

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

AVISTA CORPORATION, d/b/a  
AVISTA UTILITIES,

Petitioner,

For an Accounting Order Approving  
Accounting Change to Flow-Through  
Method for Regulatory Purposes for  
Federal Income Tax Expense associated  
with Industry Director Directive No. 5 and  
Meters; and Defer Benefits Associated  
with the Change in Tax Expense and  
Future Annual Benefits.

DOCKETS UE-200895 and UG-200896

ORDER 01

GRANTING ACCOUNTING  
PETITION

**BACKGROUND**

- 1 On October 30, 2020, Avista Corporation, d/b/a Avista Utilities, (Avista or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition seeking an accounting order authorizing the Company to: (1) change its accounting method from normalization to flow-through for regulatory purposes for federal income tax expense associated with Industry Director Directive No. 5 (IDD #5) and meters; and (2) defer the associated change in tax expense and future annual benefits (Petition).
- 2 In October 2020, Avista filed an automatic consent application with the Internal Revenue Service (IRS) to change its accounting treatment for IDD #5 mixed service costs and for meters from capitalization to expense for federal income tax purposes. The Company seeks consistent treatment of federal income tax expense for IDD #5 and meters in Washington, Idaho, and Oregon due to its tax depreciation system.<sup>1</sup>

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<sup>1</sup> This treatment is consistent with similar petitions filed in Oregon and Idaho. Idaho granted Avista's request on February 1, 2021. The petition filed in Oregon is pending.

3 Avista's Petition requests the Commission: (1) authorize changing the Company's  
accounting method from normalization to flow-through for certain assets<sup>2</sup>, and (2) allow  
Avista to defer for later ratemaking treatment the tax benefits associated with the change.  
Avista's change in its tax accounting methodology has the effect of re-classifying the  
affected assets as unprotected and granting deferred accounting in Washington for the tax  
benefits, which would preserve the Commission's ability to later determine the timeframe  
over which these benefits should be returned to ratepayers.

4 The Commission has not received any customer comments related to the Petition.

5 Commission staff (Staff) has reviewed supporting documentation and believes that  
Avista's Petition is reasonable and will facilitate the Commission's ability to decide how  
it would like to provide customer refunds of these tax benefits and allows other states to  
flow the benefit to customers immediately. Staff also notes that the Commission may  
decide how it would like to treat the unprotected accumulated deferred federal income tax  
(ADFIT) and excess deferred income tax (EDIT) in Avista's pending general rate case in  
consolidated Dockets UE-200900 and UG-200901. Therefore, Staff recommends that the  
Commission grant the Company's Petition.

### DISCUSSION AND DECISION

6 We agree with Staff that it is reasonable to grant Avista's request for flow-through  
treatment of IDD #5 and meters, and deferral of the associated and future annual tax  
benefits. The Company's filing with the IRS re-classified the affected assets as  
unprotected. By granting the Petition, it allows the Commission flexibility to determine  
how it will return tax benefits to customers and provides other states the ability to flow  
the benefit to customers immediately. Thus, the Commission will address the treatment of  
unprotected ADFIT and EDIT in Avista's pending general rate case.

7 Because the request allows flow-through treatment related to reclassified assets and  
defers the related tax benefit amount, Avista's proposed accounting treatment will have  
no impact on the Company's rates at this time. Accordingly, we find that the proposed

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<sup>2</sup> When using the normalization method, the associated accumulated deferred federal income tax (ADFIT) offsets rate base, thus lowering customers' rates. Consequently, the ADFIT reserves that "flow-through" are excluded from the rate base calculation because the tax benefit has already been provided to the customers.

accounting treatment is in the public interest and the Company's Petition should be granted.

### FINDINGS AND CONCLUSIONS

- 8 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric and natural gas companies.
- 9 (2) Avista is an electric and natural gas company and a public service company subject to Commission jurisdiction.
- 10 (3) WAC 480-07-370(3) allows companies to file petitions, including that for which Avista seeks approval.
- 11 (4) The Commission has reviewed the Company's Petition and related supporting documentation filed in Dockets UE-200895 and UG-200896.
- 12 (5) This matter came before the Commission at a regularly scheduled open meeting on March 11, 2021.
- 13 (6) After reviewing Avista's Petition filed in Dockets UE-200895 and UG- 200896 on October 30, 2020, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Company's Petition is consistent with the public interest and should be granted.

### ORDER

#### THE COMMISSION ORDERS:

- 14 (1) Avista Corporation's, d/b/a Avista Utilities, request to (1) change its accounting method for regulatory purposes for federal income tax expense associated with IDD #5 and meters; and (2) defer the associated change in tax expense and future annual benefits is granted.
- 15 (2) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. This Order shall not be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.

*16* (3) The Commission retains jurisdiction over the subject matter and Avista Corporation, d/b/a Avista Utilities, to effectuate the provisions of this Order.

*17* The Commissioners, having determined this Order to be consistent with the public interest, directed the Secretary to enter this Order.

DATED at Lacey, Washington, and effective March 11, 2021.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARK L. JOHNSON  
Executive Director and Secretary