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IDAHO PUBLIC
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION, D/B/A AVISTA UTILITIES FOR AN ACCOUNTING ORDER AUTHORIZING ACCOUNTING AND RATEMAKING TREATMENT OF AFUDC (ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION)	)	**CASE NOS. AVU-E-19-15 AVU-G-19-09** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Commission Staff ("Staff") of the Idaho Public Utilities Commission, by and through its attorney of record, John R. Hammond Jr., Deputy Attorney General, and in response to the Notice of Application and Modified Procedure issued in Order No. 34541 on February 4, 2020, in Case No. AVU-E-19-15/AVU-G-15-09, submits the following comments.

BACKGROUND

On December 31, 2019, Avista Corporation ("Avista" or "Company") filed an Application requesting that the Commission issue its Order authorizing the accounting and ratemaking treatment related to a portion of its calculated Allowance for Funds Used During Construction ("AFUDC") for January 1, 2010, through December 31, 2017.

On February 1, 2019, the Company filed a similar Application requesting the same ratemaking treatment for AFUDC beginning in 2018 going forward. On May 2, 2019, the Commission approved Avista's request to defer the difference between the state AFUDC rate and the Federal Energy Regulatory Commission ("FERC") AFUDC rate as a regulatory asset to be amortized over the composite remaining life of the plant-in-service beginning January 5, 2018 and continuing forward. *See* Order No. 34326 at 2. The Commission also authorized Avista to use deferred accounting for the decrease in deferred federal income taxes ("DFIT") that would result from the accounting change for the equity portion of the AFUDC. *Id.* Through the present Application, the Company asks the Commission to authorize the same treatment for AFUDC for the period of January 1, 2010, through December 31, 2017.

Avista is a utility that serves about 387,000 electric customers and 251,000 natural gas customers in eastern Washington and northern Idaho. *Application* at 1.

Avista requests Commission authorization "to 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 would be included in rate base, and amortize this regulatory asset over the composite remaining life of the plant-in-service" for January 1, 2010, through December 31, 2017. *Id.* at 2.

Avista makes its request based upon recommendations from FERC. *Id.* at 3.

Avista represents the proposed treatment would not impact overall rate base or present customers' rates for electric or natural gas service. *Id.* at 2.

STAFF ANALYSIS

Staff reviewed the Company's Application and the final FERC audit report dated September 19, 2019. Based on its review, Staff recommends approval of the Company's request to defer the difference between the State AFUDC rate and the FERC AFUDC rate as a regulatory asset. This recommendation is consistent with the accounting treatment approved in Order No. 34326 and FERC staff recommendations as discussed in further detail below.

<u>AFUDC</u>

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 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 AFUDC 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 7.50%.[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 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 ensures that customer rates will not increase and there would be no change in rate base due to the different AFUDC rates.

STAFF RECOMMENDATION

Based upon its review of the Company's Application and the FERC final audit report, Staff recommends the Commission approve the Company's proposed accounting treatment for AFUDC. The proposed accounting treatment will not result in any changes to customer rates.

Respectfully submitted this 25th day of February 2020.

John R. Hammond Jr.
Deputy Attorney General

Technical Staff: Travis Culbertson
Bentley Erdwurm

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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.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 25TH DAY OF FEBRUARY 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NOS. AVU-E-19-15/AVU-G-19-09, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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