

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-20 \_\_\_\_\_

DOCKET NO. UG-20 \_\_\_\_\_

EXH. RLK-4

RYAN L. KRASSELT

REPRESENTING AVISTA CORPORATION

**AVISTA CORP.**

Form 3115, Application for Change of Accounting Method

**METERS**

Change in method of accounting for non-incidentals materials and supplies under Treas. Reg. § 1.162-3(a) effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43.

# Application for Change in Accounting Method

Go to [www.irs.gov/Form3115](http://www.irs.gov/Form3115) for instructions and the latest information.

Name of filer (name of parent corporation if a consolidated group) (see instructions) <b>AVISTA CORPORATION</b>	Identification number (see instructions) <b>91-0462470</b>
Number, street, and room or suite no. If a P.O. box, see the instructions. <b>1411 EAST MISSION AVENUE</b>	Principal business activity code number (see instructions) <b>221100</b>
City or town, state, and ZIP code <b>SPOKANE, WA 99202</b>	Tax year of change begins (MM/DD/YYYY) <b>1/1/2019</b> Tax year of change ends (MM/DD/YYYY) <b>12/31/2019</b>
Name of applicant(s) (if different than filer) and identification number(s) (see instructions) <b>N/A</b>	Name of contact person (see instructions) <b>JANE ROHRS</b>
	Contact person's telephone number <b>(202) 370-2290</b>

If the applicant is a member of a consolidated group, check this box

If Form 2848, Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box

**Check the box to indicate the type of applicant.**

<input type="checkbox"/> Individual	<input type="checkbox"/> Cooperative (Sec. 1381)
<input checked="" type="checkbox"/> Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> Controlled foreign corporation (Sec. 957)	<input type="checkbox"/> S corporation
<input type="checkbox"/> 10/50 corporation (Sec. 904(d)(2)(E))	<input type="checkbox"/> Insurance co. (Sec. 816(a))
<input type="checkbox"/> Qualified personal service corporation (Sec. 448(d)(2))	<input type="checkbox"/> Insurance co. (Sec. 831)
<input type="checkbox"/> Exempt organization. Enter Code section ▶	<input type="checkbox"/> Other (specify) ▶

**Check the appropriate box to indicate the type of accounting method change being requested.**

See instructions.

Depreciation or Amortization

Financial Products and/or Financial Activities of Financial Institutions

Other (specify) ▶ **NON-INCIDENTAL MATERIALS AND SUPPLIES**

**Caution:** To be eligible for approval of the requested change in method of accounting, the taxpayer must provide all information that is relevant to the taxpayer or to the taxpayer's requested change in method of accounting. This includes (1) all relevant information requested on this Form 3115 (including its instructions), and (2) any other relevant information, even if not specifically requested on Form 3115.

The taxpayer must attach all applicable statements requested throughout this form.

Part I Information For Automatic Change Request	Yes	No
<p><b>1</b> Enter the applicable designated automatic accounting method change number ("DCN") for the requested automatic change. Enter only one DCN, except as provided for in guidance published by the IRS. If the requested change has no DCN, check "Other," and provide both a description of the change and a citation of the IRS guidance providing the automatic change. See instructions.</p> <p><b>a</b> (1) DCN: <u>186</u> (2) DCN: _____ (3) DCN: _____ (4) DCN: _____ (5) DCN: _____ (6) DCN: _____</p> <p>(7) DCN: _____ (8) DCN: _____ (9) DCN: _____ (10) DCN: _____ (11) DCN: _____ (12) DCN: _____</p> <p><b>b</b> Other <input type="checkbox"/> Description ▶ _____</p>		
<p><b>2</b> Do any of the eligibility rules restrict the applicant from filing the requested change using the automatic change procedures (see instructions)? If "Yes," attach an explanation.</p>		<b>X</b>
<p><b>3</b> Has the filer provided all the information and statements required (a) on this form and (b) by the List of Automatic Changes under which the applicant is requesting a change? See instructions.</p> <p><b>Note:</b> Complete Part II and Part IV of this form, and, Schedules A through E, if applicable.</p>	<b>X</b>	

Part II Information For All Requests	Yes	No
<p><b>4</b> During the tax year of change, did or will the applicant (a) cease to engage in the trade or business to which the requested change relates, or (b) terminate its existence? See instructions.</p>		<b>X</b>
<p><b>5</b> Is the applicant requesting to change to the principal method in the tax year of change under Regulations section 1.381(c)(4)-1(d)(1) or 1.381(c)(5)-1(d)(1)?</p> <p>If "No," go to line 6a.</p> <p>If "Yes," the applicant cannot file a Form 3115 for this change. See instructions.</p>		<b>X</b>

<b>Sign Here</b>	Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, the application contains all the relevant facts relating to the application, and it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.		
	Signature of filer (and spouse, if joint return) <i>Daniel Loutzenhiser</i>	Date 10/1/2020	Name and title (print or type) <b>DANIEL LOUTZENHISER - ASSISTANT TREASURER</b>
<b>Preparer</b> <small>(other than filer/applicant)</small>	Print/Type preparer's name <b>MATTHEW MCKINNEY</b>		Date 10/6/2020
	Firm's name ▶ <b>DELOITTE TAX LLP</b>		Preparer's signature <i>Matthew M. McKinney</i>

<b>Part II Information For All Requests (continued)</b>		Yes	No
<b>6a</b>	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) under examination (see instructions)? If "No," go to line 7a.		X
<b>b</b>	Is the method of accounting the applicant is requesting to change an issue under consideration (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s))? See instructions.	N/A	
<b>c</b>	Enter the name and telephone number of the examining agent and the tax year(s) under examination. Name ▶ _____ Telephone number ▶ _____ Tax year(s) ▶ _____	N/A	
<b>d</b>	Has a copy of this Form 3115 been provided to the examining agent identified on line 6c?	N/A	
<b>7a</b>	Does audit protection apply to the applicant's requested change in the method of accounting? See instructions. If "No," attach an explanation.	X	
<b>b</b>	If "Yes," check the applicable box and attach the required statement. <input checked="" type="checkbox"/> Not under exam <input type="checkbox"/> 3-month window <input type="checkbox"/> 120 day: Date examination ended ▶ ..... <input type="checkbox"/> Method not before director <input checked="" type="checkbox"/> Negative adjustment <input type="checkbox"/> CAP: Date member joined group ▶ ..... <input type="checkbox"/> Audit protection at end of exam <input type="checkbox"/> Other		
<b>8a</b>	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) before Appeals and/or a federal court? If "No," go to line 9.		X
<b>b</b>	Is the method of accounting the applicant is requesting to change an issue under consideration by Appeals and/or a federal court (for either the applicant or any present or former consolidated group in which the applicant was a member for the tax year(s) the applicant was a member)? See instructions. If "Yes," attach an explanation.	N/A	
<b>c</b>	If "Yes," enter the name of the (check the box) <input type="checkbox"/> Appeals officer and/or <input type="checkbox"/> counsel for the government, telephone number, and the tax year(s) before Appeals and/or a federal court. Name ▶ _____ Telephone number ▶ _____ Tax year(s) ▶ _____	N/A	
<b>d</b>	Has a copy of this Form 3115 been provided to the Appeals officer and/or counsel for the government identified on line 8c?	N/A	
<b>9</b>	If the applicant answered "Yes" to line 6a and/or 8a with respect to any present or former consolidated group, attach a statement that provides each parent corporation's (a) name, (b) identification number, (c) address, and (d) tax year(s) during which the applicant was a member that is under examination, before an Appeals office, and/or before a federal court.	N/A	
<b>10</b>	If for federal income tax purposes, the applicant is either an entity (including a limited liability company) treated as a partnership or an S corporation, is it requesting a change from a method of accounting that is an issue under consideration in an examination, before Appeals, or before a federal court, with respect to a federal income tax return of a partner, member, or shareholder of that entity?	N/A	
<b>11a</b>	Has the applicant, its predecessor, or a related party requested or made (under either an automatic or non-automatic change procedure) a change in method of accounting within any of the five tax years ending with the tax year of change? If "No," go to line 12.	X	
<b>b</b>	If "Yes," for each trade or business, attach a description of each requested change in method of accounting (including the tax year of change) and state whether the applicant received consent.	SEE ATTACHMENT	
<b>c</b>	If any application was withdrawn, not perfected, or denied, or if a Consent Agreement granting a change was not signed and returned to the IRS, or the change was not made or not made in the requested year of change, attach an explanation.	N/A	
<b>12</b>	Does the applicant, its predecessor, or a related party currently have pending any request (including any concurrently filed request) for a private letter ruling, change in method of accounting, or technical advice? If "Yes," for each request attach a statement providing (a) the name(s) of the taxpayer, (b) identification number(s), (c) the type of request (private letter ruling, change in method of accounting, or technical advice), and (d) the specific issue(s) in the request(s).		X
<b>13</b>	Is the applicant requesting to change its overall method of accounting? If "Yes," complete Schedule A on page 4 of this form.		X

<b>Part II Information For All Requests (continued)</b>		<b>Yes</b>	<b>No</b>
<b>14</b>	If the applicant is either (i) <b>not</b> changing its overall method of accounting, or (ii) is changing its overall method of accounting <b>and</b> changing to a special method of accounting for one or more items, attach a detailed and complete description for each of the following (see instructions): <b>a</b> The item(s) being changed. <b>b</b> The applicant's present method for the item(s) being changed. <b>c</b> The applicant's proposed method for the item(s) being changed. <b>d</b> The applicant's present overall method of accounting (cash, accrual, or hybrid). <b>SEE ATTACHMENT</b>		
<b>15a</b>	Attach a detailed and complete description of the applicant's trade(s) or business(es). See section 446(d). <b>SEE ATTACHMENT</b>		
<b>b</b>	If the applicant has more than one trade or business, as defined in Regulations section 1.446-1(d), describe (i) whether each trade or business is accounted for separately; (ii) the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; (iii) the overall method of accounting for each trade or business; and (iv) which trade or business is requesting to change its accounting method as part of this application or a separate application. <b>N/A</b> <b>Note:</b> If you are requesting an automatic method change, see the instructions to see if you are required to complete Lines 16a-16c.		
<b>16a</b>	Attach a full explanation of the legal basis supporting the proposed method for the item being changed. Include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and that demonstrates that the applicant is authorized to use the proposed method. <b>N/A</b>		
<b>b</b>	Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method. <b>N/A</b>		
<b>c</b>	Include either a discussion of the contrary authorities or a statement that no contrary authority exists. <b>N/A</b>		
<b>17</b>	Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions . . . . . If "No," attach an explanation. <b>SEE ATTACHMENT</b>		<b>X</b>
<b>18</b>	Does the applicant request a conference with the IRS National Office if the IRS National Office proposes an adverse response? <b>X</b>	<b>X</b>	
<b>19a</b>	If the applicant is changing to either the overall cash method, an overall accrual method, or is changing its method of accounting for any property subject to section 263A, any long-term contract subject to section 460 (see 19b), or inventories subject to section 474, enter the applicant's gross receipts for the 3 tax years preceding the tax year of change. <b>N/A</b> 1st preceding year ended: mo. yr.      2nd preceding year ended: mo. yr.      3rd preceding year ended: mo. yr. \$ _____ \$ _____ \$ _____		
<b>b</b>	If the applicant is changing its method of accounting for any long-term contract subject to section 460, in addition to completing 19a, enter the applicant's gross receipts for the 4th tax year preceding the tax year of change: 4th preceding year ended: mo. yr. \$ _____ <b>N/A</b>		
<b>Part III Information For Non-Automatic Change Request</b>		<b>N/A</b>	
<b>20</b>	Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request? . . . . . If "Yes," attach an explanation describing why the applicant is submitting its request under the non-automatic change procedures.		
<b>21</b>	Attach a copy of all documents related to the proposed change (see instructions).		
<b>22</b>	Attach a statement of the applicant's reasons for the proposed change.		
<b>23</b>	If the applicant is a member of a consolidated group for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed? . . . . . If "No," attach an explanation.		
<b>24a</b>	Enter the amount of <b>user fee</b> attached to this application (see instructions). ▶ \$ _____		
<b>b</b>	If the applicant qualifies for a reduced user fee, attach the required information or certification (see instructions).		

<b>Part IV Section 481(a) Adjustment</b>		Yes	No
<b>25</b>	Does published guidance require the applicant (or permit the applicant and the applicant is electing) to implement the requested change in method of accounting on a cut-off basis? If "Yes," attach an explanation and do not complete lines 26, 27, and 28 below.		X
<b>26</b>	Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. ► \$ <u>-30,930,774</u> Attach a summary of the computation and an explanation of the methodology used to determine the section 481(a) adjustment. If it is based on more than one component, show the computation for each component. If more than one applicant is applying for the method change on the application, attach a list of the (a) name, (b) identification number, and (c) the amount of the section 481(a) adjustment attributable to each applicant. <b>SEE ATTACHMENT</b>		
<b>27</b>	Is the applicant making an election to take the entire amount of the adjustment into account in the tax year of change? If "Yes," check the box for the applicable elective provision used to make the election (see instructions). <input type="checkbox"/> \$50,000 de minimis election <input type="checkbox"/> Eligible acquisition transaction election		X
<b>28</b>	Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a consolidated group, a controlled group, or other related parties? If "Yes," attach an explanation.		X

**Schedule A — Change in Overall Method of Accounting** (If Schedule A applies, Part I below must be completed.) N/A

<b>Part I Change in Overall Method</b> (see instructions)																			
<b>1</b>	Check the appropriate boxes below to indicate the applicant's present and proposed methods of accounting. <b>Present method:</b> <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Hybrid (attach description) <b>Proposed method:</b> <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Hybrid (attach description)																		
<b>2</b>	Enter the following amounts as of the close of the tax year preceding the year of change. If none, state "None." Also, attach a statement providing a breakdown of the amounts entered on lines 2a through 2g.																		
	<table border="1"> <thead> <tr> <th></th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td><b>a</b> Income accrued but not received (such as accounts receivable)</td> <td>\$</td> </tr> <tr> <td><b>b</b> Income received or reported before it was earned (such as advanced payments). Attach a description of the income and the legal basis for the proposed method</td> <td></td> </tr> <tr> <td><b>c</b> Expenses accrued but not paid (such as accounts payable)</td> <td></td> </tr> <tr> <td><b>d</b> Prepaid expenses previously deducted</td> <td></td> </tr> <tr> <td><b>e</b> Supplies on hand previously deducted and/or not previously reported</td> <td></td> </tr> <tr> <td><b>f</b> Inventory on hand previously deducted and/or not previously reported. Complete Schedule D, Part II</td> <td></td> </tr> <tr> <td><b>g</b> Other amounts (specify). Attach a description of the item and the legal basis for its inclusion in the calculation of the section 481(a) adjustment. ►</td> <td></td> </tr> <tr> <td><b>h Net section 481(a) adjustment</b> (Combine lines 2a-2g.) Indicate whether the adjustment is an increase (+) or decrease (-) in income. Also enter the net amount of this section 481(a) adjustment amount on Part IV, line 26</td> <td>\$ -</td> </tr> </tbody> </table>		Amount	<b>a</b> Income accrued but not received (such as accounts receivable)	\$	<b>b</b> Income received or reported before it was earned (such as advanced payments). Attach a description of the income and the legal basis for the proposed method		<b>c</b> Expenses accrued but not paid (such as accounts payable)		<b>d</b> Prepaid expenses previously deducted		<b>e</b> Supplies on hand previously deducted and/or not previously reported		<b>f</b> Inventory on hand previously deducted and/or not previously reported. Complete Schedule D, Part II		<b>g</b> Other amounts (specify). Attach a description of the item and the legal basis for its inclusion in the calculation of the section 481(a) adjustment. ►		<b>h Net section 481(a) adjustment</b> (Combine lines 2a-2g.) Indicate whether the adjustment is an increase (+) or decrease (-) in income. Also enter the net amount of this section 481(a) adjustment amount on Part IV, line 26	\$ -
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<b>3</b>	Is the applicant also requesting the recurring item exception under section 461(h)(3)? <input type="checkbox"/> Yes <input type="checkbox"/> No																		
<b>4</b>	Attach copies of the profit and loss statement (Schedule F (Form 1040) for farmers) and the balance sheet, if applicable, as of the close of the tax year preceding the year of change. Also attach a statement specifying the accounting method used when preparing the balance sheet. If books of account are not kept, attach a copy of the business schedules submitted with the federal income tax return or other return (such as, tax-exempt organization returns) for that period. If the amounts in Part I, lines 2a through 2g, do not agree with the amounts shown on both the profit and loss statement and the balance sheet, attach a statement explaining the differences.																		
<b>5</b>	Is the applicant making a change to the overall cash method as a small business taxpayer (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No																		

**Part II Change to the Cash Method For Non-Automatic Change Request** (see instructions)

- Applicants requesting a change to the cash method must attach the following information:
- A description of inventory items (items whose production, purchase, or sale is an income-producing factor) and materials and supplies used in carrying out the business.
  - An explanation as to whether the applicant is required to use the accrual method under any section of the Code or regulations.

**Schedule B — Change to the Deferral Method for Advance Payments** (see instructions)**N/A**

- 1** If the applicant is requesting to change to the deferral method for advance payments, as described in the instructions, attach the following information:
  - a** Explain how the advance payments meet the definition of advance payment, as described in the instructions.
  - b** Does the taxpayer use an applicable financial statement as described in the instructions and, if so, identify it.
  - c** Describe the taxpayer's allocation method, if there is more than one performance obligation, as defined in the instructions.
  - d** Describe the taxpayer's legal basis for deferral. See instructions.
  - e** If the applicant is filing under the non-automatic change procedures, see the instructions for the information required.

**Schedule C — Changes Within the LIFO Inventory Method** (see instructions)**N/A****Part I General LIFO Information**

Complete this section if the requested change involves changes within the LIFO inventory method. Also, attach a copy of all **Forms 970**, Application To Use LIFO Inventory Method, filed to adopt or expand the use of the LIFO method.

- 1** Attach a description of the applicant's present and proposed LIFO methods and submethods for each of the following items:
  - a** Valuing inventory (for example, unit method or dollar-value method).
  - b** Pooling (for example, by line or type or class of goods, natural business unit, multiple pools, raw material content, simplified dollar-value method, inventory price index computation (IPIC) pools, vehicle-pool method, etc.).
  - c** Pricing dollar-value pools (for example, double-extension, index, link-chain, link-chain index, IPIC method, etc.).
  - d** Determining the current-year cost of goods in the ending inventory (such as, most recent acquisitions, earliest acquisitions during the current year, average cost of current-year acquisitions, rolling-average cost, or other permitted method).
- 2** If any present method or submethod used by the applicant is not the same as indicated on Form(s) 970 filed to adopt or expand the use of the method, attach an explanation.
- 3** If the proposed change is not requested for all the LIFO inventory, attach a statement specifying the inventory to which the change is and is not applicable.
- 4** If the proposed change is not requested for all of the LIFO pools, attach a statement specifying the LIFO pool(s) to which the change is applicable.
- 5** Attach a statement addressing whether the applicant values any of its LIFO inventory on a method other than cost. For example, if the applicant values some of its LIFO inventory at retail and the remainder at cost, identify which inventory items are valued under each method.
- 6** If changing to the IPIC method, attach a completed Form 970.

**Part II Change in Pooling Inventories**

- 1** If the applicant is proposing to change its pooling method or the number of pools, attach a description of the contents of, and state the base year for, each dollar-value pool the applicant presently uses and proposes to use.
- 2** If the applicant is proposing to use natural business unit (NBU) pools or requesting to change the number of NBU pools, attach the following information (to the extent not already provided) in sufficient detail to show that each proposed NBU was determined under Regulations sections 1.472-8(b)(1) and (2):
  - a** A description of the types of products produced by the applicant. If possible, attach a brochure.
  - b** A description of the types of processes and raw materials used to produce the products in each proposed pool.
  - c** If all of the products to be included in the proposed NBU pool(s) are not produced at one facility, state the reasons for the separate facilities, the location of each facility, and a description of the products each facility produces.
  - d** A description of the natural business divisions adopted by the taxpayer. State whether separate cost centers are maintained and if separate profit and loss statements are prepared.
  - e** A statement addressing whether the applicant has inventories of items purchased and held for resale that are not further processed by the applicant, including whether such items, if any, will be included in any proposed NBU pool.
  - f** A statement addressing whether all items including raw materials, goods-in-process, and finished goods entering into the entire inventory investment for each proposed NBU pool are presently valued under the LIFO method. Describe any items that are not presently valued under the LIFO method that are to be included in each proposed pool.
  - g** A statement addressing whether, within the proposed NBU pool(s), there are items both sold to unrelated parties and transferred to a different unit of the applicant to be used as a component part of another product prior to final processing.
- 3** If the applicant is engaged in manufacturing and is proposing to use the multiple pooling method or raw material content pools, attach information to show that each proposed pool will consist of a group of items that are substantially similar. See Regulations section 1.472-8(b)(3).
- 4** If the applicant is engaged in the wholesaling or retailing of goods and is requesting to change the number of pools used, attach information to show that each of the proposed pools is based on customary business classifications of the applicant's trade or business. See Regulations section 1.472-8(c).

Schedule D — Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other

N/A

Section 263A Assets (see instructions)

Part I Change in Reporting Income From Long-Term Contracts (Also complete Part III on pages 7 and 8.)

- 1 To the extent not already provided, attach a description of the applicant's present and proposed methods for reporting income and expenses from long-term contracts. Also, attach a representative actual contract (without any deletion) for the requested change. If the applicant is a construction contractor, attach a detailed description of its construction activities.
2a Are the applicant's contracts long-term contracts as defined in section 460(f)(1) (see instructions)?
b If "Yes," do all the contracts qualify for the exception under section 460(e) (see instructions)?
c Is the applicant requesting to use the percentage-of-completion method using cost-to-cost under Regulations section 1.460-4(b)?
d If line 2c is "Yes," in computing the completion factor of a contract, will the applicant use the simplified cost-to-cost method described in Regulations section 1.460-5(c)?
e If line 2c is "No," is the applicant requesting to use the exempt-contract percentage-of-completion method under Regulations section 1.460-4(c)(2)?
3a Does the applicant have long-term manufacturing contracts as defined in section 460(f)(2)?
b If "Yes," attach a description of the applicant's manufacturing activities, including any required installation of manufactured goods.
4a Does the applicant enter into cost-plus long-term contracts?
b Does the applicant enter into federal long-term contracts?

Part II Change in Valuing Inventories Including Cost Allocation Changes (Also complete Part III on pages 7 and 8.)

- 1 Attach a description of the inventory goods being changed.
2 Attach a description of the inventory goods (if any) NOT being changed.
3a Is the applicant subject to section 263A? If "No," go to line 4a
b Is the applicant's present inventory valuation method in compliance with section 263A (see instructions)? If "No," attach a detailed explanation

4a Check the appropriate boxes in the chart.

Identification methods:

- Specific identification
FIFO
LIFO
Other (attach explanation)

Valuation methods:

- Cost
Cost or market, whichever is lower
Retail cost
Retail, lower of cost or market
Other (attach explanation)

b Enter the value at the end of the tax year preceding the year of change.

Table with 3 columns: Inventory Method Being Changed (Present method, Proposed method), Inventory Method Not Being Changed (Present method). Includes a row for values at the end of the tax year.

5 If the applicant is changing from the LIFO inventory method to a non-LIFO method, attach the following information (see instructions).

- a Copies of Form(s) 970 filed to adopt or expand the use of the method.
b Only for applicants requesting a non-automatic change. A statement describing whether the applicant is changing to the method required by Regulations section 1.472-6(a) or (b), or whether the applicant is proposing a different method.
c Only for applicants requesting an automatic change. The statement required by section 23.01(5) of Rev. Proc. 2018-31 (or its successor).



**Part III Method of Cost Allocation** (Complete this part if the requested change involves either property subject to section 263A or long-term contracts as described in section 460). See instructions

**Section A — Allocation and Capitalization Methods**

Attach a description (including sample computations) of the present and proposed method(s) the applicant uses to capitalize direct and indirect costs properly allocable to real or tangible personal property produced and property acquired for resale, or to allocate direct and indirect costs required to be allocated long-term contracts. Include a description of the method(s) used for allocating indirect costs to intermediate cost objectives such as departments or activities prior to the allocation of such costs to long-term contracts, real or tangible personal property produced, and property acquired for resale. The description must include the following:

- 1 The method of allocating direct and indirect costs (for example, specific identification, burden rate, standard cost, or other reasonable allocation method).
2 The method of allocating mixed service costs (for example, direct reallocation, step-allocation, simplified service cost using the labor-based allocation ratio, simplified service cost using the production cost allocation ratio, or other reasonable allocation method).
3 Except for long-term contract accounting methods, the method of capitalizing additional section 263A costs (for example, simplified production with or without the historic absorption ratio election, simplified resale with or without the historic absorption ratio election including permissible variations, the U.S. ratio, or other reasonable allocation method).

**Section B — Direct and Indirect Costs Required to be Allocated**

Check the appropriate boxes showing the costs that are or will be fully included, to the extent required, in the cost of real or tangible personal property produced or property acquired for resale under section 263A or allocated to long-term contracts under section 460. Mark "N/A" in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.

Table with 3 columns: Cost Category (1-28), Present method, Proposed method. Rows include Direct material, Direct labor, Indirect labor, Officers' compensation, Pension and other related costs, Employee benefits, Indirect materials and supplies, Purchasing costs, Handling, processing, assembly, and repackaging costs, Offsite storage and warehousing costs, Depreciation, amortization, and cost recovery allowance for equipment and facilities placed in service and not temporarily idle, Depletion, Rent, Taxes other than state, local, and foreign income taxes, Insurance, Utilities, Maintenance and repairs that relate to a production, resale, or long-term contract activity, Engineering and design costs (not including section 174 research and experimental expenses), Rework labor, scrap, and spoilage, Tools and equipment, Quality control and inspection, Bidding expenses incurred in the solicitation of contracts awarded to the applicant, Licensing and franchise costs, Capitalizable service costs (including mixed service costs), Administrative costs (not including any costs of selling or any return on capital), Research and experimental expenses attributable to long-term contracts, Interest, Other costs (Attach a list of these costs.)

Part III Method of Cost Allocation (continued) See instructions.

Section C — Other Costs Not Required To Be Allocated (Complete Section C only if the applicant is requesting to change its method for these costs.)

Table with 3 columns: Line number, Description, Present method, Proposed method. Rows include Marketing, selling, advertising, and distribution expenses; Research and experimental expenses; Bidding expenses; General and administrative costs; Income taxes; Cost of strikes; Warranty and product liability costs; Section 179 costs; On-site storage; Depreciation, amortization, and cost recovery allowance; Other costs.

Schedule E — Change in Depreciation or Amortization. See instructions.

N/A

Applicants requesting approval to change their method of accounting for depreciation or amortization complete this section.

Applicants must provide this information for each item or class of property for which a change is requested.

Note: See the Summary of the List of Automatic Accounting Method Changes in the instructions for information regarding automatic changes under sections 56, 167, 168, 197, 1400I, 1400L, or former section 168. Do not file Form 3115 with respect to certain late elections and election revocations. See instructions.

- 1 Is depreciation for the property determined under Regulations section 1.167(a)-11 (CLADR)?
2 Is any of the depreciation or amortization required to be capitalized under any Code section such as, section 263A?
3 Has a depreciation, amortization, expense, or disposition election been made for the property such as the election under sections 168(f)(1), 168(i)(4), 179, 179C, or Regulations section 1.168(i)-8(d)?
4a To the extent not already provided, attach a statement describing the property subject to the change.
b If the property is residential rental property, did the applicant live in the property before renting it?
c Is the property public utility property?
5 To the extent not already provided in the applicant's description of its present method, attach a statement explaining how the property is treated under the applicant's present method.
6 If the property is not currently treated as depreciable or amortizable property, attach a statement of the facts supporting the proposed change to depreciate or amortize the property.
7 If the property is currently treated and/or will be treated as depreciable or amortizable property, provide the following information for both the present (if applicable) and proposed methods:
a The Code section under which the property is or will be depreciated or amortized.
b The applicable asset class from Rev. Proc. 87-56, 1987-2 C.B. 674, for each asset depreciated under section 168 (MACRS) or under section 1400L; the applicable asset class from Rev. Proc. 83-35, 1983-1 C.B. 745, for each asset depreciated under former section 168 (ACRS); an explanation why no asset class is identified for each asset for which an asset class has not been identified by the applicant.
c The facts to support the asset class for the proposed method.
d The depreciation or amortization method of the property, including the applicable Code section (for example, 200% declining balance method under section 168(b)(1)).
e The useful life, recovery period, or amortization period of the property.
f The applicable convention of the property.
g Whether the additional first-year special depreciation allowance (for example, as provided by section 168(k), 168(l), 168(m), 168(n), 1400L(b), or 1400N(d)) was or will be claimed for the property.
h Whether the property was or will be in a single asset account, a multiple asset account, or a general asset account.

**Part II, Question 11b – Accounting Method Changes in the Past Five Years**

Avista Corporation (EIN: 91-0462470) is changing its method of accounting for prepaid expenses under Treas. Reg. § 1.263(a)-3 effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43.

Avista Corporation (EIN: 91-0462470) is changing its method of accounting for depreciation effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43.

Avista Corporation (EIN: 91-0462470) is changing its method of accounting for costs under I.R.C. § 263A effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43.

Avista Corporation (EIN: 91-0462470) is changing its method of accounting for deducting repairs and maintenance costs and its method of identifying the unit of property, effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43.

**Part II, Question 14 – Description of Proposed Change**

- a. The Applicant is changing its method of accounting for amounts paid to acquire non-incidental materials and supplies, as defined in Treas. Reg. §§ 1.162-3(a)(1) and (c)(1), that are used or consumed in the Applicant's trade or business. The items that are the subject of this request are meters, including the cost of equipment and installation. The meters are materials and supplies under Treas. Reg. § 1.162-3(c)(1) in that they have an acquisition cost of \$200 or less. The items are non-incidental under Treas. Reg. § 1.162-3(a)(2) because the Applicant takes a physical inventory of these items at the beginning and end of the tax year. The cost of the materials and supplies are not required to be capitalized to inventory under I.R.C. § 263A.

The Applicant has not adopted the International Financial Reporting Standards ("IFRS") and the proposed change is not related to the adoption of IFRS.

- b. Under its present method of accounting, the Applicant capitalizes the non-incidental materials and supplies and depreciates the capitalized costs under I.R.C. § 168, using a 20-year recovery period, the 150% declining balance method, and a half-year or mid-quarter convention. The 20-year recovery period is based on the classification as Electric Utility Transmission and Distribution Plant property or Gas Utility Distribution Facilities property, pursuant to Rev. Proc. 87-56. Furthermore, the Applicant has claimed the additional first year depreciation under I.R.C. § 168(k), as applicable, provided it did not affirmatively elect not to claim such depreciation. The Applicant has not claimed any federal tax credit related to the item being changed.
- c. Under its proposed method of accounting, the Applicant will deduct non-incidental materials and supplies as defined under Treas. Reg. §§ 1.162-3(a)(1) and (c)(1)(iv) when they are first used or consumed in the Applicant's operations in accordance with Treas. Reg. § 1.162-3(c)(1), taking into account Treas. Reg. § 1.162-3(b).
- d. The Applicant's overall method of account is an accrual method.

**Part II, Question 15a – Description of Trade or Business**

The Applicant is a regulated electric and gas utility company engaged in the generation, transmission, and distribution. The Applicant is also involved in the sale of electricity and the distribution of natural gas. Its

principal business activity code is 221100. The Applicant has a single trade or business as described in Treas. Reg. § 1.446-1(d).

**Part II, Question 17 – Book-Tax Conformity**

The Applicant will not use the proposed method of account for its books and records or its financial statements because the proposed method does not conform to Generally Accepted Accounting Principles (“GAAP”).

**Part IV, Question 26 – Section 481(a) Adjustment**

The net negative I.R.C. § 481(a) adjustment of (\$30,930,774) is equal to the adjusted tax basis of the materials and supplies as of the first day of the tax year of change. There is no I.R.C. § 263A impact.

**Request for Facsimile Transmission Pursuant to Section 9.04(3) of Rev. Proc. 2020-1**

The Applicant hereby requests that a facsimile transmission of any document related to this Form 3115 be sent to the Applicant and the Applicant’s authorized representatives as follows:

<b>Applicant</b>	<b>Fax Number</b>
Daniel Loutzenhiser	(509) 777-5642

<b>Applicant’s Representatives</b>	<b>Fax Number</b>
Jane Rohrs	(877) 501-2599
Matt McKinney	(704) 285-6654
Jon Ryan	(855) 320-9645

**AVISTA CORP.**

Form 3115, Application for Change of Accounting Method

IDD#5

Change in method of accounting for costs under I.R.C. § 263A effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43.

# Application for Change in Accounting Method

(Rev. December 2018)  
Department of the Treasury  
Internal Revenue Service

OMB No. 1545-2070

Go to [www.irs.gov/Form3115](http://www.irs.gov/Form3115) for instructions and the latest information.

Name of filer (name of parent corporation if a consolidated group) (see instructions) <b>AVISTA CORPORATION</b>	Identification number (see instructions) <b>91-0462470</b>
Number, street, and room or suite no. If a P.O. box, see the instructions. <b>1411 EAST MISSION AVENUE</b>	Principal business activity code number (see instructions) <b>221100</b>
City or town, state, and ZIP code <b>SPOKANE, WA 99202</b>	Tax year of change begins (MM/DD/YYYY) <b>1/1/2019</b> Tax year of change ends (MM/DD/YYYY) <b>12/31/2019</b>
Name of applicant(s) (if different than filer) and identification number(s) (see instructions) <b>N/A</b>	Name of contact person (see instructions) <b>NEVILLE JIANG</b>
	Contact person's telephone number <b>(202) 220-2126</b>

If the applicant is a member of a consolidated group, check this box

If Form 2848, Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box

**Check the box to indicate the type of applicant.**

<input type="checkbox"/> Individual	<input type="checkbox"/> Cooperative (Sec. 1381)
<input checked="" type="checkbox"/> Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> Controlled foreign corporation (Sec. 957)	<input type="checkbox"/> S corporation
<input type="checkbox"/> 10/50 corporation (Sec. 904(d)(2)(E))	<input type="checkbox"/> Insurance co. (Sec. 816(a))
<input type="checkbox"/> Qualified personal service corporation (Sec. 448(d)(2))	<input type="checkbox"/> Insurance co. (Sec. 831)
<input type="checkbox"/> Exempt organization. Enter Code section ▶	<input type="checkbox"/> Other (specify) ▶

**Check the appropriate box to indicate the type of accounting method change being requested.**  
See instructions.

<input type="checkbox"/> Depreciation or Amortization
<input type="checkbox"/> Financial Products and/or Financial Activities of Financial Institutions
<input checked="" type="checkbox"/> Other (specify) ▶ <b>SECTION 263A</b>

**Caution:** To be eligible for approval of the requested change in method of accounting, the taxpayer must provide all information that is relevant to the taxpayer or to the taxpayer's requested change in method of accounting. This includes (1) all relevant information requested on this Form 3115 (including its instructions), and (2) any other relevant information, even if not specifically requested on Form 3115.

The taxpayer must attach all applicable statements requested throughout this form.

Part I	Information For Automatic Change Request	Yes	No
1	Enter the applicable designated automatic accounting method change number ("DCN") for the requested automatic change. Enter only one DCN, except as provided for in guidance published by the IRS. If the requested change has no DCN, check "Other," and provide both a description of the change and a citation of the IRS guidance providing the automatic change. See instructions. a (1) DCN: <u>194</u> (2) DCN: _____ (3) DCN: _____ (4) DCN: _____ (5) DCN: _____ (6) DCN: _____ (7) DCN: _____ (8) DCN: _____ (9) DCN: _____ (10) DCN: _____ (11) DCN: _____ (12) DCN: _____ b Other <input type="checkbox"/> Description ▶ _____		
2	Do any of the eligibility rules restrict the applicant from filing the requested change using the automatic change procedures (see instructions)? If "Yes," attach an explanation.		X
3	Has the filer provided all the information and statements required (a) on this form and (b) by the List of Automatic Changes under which the applicant is requesting a change? See instructions. <b>Note:</b> Complete Part II and Part IV of this form, and, Schedules A through E, if applicable.	X	
Part II	Information For All Requests	Yes	No
4	During the tax year of change, did or will the applicant (a) cease to engage in the trade or business to which the requested change relates, or (b) terminate its existence? See instructions.		X
5	Is the applicant requesting to change to the principal method in the tax year of change under Regulations section 1.381(c)(4)-1(d)(1) or 1.381(c)(5)-1(d)(1)? If "No," go to line 6a. If "Yes," the applicant cannot file a Form 3115 for this change. See instructions.		X

**Sign Here**

Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, the application contains all the relevant facts relating to the application, and it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.

Signature of filer (and spouse, if joint return) <i>Daniel Loutzenhiser</i>	Date 10/1/2020	Name and title (print or type) <b>DANIEL LOUTZENHISER - ASSISTANT TREASURER</b>
Print/Type preparer's name <b>MATTHEW MCKINNEY</b>	Preparer's signature <i>Matthew D. McKinney</i>	Date 10/6/2020
Firm's name ▶ <b>DELOITTE TAX LLP</b>		

<b>Part II Information For All Requests (continued)</b>		<b>Yes</b>	<b>No</b>
<b>6a</b>	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) under examination (see instructions)? If "No," go to line 7a.		<b>X</b>
<b>b</b>	Is the method of accounting the applicant is requesting to change an issue under consideration (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s))? See instructions.	<b>N/A</b>	
<b>c</b>	Enter the name and telephone number of the examining agent and the tax year(s) under examination. Name ▶ _____ Telephone number ▶ _____ Tax year(s) ▶ _____	<b>N/A</b>	
<b>d</b>	Has a copy of this Form 3115 been provided to the examining agent identified on line 6c?	<b>N/A</b>	
<b>7a</b>	Does audit protection apply to the applicant's requested change in the method of accounting? See instructions. If "No," attach an explanation.	<b>X</b>	
<b>b</b>	If "Yes," check the applicable box and attach the required statement. <input checked="" type="checkbox"/> Not under exam <input type="checkbox"/> 3-month window <input type="checkbox"/> 120 day: Date examination ended ▶ ..... <input type="checkbox"/> Method not before director <input checked="" type="checkbox"/> Negative adjustment <input type="checkbox"/> CAP: Date member joined group ▶ ..... <input type="checkbox"/> Audit protection at end of exam <input type="checkbox"/> Other		
<b>8a</b>	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) before Appeals and/or a federal court? If "No," go to line 9.		<b>X</b>
<b>b</b>	Is the method of accounting the applicant is requesting to change an issue under consideration by Appeals and/or a federal court (for either the applicant or any present or former consolidated group in which the applicant was a member for the tax year(s) the applicant was a member)? See instructions. If "Yes," attach an explanation.	<b>N/A</b>	
<b>c</b>	If "Yes," enter the name of the (check the box) <input type="checkbox"/> Appeals officer and/or <input type="checkbox"/> counsel for the government, telephone number, and the tax year(s) before Appeals and/or a federal court. Name ▶ _____ Telephone number ▶ _____ Tax year(s) ▶ _____	<b>N/A</b>	
<b>d</b>	Has a copy of this Form 3115 been provided to the Appeals officer and/or counsel for the government identified on line 8c?	<b>N/A</b>	
<b>9</b>	If the applicant answered "Yes" to line 6a and/or 8a with respect to any present or former consolidated group, attach a statement that provides each parent corporation's (a) name, (b) identification number, (c) address, and (d) tax year(s) during which the applicant was a member that is under examination, before an Appeals office, and/or before a federal court.	<b>N/A</b>	
<b>10</b>	If for federal income tax purposes, the applicant is either an entity (including a limited liability company) treated as a partnership or an S corporation, is it requesting a change from a method of accounting that is an issue under consideration in an examination, before Appeals, or before a federal court, with respect to a federal income tax return of a partner, member, or shareholder of that entity?	<b>N/A</b>	
<b>11a</b>	Has the applicant, its predecessor, or a related party requested or made (under either an automatic or non-automatic change procedure) a change in method of accounting within any of the five tax years ending with the tax year of change? If "No," go to line 12.	<b>X</b>	
<b>b</b>	If "Yes," for each trade or business, attach a description of each requested change in method of accounting (including the tax year of change) and state whether the applicant received consent.	<b>SEE ATTACHMENT</b>	
<b>c</b>	If any application was withdrawn, not perfected, or denied, or if a Consent Agreement granting a change was not signed and returned to the IRS, or the change was not made or not made in the requested year of change, attach an explanation.	<b>N/A</b>	
<b>12</b>	Does the applicant, its predecessor, or a related party currently have pending any request (including any concurrently filed request) for a private letter ruling, change in method of accounting, or technical advice? If "Yes," for each request attach a statement providing (a) the name(s) of the taxpayer, (b) identification number(s), (c) the type of request (private letter ruling, change in method of accounting, or technical advice), and (d) the specific issue(s) in the request(s).		<b>X</b>
<b>13</b>	Is the applicant requesting to change its overall method of accounting? If "Yes," complete Schedule A on page 4 of this form.		<b>X</b>

<b>Part II Information For All Requests (continued)</b>		Yes	No
<b>14</b>	If the applicant is either (i) not changing its overall method of accounting, or (ii) is changing its overall method of accounting and changing to a special method of accounting for one or more items, attach a detailed and complete description for each of the following (see instructions): <b>a</b> The item(s) being changed. <b>b</b> The applicant's present method for the item(s) being changed. <b>c</b> The applicant's proposed method for the item(s) being changed. <b>d</b> The applicant's present overall method of accounting (cash, accrual, or hybrid). <b>SEE ATTACHMENT</b>		
<b>15a</b>	Attach a detailed and complete description of the applicant's trade(s) or business(es). See section 446(d). <b>b</b> If the applicant has more than one trade or business, as defined in Regulations section 1.446-1(d), describe (i) whether each trade or business is accounted for separately; (ii) the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; (iii) the overall method of accounting for each trade or business; and (iv) which trade or business is requesting to change its accounting method as part of this application or a separate application. <b>Note:</b> If you are requesting an automatic method change, see the instructions to see if you are required to complete Lines 16a-16c. <b>SEE ATTACHMENT</b>		
<b>16a</b>	Attach a full explanation of the legal basis supporting the proposed method for the item being changed. Include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and that demonstrates that the applicant is authorized to use the proposed method. <b>b</b> Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method. <b>c</b> Include either a discussion of the contrary authorities or a statement that no contrary authority exists. <b>SEE ATTACHMENT</b>		
<b>17</b>	Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions If "No," attach an explanation. <b>SEE ATTACHMENT</b>		X
<b>18</b>	Does the applicant request a conference with the IRS National Office if the IRS National Office proposes an adverse response? <b>X</b>	X	
<b>19a</b>	If the applicant is changing to either the overall cash method, an overall accrual method, or is changing its method of accounting for any property subject to section 263A, any long-term contract subject to section 460 (see 19b), or inventories subject to section 474, enter the applicant's gross receipts for the 3 tax years preceding the tax year of change. 1st preceding year ended: mo. 12 yr. 2018 \$ 1,505,015,471 2nd preceding year ended: mo. 12 yr. 2017 \$ 1,549,703,536 3rd preceding year ended: mo. 12 yr. 2016 \$ 1,501,630,693		
<b>b</b>	If the applicant is changing its method of accounting for any long-term contract subject to section 460, in addition to completing 19a, enter the applicant's gross receipts for the 4th tax year preceding the tax year of change: 4th preceding year ended: mo. yr. \$		
<b>Part III Information For Non-Automatic Change Request</b>		N/A	
<b>20</b>	Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request? If "Yes," attach an explanation describing why the applicant is submitting its request under the non-automatic change procedures.		
<b>21</b>	Attach a copy of all documents related to the proposed change (see instructions).		
<b>22</b>	Attach a statement of the applicant's reasons for the proposed change.		
<b>23</b>	If the applicant is a member of a consolidated group for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed? If "No," attach an explanation.		
<b>24a</b>	Enter the amount of <b>user fee</b> attached to this application (see instructions). ▶ \$		
<b>b</b>	If the applicant qualifies for a reduced user fee, attach the required information or certification (see instructions).		



<b>Part IV Section 481(a) Adjustment</b>		<b>Yes</b>	<b>No</b>
<b>25</b>	Does published guidance require the applicant (or permit the applicant and the applicant is electing) to implement the requested change in method of accounting on a cut-off basis? If "Yes," attach an explanation and do not complete lines 26, 27, and 28 below.		<b>X</b>
<b>26</b>	Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. ► \$ <u>-136,736,790</u> Attach a summary of the computation and an explanation of the methodology used to determine the section 481(a) adjustment. If it is based on more than one component, show the computation for each component. If more than one applicant is applying for the method change on the application, attach a list of the (a) name, (b) identification number, and (c) the amount of the section 481(a) adjustment attributable to each applicant. <b>SEE ATTACHMENT</b>		
<b>27</b>	Is the applicant making an election to take the entire amount of the adjustment into account in the tax year of change? If "Yes," check the box for the applicable elective provision used to make the election (see instructions). <input type="checkbox"/> \$50,000 de minimis election <input type="checkbox"/> Eligible acquisition transaction election		<b>X</b>
<b>28</b>	Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a consolidated group, a controlled group, or other related parties? If "Yes," attach an explanation.		<b>X</b>

**Schedule A — Change in Overall Method of Accounting** (If Schedule A applies, Part I below must be completed.) **N/A**

**Part I Change in Overall Method** (see instructions)

**1** Check the appropriate boxes below to indicate the applicant's present and proposed methods of accounting.

**Present method:**  Cash  Accrual  Hybrid (attach description)

**Proposed method:**  Cash  Accrual  Hybrid (attach description)

**2** Enter the following amounts as of the close of the tax year preceding the year of change. If none, state "None." Also, attach a statement providing a breakdown of the amounts entered on lines 2a through 2g.

	Amount
<b>a</b> Income accrued but not received (such as accounts receivable)	\$
<b>b</b> Income received or reported before it was earned (such as advanced payments). Attach a description of the income and the legal basis for the proposed method	
<b>c</b> Expenses accrued but not paid (such as accounts payable)	
<b>d</b> Prepaid expenses previously deducted	
<b>e</b> Supplies on hand previously deducted and/or not previously reported	
<b>f</b> Inventory on hand previously deducted and/or not previously reported. Complete Schedule D, Part II	
<b>g</b> Other amounts (specify). Attach a description of the item and the legal basis for its inclusion in the calculation of the section 481(a) adjustment. ►	
<b>h</b> <b>Net section 481(a) adjustment</b> (Combine lines 2a-2g.) Indicate whether the adjustment is an increase (+) or decrease (-) in income. Also enter the net amount of this section 481(a) adjustment amount on Part IV, line 26	\$ -

**3** Is the applicant also requesting the recurring item exception under section 461(h)(3)?  Yes  No

**4** Attach copies of the profit and loss statement (Schedule F (Form 1040) for farmers) and the balance sheet, if applicable, as of the close of the tax year preceding the year of change. Also attach a statement specifying the accounting method used when preparing the balance sheet. If books of account are not kept, attach a copy of the business schedules submitted with the federal income tax return or other return (such as, tax-exempt organization returns) for that period. If the amounts in Part I, lines 2a through 2g, do not agree with the amounts shown on both the profit and loss statement and the balance sheet, attach a statement explaining the differences.

**5** Is the applicant making a change to the overall cash method as a small business taxpayer (see instructions)?  Yes  No

**Part II Change to the Cash Method For Non-Automatic Change Request** (see instructions)

- Applicants requesting a change to the cash method must attach the following information:
- A description of inventory items (items whose production, purchase, or sale is an income-producing factor) and materials and supplies used in carrying out the business.
  - An explanation as to whether the applicant is required to use the accrual method under any section of the Code or regulations.

**Schedule B — Change to the Deferral Method for Advance Payments** (see instructions)**N/A**

- 1** If the applicant is requesting to change to the deferral method for advance payments, as described in the instructions, attach the following information:
  - a** Explain how the advance payments meet the definition of advance payment, as described in the instructions.
  - b** Does the taxpayer use an applicable financial statement as described in the instructions and, if so, identify it.
  - c** Describe the taxpayer's allocation method, if there is more than one performance obligation, as defined in the instructions.
  - d** Describe the taxpayer's legal basis for deferral. See instructions.
  - e** If the applicant is filing under the non-automatic change procedures, see the instructions for the information required.

**Schedule C — Changes Within the LIFO Inventory Method** (see instructions)**N/A****Part I — General LIFO Information**

Complete this section if the requested change involves changes within the LIFO inventory method. Also, attach a copy of all **Forms 970**, Application To Use LIFO Inventory Method, filed to adopt or expand the use of the LIFO method.

- 1** Attach a description of the applicant's present and proposed LIFO methods and submethods for each of the following items:
  - a** Valuing inventory (for example, unit method or dollar-value method).
  - b** Pooling (for example, by line or type or class of goods, natural business unit, multiple pools, raw material content, simplified dollar-value method, inventory price index computation (IPIC) pools, vehicle-pool method, etc.).
  - c** Pricing dollar-value pools (for example, double-extension, index, link-chain, link-chain index, IPIC method, etc.).
  - d** Determining the current-year cost of goods in the ending inventory (such as, most recent acquisitions, earliest acquisitions during the current year, average cost of current-year acquisitions, rolling-average cost, or other permitted method).
- 2** If any present method or submethod used by the applicant is not the same as indicated on Form(s) 970 filed to adopt or expand the use of the method, attach an explanation.
- 3** If the proposed change is not requested for all the LIFO inventory, attach a statement specifying the inventory to which the change is and is not applicable.
- 4** If the proposed change is not requested for all of the LIFO pools, attach a statement specifying the LIFO pool(s) to which the change is applicable.
- 5** Attach a statement addressing whether the applicant values any of its LIFO inventory on a method other than cost. For example, if the applicant values some of its LIFO inventory at retail and the remainder at cost, identify which inventory items are valued under each method.
- 6** If changing to the IPIC method, attach a completed Form 970.

**Part II — Change in Pooling Inventories**

- 1** If the applicant is proposing to change its pooling method or the number of pools, attach a description of the contents of, and state the base year for, each dollar-value pool the applicant presently uses and proposes to use.
- 2** If the applicant is proposing to use natural business unit (NBU) pools or requesting to change the number of NBU pools, attach the following information (to the extent not already provided) in sufficient detail to show that each proposed NBU was determined under Regulations sections 1.472-8(b)(1) and (2):
  - a** A description of the types of products produced by the applicant. If possible, attach a brochure.
  - b** A description of the types of processes and raw materials used to produce the products in each proposed pool.
  - c** If all of the products to be included in the proposed NBU pool(s) are not produced at one facility, state the reasons for the separate facilities, the location of each facility, and a description of the products each facility produces.
  - d** A description of the natural business divisions adopted by the taxpayer. State whether separate cost centers are maintained and if separate profit and loss statements are prepared.
  - e** A statement addressing whether the applicant has inventories of items purchased and held for resale that are not further processed by the applicant, including whether such items, if any, will be included in any proposed NBU pool.
  - f** A statement addressing whether all items including raw materials, goods-in-process, and finished goods entering into the entire inventory investment for each proposed NBU pool are presently valued under the LIFO method. Describe any items that are not presently valued under the LIFO method that are to be included in each proposed pool.
  - g** A statement addressing whether, within the proposed NBU pool(s), there are items both sold to unrelated parties and transferred to a different unit of the applicant to be used as a component part of another product prior to final processing.
- 3** If the applicant is engaged in manufacturing and is proposing to use the multiple pooling method or raw material content pools, attach information to show that each proposed pool will consist of a group of items that are substantially similar. See Regulations section 1.472-8(b)(3).
- 4** If the applicant is engaged in the wholesaling or retailing of goods and is requesting to change the number of pools used, attach information to show that each of the proposed pools is based on customary business classifications of the applicant's trade or business. See Regulations section 1.472-8(c).

**Schedule D — Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other**

**Section 263A Assets** (see instructions)

**Part I Change in Reporting Income From Long-Term Contracts** (Also complete Part III on pages 7 and 8.) **N/A**

- 1** To the extent not already provided, attach a description of the applicant's present and proposed methods for reporting income and expenses from long-term contracts. Also, attach a representative actual contract (without any deletion) for the requested change. If the applicant is a construction contractor, attach a detailed description of its construction activities.
- 2a** Are the applicant's contracts long-term contracts as defined in section 460(f)(1) (see instructions)?  Yes  No
- b** If "Yes," do all the contracts qualify for the exception under section 460(e) (see instructions)?  Yes  No  
If line 2b is "No," attach an explanation.
- c** Is the applicant requesting to use the percentage-of-completion method using cost-to-cost under Regulations section 1.460-4(b)?  Yes  No
- d** If line 2c is "Yes," in computing the completion factor of a contract, will the applicant use the simplified cost-to-cost method described in Regulations section 1.460-5(c)?  Yes  No
- e** If line 2c is "No," is the applicant requesting to use the exempt-contract percentage-of-completion method under Regulations section 1.460-4(c)(2)?  Yes  No  
If line 2e is "Yes," attach an explanation of what method the applicant will use to determine a contract's completion factor.  
If line 2e is "No," attach an explanation of what method the applicant is using and the authority for its use.
- 3a** Does the applicant have long-term manufacturing contracts as defined in section 460(f)(2)?  Yes  No
- b** If "Yes," attach a description of the applicant's manufacturing activities, including any required installation of manufactured goods.
- 4a** Does the applicant enter into cost-plus long-term contracts?  Yes  No
- b** Does the applicant enter into federal long-term contracts?  Yes  No

**Part II Change in Valuing Inventories Including Cost Allocation Changes** (Also complete Part III on pages 7 and 8.) **N/A**

- 1** Attach a description of the inventory goods being changed.
- 2** Attach a description of the inventory goods (if any) NOT being changed.
- 3a** Is the applicant subject to section 263A? If "No," go to line 4a  Yes  No
- b** Is the applicant's present inventory valuation method in compliance with section 263A (see instructions)?  Yes  No  
If "No," attach a detailed explanation

**4a** Check the appropriate boxes in the chart.

	Inventory Method Being Changed		Inventory Method Not Being Changed
	Present method	Proposed method	Present method
Identification methods:			
Specific identification			
FIFO			
LIFO			
Other (attach explanation)			
Valuation methods:			
Cost			
Cost or market, whichever is lower			
Retail cost			
Retail, lower of cost or market			
Other (attach explanation)			
<b>b</b> Enter the value at the end of the tax year preceding the year of change.	\$	\$	

- 5** If the applicant is changing from the LIFO inventory method to a non-LIFO method, attach the following information (see instructions).
  - a** Copies of Form(s) 970 filed to adopt or expand the use of the method.
  - b** **Only for applicants requesting a non-automatic change.** A statement describing whether the applicant is changing to the method required by Regulations section 1.472-6(a) or (b), or whether the applicant is proposing a different method.
  - c** **Only for applicants requesting an automatic change.** The statement required by section 23.01(5) of Rev. Proc. 2018-31 (or its successor).

**Part III Method of Cost Allocation** (Complete this part if the requested change involves either property subject to section 263A or long-term contracts as described in section 460). See instructions

**Section A — Allocation and Capitalization Methods**

Attach a description (including sample computations) of the present and proposed method(s) the applicant uses to capitalize direct and indirect costs properly allocable to real or tangible personal property produced and property acquired for resale, or to allocate direct and indirect costs required to be allocated long-term contracts. Include a description of the method(s) used for allocating indirect costs to intermediate cost objectives such as departments or activities prior to the allocation of such costs to long-term contracts, real or tangible personal property produced, and property acquired for resale. The description must include the following:

- 1 The method of allocating direct and indirect costs (for example, specific identification, burden rate, standard cost, or other reasonable allocation method). **SEE ATTACHMENT**
- 2 The method of allocating mixed service costs (for example, direct reallocation, step-allocation, simplified service cost using the labor-based allocation ratio, simplified service cost using the production cost allocation ratio, or other reasonable allocation method). **SEE ATTACHMENT**
- 3 Except for long-term contract accounting methods, the method of capitalizing additional section 263A costs (for example, simplified production with or without the historic absorption ratio election, simplified resale with or without the historic absorption ratio election including permissible variations, the U.S. ratio, or other reasonable allocation method). **SEE ATTACHMENT**

**Section B — Direct and Indirect Costs Required to be Allocated**

Check the appropriate boxes showing the costs that are or will be fully included, to the extent required, in the cost of real or tangible personal property produced or property acquired for resale under section 263A or allocated to long-term contracts under section 460. Mark "N/A" in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.

	Present method	Proposed method
1 Direct material	X	X
2 Direct labor	X	X
3 Indirect labor	X	X
4 Officers' compensation (not including selling activities)	X	X
5 Pension and other related costs	X	X
6 Employee benefits	X	X
7 Indirect materials and supplies	X	X
8 Purchasing costs	X	X
9 Handling, processing, assembly, and repackaging costs	N/A	N/A
10 Offsite storage and warehousing costs	X	X
11 Depreciation, amortization, and cost recovery allowance for equipment and facilities placed in service and not temporarily idle	X	X
12 Depletion	X	X
13 Rent	X	X
14 Taxes other than state, local, and foreign income taxes	X	X
15 Insurance	X	X
16 Utilities	X	X
17 Maintenance and repairs that relate to a production, resale, or long-term contract activity	X	X
18 Engineering and design costs (not including section 174 research and experimental expenses)	X	X
19 Rework labor, scrap, and spoilage	X	X
20 Tools and equipment	X	X
21 Quality control and inspection	X	X
22 Bidding expenses incurred in the solicitation of contracts awarded to the applicant	X	X
23 Licensing and franchise costs	N/A	N/A
24 Capitalizable service costs (including mixed service costs)	X	X
25 Administrative costs (not including any costs of selling or any return on capital)	X	X
26 Research and experimental expenses attributable to long-term contracts	X	X
27 Interest	X	X
28 Other costs (Attach a list of these costs.)	N/A	N/A

Part III Method of Cost Allocation (continued) See instructions.

N/A

Section C — Other Costs Not Required To Be Allocated (Complete Section C only if the applicant is requesting to change its method for these costs.)

Table with 3 columns: Line number, Description, Present method, Proposed method. Rows include Marketing, selling, advertising, and distribution expenses; Research and experimental expenses; Bidding expenses; General and administrative costs; Income taxes; Cost of strikes; Warranty and product liability costs; Section 179 costs; On-site storage; Depreciation, amortization, and cost recovery allowance; Other costs.

Schedule E — Change in Depreciation or Amortization. See instructions.

N/A

Applicants requesting approval to change their method of accounting for depreciation or amortization complete this section. Applicants must provide this information for each item or class of property for which a change is requested.

Note: See the Summary of the List of Automatic Accounting Method Changes in the instructions for information regarding automatic changes under sections 56, 167, 168, 197, 1400I, 1400L, or former section 168. Do not file Form 3115 with respect to certain late elections and election revocations. See instructions.

- 1 Is depreciation for the property determined under Regulations section 1.167(a)-11 (CLADR)?
2 Is any of the depreciation or amortization required to be capitalized under any Code section such as, section 263A?
3 Has a depreciation, amortization, expense, or disposition election been made for the property such as the election under sections 168(f)(1), 168(i)(4), 179, 179C, or Regulations section 1.168(i)-8(d)?
4a To the extent not already provided, attach a statement describing the property subject to the change.
b If the property is residential rental property, did the applicant live in the property before renting it?
c Is the property public utility property?
5 To the extent not already provided in the applicant's description of its present method, attach a statement explaining how the property is treated under the applicant's present method...
6 If the property is not currently treated as depreciable or amortizable property, attach a statement of the facts supporting the proposed change...
7 If the property is currently treated and/or will be treated as depreciable or amortizable property, provide the following information for both the present (if applicable) and proposed methods:
a The Code section under which the property is or will be depreciated or amortized...
b The applicable asset class from Rev. Proc. 87-56, 1987-2 C.B. 674, for each asset depreciated under section 168 (MACRS) or under section 1400L; the applicable asset class from Rev. Proc. 83-35, 1983-1 C.B. 745, for each asset depreciated under former section 168 (ACRS); an explanation why no asset class is identified for each asset for which an asset class has not been identified by the applicant.
c The facts to support the asset class for the proposed method.
d The depreciation or amortization method of the property, including the applicable Code section (for example, 200% declining balance method under section 168(b)(1)).
e The useful life, recovery period, or amortization period of the property.
f The applicable convention of the property.
g Whether the additional first-year special depreciation allowance (for example, as provided by section 168(k), 168(l), 168(m), 168(n), 1400L(b), or 1400N(d)) was or will be claimed for the property. If not, also provide an explanation as to why no special depreciation allowance was or will be claimed.
h Whether the property was or will be in a single asset account, a multiple asset account, or a general asset account.

**Part II, Question 11b – Accounting Method Changes in the Past Five Years**

Avista Corporation (EIN: 91-0462470) is changing its method of accounting for depreciation effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43.

Avista Corporation (EIN: 91-0462470) is changing its method of accounting for non-incidental materials and supplies under Treas. Reg. § 1.162-3(a) effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43

Avista Corporation (EIN: 91-0462470) is changing its method of accounting for prepaid expenses under Treas. Reg. § 1.263(a)-3 effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43.

Avista Corporation (EIN: 91-0462470) is changing its method of accounting for deducting repairs and maintenance costs and its method of identifying the unit of property, effective for the taxable year ended December 31, 2019 under the automatic consent procedures of Rev. Proc. 2019-43.

**Part II, Question 14 – Description of Proposed Change**

- a. The Applicant is changing its method of accounting for capitalizing mixed service costs under section 263A. The Applicant has not adopted the International Financial Reporting Standards (“IFRS”) and the proposed change is not related to the adoption of IFRS.
- b. The Applicant presently allocates its mixed service costs to two activities or cost objects: (1) the production of self-constructed assets (including generation, electric transmission and distribution, and gas distribution plant property, where applicable), and (2) the generation, transmission, and distribution of electricity, where applicable. Under its present method, any direct materials allocable to the generation of electricity are capitalized and included in the inventoriable costs of electricity. Any direct material costs allocable to the repair and maintenance of transmission and distribution equipment, maintaining continuous transmission and distribution services, or other transmission and distribution activities are allocated to the transmission and distribution of electricity. The Applicant elects to capitalize certain period costs with respect to transmission and distribution activities, and costs related to such activities are allocated to the electricity transmitted and distributed.

Under the present method, any physical labor costs allocable to the generation of electricity are capitalized and included in the inventoriable costs of electricity. Any physical labor costs allocable to the repair and maintenance of transmission and distribution equipment, maintaining continuous transmission and distribution services, or other transmission and distribution activities are allocated to the electricity transmitted and distributed.

Thus, under the present method, the direct material or physical labor costs are traced to the cost objective, such as a function, department, activity, or product on the basis of a cause and effect or other reasonable relationship between the costs and the cost objective. Those costs traced to the cost objective related to the production of self-constructed assets are capitalized and included in the basis of assets produced (either generation, electric transmission, and distribution, or gas distribution property, where applicable). Those costs traced to the cost objectives related to the generation, transmission, or distribution of electricity are capitalized and included in the inventoriable costs of the electricity, where applicable.

Under the present method, indirect costs, including mixed service costs, are allocable to intermediate costs objectives such as departments or activities using cause and effect or reasonable factors and relationships. Indirect costs are subsequently allocated to non-intermediate costs objectives using additional reasonable factors and relationships.

- c. The Applicant proposes to capitalize and allocate mixed service costs to self-constructed assets using a method of accounting accepted under the Industry Director Directives issued by the Internal Revenue Service (“IRS”) in 2009 and 2014, which is further described below (IDD #5).
- d. The Applicant’s overall method of accounting is an accrual method.

**Part II, Question 15a – Description of Trade or Business**

The Applicant is a regulated electric and gas utility company engaged in the generation, transmission, and distribution. The Applicant is also involved in the sale of electricity and the distribution of natural gas. Its principal business activity code is 221100. The Applicant has a single trade or business as described in Treas. Reg. § 1.446-1(d).

**Part II, Question 16a-c – Legal Basis for Proposed Change**

Treas. Reg. § 1.263A-1(a)(3)(i) provides that taxpayers subject to section 263A must capitalize all direct costs and certain indirect costs properly allocable to –

- (A) real property and tangible personal property produced by the taxpayer; and
- (B) real property and personal property described in section 1221(1), which is acquired by the taxpayer for resale.

Treas. Reg. § 1.263A-1(a)(3)(ii) provides that taxpayers that produce real property and tangible personal property (producers) must capitalize all the direct costs of producing the property and the property’s properly allocable share of indirect costs (described in paragraphs (e)(2)(i) and (3) of this section), regardless of whether the property is sold or used in the taxpayer’s trade or business.

Treas. Reg. § 1.263A-2(a)(1) defines produce to include construct, build, install, manufacture, develop, improve, create, raise, and grow.

Treas. Reg. § 1.263A-1(a)(3)(iii) provides that retailers, wholesalers, and other taxpayers that acquire property described in section 1221(1) for resale (resellers) must capitalize the direct costs of acquiring the property and the property’s properly allocable share of indirect costs (described in paragraphs (e)(2)(ii) and (3) of this section). See Treas. Reg. § 1.263A-3 for rules relating to resellers. See also section 263A(b)(2)(B), which excepts from section 263A personal property acquired for resale by a small reseller.

Treas. Reg. § 1.263A-1(c) provides the rules related to the general operation of section 263A. Treas. Reg. § 1.263A-1(c)(1) provides that under section 263A, taxpayers must capitalize their direct costs and a properly allocable share of their indirect costs to property produced or property acquired for resale. In order to determine these capitalizable costs, taxpayers must allocate or apportion costs to various activities, including production or resale activities. After section 263A costs are allocated to the appropriate production or resale activities, these costs are generally allocated to the items of property produced or property acquired for resale during the taxable year and capitalized to the items that remain on hand at the end of the taxable year.

Treas. Reg. § 1.263A-1(c)(2)(i) provides that any cost which (but for section 263A and the regulations thereunder) may not be taken into account in computing taxable income for any taxable year is not treated as a cost properly allocable to property produced or acquired for resale under section 263A and the regulations thereunder. Thus, for example, if a business meal deduction is limited by section 274(n) to 80 percent of the cost of the meal, the amount properly allocable to property produced or acquired for resale under section 263A is also limited to 80 percent of the cost of the meal.

Treas. Reg. § 1.263A-1(c)(3) provides that taxpayers subject to section 263A must capitalize all indirect costs properly allocable to property produced. Indirect costs are properly allocable to property produced when the cost directly benefits or is incurred by reason of the performance of the production activity. Additionally, indirect costs may be allocable to both production and resale activities, as well as to other activities not subject to section 263A. Taxpayers must make a reasonable allocation of indirect costs between production, resale, and other activities.

Treas. Reg. § 1.263A-1(d)(1) provides that self-constructed assets are assets produced by a taxpayer for use by the taxpayer in its trade or business. Self-constructed assets are subject to section 263A.

Treas. Reg. § 1.263A-1(e)(3)(ii)(O) includes repairs and maintenance (such as the cost of repairing and maintaining equipment or facilities) in the indirect costs required to be capitalized.

Treas. Reg. § 1.263A-1(e)(4)(i)(A) defines service costs as a type of indirect costs (e.g., general and administrative costs) that can be identified specifically with a service department or function or that directly benefits or are incurred by reason of a service department or function.

Treas. Reg. § 1.263A-1(e)(4)(i)(B) defines service departments as administrative, service, or support departments that incur service costs. The facts and circumstances of the taxpayer's activities and business organization control whether a department is a service department. For example, service departments include personnel, accounting, data processing, security, legal, and other similar departments.

Treas. Reg. § 1.263A-1(e)(4)(ii)(C) provides that mixed service costs are defined as service costs that are partially allocable to production or resale activities (capitalizable mixed service costs) and partially allocable to non-production or non-resale activities (deductible mixed service costs). For example, a personnel department may incur costs to recruit factory workers, the costs of which are allocable to production activities, and it may incur costs to develop wage, salary, and benefit policies, the costs of which are allocable to non-production activities.

Treas. Reg. § 1.263A-1(e)(4)(iv) provides examples of deductible service costs. Specifically, Treas. Reg. § 1.263A-1(e)(4)(iv) provides that costs are incurred in the following departments or function are not generally allocated to production or resale activities:

- (A) Departments or functions responsible for overall management of the taxpayer or for setting overall policy for all of the taxpayer's activities or trades or businesses, such as the board of directors (including their immediate staff), and the chief executive, financial, accounting, and legal officers (including their immediate staff) of the taxpayer, provided that no substantial part of the cost of such departments or functions benefit a particular production or resale activity.
- (B) Strategic business planning.
- (C) General financial accounting
- (D) General financial planning (including general budgeting) and financial management (including bank relations and cash management).



- (E) Personnel policy (such as establishing and managing personnel policy in general; developing wage, salary, and benefit policies; developing employee training programs unrelated to particular production or resale activities; negotiating with labor unions; and maintaining relations with retired workers).
- (F) Quality control policy.
- (G) Safety engineering policy.
- (H) Insurance or risk management policy (but not including bid or performance bonds or insurance related to activities associated with property produced or property acquired for resale).
- (I) Environmental management policy (except to the extent that the costs of any system or procedure benefits a particular production or resale activity).
- (J) General economic analysis and forecasting.
- (K) Internal audit.
- (L) Shareholder, public, and industrial relations.
- (M) Tax services.
- (N) Marketing, selling, or advertising.

Treas. Reg. § 1.263A-1(f)(3)(i)(A) permits the use of a burden rate method and provides that a burden rate method allocates an appropriate amount of indirect costs to property produced or property acquired for resale during a taxable year using predetermined rates that approximate the actual amount of indirect costs incurred by the taxpayer during the taxable year. Burden rates (such as ratios based on direct costs, hours, or similar items) may be developed by the taxpayer in accordance with acceptable accounting principles and applied in a reasonable manner. A taxpayer may allocate different indirect costs on the basis of different burden rates.

Treas. Reg. § 1.263A-1(f)(4) permits the use of any reasonable method to properly allocate direct and indirect costs among units of property produced or property acquired for resale during the taxable year.

Treas. Reg. § 1.263A-1(g)(4)(ii) provides a de minimis rule. Under this de minimis rule, for the purposes of administrative convenience, if 90 percent or more of a mixed service department's costs are deductible service costs, a taxpayer may elect not to allocate any portion of the service department's cost to property produced or property acquired for resale. For example, if 90 percent of the costs of an electing taxpayer's industrial relations department benefit the taxpayer's overall policy-making activities, the taxpayer is not required to allocate any portion of these costs to a production activity. Under this election, however, if 90 percent or more of a mixed service department's costs are capitalized service costs, a taxpayer must allocate 100 percent of the department's costs to the production or resale activity benefitted. For example, if 90 percent of the costs of an electing taxpayer's accounting department benefit the taxpayer's manufacturing activity, the taxpayer must allocate 100 percent of the costs of the account department to the manufacturing activity. An election under this paragraph (g)(4)(ii) applies to all of a taxpayer's mixed service departments and constitutes the adoption of a (or a change in) method of accounting under section 446.

Treas. Reg. § 1.263A-1(j)(1)(i) provides that a taxpayer subject to section 263A must capitalize an arm's-length charge for any section 263A costs (e.g., costs of materials, labor, or services) incurred by a related person that are properly allocable to the property produced or property acquired for resale by the taxpayer. Both the taxpayer and the related person must account for the transaction as if an arm's-length charge had been incurred by the taxpayer with respect to its property produced or property acquired for resale. For purposes of this paragraph (j)(1)(i), a taxpayer is considered related to another person if the taxpayer and such person are described in section 482. Further, for purposes of this paragraph (j)(1)(i), arm's-length

charge means the arm's-length charge (or other appropriate charge where permitted and applicable) under the principles of section 482. Any correlative adjustments necessary because of the arm's-length charge requirement of this paragraph (j)(1)(i) shall be determined under the principles of section 482.

Beginning in 2000, a number of electric and gas utilities changed to the simplified service cost method ("SSCM") of accounting in order to determine the amount of mixed service costs allocable to self-constructed assets. See, generally, Treas. Reg. § 1.263A-1(h). In 2005, the IRS eliminated the availability of the SSCM to determine the amount of mixed service costs allocable to the self-constructed assets proposed by electric and gas companies. Rev. Rul. 2005-53, 205-35 I.R.C. 425; T.D. 9217, 2005-37 I.R.B. 498. Thus, beginning in 2005, electric and gas utilities used a variety of facts and circumstances methodologies to determine the amount of mixed service costs allocable to self-constructed assets. Some companies employed methods specifically set forth in the section 263A regulations, other companies employed self-developed methods, and yet other companies followed the financial accounting method for tax purposes.

Until September 2009, there was significant controversy regarding what methods were available to utilities to determine the amount of mixed service costs allocable to self-constructed assets. On September 15, 2009, the IRS' Large and Mid-sized Business Division ("LMSB") (subsequently, the Large Business and International Division ("LB&I")) issued Industry Director Directive Mixed Service Costs #5 (LMSB-04-0809-033) ("IDD #5"). In IDD #5, LMSB set forth an example of a mixed service costs method considered relatively less significant to compliance priorities ("the IDD Method"). Since the issuance of IDD #5, LB&I has allowed a number of companies to use the IDD Method and has encouraged other utilities to accept exam-imposed changes to the IDD Method.

In October 2014, LB&I issued a supplemental Industry Director Directive to examiners regarding the IDD Method, Allocating Mixed Service Costs Under I.R.C. Section 263A to Certain Self-Constructed Property of Electric and Natural Gas Utilities (LB&I-LB7I-04-0814-007). The 2014 guidance applies to electric utilities, natural gas utilities, and combined electric and natural gas utilities and provides guidance in determining whether a taxpayer's method for allocating mixed service costs to certain self-constructed tangible personal property is appropriate and should not be challenged. The Applicant's proposed method of accounting is consistent with the IDD Method described in the above cited LB&I directives.

## **Part II, Question 17 – Book-Tax Conformity**

The Applicant will not use the proposed method of account for its books and records or its financial statements because the proposed method does not conform to Generally Accepted Accounting Principles ("GAAP").

## **Part IV, Question 26 – Section 481(a) Adjustment**

The net negative I.R.C. § 481(a) adjustment is (\$136,736,790) and constitutes a decrease to taxable income. The net I.R.C. § 481(a) adjustment is equal to the difference as of the beginning of the year of change between the adjusted basis of self-constructed assets as revalued using the Applicant's proposed method and the adjusted basis of the property as originally valued using the Applicant's former method. The Applicant is using a three-year averaging convention similar to the three-year revaluation method in Treas. Reg. § 1.263A-7(d)(2) to determine the amount of mixed service costs capitalizable from 2000 through 2015.

**Schedule D, Part III, Section A**

*The method of allocating (1) direct and indirect costs.*

The Applicant’s present method of allocating direct material and physical labor costs to the production of self-constructed assets (including generation, electric transmission and distribution, and gas distribution plant assets, where applicable), or generation, transmission, and distribution of electricity (where applicable) is a method where direct material or physical labor costs are traced to a cost objective, such as a function, department, activity, or product on the basis of a cause and effect or other reasonable relationship between the costs and the cost objective. The Applicant does not propose to change these methods.

The Applicant’s present method of allocating indirect costs, other than mixed service costs, is a method where indirect costs are traced to a cost objective such as function, department, activity or product, on the basis of a cause and effect or other reasonable relationship between the costs and the cost objective. Those costs traced to the cost objectives related to the production of self-constructed assets (including generation, electric transmission and distribution, and gas distribution plant assets, where applicable) will be capitalized and those costs traced to the cost objectives related to the generation, electric transmission and distribution activities will be included in the inventoriable costs of electricity, where applicable. The Applicant does not propose to change these methods.

*The method of (2) allocating mixed service costs and (3) capitalizing additional I.R.C. § 263A costs.*

The Applicant’s present method of allocating mixed service costs uses reasonable factors and relationships to allocate the total costs of all mixed service departments to other departments or activities and from those departments or activities ultimately to particular activities. The Applicant proposes to allocate mixed service costs to self-constructed assets (including generation, electric transmission and distribution, and gas distribution plant assets, where applicable) using the method of accounting provided for, and being applied by, LB&I pursuant to the IDD method. Under this method, the Applicant will identify all mixed service costs as: Companywide Mixed Service Costs (“CW MSCs”), Electric Transmission & Distribution, Engineering Mixed Service Costs, Electric Transmission & Distribution Mixed Service Costs (non-engineering), Gas Mixed Service Costs, Fleet Mixed Service Costs, and Stores Mixed Service Costs.

CW MSCs will be allocated to the Generation, Electric Transmission & Distribution, and Gas Distribution Functions using the following Headcount ratios:

<u>Generation Employee Headcount</u>	x CW MSCs	=	CW MSCs allocable to Generation
Total Headcount			
<u>T&amp;D Employee Headcount</u>	x CW MSCs	=	CW MSCs allocable to Electric T&D
Total Headcount			
<u>Gas Employee Headcount</u>	x CW MSCs	=	CW MSCs allocable to Gas Distribution
Total Headcount			

Then the CW MSCs allocable to generation will be added to any Generation Mixed Service costs (“GMSCs”). The sum of these amounts is the Total Generation Mixed Service Costs (“TGMSCs”). The capitalizable portion of the Total GMSCs will be determined under the following ratio:

<u>Generation Production Headcount</u>	x TGMSCs	=	Capitalizable GMSCs
Total Generation Headcount			

The CW MSCs allocable to electric transmission and distribution will be added to the non-Engineering Mixed Service costs. The sum of these amounts is the Total Electric Transmission and Distribution Mixed Service Costs (“Total TDMSCs (non-eng)”). The capitalizable portion of the Total TDMCs (non-eng) will be determined under the following ratio:

$$\frac{\text{T\&D Production Headcount}}{\text{Total T\&D Headcount}} \times \text{Total TDMSCs (non-eng)} = \text{Capitalizable TDMCs (non-eng)}$$

The capitalizable portion of Electric Transmission and Distribution Engineering Mixed Service costs (“Total TDMSCs (eng)”) will be determined under the following ratio:

$$\frac{\text{T\&D Production Headcount}}{\text{Total T\&D Headcount (less metering \& customer serv)}} \times \text{Total TDMSCs (eng)} = \text{Capitalizable TDMSCs (eng)}$$

The CW MSCs allocable to Gas Distribution will be added to the Gas Distribution Mixed Service Costs. The sum of these amounts is the Total Gas Distribution Mixed Service Costs (Total Gas MSCs). The capitalizable portion of the Total Gas Distribution MSCs will be determined under the following ratio:

$$\frac{\text{Gas Production Headcount}}{\text{Total Gas Headcount (less customer collection headcount)}} \times \text{Total Gas MSCs} = \text{Capitalizable Gas MSCs}$$

The denominator of this ratio is reduced by the number of the employees engaged in meter reading and customer collections because engineering does not provide support to these functions.

The capitalizable portion of Fleet Mixed Service Costs and Stores Mixed Service Costs will be determined under headcount ratios in which the numerator includes the production employees benefitting from these departments and the denominator includes the total employees benefitting by these departments. The Applicant will use a single ratio for Fleet and single ratio for Stores.

The sum of the Capitalizable Generation Mixed Service Costs, the Capitalizable Engineering Electric Transmission and Distribution Mixed Service Costs, the Capitalizable Electric Transmission and Distribution Mixed Service Costs (non-engineering), the Capitalizable Gas Distribution Mixed Service Costs, the Capitalizable Fleet Mixed Service Costs, and the Capitalizable Stores Mixed Service Costs is the Total Capitalizable Mixed Service Costs. The amount of the Total Capitalizable Mixed Service Costs allocable and capitalizable to self-constructed assets is determined under the following production ratio:

$$\frac{\text{Total 263A SCA Costs}}{\text{Total 263A SCA Costs} + \text{263A Costs of Electricity/Gas Sold} - (\text{Costs of Purchased Power/Gas} * 50\%) - \text{MSCs Capitalized} - \text{Interest Capitalized to SCA}}$$

Under this ratio the Total 263A SCA Costs are the total tax basis costs of constructing assets (less interest and mixed service costs). The Costs of Produced Power/Gas are the costs, other than the acquisition cost of purchased power or purchased gas and other than mixed service costs, required to be capitalized under section 263A. The Costs of Purchased Power/Gas are the acquisition costs of purchased electricity and gas.

**Request for Facsimile Transmission Pursuant to Section 9.04(3) of Rev. Proc. 2020-1**

The Applicant hereby requests that a facsimile transmission of any document related to this Form 3115 be sent to the Applicant as follows:

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Daniel Loutzenhiser	(509) 777-5642

<b>Applicant's Representatives</b>	<b>Fax Number</b>
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