



Avista Corp.

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

September 24, 2021

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 389. 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 Jeanne Pluth at (509) 495-2204 or email jeanne.pluth@avistacorp.com.

Sincerely,

/s/Joe Miller

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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

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
AND DEFERRAL OF STATE INCOME TAXES)

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 following:

- 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)¹ and meters², and
- 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.

Avista respectfully requests that this deferral be effective for the 12-month period beginning October 30, 2021.

¹ 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).
² 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 May 4, 2021, through Order No. 21-131 of Docket No. UM 2124. The
25 authorization for deferred accounting treatment can be authorized pursuant to ORS 757.259(2)(e).
26 This application requests deferral of both federal and state income taxes, which will be described
27 separately.

28

1 **FEDERAL INCOME TAXES**

2 Prior to 2021, Avista calculated federal income taxes utilizing the normalization method
3 for the majority of its plant-related temporary book-to-tax differences. A normalized book-to-tax
4 difference is a temporary difference that for accounting purposes adjusts current income tax
5 expense and has an equal offset in deferred income tax expense, thus the net effect to total book
6 income tax expense is zero.

7 During 2020, Avista worked with consultants (Deloitte and Ernst and Young) on a tax
8 review project³. The outcome of this project was to expand on the tax deduction for repairs
9 expenses that the Company originally implemented in 2014 and to modify its tax method for
10 accounting for certain costs relating to meters and mixed service costs (IDD #5). This change
11 allowed the Company to deduct costs for tax purposes that previously were capitalized, thereby
12 reducing current federal income taxes owed to the Internal Revenue Service (IRS). This change
13 was included with the 2019 federal tax return that was filed in October 2020. While the Company
14 expanded its deduction for repairs expenses, the deferred taxes for this deduction continued to be
15 normalized and therefore, were not part of the tax method accounting change and deferral
16 application. Since the meters and IDD #5 basis adjustments were new, Avista determined that the
17 flow-through method of tax accounting would be appropriate and requested to utilize the flow-
18 through method of tax accounting in Docket No. UM 2124. A flow-through book-to-tax difference
19 is also a temporary difference that adjusts current income tax expense but does not have an
20 offsetting deferred income tax expense amount. This allows the tax benefits to be given to
21 customers over a shorter period than if using the normalization method.

³ 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 By changing to the flow-through method of accounting for certain basis adjustments,
2 including IDD #5 and meters, Avista recorded approximately \$21.4 million in May 2021 as a
3 regulatory liability and will be available to offset customers' rates in future general rate cases.
4 Avista will have an annual additional tax benefit each year, beginning in June 2021, which would
5 be available for immediate use to offset customers' rates estimated to be \$0.4 million.

6 **STATE INCOME TAXES**

7 Avista's previous general rate case (Docket No. UG-389, Order No. 20-468) that was
8 effective January 15, 2021 included a level of state income taxes that were based on taxable income
9 that did not include the new tax deductions described above. Therefore, the Company is currently
10 collecting amounts, estimated at approximately \$1.3 million annually, from customers that will
11 not be paid to the state. Avista began deferring these amounts on January 15, 2021 and will
12 continue to defer these amounts until new rates are set in the Company's next filed general rate
13 case.

14 15 **II. PROPOSED ACCOUNTING**

16 **FEDERAL INCOME TAXES**

17 The Company received approval from all three states to utilize the flow-through method of
18 accounting for the basis adjustments described above in May 2021. The Company recorded the
19 amounts that had accumulated at that point related to those basis adjustments to FERC Account
20 No. 254393 – Regulatory Liability at the grossed-up amount. Associated deferred taxes were also
21 recorded on this deferral in FERC Account No. 190393 – ADFIT. The net of these two accounts
22 equals the amount that had been recorded in FERC Account. No. 282900 and have been included
23 as an offset to rate base. This will allow customers to continue to receive the benefits of the basis
24 adjustments, as a reduction to rate base, until such time the flow-through benefits are included in

1 rates.

2 As a part of the Company's next filed general rate case, the Company will propose the
3 return of the accumulated tax credits recorded in FERC Account No. 254393 taking into
4 consideration the impact of any proposed change in base rates. Once those credits are being
5 returned to customers, the Company will amortize the accumulated tax credits recorded in the
6 regulatory liability account as approved by the Commission, until such time that the regulatory
7 liability has been zeroed-out.

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

10 **STATE INCOME TAXES**

11 In January 2021, Avista began recording the deferred amount as a regulatory liability by
12 debiting FERC Account No. 407300 - Regulatory Debit and crediting FERC Account No. 254301
13 - Regulatory Liability. Interest is being recorded on the balance at the approved authorized rate of
14 return (ROR).

15

16 **III. REQUEST FOR RELIEF**

17 WHEREFORE, Avista Utilities respectfully requests that the Commission reauthorize the
18 Company to defer the following:

- 19 • The federal tax benefits due to changing its accounting for federal income tax
20 expense from a normalization method to a flow-through method for certain plant
21 basis adjustments, including Industry Director Directive No. 5 (IDD #5) and meters
22 for the 12-month period beginning October 30, 2021, and

CERTIFICATE OF SERVICE

Docket No. UM 2124

I HEREBY CERTIFY that I have on this day, September 24, 2021, 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 389, 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

Tommy A. Brooks
Cable Huston, LLP
tbrooks@cablehuston.com

Oregon Public Utilities Commission (OPUC)

Marianne Gardner, OPUC Staff
Marianne.gardner@state.or.us

Oregon Citizens Utility Board (CUB)

dockets@oregoncub.org

Mike Goetz, Staff Attorney
mike@oregoncub.org

William Gehrke
will@oregoncub.org

Department of Justice

Johanna Riemenschneider
johanna.riemenschneider@doj.state.or.us

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

Dated at Spokane, Washington this 24th day of September 2021.

/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

September 24, 2021

To All Parties Who Participated in UG 389:

Please be advised that on September 24, 2021, 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 389, 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 October 22, 2021. 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 24th day of September 2021. By: /s/David Meyer

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