Avista Corp.
1411 East Mission, P.O. Box 3727
Spokane. Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

December 21, 2022

Public Utilities Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Salem, OR 97301-3612

RE: Avista Utilities Application an Order Authorizing Deferral Accounting of Deferral of and Accounting Order Related to Certain Costs for Avista's Non-Contributory Defined Benefit Pension Plans

Filing Center:

In accordance with ORS 757.259 and OAR 860-027-0300, Avista Corporation, dba Avista Utilities (Avista or Company), hereby submits for electronic filing an Application for Deferred Accounting related to certain costs associated with Avista's Non-Contributory Pension Plans. As required by OAR 860-027-0300(3)(e), a Notice of Application and list of persons served with the Notice has been sent to all parties in the Company's last general rate case, Docket No. UG 433. A copy of the Notice and the Certificate of Service are attached as Exhibit A to the Application.

If you have any questions regarding this filing, please contact Liz Andrews at (509) 495-8601 or by email at liz.andrews@avistacorp.com.

Sincerely,

/s/Patrick Ehrbar

Patrick Ehrbar
Director of Regulatory Affairs

enclosures

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

DOCKET NO. UM ____

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AN ORDER AUTHORIZING DEFERRAL ACCOUNTING AND ACCOUNTING ORDER RELATED TO NON-CONTRIBUTORY DEFINED BENEFIT PENSION PLANS	) APPLICATION FOR AUTHORIZATION OF DEFERRAL OF CERTAIN COSTS

Avista Corporation, dba Avista Utilities ("Avista" or "Company") submits this application to the Public Utility Commission of Oregon (Commission) for an order: (1) authorizing Avista to defer pension settlement losses expected to occur in 2022 in accordance with Oregon Revised Statutes (ORS) 757.259(2)(e) and Oregon Administrative Rules (OAR) 860-027-0300; and (2) authorizing Avista, in accordance with ORS 757.120 and ORS 757.125, to amortize the impact of the pension settlement loss to expense over the same period that is used to amortize the underlying net pension regulatory asset, with the opportunity for rate recovery of the net periodic benefit costs consistent with recovery in rates today.[1]

Together, these requests allow the company to account for the impact of pension events, such as settlements and curtailments, in a manner that closely approximates the amortization that would have continued but for the accelerated recognition required by standard accounting principles as a result of a pension event.

For financial reporting on its employer-sponsored retirement plans, referred to as non-contributory defined benefit pension plans, Avista typically records certain pension-related costs and credits as a regulatory asset or liability and amortizes the balance over the actuarial remaining life

[1] Avista made similar filings in the states of Washington and Idaho.

expectancy of pension plan participants. This allows for smooth recognition of the unrecognized costs each year through consistent amortization expense. If certain pension events occur, however, Accounting Standards Codification (ASC) 715-30, which is the Financial Accounting Standards Board (FASB) accounting standard governing defined benefit pension plans, requires Avista to recognize portions of these otherwise amortizable costs in earnings immediately rather than continuing to record such costs as a regulatory asset or liability for amortization over a period of years. Absent an order from the Commission, this will necessitate recording certain pension-related gains or losses in annual earnings in each such year, rather than amortizing these gains and losses over the expected life of plan participants.

One of these pension events will occur in 2022, triggering a requirement for Avista to expense approximately $11 million (system) in pension-related losses for the year. Avista requests deferral of the 2022 pension settlement losses that, absent the ability to defer and amortize over the average remaining lives of plan participants, would be immediately recognized on the Company's income statement. Approval by this Commission of the proposed deferral treatment of the settlement losses as described in this petition/application, as well as approval to amortize the deferred settlement loss balance over approximately 12 years (the actuarial assumption of the remaining life expectancy of plan participants) would result in no impact to customers and continue to allow recovery of these costs consistent with recovery in rates today.

The requested order to defer this expense and to amortize these and similar costs going forward as a regulatory asset or liability, notwithstanding the occurrence of certain pension events, will reduce interannual variability in pension costs for the remaining life of Avista's non-contributory defined benefit pension plans.

In support of this Application, the Company states:

Avista provides natural gas service in southwestern and northeastern Oregon and is a public utility subject to the Commission's jurisdiction under ORS 757.005(1)(a)(A).

Avista requests that all notices, pleadings and correspondence regarding this Application be sent to the following:

Patrick Ehrbar	David J. Meyer
Director of Regulatory Affairs	Vice President and Chief Counsel
Avista Corporation	for Regulatory and
P.O. Box 3727	Governmental Affairs
Avista Corporation	P.O. Box 3727
1411 E. Mission, MSC-27	1411 E. Mission, MSC-27
Spokane, WA 99220-3727	Spokane, WA 99220-3727
(509) 495-8620	(509) 495-4316
patrick.ehrbar@avistacorp.com	david.meyer@avistacorp.com

electronic: AvistaDockets@avistacorp.com

This Application is filed pursuant to ORS 757.259, which empowers the Commission to authorize the deferral of expenses or revenues of a public utility for later incorporation into rates.

I. OAR 860-027-0300(3) Requirements

The following is provided pursuant to OAR 860-027-0300(3):

A. Background Description

1. Avista Defined Benefit Pension Plan

Avista has a defined benefit pension plan (Pension Plan) covering substantially all regular full-time employees at Avista Utilities that were hired prior to January 1, 2014.[2] As a part of the plan, qualifying employees may consider early retirement options, subject to Pension Plan provisions, beginning as early as age 55. Benefits are paid under several options specified in the Pension Plan. Such payments include life annuity benefits, social security level income, ten-year certain benefits, and lump sum cash payments. It is the last option, lump sum cash payments (or distributions), that is the

[2] For substantially all regular non-union full-time employees who were hired on or after January 1, 2014, and all Local 659 union employees hired after April 1, 2014, an enhanced defined contribution 401(k) plan replaced the Pension Plan.

driver behind this filing. As will be discussed in more detail below, lump sum distributions can lead to settlement accounting being triggered, which has occurred in 2022.

2. Funded Status on the Balance Sheet

Accounting Standards Codification (ASC) 715-30 requires recognition of the funded status of the Pension Plan on the balance sheet, measured annually at the measurement date (typically December 31).[3] The funded status is the difference between the fair value of the Pension Plan assets and the projected benefit obligation. As of December 31, 2021 (the last Pension Plan measurement date), the Pension Plan had a funded status of ($9.1) million—meaning the fair value of the Pension Plans' assets were less than the Pension Plan's projected benefit obligations.

3. Net Periodic Benefit Costs

Pension Plan costs are affected by, among other things:

- employee demographics (including age, compensation, and length of service by employees),
- the amount of cash contributions we make to the Pension Plan,
- the actual return on Pension Plan assets,
- expected return on Pension Plan assets,
- discount rate used in determining the projected benefit obligation and Pension Plan costs,
- assumed rate of increase in employee compensation,
- life expectancy of participants and other beneficiaries, and
- expected method of payment (lump sum or annuity) of pension benefits.

Avista makes estimates and assumptions as to many of these factors. In accordance with ASC 715-30, changes in Pension Plan obligations associated with these factors may not be immediately recognized as pension costs but are generally recognized in future years over the remaining average service period of Pension Plan participants. As such, costs recorded in any period may not reflect the actual level of cash benefits provided to Pension Plan participants. The amount to be recognized by Avista as the cost of a Pension Plan is comprised of the following components:

[3] https://asc.fasb.org/1943274/2147480243

- **Service cost** – represents the cost of benefits attributable to service performed by employees during the period. Service cost is the actuarial present value of projected benefits attributed to the current period based on the pension benefit formula, including the effect of a substantive commitment to amend the plan.
- **Interest cost** – represents the portion of net benefit cost attributable to the cost of "carrying" the pension obligation from one period to the next. The projected benefit obligation is measured at present value, using a discount rate representing the time value of money. Thus, the interest cost component of pension cost is the increase in the projected benefit obligation due to the passage of time.
- **Expected return on plan assets** – represents the portion of net benefit cost attributable to the expected increase in the value of plan assets over the course of the period. The expected return on plan assets is the product of the expected long-term rate of return on plan assets and the market-related value of plan assets.
- **Amortization of prior service cost/credit** – represents the amortization of any balances previously recorded in accumulated other comprehensive income (AOCI) or regulatory asset/liability as a result of plan amendments.
- **Amortization of gains and losses** – represents the amortization of past actuarial gains and losses recorded in AOCI or regulatory asset/liability as a result of changes in actuarial assumptions such as the discount rate and the difference between actual and expected experience, such as the return on plan assets.

4. Unrecognized Net Periodic Benefit Costs (Past Actuarial Gains and Losses)

An unrecognized gain or loss can result from a change in either the value of plan assets different from that assumed (i.e., the expected return on plan assets) or the projected benefit obligation resulting from actuarial experience different from that assumed, as well as changes in discount rates or and differences related to demographic experience. ASC 715 does not make a distinction between gains and losses arising from investment activities related to plan assets and those arising from changes in actuarial assumptions and experience different from what was assumed. Gains and losses arise at the time a remeasurement of the plan occurs. Unless a reporting entity has chosen to immediately recognize those gains and losses, they are charged or credited directly to Accumulated Other Comprehensive Income (AOCI). The amount of AOCI on Avista's December 31, 2021 balance sheet would have been a loss of $109.2 million prior to the application of regulatory accounting as described below.

Avista, as a regulated entity, applies the provisions of ASC 980-Regulated Operations and therefore records as a regulatory asset or liability amounts otherwise charged/credited to AOCI if it is probable that the amounts will be recovered in future rates. As of December 31, 2021, the funded status of Avista's pension plans included unrecognized net periodic benefit costs of $107 million, which was reflected as a regulatory asset. In addition, Avista had unrecognized prior service costs of $2.2 million as of December 31, 2021. Under ASC 715-30, Avista amortizes the unrecognized net losses over approximately 12 years, which represents the actuarial assumption of the remaining life expectancy of plan participants (remeasured annually by the Avista's actuaries). This allows for smooth recognition of the unrecognized costs rather than immediately recognizing the actuarial gains or losses as they arise.

5. <u>Pension Plan Events that Impact Amortization of Unrecognized Costs</u>

Under ASC 715, pension settlement and curtailment events change the timing for recognizing previously unrecognized net periodic benefit costs in earnings, requiring immediate recognition rather than recognition over time. This Application before the Commission pertains only to a pension settlement event. A settlement is a transaction that (a) is an irrevocable action, (b) relieves the employer (or plan) of primary responsibility for a pension obligation, and (c) eliminates significant risk related to the obligation and the assets used to affect the settlement. For example, a pension benefit obligation may be settled by making lump-sum cash payments to participants, or by purchasing nonparticipating (and certain participating) annuity contracts for vested benefits. Under ASC 715-30-35-82, any gain or loss from a settlement must be recognized in earnings "if the cost of all settlements during a year is greater than the sum of the service cost and interest cost components of net periodic pension cost for the pension plan for the year."

An entity that adopts an accounting policy to apply settlement accounting to one or more settlements that are below the service-and-interest-cost threshold must apply this policy to all settlements. ASC 715 requires immediate recognition in earnings of a pro rata portion of the unrecognized actuarial gains or losses recorded in AOCI or as a regulatory asset. The amount that is reclassified from AOCI or the regulatory asset when this occurs **is not a new cost; it is merely an acceleration of the recognition of the cost in earnings**. In other words, a portion of the net regulatory asset (or AOCI) is triggered for immediate recognition rather than continuing to be amortized to expense over time (the actuarial life expectancy of plan participants). If settlement accounting is triggered prior to the last month of the fiscal year, every lump sum distribution after the initial triggering event will result in additional settlement loss accounting and need to be recorded no later than at the time of the annual year end remeasurement (i.e., all lump sum distributions above $48.8 million as described in Section D is subject to settlement accounting).

Through October 2022, lump sum distributions in the Avista Retirement Plan totaled $44.0 million. In addition, employees have submitted retirement notifications, which are expected to result in total lump sum distributions of $58 million in 2022 (including the $44 million through October). As such, 2022 lump sum distributions will surpass the $48.8 million settlement accounting service plus interest cost threshold for the plan in 2022. As a result of the distributions exceeding this threshold, settlement accounting has been triggered, consistent with ASC 715, requiring remeasurement and accelerated recognition of a portion of net unrecognized losses.

Avista's actuaries will perform the remeasurement and compute the settlement loss in accordance with ASC 715-30 by applying the percentage reduction of pension liabilities settled to the net unrecognized losses. The 2022 settlement loss is estimated to be approximately $11 million, but the actual settlement loss will differ from this estimate after final actuarial calculations for 2022 are performed. If approved, Avista will notify Commission Staff of the final amount of the settlement losses for 2022 once known.

B. Reason for Deferral

As discussed earlier, if certain pension events occur, however, Accounting Standards Codification (ASC) 715-30, which is the Financial Accounting Standards Board (FASB) accounting standard governing defined benefit pension plans, requires Avista to recognize portions of these otherwise amortizable costs in earnings immediately rather than continuing to record such costs as a regulatory asset or liability for amortization over a period of years. Absent an order from the Commission, this will necessitate recording certain pension-related gains or losses in annual earnings in each such year, rather than amortizing these gains and losses over the expected life of plan participants.

One of these pension events will occur in 2022, triggering a requirement for Avista to expense approximately $11 million (system) in pension-related losses for the year. Avista requests deferral of the 2022 pension settlement losses that, absent the ability to defer and amortize over the average remaining lives of plan participants, would be immediately recognized on the Company's income statement. Approval by this Commission of the proposed deferral treatment of the settlement losses as described in this petition/application, as well as approval to amortize the deferred settlement loss balance over approximately 12 years (the actuarial assumption of the remaining life expectancy of plan participants) would result in no impact to customers and continue to allow recovery of these costs consistent with recovery in rates today.

The requested order to defer this expense and to amortize these and similar costs going forward as a regulatory asset or liability, notwithstanding the occurrence of certain pension events, will reduce interannual variability in pension costs for the remaining life of Avista's non-contributory defined benefit pension plans.

C. Proposed Accounting

Avista is requesting to defer 2022 pension settlement losses that would otherwise trigger immediate recognition of a pro rata portion of net actuarial losses currently reflected as a net regulatory asset. Avista proposes to begin to amortize this deferral over the same period that is used to amortize the underlying net regulatory asset and continue to recover the annual amortization amount in rates as part of pension cost consistent with current recovery. Avista proposes to begin amortizing the balance the month subsequent to the remeasurement of the pension plans' funded status as a result of the settlement. For example, with the threshold expected to be exceeded in December 2022, Avista's actuaries will remeasure the funded status as of December 31, 2022, with the results recorded by Avista in December 2022. In this example, Avista would begin to amortize the deferral January 1, 2023, the same month when new pension expense will be reflected subsequent to the December 31, 2022 remeasurement.

Avista proposes to record deferred amounts in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit). In addition, the Company would then, following the month of recording the Other Regulatory Asset, begin amortizing the Other Regulatory Asset balance monthly over approximately 12 years, crediting FERC Account 182.3 (Other Regulatory Assets) and debiting FERC Account 407.X (Regulatory Debit). Approval of this accounting treatment as proposed by the Company would result in no impact to customers. In the absence of approval of this Petition, Avista would record the immediate recognition of a pro rata portion of actuarial losses and gains in Account 926, Employee Pensions and Benefits.

D. Estimate of Amounts

Avista estimates the pension settlement loss in 2022 to be approximately $11 million (system), which the Company seeks permission to defer in this application.

E. Notice

A copy of the Notice of Application and a list of persons served with the notice are attached as Exhibit A to this application.

II. <u>Previous Commission Determinations</u>

The Commission cites its statutory requirements under ORS 757-259(2)(e) which utilizes "a two pronged "purpose test" for which the recovery or refund of identifiable utility expenses or revenues the Commission finds should be deferred: (1) to minimize the frequency of rate changes or the fluctuation of rate level; or (2) to match appropriately the costs borne by and benefits received by ratepayers."[4] The Commission retains its discretion on whether to approve a deferral by evaluating whether the issue "constitutes ordinary business risk", as well as the magnitude or materiality of the request. The Commission states the following which will guide our view:[5]

> In determining what is, and what is not, to be considered an ordinary business risk in the context of deferral applications, two different standards of magnitude have historically been applied in determining whether or not we will exercise our discretion to grant a deferral:
>
> 1. If the event was modeled or foreseeable without extenuating circumstances, (a "stochastic event") the magnitude must be *substantial.*
> 2. If the event was neither modeled nor foreseen, or if there are extenuating circumstances that were not foreseeable (a "scenario event"), the magnitude standard is lower - it must be *material.*

For the first test, whether or not the events leading up to our Pension issue was foreseeable, we do not believe they were. The increase in the number of retirements Avista is facing in 2022 is due almost entirely to the discount rate in effect for 2022, versus that in 2023. With the Federal Reserve increasing interest rates six times in 2022 (as the Federal Reserve attempts to control inflation in the Post-COVID 19 recovery period), the discount rate for Avista's pension assumptions likewise increased substantially. That alone led employees to evaluate the lump sum benefit in 2022 under the old discount rate, to the lump sum benefit under the new discount rate. Employees found themselves to be in a far better position to retire in 2022 than wait, as some would almost essentially work for free in 2023 – that is how meaningful the drop in benefit would be due to the change in the

[4] PacifiCorp Docket UM-1992, Order No. 20-004, at. p. 6 (Jan. 8, 2020).
[5] Order No. 20-004, Docket UM 1992, January 8, 2020, pp. 6-7.

discount rate. Simply put, there is no way that Avista could have foreseen the Federal Reserve Board's actions, leading to six increases in the federal funds rate, and the effects then on our pension and employee's decisions.

So that leads to the second test, Avista believes that the events leading to this filing were not foreseeable. As such, Avista must demonstrate that the magnitude, while lower than under the first test, is still material. Avista's current return on equity (ROE) in Oregon is presently 7.5%. That is compared to our authorized 9.4% ROE. As such, Avista is underearning in Oregon by 190 basis points, which equates to approximately $3.7 million. As it relates to this filing, Avista notes that on a system basis absent Commission support Avista would absorb $11 million of losses. That equates to approximately $1 million, or 50 basis points ROE. For Avista that is incredibly material, as absent Commission support the Company's earned return would lag authorized by 240 basis points. It would be a very different situation if Avista were earning at or near its authorized return. But that simply is not the case.

In summary, approval by this Commission of the proposed deferral treatment of the settlement losses as described in this petition/application, as well as approval to amortize the deferred settlement loss balance over approximately 12 years (the actuarial assumption of the remaining life expectancy of plan participants) would result in no impact to customers and continue to allow recovery of these costs consistent with recovery in rates today. That meets the conditions of ORS 757-259(2)(e), namely:

1. *to minimize the frequency of rate changes or the fluctuation of rate level* - This request will not result in rate changes for customers); or
2. *to match appropriately the costs borne by and benefits received by ratepayers* – Avista's request appropriately continues to match costs and benefits as the request appropriately spreads the impact complying with ASC 715-30 over the life of the pension, as if those

employees had not otherwise accelerated their retirements due to changes in the discount rate.

Also noteworthy is PacifiCorp made a similar filing in Docket UM 2185. As a part of Docket UE-399, PacifiCorp's March 1, 2022 general rate case, the Commission approved a settlement stipulation that included PacifiCorp's deferral and amortization of pension costs, as that proceeding had been consolidated into the general rate case.[6]

III. Conclusion

WHEREFORE, for the reasons set forth above, in accordance with ORS 757.120 and ORS 757.125, Avista respectfully requests authorization to record the impact of the 2022 pension settlement losses as an offset to the existing pension net regulatory asset and to amortize the amount to expense over the same period that is used to amortize the underlying net regulatory assets with the opportunity to recover the annual amortization amount in rates as part of pension cost consistent with recovery in rates today. Together with the request for deferral described above, this accounting order will allow the Company to account for the impact of pension events in a manner that closely approximates the amortization that would have continued if it were not for the accelerated recognition required by generally accepted accounting principles due to occurrence of a settlement event.

Avista respectfully requests that the Commission issue an order authorizing: (1) deferral of the expected impacts associated with the occurrence of the 2022 pension settlement losses in accordance with ORS 757.259(2)(e) and OAR 860-027-0300; and (2) amortization of the deferred amount to expense over the same period that is used to amortize the underlying net regulatory assets

[6] Docket UE 399, Order 22-491, Appendix C (Third Partial Settlement Stipulation) p. 5.

with the opportunity for rate recovery of the net periodic benefit costs consistent with recovery in rates today as applicable in accordance with ORS 757.120 and ORS 757.125.

DATED this 21st day of December, 2022.

Respectfully submitted,

Avista Utilities

By: *_/s/ David J. Meyer*

David J. Meyer, Vice President and Chief
Counsel for Regulatory and Governmental Affairs

EXHIBIT A

NOTICE OF APPLICATION FOR DEFFERRED ACCOUNTING

December 21, 2022

To All Parties Who Participated in UG 433:

Please be advised that on December 21, 2022, Avista Corporation, dba Avista Utilities (Avista or Company), applied to the Public Utility Commission of Oregon (Commission) for an Order Authorizing Deferral Accounting of Deferral of and Accounting Order Related to Certain Costs for Avista's Non-Contributory Defined Benefit Pension Plans. This filing has been made pursuant to ORS 757.259 and OAR 860-027-0300.

This Notice is being sent to all parties participating in Avista's most recent general rate case, Docket No. UG 433, to inform them that an Application for Deferred Accounting has been filed. Parties wanting more information or who wish to obtain a copy of the filing can access the Application on the Commission website, or by contacting either of the following:

Avista Utilities
Attn: Patrick Ehrbar
P.O. Box 3727
1411 E. Mission, MSC-27
Spokane, WA 99220-3727
(509) 495-8620

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
PO Box 1088
Salem, OR 97301-1088
(509) 373-0886

Any person may submit to the Commission written comments on this matter within 25 days of the date of this filing. Approval of Avista's Application will not authorize a change in the Company's rates.

DATED this 21st day of December 2022. By: ______*/s/David Meyer*_______________

David J. Meyer, Vice President and Chief
Counsel for Regulatory and Governmental Affairs

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have on this day, December 21, 2022, served by electronic mail the foregoing Notice of Application for Deferred Accounting to all parties of record for Avista's most recent general rate case, Docket No. UG 433, as indicated below:

Alliance of Western Energy Consumers (AWEC)
Edward Finklea, Director of Natural Gas
efinklea@awec.solutions

Chad M. Stokes
Cable Huston, LLP
cstokes@cablehuston.com

Oregon Public Utilities Commission (OPUC)
Matt Muldoon, OPUC Staff
matt.muldoon@puc.oregon.gov

Department of Justice
Johanna Riemenschneider
johanna.riemenschneider@doj.state.or.us

Oregon Citizens Utility Board (CUB)
dockets@oregoncub.org

Mike Goetz, Staff Attorney
mike@oregoncub.org

William Gehrke
will@oregoncub.org

I declare under penalty of perjury that the foregoing is true and correct.

Dated at Spokane, Washington this 21st day of December 2022.

/s/ Patrick Ehrbar
Patrick Ehrbar