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IDAHO PUBLIC
UTILITIES COMMISSION

December 30, 2019

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,

A handwritten signature in black ink, appearing to read "Patrick Ehrbar", is written over the word "Sincerely,". The signature is fluid and cursive, extending to the right with a long horizontal stroke.

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
REGULATORY AND GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
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TELEPHONE: (509) 495-4316
david.meyer@avistacorp.com

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) CASE NO. AVU-E-19-15
RATEMAKING TREATMENT OF AFUDC) CASE NO. AVU-G-19-09
(ALLOWANCE FOR FUNDS USED DURING)
CONSTRUCTION)

APPLICATION OF AVISTA CORPORATION

1 **I. INTRODUCTION**

2 Avista Corporation, doing business as Avista Utilities (hereinafter “Avista” or
3 “Company”), at 1411 East Mission Avenue, Spokane, Washington, pursuant to Section 61-
4 524 Idaho Code and Rule 52 of the Idaho Public Utilities Commission (“Commission Rules
5 of Procedure”), hereby applies to the Commission for an order authorizing the accounting and
6 ratemaking treatment detailed in this Application related to a portion of its calculated
7 Allowance for Funds Used During Construction (“AFUDC”).

8 The Company filed an accounting application related to AFUDC on February 1, 2019,
9 which the Commission approved on May 2, 2019 (Order No. 34326 in Docket Nos. AVU-E-
10 19-02 and AVU-G-19-01). In that application, the Company requested approval to defer
11 costs related to AFUDC, for both the difference calculated between using the State AFUDC
12 rate and the FERC AFUDC rate as a regulatory asset (i.e. FERC Account No. 182.3) and for
13 federal income taxes associated with AFUDC. In that filing, the Company had only
14 requested to defer the difference between the State and FERC AFUDC rate for 2018 and
15 going forward. This application seeks approval to reclassify a portion of AFUDC calculated
16 beginning in 2010 and through 2017, based on recommendations of FERC.

17 Avista is a utility that provides service to approximately 387,000 electric customers
18 and 251,000 natural gas customers in a 26,000 square-mile area in eastern Washington and
19 northern Idaho. Avista Utilities also serves approximately 103,000 natural gas customers in
20 Oregon. The largest community served by Avista is Spokane, Washington, which is the
21 location of its main office.

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

1 Communications in reference to this Application should be addressed to:

2 David J. Meyer, Esq.
3 Vice President and Chief Counsel for
4 Regulatory & Governmental Affairs
5 P. O. Box 3727
6 1411 E. Mission Avenue, MSC 13
7 Spokane, Washington 99220-3727
8 Telephone: (509) 495-4316
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11 12 13 **II. SUMMARY OF APPLICATION**

14 Avista requests Commission approval to defer a portion of the costs related to
15 AFUDC, as follows:

16 For the period January 1, 2010 through December 31, 2017, authorize the Company to
17 defer the AFUDC difference calculated between using the State AFUDC rate and the
18 FERC AFUDC rate as a regulatory asset (i.e. FERC Account No. 182.3), which would be
19 included in rate base, and amortize this regulatory asset over the composite remaining life
20 of the plant-in-service, as described in this Application. This proposed treatment would
21 result in no impact to overall rate base, nor impact present customers' rates.

22 23 **III. BACKGROUND**

24 The Federal Energy Regulatory Commission (FERC) notified Avista in December
25 2017 that they would be auditing the Company's compliance with Form 1 and 3-Q, and
26 accounting requirements of the Uniform System of Accounts under CFR part 101. During
27 the course of the audit (which was completed in September 2019), FERC staff made
28 recommendations regarding the recording of AFUDC and the tax treatment of the equity

1 component of AFUDC. Based on those discussions, the Company implemented revised
2 accounting in 2018 for AFUDC. The Commission approved the revised accounting on
3 May 2, 2019 (Order No. 34326). The order stated the following:

4 “We have reviewed the Application and the comments of Commission
5 Staff. Based on our review, we find it reasonable to approve the
6 Application. There will be no impact on the Company’s overall rate
7 base, and the move will align the Company’s practices with FERC
8 procedures.”
9

10 In the Company’s original filing, the Company stated that as Avista was still under
11 audit by FERC, no adjustments had been agreed upon or made for years prior to 2018 for
12 either item identified by FERC.

13 Avista submits this second Application to comply with a recommendation that
14 FERC made in its final audit report dated September 19, 2019, included as Exhibit 1.
15 FERC has recommended that Avista reclassify a portion of AFUDC recorded from January
16 1, 2010 going forward from plant rate base (FERC Account No. 101 – Plant in Service) to a
17 regulatory asset rate base (FERC Account No. 182.3 - Regulatory Asset (AFUDC)).
18

19 **IV. EXPLANATION OF DEFERRAL AND PROPOSED ACCOUNTING**
20 **TREATMENT**
21

22 AFUDC represents the cost of both the debt and equity funds used to finance utility
23 plant additions during the construction period. As prescribed by regulatory authorities,
24 AFUDC is capitalized, during construction, as part of the cost of utility plant. The
25 offsetting entries are recorded in the income statement as follows: a) the debt component
26 of AFUDC is credited to FERC Account No. 432 - Allowance for Borrowed Funds Used
27 During Construction and b) the equity component of AFUDC is credited to FERC Account
28 No. 419.1 - Allowance for Other Funds Used During Construction. The Company is

1 permitted, under established regulatory practices, to recover the capitalized AFUDC
2 through its inclusion in rate base and the provision for depreciation after the related utility
3 plant is placed in service. Avista capitalizes AFUDC in Washington, Idaho and Oregon on
4 a monthly basis using the Washington Utilities and Transportation Commission (WUTC)
5 approved Rate of Return (ROR) from the most recent general rate case.¹ The most recent
6 approved ROR (7.50%) was from the 2017 general rate case (Docket Nos. UE-170485 and
7 UG-170486) effective May 1, 2018.

8 On the other hand, the AFUDC FERC rate (6.12% for 2018) is calculated based on
9 guidance in the Uniform System of Accounts under CFR part 101. FERC has indicated
10 that if the FERC AFUDC rate is different than the state approved rate, the AFUDC
11 capitalized should be split between utility plant and regulatory asset. The amount
12 capitalized in utility plant would be based on the FERC AFUDC rate. The amount
13 included in the regulatory asset would be the difference between the State AFUDC rate
14 (currently 7.50%) and the FERC AFUDC rate (6.12% for 2018).

15 Using the proposed accounting described above, the Company's level of rate base
16 and depreciation/amortization expense does not change. Based on the recommendations by
17 FERC in the Audit Report, Exhibit 1, at page 26, the Company has recalculated the
18 AFUDC amounts from January 1, 2010 through December 31, 2017 to determine the
19 amount of excess AFUDC that had been capitalized using the state AFUDC rate over as
20 compared to the FERC rate. On a system basis, this amount is approximately \$37.7
21 million. After adjusting for accumulated depreciation, the Company would transfer
22 approximately \$32.8 million from plant rate base (FERC Account No. 101 – Plant in

¹ 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.

1 Service) to a regulatory asset rate base (FERC Account No. 182.3 - Regulatory Asset
2 (AFUDC)).²

3
4 **V. REQUEST FOR RELIEF**

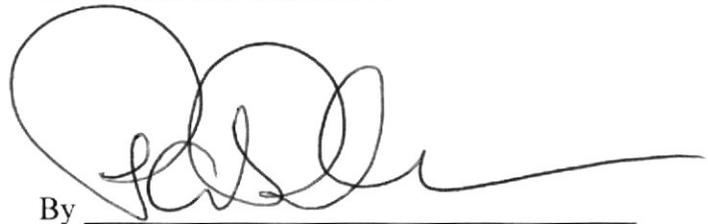
5 WHEREFORE, Avista respectfully requests that the Commission issue an Order
6 approving the requested deferred accounting and ratemaking treatment, as follows:

7 For the period January 1, 2010 through December 31, 2017, authorize the Company to
8 defer the AFUDC difference calculated between using the state AFUDC rate and the
9 FERC AFUDC rate as a regulatory asset (i.e. FERC Account No. 182.3), which would be
10 included in rate base, and amortize this regulatory asset over the composite remaining life
11 of the plant-in-service, as described in this Application.

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

14 DATED at Spokane, Washington, this 30th day of December 2019.

15
16 AVISTA CORPORATION

17
18
19 By 

20 Patrick Ehrbar
21 Director of Regulatory Affairs
22 Avista Corp

² Idaho electric share is approximately \$8.5 million and Idaho natural gas share is approximately \$0.8 million

