ORDER NO. 23-311

ENTERED August 24, 2023

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 2124(2)

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES, Application for Reauthorization to Approve Federal Income Tax Expense for Certain Plant Basis Adjustments Changes and to Defer Associated Change in Tax Expense.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on August 22, 2023, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Nolan Moser
Chief Administrative Law Judge

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. CA5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 22, 2023

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __________N/A__________

DATE: July 31, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway and Marc Hellman **SIGNED**

SUBJECT: AVISTA:
Docket No. UM 2124(2)
Application for Reauthorization to Approve Federal Income Tax Expense for Certain Plant Basis Adjustments Changes and to Defer Associated Change in Tax Expense.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Avista Corporation dba Avista Utilities' (Avista or Company) application for reauthorization of deferred accounting effective for the 12-month period beginning October 30, 2022.

DISCUSSION:

Issue

Whether the Commission should reauthorize deferral of 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) and meters.

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
On October 28, 2022, the Company submitted a request for reauthorization for a Deferral of certain income taxes, which was previously authorized by the Commission in Order No. 21-477 and Order No. 21-131 of Docket No. UM 2124.

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

At that time, the Company recorded approximately $21.4 million in May 2021 as a regulatory liability and totaled $22.3 million as of December 31, 2021, which was made available to offset customers' rates in its most recent general rate case in which the Commission issued a final order, effective August 22, 2022, UG-433, that included Schedule 486 "Tax Customer Credit" that is passing these benefits back to customers over a period of 10 years. The annual tax benefit will continue to accrue.

Description of Expense
The Company will have an additional annual tax benefit, estimated to be $0.4 million each year, which will be made available to offset customers' rates in a general rate case.

Reason for Deferral
The Company's application requests reauthorization of the deferral in order to appropriately match the costs borne by and benefits received by customers

Proposed Accounting
Following approval of the use of flow-through accounting, Avista began recording the grossed-up amount in FERC Account 254393 and associated deferred taxes in FERC Account 190393 – ADFIT. The net of the two accounts was recorded in FERC Account 282900. Effective August 22, 2022, accumulated tax credits were to be returned to customers under Schedule 486, "Tax Customer Credit", approved in UG 433. Accumulated tax credits are currently recorded in FERC Account 254393.

Information Related to Future Amortization

- Earnings Review – Prior to amortization, an annual earnings review will be conducted pursuant to ORS 757.259(5).

- Prudence Review – Prior to amortization, a prudence review will be conducted. The prudence review should include verification of the actual tax benefits to determine the amortization balance.

- Sharing – This deferral is not subject to a sharing mechanism.

- Rate Spread/Design – Applicable benefits will be allocated to the appropriate customer classes.

- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (with exceptions) the 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 concludes that approval of the deferral and accounting order will benefit Oregon ratepayers and that the proposed change in accounting method is consistent with the requirements of Oregon law regarding deferrals.

PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization of deferred accounting effective for the 12-month period beginning October 30, 2022.

UM 2124(2) Avista Change in Acct Method for Taxes.docx