

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 15, 2022**

REGULAR **CONSENT** **EFFECTIVE DATE** January 15, 2022

DATE: November 3, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: AVISTA CORPORATION:
(Docket No. UM 2205)
Request for Re-authorization for Deferral of Costs Associated with Allowance for funds Used During Construction (AFUDC).

STAFF RECOMMENDATION:

Approve Avista Corporation's, dba Avista Utilities (Avista, AVA, or Company) application for reauthorization to defer costs associated with AFUDC for the 12-month period beginning January 15, 2022.

DISCUSSION:

Issue

Whether the Commission should approve Avista's request for reauthorization to defer costs related to AFUDC for the 12-month period beginning January 15, 2022.

Applicable Rule or Law

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. In OAR 860-027-0300(3) the Commission has set forth the requirements for the contents of deferred accounting applications. Applications for reauthorization must include that information along with a description and explanation of the entries in the deferred account to the date of the application for reauthorization and the reason for continuation of deferred accounting. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review. A review of the utility's earnings is required, unless subject to an automatic adjustment clause. With some exceptions, a company's amortization of amounts deferred cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. ORS 757.259(6).

Analysis

Background

The Company, on November 19, 2021, submitted this application in order to re-authorize the company to utilize deferred accounting for a portion of AFUDC beginning January 15, 2022.

In a prior general rate case (Docket No. UG 389), the parties to the case (Avista Corporation, the Staff of the Public Utility Commission of Oregon ("Staff"), the Oregon Citizens' Utility Board ("CUB"), and the Alliance of Western Energy Consumers ("AWEC")) had agreed that Avista would be allowed to record AFUDC as recommended by the Federal Energy Regulatory Commission (FERC).

In Order No. 20-468, the Commission approved the Second Settlement Stipulation for rate effective January 15, 2021, which, at page 13, lines nine through 14 stated the following:

Allowance for Funds Used During Construction (AFUDC): Due to recommendations made by the Federal Energy Regulatory Commission (FERC) in a recent audit of Avista, the Parties agree that the Company would defer the AFUDC difference calculated between using the State AFUDC rate and the FERC AFUDC rate as a regulatory asset (i.e. FERC Account No. 182.3), which is included in rate base, and amortize this regulatory asset over the composite remaining life of the plant-in-service.

AFUDC represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period. As prescribed by regulatory authorities, AFUDC is capitalized, during construction, as part of the cost of utility plant. The offsetting entries are recorded in the income statement. The Company is permitted, under established regulatory practices, to recover the capitalized AFUDC through its inclusion in rate base and the provision for depreciation after the related utility plant is placed in service. Avista capitalizes AFUDC in Washington, Idaho and Oregon on a

monthly basis using the Washington Utilities and Transportation Commission (WUTC) approved Rate of Return (ROR) from the most recent general rate case.

The most recent approved ROR was from the 2020 UTC general rate case (Docket Nos. UE-200900 and UG-200901) effective October 1, 2021. The AFUDC FERC rate is calculated based on guidance in the Uniform System of Accounts under CFR part 101. FERC has indicated that if the FERC AFUDC rate is different from the state approved rate, the AFUDC capitalized should be split between utility plant and regulatory asset. The amount included in the regulatory asset would be the difference between the state AFUDC rate and the FERC AFUDC rate.

Reason for Deferral

The Company requests continuation of deferred accounting in order to defer the difference of calculated AFUDC between the state rate and the FERC rate.

Proposed Accounting

The Company proposes the deferral amount of AFUDC, which is the calculated difference between the state rate and the FERC rate, the Company debits FERC Account No. 182311 – Regulatory Asset-AFUDC (CWIP) and credits the income statement FERC Account No. 407411 – Regulatory Credit-AFUDC Debt and FERC Account No. 407412 – Regulatory Credit-AFUDC Equity.

When transferred to in service, amortization begins and the Company debits FERC Account No. 407311 – Regulatory Debit-AFUDC Amortization, and credits FERC Account No. 182318 – Regulatory Asset-AFUDC Accumulated Amortization.

Estimated Deferral in Authorization Period

On December 31, 2020, for Oregon operations, the Company had \$1.77 million recorded in FERC Account No. 182332 – Regulatory Asset-AFUDC (Plant-in-Service) and (\$0.30 million) recorded in FERC Account No. 182318 – Regulatory Asset-AFUDC accumulated Amortization, for net addition to rate base of \$1.47 million. During 2020, the Company recorded amortization of \$70,000 in FERC Account No. 407311 – Regulatory Debit-AFUDC Amortization.

The Company believes the 2020 amortization amount is representative of the future amortization during the deferral period beginning January 15, 2022.

Conclusion

The Company's application meets the requirements of ORS 757.259 and OAR 860-027-0300 for deferred accounting, and the reason for the deferral—costs related to AFUDC—is still valid. Therefore, Staff recommends the Commission approve Avista's application. The Company has reviewed this memo and agrees with its contents.

PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization to defer the costs associated with AFUDC for the 12-month period beginning January 15, 2022, through January 14, 2023.