

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

AVISTA CORPORATION'S APPLICATION)	CASE NOS. AVU-E-20-12
FOR AN ACCOUNTING ORDER FOR)	AVU-G-20-07
APPROVAL TO CHANGE ITS)	
ACCOUNTING FOR FEDERAL INCOME)	
TAX EXPENSE FOR CERTAIN PLANT)	ORDER NO. 34906
BASIS ADJUSTMENTS AND DEFERRAL OF)	
ASSOCIATED CHANGE IN TAX EXPENSE)	

On October 30, 2020, Avista Corporation ("Company") applied to: (1) change its accounting for federal income tax expense from a normalization method to a flow-through method for certain plant basis adjustments, and (2) defer associated change in tax expense. *Application* at 1.

On December 10, 2020, the Commission issued a Notice of Application and Notice of Modified Procedure establishing comment deadlines for the Commission Staff ("Staff") and interested persons and a Company reply deadline. *See* Order No. 34868. Staff filed the only comments and supported the Company's Application. The Company did not reply.

Having reviewed the record, the Commission issues this Order approving the Company's Application.

THE APPLICATION

The Company represents it currently uses the normalization method to calculate federal income taxes for most plant-related temporary book-to-tax differences. *Id.* The Company requests authorization to use the flow-through method to calculate certain plant basis adjustments, including Industry Director Directive No. 5 ("IDD #5") mixed service costs and meters. *Application* at 1. The Company asserts this proposed change would provide immediate benefit to customers. *Id.* The Company proposes to defer those benefits and to start providing them to customers in its next general rate case. *Id.*

STAFF COMMENTS

Staff recommended that the Commission approve the Company's Application, authorizing the Company to change its accounting method for federal income tax expense to a flow-through method for certain plant basis adjustments, including IDD #5 mixed service costs and meters. *Staff Comments* at 2. For tax purposes, the changes in accounting treatment would reclassify certain previous capital expenditures as expenses under Internal Revenue Code ("IRC")

§ 481(a) adjustments.¹ *Id.* Furthermore, Staff believed that using the flow-through method on certain plant basis adjustments would immediately benefit customers. *Id.*

Staff observed that the tax normalization accounting method is used by regulated public utilities to reconcile the tax treatment of accelerated depreciation of assets with their regulatory treatment. *Id.* The different treatment between tax accounting and regulatory accounting creates deferred income taxes. *Id.* Staff stated that under normalization, a utility receives the tax benefit of accelerated depreciation in the early years of an asset's regulatory useful life, and then passes that benefit to ratepayers over the asset's remaining regulatory useful life by using the associated Accumulated Deferred Federal Income Tax ("ADFIT") to offset rate base, lowering customer rates. *Id.*

The flow-through tax accounting method treats the utility's actual current federal income tax liability as the utility's tax expense when determining the utility's rates. *Id.* The accelerated depreciation is immediately deductible and reduces the utility's rates by decreasing the utility's current income tax expense. *Id.* Consequently, the ADFIT reserves that flow through are excluded from the rate base calculation because the tax benefit was already provided to customers. *Id.*

The IDD #5 mixed service costs and meters have been capitalized and, under IRC § 263(a), are protected assets and subject to tax normalization accounting requirements. These requirements rarely allow accelerated depreciation tax benefits to flow through to ratepayers. *Id.* But under Treasury Regulation 26 C.F.R. § 1.263A-1(f)(4), a utility may use any reasonable method to allocate costs among units of property produced or property acquired for resale during the taxable year. On this basis, the IRS allows the flow-through accounting method, which the Company proposes to use for IDD #5 mixed service costs and meters. *Id.* at 3.

Regarding customers comments, the Commission set a December 31, 2020 comment deadline. Order No. 34868. No customer comments were filed.

COMMISSION FINDINGS AND DECISION

The Company is a gas corporation and electric corporation as defined in *Idaho Code* §§ 61-117 and 61-119, and a public utility as defined in *Idaho Code* § 61-129. The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-502, 61- 503 and 61-524. Based upon our review of the Company's Application and Staff Comments, we find it is fair, just, and

¹ When a taxpayer changes its accounting method, IRC § 481(a) adjustments are required to be made to prevent items from being duplicated or omitted.

reasonable to grant the Company's Application. The Company presently uses the normalization method to calculate federal income taxes for most of its plant-related temporary book-to-tax differences. Allowing the Company to use the flow-through method to calculate federal income tax for certain plant basis adjustments, including IDD #5 mixed service costs and meters, provides immediate benefits to customers by reducing current tax expense in the Company's 2021 general rate case filing. Under the current circumstances, we find that returning the deferred tax balances associated with IDD #5 mixed service costs and meters to customers sooner, rather than using those balances to offset plant in service in the future, is fair and in the public interest. The Commission acknowledges that all of the jurisdictions within which the Company does business must also approve these tax accounting changes before they can be implemented. Nevertheless, we look forward to seeing these benefits realized for Idaho customers.


ORDER

IT IS HEREBY ORDERED that the Company's Application is granted. The Company may use the flow-through method to calculate federal income tax for IDD #5 mixed service costs and meters.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order about any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 1st day of February 2021.



PAUL KJELLANDER, PRESIDENT

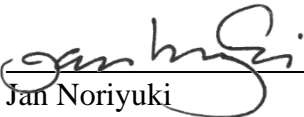


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Jan Noriyuki
Commission Secretary

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