and require the establishment of separate amortizable amounts for reversing ADFIT's. This is because PowerTax's default treatment for all items is ARAM. Though not impossible to produce, these calculations would need to be configured manually and independently from the underlying vintages records and introduce additional technical difficulties into the Company's fixed asset accounting process, creating a future customer disconnect from the prior practice of adherence to strict normalization of all plant related book and tax basis adjustments.

Avista's Cost of Service."[11] The Company's proposed regulatory deferred accounting mechanism is necessary to capture the benefits of the TCJA until such time as the benefits are reflected in base rates and the deferred balance has been returned to customers.[12]

Due to the timing of this Bench Request No. 9, the Company is providing estimates for the period January 1 – April 30, 2018. As shown in Table 3 above, approximately $6.3 million electric and $1.5 million natural gas is estimated to be the deferral balances for the period January 1, 2018 - April 30, 2018. The Company proposes to return these balances to customers over the one-Year period May 1, 2018 – April 30, 2019, through temporary tariff Schedules 74/174.

This estimated deferral for the period January – April 2018 will be compared to actual amounts recorded and deferred as excess collected. Any difference, up or down, in the tax benefit deferral balance could be updated by revising and extending the tariff Schedules 74/174 in Year 2 of the Three-Year Rate plan, if necessary, or deferred until the next general rate case.

D. A proposed amortization schedule for parts (B) and (C) of this bench request along with a supporting rationale for each schedule, identifying and describing the amortization assumption, e.g., composite, average rate, or other alternative method, is provided below:

1) Plant excess reserve balance (see Table 2) - the excess deferred income tax reserve as of December 31, 2017 associated with the normalized plant balances, as required by IRS rules began being amortized effective January 1, 2018 per the Average Rate Assumption Method (ARAM). The ARAM provides for an amortization of the Company's plant ADFIT balances over an average of approximately 36 years. The impact of the excess plant effective for Rate Year 1 (May 1, 2018 – April 30, 2019) has been included in the revised revenue requirement as discussed below in response to (E) as a permanent adjustment[13] to base rates. This adjustment has been included as an annual expense reduction, as well as an addition to plant on an average-of-monthly-average (AMA) basis for Rate Year 1. For Rate Years 2 and 3 of the Rate Plan, the Company would update the expense and AMA rate base related to the amortization of this balance, to reflect Rate Year 2 and Rate Year 3 balances within the compliance tariffs to be filed prior to new rates going into effect on May 1, 2019 and May 1, 2020.

2) Non-Plant excess reserve balance (see Table 2) - the excess deferred income tax reserve as of December 31, 2017 associated with the non-plant balances are not currently being amortized. The Company proposes to return these balances to customers over a one-year period through separate tariff Schedules 74/174. This temporary reduction[14] would expire at April 30, 2019.

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[11] In each Petition, the Company requests 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 code caused by enactment of the tax reform. Since the federal income tax code changes were effective beginning January 1, 2018, Avista would defer the impact of the changes to federal income tax expenses beginning in January 2018 until all benefits have been captured through the deferral and refunded to customers through a special tariff. Avista is proposing, through the methods described in this response, that the financial impacts of changes to the federal tax code be addressed in a manner that properly captures those impacts and are properly incorporated in customers' rates so that customers receive the benefits associated with all costs paid by customers.

[12] On February 16, 2018 the Commission provided all parties with its "Notice of Intent To Consolidate" Avista general rate case Docket Nos. UE-170485/UG-170486, with Docket Nos. UE-171221/UG-171222 (Avista's request "For an Order Authorizing Deferral of Federal Income Tax Expenses for the Effects of Revisions of the Federal Income Tax Code Upon Avista's Cost of Service), with comments regarding due February 23, 2018. The Commission also provided its "Notice of Opportunity to Comment on Avista's Accounting Petitions Filed in Dockets UE-171221 and UG-171222," due on February 23, 2018 by the parties, with Avista reply comments due February 28, 2018.)

[13] See Footnote 2.

[14] See Footnote 3.

3) Estimated January 1 – April 30, 2018 Deferral (see Table 3) – for the excess reserve associated with the normalized plant balances that will be amortized for the period January 1, 2018 - April 30, 2018[15], as well as the difference in current/deferred tax expense between 35% and 21% collected over this same period, the Company proposes to return this balance to customers over a one-year period through separate tariff Schedules 74/174. This temporary reduction would expire at April 30, 2019, unless extended to capture any differences in estimated versus actual deferred balances.

As mentioned above, due to the timing of this Bench Request No. 9, the Company is providing estimates for the period January 1 – April 30, 2018. Not all impacts of the TCJA on the Utility 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. The Company, therefore, believes it necessary to continue to track any appropriate differences through the TCJA deferral mechanism as a result of 1) differences between estimated amounts for the January – April 2018 deferral returned to customers beginning May 1, 2018, versus actual amounts recorded for January through April 2018; and 2) unanticipated tax effects from changes in tax legislation. This difference, up or down, could be included in Schedule 74/174 as a true-up in the May 1, 2019 compliance filings, if necessary, or deferred until the next general rate case. This tracking adjustment would also provide the opportunity for Staff and interested parties to complete their audit of Avista's filings and capture any necessary changes.

E. For the current proceeding, an updated revenue requirement based on the Company's rebuttal position that accounts for the change in corporate tax rate for the "going forward" tax rates (e.g., conversion factor and GRC adjustments that are a function of the new tax rate), are provided as Bench Request 9 – Attachments A and B, (representing revised exhibits EMA-11 and EMA-12). These attachments provide the revised revenue requirement amounts for electric and natural gas for the Three-Year Rate Plan inclusive of the TCJA benefits, as well as the temporary Schedule 74/174 credit to be returned to customers.

Attachments A and B provide the revenue requirement models starting with the existing electric and natural gas models as filed on rebuttal, with separate adjustments identifying the: 1) current/deferred tax expense (5.01 – TCJA-1); 2) Plant excess ADFIT (5.02 – TCJA-2); 3) Non-Plant excess ADFIT (5.03-TCJA-3); and 4) deferred (Jan 1 - Apr 30, 2018) balances, separately identified between deferred current/deferred tax expense (5.04-TCJA-4) and deferred excess plant (5.05 – TCJA-5). These revised models were also produced with the ability for changes to be made to the Company's rebuttal position adjustments (prior to the revised tax effect), as a result of the Commission's final order in the pending GRC, which will auto flow through revising the current tax adjustment column (5.01-TCJA) for approved levels.

F. Supporting workpapers in electronic format with all formulas and links intact, per WAC 480-07-510(3)(e), are provided as Bench Request 9 – Attachment E (folder), with a .pdf of certain summary pages included as Bench Request 9 – Attachment F.

[15] The excess ADFIT reserve as of December 31, 2017 associated with the non-plant balances are not currently being amortized. Therefore, there are no non-plant related balances included in the January - April 2018 deferral balance.

Other considerations:

- All the year-end accounting was completed at the Company's system level for book purposes, service and jurisdictional levels were prepared for regulatory purposes;
- Not properly capturing deferred tax plant turnaround using the prescribed ARAM in regulated customer rates would subject the Company to a normalization violation which would eliminate our ability to take advantage of accelerated tax depreciation;
- New deferred tax balances will be growing at a slower pace than previously projected (at 35%) due to new deferred taxes accumulating at the lower 21% rate versus 35%, increasing rate base, which will create upward rate pressure;
- The excess deferred taxes will reverse over time, which will also reduce deferred tax balances, increasing rate base, creating additional upward rate pressure; and
- Utilities have been exempted from the 100% capital expensing regulations, as well as the limitations on the deductibility of interest expense. Additionally, previously anticipated Bonus Depreciation for 2018 and beyond have been eliminated. **(See final section below "Impact of Elimination of Bonus Depreciation on Years 2 and 3 of the Three-Year Rate Plan" for the impact on Years 2 and 3.)**

As it relates to the revenue requirement requested by the Company in this rate case proceeding, as noted above, the Company has updated Exh. EMA-11 (electric) and EMA-12 (natural gas) reflecting the overall impact of the TCJA on its request for rate relief (either through a change in base rates or through separate tariff Schedule 74/174), along with all supporting workpapers. As proposed by the Company, this information provides the Commission and interested parties complete data to audit this information, and if satisfied, to allow such tax benefits to be passed through to customers beginning May 1, 2018 – included with or at the same time as new rates are effective in this proceeding.

With the limited amount of time since the legislation has been signed into law, we are not aware if the IRS has begun addressing directive treasury regulations associated with implementing the various aspects of the new tax legislation in H.R. 1, and the Company cannot anticipate what changes those might hold for implementation, or the impact on amounts estimated or included herein for the calculation of benefits for customers. The Company believes it necessary, therefore, to continue to track any appropriate differences through the TCJA deferral mechanism between estimated amounts for the January – April 2018 deferral returned to customers beginning May 1, 2018, versus actual amounts recorded for January through April 2018, as well as the impact related to unanticipated tax effects from changes in tax legislation.

Impact of Elimination of Bonus Depreciation on Years 2 and 3 of the Three-Year Rate Plan:

As noted above, while the Company is not otherwise proposing to modify its proposed revenue requirements for Years 2 and 3 of the Rate Plan, we believe it is important for the Commission to know that the elimination of "bonus depreciation" as a result of the TCJA affects the Company's calculated revenue growth factor (K-Factor) for Years 2 and 3, to the detriment of the Company. The Company, however, is not proposing to modify its K-Factor for those years.

Previously anticipated bonus depreciation for 2018 and beyond have been eliminated, per the TCJA. As discussed by Ms. Andrews on rebuttal, at Exh. EMA-10T, data through October 31, 2017 was used to determine Rate Year 1 proposed rate base, and coinciding revenue requirement on that rate base. For Rate Years 2 and 3, however, the electric and natural gas revenue increases are based on revenue growth factors

applied to prior year non-ERM and non-gas cost revenues. These revenue growth factors reflect the weighted average of multiple factors, including net plant after ADFIT.[16]

As explained by Ms. Andrews in her direct filed case, at Exh. EMA-4, starting at page 17, when determining its growth in net plant after ADFIT (growth in plant rate base)[17], the Company determined the historical growth in plant rate base from 2013-2016 (consistent with the growth rate determinants for the other categories used by the Company) was greater than that actually expected beyond Rate Year 1 (i.e. 2019 and 2020), in part due to expected bonus depreciation.[18] For this reason, the Company discounted its growth in plant rate base component used within its weighted average revenue growth rate, to reflect the growth between 2018 and 2020. In doing so, the Company was reflecting the plant rate base expected during Rate Years 2 and 3 (i.e. 2019 and 2020), rather than overstating its rate base balances in those years.

The growth in plant rate base components used by the Company in its direct filed case, on rebuttal, and accepted and used by Staff witness Mr. Hancock[19] was 3.04% for electric and 5.02% for natural gas[20]. The overall weighted average annual revenue growth factors (K-Factor) used by the Company on rebuttal, including these plant rate base components, therefore were 3.14% for electric and 4.14% for natural gas.[21/22]

With the elimination of bonus depreciation beginning in 2018, recalculating the net plant after ADFIT growth component causes an increase in this component. As shown in Table 5 below, although the revised growth in plant rate base excluding bonus depreciation in Years 2 and 3 (2019 and 2020) of 4.26% for electric and 6.56% natural gas (column (c)) is still less than the growth rates produced using the historical period 2013-2016 (column (a)), the revised growth rates produce slightly higher growth rates than that used by the Company on rebuttal (column (b)).

Table 5

Net Plant after ADFIT Growth Component			
	(a)	(b)	(c)
	Historical Data	Including Bonus Depreciation used on Rebuttal*	Excluding Bonus Depreciation Per Tax Act
	2013-2016	2018-2020	2018-2020
Electric	4.81%	3.04%	4.26%
Natural Gas	8.17%	5.02%	6.56%

*Used by both Avista and Staff

[16] Applying the growth in net plant after ADFIT to the net plant after ADFIT approved in Rate Year 1 by this Commission, provides the level of rate base expected in Years 2 and 3. These balances can be compared to the actual balances that occur as of December 31, 2019 and December 31, 2020, that will be provided in the annual Year-End Capital Reports proposed by the Company. For example, the Company's net plant after ADFIT (plant rate base) balances as proposed by the Company on rebuttal of $1,507,919,000 for electric (Exh. EMA-11, page 1, column f, line 46) and $293,579,000 for natural gas (Exh. EMA-12, page 1, column f, line 42), can be compared to the actual balances as of December 31, 2017 of $1,517,486,340 for electric and $308,216,427. The plant rate base balances proposed by the Company for the rate effective period May 1, 2018 through April 30, 2019 are less than that actually in service as of December 31, 2017, reflecting only used-and-useful net plant in service balances.

[17] Growth in net plant after ADFIT is one of four components used to determine the overall weighted average revenue growth rate, net of annual growth in sales revenue, used to determine Years 2 and 3.

[18] As noted at Exh. EMA-4, page 9, reductions in net plant in 2019 and 2020 result, in part, to the continuing impact of repairs and bonus depreciation on ADFIT through 2020.

[19] See Hancock. Exh. CSH-4, page 1.

[20] See Exh. EMA-13 (electric) and EMA-14 (natural gas), page 1.

[21] Ibid.

[22] For Staff's part, the overall weighted average annual revenue growth factor used by Mr. Hancock, inclusive of these same plant rate base components, resulted in revenue growth rates of 2.32% for electric and 3.2% for natural gas. (See Hancock. Exh. CSH-4, page 1.)

Including the revised plant rate base components (Table 5 column (c)) within Avista's proposed weighted average revenue growth factor (K-Factor), results in an overall revenue growth factor of 3.53% for electric and 4.55% for natural gas.[23] Table 6 compares the revenue growth factor for Avista on rebuttal and that proposed by Staff, versus revised growth factors for both Avista and Staff excluding the impact of bonus depreciation.

Table 6

Weighted Average Annual Revenue Growth Factor (K-Factor)				
	Avista Rebuttal[(1)]	Avista - If Adjusted for Bonus	Staff Filed [(1)]	Staff - If Adjusted for Bonus [(2)]
Electric	3.14%	3.53%	2.32%	2.67%
Natural Gas	4.14%	4.55%	3.20%	3.58%

(1) See Exh. EMA-13 and 14, page 1.
(2) Updating Staff's Composite Revenue Growth calculation with the revised net plant after ADFIT component (using column (c) from Table 5), results in a weighted average annual revenue growth factor of 2.67% electric and 3.58% natural gas.

Using the weighted average annual revenue growth factors from Table 6 above, one can compare the revenue results for Rate Years 2 and 3: as filed on rebuttal, versus reflecting the 21% tax rate only, versus reflecting the 21% tax rate **and** removal of bonus depreciation.
Table 7 below summarizes these revenue requirement amounts: As-filed by Avista on Rebuttal (column (a)); Revised Avista Rebuttal - Adjusted for the 21% tax rate only (column (b)); and Avista Revised-Eliminating Impact of Bonus Depreciation (column (c)).

Table 7

Revenue Requirement Years 2 and 3 As Filed (vs) As-Filed-Revised for Tax Rate (vs) Revised to Eliminate Bonus						
	(a)		(b)		(C)	
	Avista Rebuttal (Prior to Tax Change) *		Avista Rebuttal (Adjusted for Tax Rate of 21% only)		Avista Revised - Eliminating Impact of Bonus	
	5/1/2019	5/1/2020	5/1/2019	5/1/2020	5/1/2019	5/1/2020
Electric	$ 13,459	$ 13,882	$ 12,131	$ 12,512	$ 13,638	$ 14,119
Natural Gas	$ 3,690	$ 3,842	$ 3,339	$ 3,477	$ 3,670	$ 3,837

*** See Exh. EMA-11 and EMA-12, page 2.**

As can be seen from Table 7:

- For electric, if the revised revenue growth factor of 3.53% were used for Years 2 and 3, the result would be a revenue increase of $13.6 million (May 1, 2019) and $14.1 million (May 1, 2020), versus Avista's rebuttal position (adjusted for the Tax Act, using the 3.14% K-Factor) of $12.1 million (May 1, 2019) and $12.5 million (May 1, 2020) – **an increase of approximately $1.5 million revenue requirement.**
- For natural gas, if the revised revenue growth factor of 4.55% were used for Years 2 and 3, the result would be a revenue increase of $3.7 million (May 1, 2019) and $3.8 million (May 1, 2020), versus

[23] Updating Staff's Composite Revenue Growth calculation with the revised net plant after ADFIT component (using column (c) from Table 5), results in a weighted average annual revenue growth factor of 2.67% electric and 3.58% natural gas.

Avista's rebuttal position (adjusted for the Tax Act, using the 4.14% K-Factor) of $3.3 million (May 1, 2019) and $3.5 million (May 1, 2020) - **an increase of approximately $0.4 million revenue requirement.**

Although the Company is not proposing to revise its revenue growth factor from that proposed on rebuttal of 3.14% for electric and 4.14% for natural gas, as can be seen from the tables above, **the elimination of bonus has a real impact on the Company in Rate Years 2 and 3 of approximately $1.8 - $2.0 million annually.** Approving Avista's proposed "K-Factors" of 3.14% (electric) and 4.14% (natural gas) therefore, proves to be conservative, and further justifies approval of, at least, this level of "K-Factor".

Included as BR No. 9 – Attachment E in electronic format are the revised revenue growth calculations from Tables 5 and 6 above, as well as worksheets which show the increased revenue requirement in Years 2 and 3 as a result of using the higher revised revenue growth factor, as shown in Table 7. These attachments include updated Andrews' (Bonus) Exhs. EMA-13 and EMA-14 as if the Tax Act had been available at the time of the Company's filing.