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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AN ACCOUNTING ORDER AUTHORIZING ACCOUNITNG TREATMENT OF COSTS RELATED TO ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION.	**CASE NO. AVU-E-19-02/ AVU-G-19-01** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Avista Corporation's Application.

BACKGROUND

On February 1, 2019, Avista Corporation ("Avista" or "Company") filed an Application seeking authorization of accounting and ratemaking treatment related to its Allowance for Funds Used During Construction ("AFUDC").

Avista is a utility that provides service to approximately 387,000 electric customers in eastern Washington and northern Idaho and 354,000 natural gas customers in Oregon, Washington, and Idaho.

In December 2017, The Federal Energy Regulatory Commission ("FERC") notified Avista that they would be auditing the Company's compliance with Form 1 and 3-Q, and accounting requirements of the Uniform System of Accounts under CFR part 101. During the course of the audit, FERC staff made recommendations regarding the recording of AFUDC and the tax treatment of the equity component of AFUDC. Neither of the recommended changes will result in changes to Avista's overall rate base. Application at 2.

In Compliance with FERC staff recommendations, the Company requests authorization to defer the AFUDC difference calculated between using the State AFUDC rate and the Federal Energy Regulatory Commission's AFUDC rate, beginning January 1, 2018, as a regulatory asset and amortize this regulatory asset over the composite remaining life of the plant-in-service.

The Company also requests authorization for deferred accounting treatment related to the decrease in deferred federal income taxes that will result from the accounting change for the equity portion of the AFUDC.

STAFF REVIEW

Staff reviewed Avista's Application requesting Commission approval of the AFUDC treatment. The two requests are consistent with FERC staff recommendations given during the on-going FERC audit. Neither of the recommended changes will result in changes to Avista's overall rate base and will have no impact on ratepayers.

AFUDC

AFUDC represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period. AFUDC is capitalized as part of the cost of the utility plant, and is included in rate base. The Company recovers the investment in utility plant, along with the capitalized AFUDC, through depreciation expense over the expected life of the plant.

During the FERC audit, FERC staff recommended that the Company use the authorized FERC rate (currently 6.12%) to calculate AFUDC on transmission projects under FERC's jurisdiction. The FERC rate is calculated based on guidance in the Uniform System of Accounts under CFR part 101. Avista has been calculating AFUDC based on the most recent Weighted Average Cost of Capital ("WACC") approved by the Washington Utilities and Transportation Commission ("WUTC"), currently 7.5%[1]. FERC staff has indicated that if the FERC rate is different than the state approved rate, the capitalized AFUDC should be split between utility

[1] The WACC approved by the WUTC in the most recent general rate case (Docket Nos. UE-170485 and UG-170486) was 7.5%. In Order No. 33953, the Idaho Public Utilities Commission approved a settlement stipulation authorizing a WACC of 7.61%. For consistency among jurisdictions, the Company uses the Washington approved WACC as the AFUDC rate for both Idaho and Washington.

plant and a regulatory asset. The amount included in the regulatory asset would be the difference between the AFUDC calculated using the rate approved by the WUTC (7.5%) and the AFUDC calculated using the FERC rate (6.12%). The regulatory asset would be amortized over the composite remaining life of the assets. This approach insures that customer rates will not increase and there would be no change in rate base due to the different AFUDC rates.

Tax Treatment of AFUDC

With the recommended changes to AFUDC, the Company also has to make adjustments to the tax treatment of AFUDC. The Internal Revenue Service guidance and Statement of Financial Accounting Standards No. 109 do not allow equity interest to be capitalized for tax purposes. Equity AFUDC increases the book basis of assets. It originates as book income and reverses as an expense through book depreciation. It has no impact on taxable income because the income created by equity AFUDC is not taxable and the book depreciation attributable to equity AFUDC is not deductible for income tax purposes. Equity AFUDC is a temporary book-tax difference because it has no impact on either book income or taxable income. For income tax purposes, the temporary book-tax difference for equity AFUDC generates a deferred income tax liability upon origination, with a corresponding debit to a regulatory asset. As the temporary book-tax difference reverses over the book life of the asset, the income tax accounting entry debits the deferred income tax liability and credits the regulatory asset until the deferred income tax liability is brought down to zero.

Deferred income taxes are included in revenue requirement under income tax normalization. Under flow-through accounting, the deferred income taxes generated by equity AFUDC never impact revenue requirement because there is no corresponding tax payable or receivable. The Company's current rates include recovery of the deferred income tax expense computed using normalization, which is approximately $1.34 million in 2018. The Company proposes to record the deferred income tax expense associated with the equity AFUDC in 2018, and each year thereafter, as a regulatory liability until such time that the flow-through method is embedded in base rates. Staff will work with the Company to determine when and how the deferral will be returned to customers.

STAFF RECOMMENDATION

Staff recommends that the Commission:

(1) Approve the Application and allow the Company to make entries and adjustments to defer the difference between AFUDC calculated using the FERC rate and AFUDC calculated using the WACC approved by the WUTC as a regulatory asset, effective January 1, 2018, for transmission assets under FERC jurisdiction as recommended in the FERC audit.

(2) Approve the deferral accounting treatment establishing a regulatory liability related to switching from the normalization method to the flow-through method for equity AFUDC, effective January 1, 2018, with the balance being returned to customers at a later date.

Respectfully submitted this 5th day of April 2019.

Ed Jewell

Edward Jewell
Deputy Attorney General

Technical Staff: Travis Culbertson
Donn English

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 5th DAY OF APRIL 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NOS. AVU-E-19-02/AVU-G-19-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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