ORDER NO. 25-176

ENTERED Mav 13 2025

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 2124(4)

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 May 13, 2025, 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:

Alison Lackey
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. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 13, 2025

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** _____ **N/A** _____

DATE: March 20, 2025

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Scott Gibbens and Michelle Scala **SIGNED**

SUBJECT: AVISTA CORPORATION:
(Docket No. UM 2124(4))
Avista Corporation's Application for Reauthorization to Defer Federal Income Tax Expense Associated with Certain Plant Basis Adjustments.

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, 2024.

DISCUSSION:

Issue

Whether the Commission should reauthorize the deferral of federal income tax expense savings from using a flow-through method of accounting for certain plant basis adjustments, including Industry Director Directive No. 5 (IDD 5) and meters.[1]

Applicable Law

ORS 757.259 empowers the Commission to authorize the deferral of expenses or revenues of a public utility for later incorporation into rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

[1] *See,* Avista Application at 1 (Oct 29, 2024) ("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)").

> 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.

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. 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).

<u>Analysis</u>

Background
This filing was submitted on October 29, 2024, and is Avista's fourth reauthorization request. The third reauthorization request was approved by the Commission in Order No. 23-455, issued on November 28, 2023.

Avista explains that prior to 2021, the Company calculated federal income taxes utilizing the normalization method for most of its plant-related temporary book-to-tax differences. Avista states 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.

Avista explains that after a tax review project in 2020, it began to deduct costs for tax purposes that previously were capitalized, thereby reducing current federal income taxes owed to the Internal Revenue Service (IRS).

While the Company expanded its deduction for repairs expenses, the deferred taxes for this deduction continued to be normalized and therefore were not part of the tax method accounting change and deferral application.

Since the meters and IDD 5 basis adjustments were new, the Company determined that the flow-through method of tax accounting would be appropriate and requested to utilize the flow-through method of tax accounting in Docket No. UM 2124.

Avista further explained that a flow-through book-to-tax difference is also a temporary difference that adjusts current income tax expense but does not have an offsetting deferred income tax expense amount. This allows the tax benefits to be given to customers over a shorter period than if using the normalization method. This change has had the effect of reducing near-term revenue requirements.

Description of Expenses
As described, the expenses are the Federal Income Tax Expense or Benefit Associated with Certain Plant Basis Adjustments that include Industry Director Directive No. 5 and meters.

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
The Company 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. Accumulated tax credits are currently recorded in FERC Account 254393.

Effective August 22, 2022, accumulated tax credits were to be returned to customers under Schedule 486, "Tax Customer Credit," approved in dockets UG 433 and then UG 461.

Estimate of Amounts in Previous Years
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 the Company's prior general rate case, UG 433, effective August 22, 2022. Avista explains that including Schedule 486 "Tax Customer Credit" is passing these benefits back to customers over a period of 10 years.

Estimate of Amounts
In the Company's most recently approved general rate case, UG 461, the Commission approved updating the Schedule 486 "Tax Customer Credit" rate to include expected benefits of $21.0 million as of December 31, 2023, and amortize over the remaining months of the original 10-year period.

The Company states it will continue to have an additional annual tax benefit, estimated to be approximately $0.7 million each year, which will be made available to offset customers' rates in a future general rate case.

Information Related to Future Amortization

- Earnings Review - Prior to amortization, an annual earnings review will be conducted pursuant to ORS 757.259(5). Staff does not intend to use an earnings test on this account as it is a benefit for customers.

- 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 notes that the deferral amounts requested in the reauthorization application are commensurate with amounts previously approved by the Commission and that the Company has proposed amortization of the same in the Company's recent general rate case filing, UG 519.

Staff also notes that the accounting treatment previously approved in Order No. 23-455 provides a significant acceleration of rate payer benefits and that reauthorization of the deferral is necessary for those benefits to be realized.

For the reasons stated above, 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.

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

PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization of deferred accounting effective for the 12-month period beginning October 30, 2024, for savings in federal income tax expense from using a flow-through method of accounting for certain plant basis adjustments, including Industry Director Directive No. 5 and meters.

Avista UM 2124(4)