

ORDER NO. 25-528

ENTERED Dec 24 2025

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2124(5)

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 December 23, 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. CA13

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 23, 2025**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A**

DATE: December 4, 2025

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: AVISTA CORPORATION:
(Docket No. UM 2124(5))
Avista Corporation's application for reauthorization to defer federal income tax expense associated with Certain Plant Basis Adjustments.

STAFF RECOMMENDATION:

Staff recommends that the Oregon Public Utility Commission (the Commission) approve Avista Corporation dba Avista Utilities' (Avista or Company) application for reauthorization of deferred accounting for certain federal income tax expenses, effective for the 12-month period beginning October 30, 2025.

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)¹ and meters.²

¹ IDD No. 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.

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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 “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 such 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).

Analysis

Background

During 2020, the Company worked with consultants, Deloitte and Ernst and Young, on a tax review project. The outcome of this project was to expand on the tax deduction for repairs expenses that the Company originally implemented in 2014 and to modify its tax method for accounting for certain costs relating to meters and mixed service costs Industry Director Directive No. 5. This change³ allowed the Company to deduct costs for tax purposes that previously were capitalized, thereby reducing current federal income taxes owed to the Internal Revenue Service (IRS).⁴

Since the meters and Industry Director Directive No. 5 basis adjustments were new, the Company determined that the flow-through method of tax accounting would be

³ This change was included with the 2019 federal tax return that was filed in October 2020.

⁴ 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.

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appropriate and requested to utilize the flow-through method of tax accounting in Docket No. UM 2124.

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.

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.

Proposed Accounting

According to the Company received approval from all three states to utilize the flow-through method of accounting, the Company recorded the amounts that had accumulated at that point related to those basis adjustments to FERC Account No. 254393 – Regulatory Liability at the grossed-up amount.

Also, associated deferred taxes FERC Account No. 190393 – ADFIT, and the net of these two accounts equals the amount that had been recorded in FERC Account No. 282900 and have been included as an offset to rate base.

Reasons for Deferral

ORS 757.259(2)(e) allows the deferral of identifiable utility expenses in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne and benefits received by customers.

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, that included Schedule 486 ,Tax Customer Credit, which is passing these benefits back to customers over a period of 10-years.

Estimate of Amounts

For 2025, the company also seeks to defer Schedule 488, which the Commission approved, passing back additional benefits of \$5 million to customers over a period of three years.⁵ Furthermore, additional amounts deferred will be addressed in a future general rate case.

⁵ See, UG 519.

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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 approved for amortization in the Company's recent general rate case filing, UG 519.

Staff also note that the accounting treatment previously approved in Order No. 25-176 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 conclude 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 has stated no objection.

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PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization of deferred accounting effective for the 12-month period beginning October 30, 2025, 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.

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