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IDAHO PUBLIC
UTILITIES COMMISSION

July 6, 2021

AVU-E-21-06/AVU-G-21-05

Diane Hanian, Commission Secretary
Idaho Public Utilities Commission
P O Box 83720
Boise, ID 83720-0074

RE: Application of Avista Corporation for an Accounting Order Authorizing Accounting Treatment of Costs Related to AFUDC (Allowance for Funds Used During Construction).

Dear Ms. Hanian:

Enclosed is an original and seven (7) copies of Avista's Application for an Accounting Order Authorizing Accounting Treatment of Costs Related to AFUDC (Allowance for Funds Used During Construction).

Please direct any questions on this matter to Elizabeth Andrews at (509) 495-8601 or myself at (509) 495-8620.

Sincerely,

Patrick Ehrbar
Director of Regulatory Affairs
Avista Utilities
pat.ehrbar@avistacorp.com
509-495-8620

Enclosures

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
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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 NO. AVU-E-21-06 CASE NO. AVU-G-21-05

APPLICATION OF AVISTA CORPORATION

I. INTRODUCTION

Avista Corporation, doing business as Avista Utilities (hereinafter "Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, pursuant to Section 61-524 Idaho Code and Rule 52 of the Idaho Public Utilities Commission ("Commission Rules of Procedure"), hereby applies to the Commission for an order authorizing the accounting and ratemaking treatment detailed in this Application related to the deferred portion of its calculated Allowance for Funds Used During Construction ("AFUDC").

The Company filed an accounting application related to AFUDC on February 1, 2019, which the Commission approved on May 2, 2019 (Order No. 34326 in Docket Nos. AVU-E-19-02 and AVU-G-19-01).[1] In that application, the Company requested approval to defer costs related to AFUDC, for the difference calculated between using the State AFUDC rate and the FERC AFUDC rate as a regulatory asset (i.e. FERC Account No. 182.3). In that filing, the Company had requested Commission approval to amortize this regulatory asset over the composite remaining life of the plant-in-service. This application seeks approval to amortize the regulatory asset using the approved depreciation rate by plant FERC account that has been approved by the Commission in the most recent depreciation study and to be able to update the amortization rate with each depreciation study going forward.

Avista is a utility that provides service to approximately 387,000 electric customers and 251,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 103,000 natural gas customers in

[1] Avista submitted a second Application to comply with a recommendation that FERC made in its final audit report dated September 19, 2019. FERC had recommended that Avista reclassify a portion of AFUDC recorded from January 1, 2010 going forward from plant rate base (FERC Account No. 101 – Plant-in-service) to a regulatory asset rate base (FERC Account No. 182.3 - Regulatory Asset (AFUDC)). The Commission approved this second application on April 7, 2020 with Order No. 34621.

Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its main office.

Pursuant to Commission Rule of Procedure 201, the Company requests that this filing be processed under the Commission's rules for Modified Procedure.

Communications in reference to this Application should be addressed to:

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Vice President and Chief Counsel for
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II. BACKGROUND

The Federal Energy Regulatory Commission (FERC) notified Avista in December 2017 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 (which was completed in September 2019), FERC staff made recommendations regarding the recording of AFUDC. Based on those discussions, the Company implemented revised accounting in 2018 for AFUDC. The Commission approved the revised accounting on May 2, 2019 (Order No. 34326). The order stated the following:

> "We have reviewed the Application and the comments of Commission Staff. Based on our review, we find it reasonable to approve the Application. There will be no impact on the Company's overall rate base, and the move will align the Company's practices with FERC procedures."

III. EXPLANATION OF CHANGE REQUESTED

AFUDC represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period. As prescribed by regulatory authorities, AFUDC is capitalized, during construction, as part of the cost of utility plant. The Company is permitted, under established regulatory practices, to recover the capitalized AFUDC through its inclusion in rate base and the provision for depreciation after the related utility plant is placed in service. Avista capitalizes AFUDC in Washington, Idaho and Oregon on a monthly basis using the Washington Utilities and Transportation Commission (WUTC) approved Rate of Return (ROR) from the most recent general rate case.[2]

On the other hand, the AFUDC FERC rate is calculated based on guidance in the Uniform System of Accounts under CFR part 101. FERC has indicated that if the FERC AFUDC rate is different than the state approved rate, the AFUDC capitalized should be split between utility plant (FERC Account No. 101) and regulatory asset (FERC Account No. 182.3). The amount capitalized as utility plant would be based on the FERC AFUDC rate. The amount included as a regulatory asset would be the difference between the State AFUDC rate and the FERC AFUDC rate.

For the AFUDC capitalized to plant-in-service, the depreciation rate is determined by a depreciation study at the individual plant account level that is performed periodically. Avista's last depreciation study was approved March 19 2019 with Order 34276 (Docket Nos. AVU-E-18-03 and AVU-G-18-02). When Avista filed the original accounting application to defer a portion of the AFUDC, Avista asked and was approved to use a

[2] The use of Avista's ROR authorized by the Washington Commission, its major jurisdiction, as the AFUDC rate has been consistently used in Idaho since the 1980's.

composite rate of depreciation expense for all plant-in-service to amortize the deferred costs. This was because Avista did not know the capabilities of its software that would track the deferred AFUDC costs. Avista is currently working with its software vendor to automate the deferral, tracking and amortization of the deferred AFUDC costs. The software has the capability to amortize the regulatory asset in the same manner as the other AFUDC capitalized to plant-in-service. Avista believes this is a better method of amortization and therefore, requests approval from this Commission to use that method. In 2020 Avista had amortization expense of approximately $400,000 for Idaho electric service and $45,000 for Idaho natural gas service using the current approved method of using the composite remaining life method of amortization. The annual amortization will not materially change using the proposed method for calculating amortization.

IV. OTHER CONSIDERATIONS

Avista has obtained approval from the Washington Utilities and Transportation Commission and will request approval from the Public Utilities Commission of Oregon for using this method of amortization of the deferred AFUDC costs. It is critical that the Company maintain uniform utility accounts and AFUDC methodology for common plant that are consistent among the Company's regulatory jurisdictions. In the event different AFUDC methods were to be ordered for common plant, it would result in multiple sets of depreciation accounts and records that would need to be adjusted annually for changes in allocation factors, which would impose a costly administrative burden on the Company and unnecessary expense for the Company's ratepayers.

V. REQUEST FOR RELIEF

WHEREFORE, Avista respectfully requests that the Commission issue an Order approving the requested deferred accounting and ratemaking treatment, as follows:

> For the AFUDC that the Company was authorized to defer (which was 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), Avista is authorized to amortize this regulatory asset over the same life for each plant FERC account as the plant-in-service, as described in this Application. The life and rate will be determined by a depreciation study that is performed periodically and approved by this Commission.

The Company requests that the matter be processed under the Commission's Modified Procedure rules through the use of written comments.

DATED at Spokane, Washington, this 6th day of July 2021.

AVISTA CORPORATION

By ______________________

Patrick Ehrbar
Director of Regulatory Affairs
Avista Corp

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

Patrick Ehrbar, being duly sworn, on oath deposes and says:

That he is the Director of Regulatory Affairs of Avista Corporation;

That he has read the foregoing Application, knows the contents thereof, and believes the same to be true.

Patrick Ehrbar

Subscribed and sworn to before me this 6th day of July 2021.

Notary Public in and for the State
Washington, residing in Spokane

PATTY L HANSON
COMMISSION EXPIRES
NOTARY
PUBLIC
11-23-21
STATE OF WASHINGTON

Application of Avista Corporation
Case No. AVU-E-21-___ & AVU-G-21-___