ITEM NO. CA8

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 16, 2024

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** _____N/A_____

DATE: April 22, 2024

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway and Russell Beitzel **SIGNED**

SUBJECT: AVISTA CORPORATION:
(Docket No. UM 2205(2))
Request for Reauthorization 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, 2024.

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, 2024.

Applicable Law

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

> Identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers.

ORS 757.259(2)(e).

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

In December 2023, the company submitted this request for reauthorization in Docket UM 2205. Previously, in a general rate case filed in 2020 which became effective January 15, 2021 (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, which states 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.

In addition, 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.

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
As plant is being constructed, for 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 the plant is in service and transfers from Construction Work in Progress to Plant-in-Service, the deferred AFUDC is transferred from FERC Account No.182311 – Regulatory Asset-AFUDC (CWIP) to FERC Account No. 182332 – Regulatory Asset AFUDC (Plant-in-Service).

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.

Estimate of Amounts
On December 31, 2022, for Oregon operations, the Company had $1.86 million recorded in FERC Account No. 182332 – Regulatory Asset-AFUDC (Plant-in-Service) and ($0.52 million) recorded in FERC Account No. 182318 – Regulatory Asset-AFUDC accumulated amortization, for net addition to rate base of $1.34 million.

During 2022-2023, the Company recorded amortization of $123,000 in FERC Account No. 407311 – Regulatory Debit-AFUDC Amortization. The Company believes the 2022 amortization amount is representative of the future amortization during the deferral period beginning January 15, 2024.

Information Related to Future Amortization
- Earnings Review – No earnings test recommended to be applied

- Prudence Review – A prudence review will be performed prior to amortization

- Sharing – Non-Applicable

- Three Percent Test – The three percent test applies to limit aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

Conclusion

Staff recommends the Commission approve Avista's application, since 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.

The Company has reviewed this memo and agrees with its contents.

PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization to defer the AFUDC difference calculated between using the State AFUDC rate and the FERC AFUDC for the 12-month period beginning January 15, 2024, ending January 14, 2025.