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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

DOCKET NO. UM 2124

IN THE MATTER OF THE APPLICATION OF)
AVISTA CORPORATION FOR AN ORDER) APPLICATION
AUTHORIZING DEFERRAL OF FEDERAL) FOR REAUTHORIZATION
INCOME TAX EXPENSE ASSOCIATED) OF DEFERRAL OF
WITH CERTAIN PLANT BASIS ADJUSTMENTS) INCOME TAX EXPENSE
)

Pursuant to ORS 757.259 and OAR 860-027-0300(4), Avista Corporation, dba Avista Utilities (“Avista” or “Company”), hereby applies to the Public Utility Commission of Oregon ("Commission") for an order reauthorizing the Company to utilize deferred accounting for the following¹:

- Federal income tax expense from using a flow-through method of accounting for certain plant basis adjustments, including Industry Director Directive No. 5 (IDD #5)² and meters³.

Avista respectfully requests that this deferral be effective for the 12-month period beginning October 30, 2022.

¹ In Avista’s prior reauthorization request under this Docket, the Company had also requested authorization to utilize deferred accounting for State income taxes that are being collected from customers that will not be paid until customer rates are updated in the Company’s next general rate case. As a result of the Company’s last general rate case, UG 433, effective August 22, 2022, deferred accounting for this is no longer needed as the change has been incorporated into base rates
² IDD #5 relates to mixed services costs that are part of the capitalized book costs of utility property but can be capitalized to inventory. Mixed service costs are defined as service costs that are partially allocable to production or resale activities (capitalizable) and partially allocable to nonproduction or non-resale activities (deductible).
³ Prior to 2019, Avista capitalized and depreciated meters over 5 to 20 years for tax purposes and over 15 to 20 years for book purposes depending on the meter type. I.R.C. Section 162 allows a deduction for all ordinary and necessary expense paid or incurred during the taxable year in carrying on any trade or business. The meter accounting method change allowed Avista, for income tax purposes, to deduct meter costs instead of capitalizing them if the per unit cost is less than \$200.

1 In support of this Application, the Company states:

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

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

6 Patrick Ehrbar
7 Director of Regulatory Affairs
8 Avista Corporation
9 P.O. Box 3727
10 Avista Corporation
11 1411 E. Mission, MSC-27
12 Spokane, WA 99220-3727
13 (509) 495-8620
14 pat.ehrbar@avistacorp.com

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

15 This Application is filed pursuant to ORS 757.259, which empowers the Commission to
16 authorize the deferral of expenses or revenues of a public utility for later incorporation into rates.
17 As required by ORS 757.259(4), any amortization of the deferred amount will be subject to an
18 earnings review and a finding by the Commission that the costs were prudently incurred. Avista
19 does not expect that amortization of the deferred amount will cause Avista to meet or exceed its
20 most recently authorized return on equity.

21

22 **I. BACKGROUND**

23 Deferral of certain income taxes, as described below, was previously authorized by the
24 Commission on December 20, 2021, through Order No. 21-477 of Docket No. UM 2124(1). The
25 authorization for deferred accounting treatment can be authorized pursuant to ORS 757.259(2)(e).

26 Prior to 2021, Avista calculated federal income taxes utilizing the normalization method
27 for the majority of its plant-related temporary book-to-tax differences. A normalized book-to-tax
28 difference is a temporary difference that for accounting purposes adjusts current income tax

1 expense and has an equal offset in deferred income tax expense, thus the net effect to total book
2 income tax expense is zero.

3 During 2020, Avista worked with consultants (Deloitte and Ernst and Young) on a tax
4 review project⁴. The outcome of this project was to expand on the tax deduction for repairs
5 expenses that the Company originally implemented in 2014 and to modify its tax method for
6 accounting for certain costs relating to meters and mixed service costs (IDD #5). This change
7 allowed the Company to deduct costs for tax purposes that previously were capitalized, thereby
8 reducing current federal income taxes owed to the Internal Revenue Service (IRS). This change
9 was included with the 2019 federal tax return that was filed in October 2020. While the Company
10 expanded its deduction for repairs expenses, the deferred taxes for this deduction continued to be
11 normalized and therefore, were not part of the tax method accounting change and deferral
12 application. Since the meters and IDD #5 basis adjustments were new, Avista determined that the
13 flow-through method of tax accounting would be appropriate and requested to utilize the flow-
14 through method of tax accounting in Docket No. UM 2124. A flow-through book-to-tax difference
15 is also a temporary difference that adjusts current income tax expense but does not have an
16 offsetting deferred income tax expense amount. This allows the tax benefits to be given to
17 customers over a shorter period than if using the normalization method.

18 By changing to the flow-through method of accounting for certain basis adjustments,
19 including IDD #5 and meters, Avista recorded approximately \$21.4 million in May 2021 as a
20 regulatory liability and totaled \$22.3 million as of December 31, 2021 which was made available
21 to offset customers' rates in most recent general rate case, UG-433, effective August 22, 2022 that

⁴ With the enactment of the Tax Cuts and Jobs Act (TCJA) passed in December 2017, the Company was no longer able to utilize bonus depreciation under IRC Section 168(k). The Company entered into the 2019 tax review project as a replacement for tax cash savings.

1 included Schedule 486 “Tax Customer Credit” that is passing these benefits back to customers
2 over a period of 10-years. Avista will continue to have an additional annual tax benefit, estimated
3 to be \$0.4 million each year, which will be made available to offset customers’ rates in a future
4 general rate case.

5

6

II. PROPOSED ACCOUNTING

7 The Company received approval from all three states to utilize the flow-through method of
8 accounting for the basis adjustments described above in May 2021. The Company recorded the
9 amounts that had accumulated at that point related to those basis adjustments to FERC Account
10 No. 254393 – Regulatory Liability at the grossed-up amount. Associated deferred taxes were also
11 recorded on this deferral in FERC Account No. 190393 – ADFIT. The net of these two accounts
12 equals the amount that had been recorded in FERC Account. No. 282900 and have been included
13 as an offset to rate base. This allowed customers to continue to receive the benefits of the basis
14 adjustments, as a reduction to rate base, until the flow-through benefits were included in rates.

15 As a part of the Company’s most recent general rate case, UG 433, these accumulated tax
16 credit benefits recorded in FERC Account No. 254393 were included in rates and are being
17 returned through adder Schedule 486 “Tax Customer Credit” over a 10-year period effective
18 August 22, 2022. Now that these credits are being returned to customers, the Company is
19 amortizing the accumulated tax credits recorded in the regulatory liability account as approved by
20 the Commission. Any remaining balance will be considered in a future general rate case.

21 The Company is also proposing to continue to defer future annual benefits of these two
22 basis adjustments to ensure the customer receives all the benefits from the flow-through.

23

1 **III. REQUEST FOR RELIEF**

2 WHEREFORE, Avista Utilities respectfully requests that the Commission reauthorize the
3 Company to defer the following:

- 4 • The federal tax benefits due to changing its accounting for federal income tax
5 expense from a normalization method to a flow-through method for certain plant
6 basis adjustments, including Industry Director Directive No. 5 (IDD #5) and meters
7 for the 12-month period beginning October 30, 2022.

8 The Company is not proposing an adjustment to customers' retail rates through this
9 Application. The impact on federal income tax expense and ADFIT, which is a component of rate
10 base, would be included in a future general rate case. Pursuant to OAR 800-027-0300(3)(e)(6), a
11 copy of the Notice of Application and list of persons served with the Notice is attached to this
12 Application as Exhibit A.

13 DATED this 28th day of October 2022.
14

15 Respectfully submitted,

16 Avista Corporation

17 

18 By _____

19 Patrick Ehrbar
20 Director of Regulatory Affairs
21 Avista Corporation



Avista Corp.

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

October 28, 2022

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

RE: Docket No. UM 2124—Avista Utilities Application for Reauthorization

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 Reauthorization to defer certain federal and state income tax expenses.

As required by OAR 800-027-0300(3)(e)(6), a Notice of Application and list of persons served with the Notice has been sent to all parties in the Company’s current general rate case, Docket No. UG 433. A copy of the Notice and the Certificate of Service are attached as an Exhibit to the Application.

If you have any questions regarding this filing, please contact Paul Kimball at (509) 495-4854 or email paul.kimball@avistacorp.com.

Sincerely,

/s/Joe Miller

Joe Miller
Sr. Manager of Rates & Tariffs
Avista Utilities
509-495-4546
joe.miller@avistacorp.com



CERTIFICATE OF SERVICE

Docket No. UM 2124

I HEREBY CERTIFY that I have on this day, October 28, 2022, served by electronic mail the foregoing Notice of Application for Reauthorization of Certain Deferral Accounts, related to the deferral of certain federal and state income tax expense, to all parties of record for Avista’s most recent general rate case, Docket No. UG 433, as indicated below:

<p><u>Alliance of Western Energy Consumers (AWEC)</u> Edward Finklea efinklea@awec.solutions</p> <p>Chad M. Stokes cstokes@cablehouston.com</p>	<p><u>Oregon Citizens Utility Board (CUB)</u> dockets@oregoncub.org</p> <p>Mike Goetz mike@oregoncub.org</p> <p>William Gehrke will@oregoncub.org</p>
<p><u>Oregon Public Utilities Commission (OPUC)</u> Matthew Muldoon matt.muldoon@puc.oregon.gov</p>	<p><u>Oregon Department of Justice</u> Johanna Reimenschneider joahanna.reimenschneider@doj.state.or.us</p>

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

Dated at Spokane, Washington this 28th day of October 2022.

/s/ Paul Kimball

Paul Kimball
Mgr. Compliance & Discovery
Avista Utilities
Paul.kimball@avistacorp.com
509.495.4584



Docket No. UM 2124

NOTICE OF APPLICATION FOR REAUTHORIZATION OF CERTAIN DEFERRAL ACCOUNTS

October 28, 2022

To All Parties Who Participated in UG 433:

Please be advised that on October 28, 2022, Avista Corporation, dba Avista Utilities (“Avista” or “Company”), applied to the Public Utility Commission of Oregon (“Commission”) for an order reauthorizing the Company to utilize deferred accounting for certain federal and state income taxes. This filing has been made pursuant to ORS 757.259 and OAR 860-027-0300(4).

This Notice is being sent to all parties that participated in Avista’s most recent general rate case, Docket No. UG 433, to inform them that an Application for Reauthorization 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 by November 25, 2022. Approval of Avista’s Application will not authorize a change in the Company’s rates, but will permit the Commission to consider allowing such deferred amounts in rates in a subsequent proceeding.

DATED this 28th day of October 2022.

By: /s/David Meyer

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