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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA'S APPLICATION FOR AN ACCOUNTING ORDER AUTHORIZING ACCOUNTING AND RATEMAKING TREATMENT OF COSTS RELATED TO ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	**CASE NO. AVU-E-21-06/ AVU-G-21-05** **COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

On July 6, 2021, Avista Corporation dba Avista Utilities ("Company") applied to the Commission for authorization of accounting and ratemaking treatment related to Allowance for Funds Used During Construction ("AFUDC").

The Company seeks authority to amortize the regulatory asset[1] using the approved depreciation rate by Federal Energy Regulatory Commission ("FERC") plant account 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.

[1] The Company was authorized to defer the difference calculated between the state regulatory AFUDC rate and the FERC AFUDC rate and amortize the balance over the composite remaining life of the plant-in-service in Case Nos. AVU-E-19-02 and AVU-G-19-01. *See* Order No. 34326.

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.[2]

The Company has received approval from the Washington Utilities and Transportation Commission ("WUTC") and will request approval from the Oregon Public Utility Commission of ("OPUC") to use the same method of amortization of the deferred AFUDC costs it seeks approval to use in Idaho.[3]

STAFF ANALYSIS

Staff reviewed the Company's Application requesting Commission approval of the accounting and ratemaking treatment related to AFUDC. Based on its review, Staff recommends approval of the Company's request to use the Commission approved depreciation rates by FERC account. The proposed accounting treatment will result in immaterial changes to the Company'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 a recent FERC audit, FERC staff recommended that the Company use the authorized FERC rate 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. The Company has been calculating AFUDC based on the most recent Weighted Average Cost of Capital ("WACC") approved by the WUTC. 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 and the AFUDC calculated using the FERC rate. After issuance of Order No. 34326, the Company

[2] The Company's last depreciation study was approved March 19, 2019, in Case Nos. AVU-E-18-03 and AVU-G-18-02. *See* Order No. 34276.
[3] The Company states it is critical to maintain uniform utility accounts and AFUDC methods for common plant among the Company's regulatory jurisdictions.

booked a portion of AFUDC to the regulatory asset and began amortizing the regulatory asset using the composite remaining life of the plant-in-service. This approach ensured customer rates will not increase and rate base will not change because the different AFUDC rates.

When the Company filed the original accounting application to defer a portion of the AFUDC in Case Nos. AVU-E-19-02 and AVU-G-19-01, the Commission approved the Company's request to amortize the AFUDC regulatory asset using a composite rate of depreciation expense for all plant-in-service. At that time, the Company did not know the capabilities of its software that would eventually track the deferred AFUDC costs. The Company is working with its software vendor to automate the deferral, tracking, and amortization of the deferred AFUDC costs. The Company states that the software has the capability to amortize the regulatory asset in the same manner as the other AFUDC capitalized to plant-in-service. Hence, the Company requests to update the amortization rates with the most recent depreciation rates approved by the Commission in the last depreciation study.

The Company's proposed accounting treatment has already been approved by the WUTC and the Company will soon make a similar request with the OPUC. By maintaining uniform utility accounts and AFUDC methods for common plant consistent among the Company's regulatory jurisdictions, the Company will not need to keep multiple sets of depreciation accounts and records that would have to be adjusted annually for changes in allocation factors. Approval of the Company's recommended accounting treatment eliminates a costly administrative burden on the Company and unnecessary expense for customers.

STAFF RECOMMENDATION

Staff recommends the Commission approve the Company's proposed accounting treatment to amortize the AFUDC regulatory asset over the depreciation life for each FERC plant account using the Company's current depreciation rates as approved in Order No. 34276. Staff also recommends the amortization rate be updated periodically as the Company receives approval of new depreciation rates.

Respectfully submitted this 12th day of August 2021.

Dayn Hardie
Deputy Attorney General

Technical Staff: Travis Culbertson

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 12th DAY OF AUGUT 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NOS. AVU-E-21-06/AVU-G-21-05, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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