BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of Avista Corporation, d/b/a Avista Utilities For an Order Authorizing Deferral Accounting And Accounting Order Related to Non-Contributory Defined Benefit Pension Plans	)))))))	Docket No. UE-22______ Docket No. UG-22______ PETITION OF AVISTA CORPORATION

I. INTRODUCTION

1 In accordance with WAC 480-07-370(3), WAC 480-100-203(3) and WAC 480-90-203(3), Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Washington Utilities and Transportation Commission (Commission) for an order to: (1) defer the expected impacts associated with the occurrence of pension events as discussed below; and (2) immediately amortize the impact of pension events (i.e., the increase or reduction in regulatory assets or liabilities) to expense over the same period used to amortize the underlying regulatory assets or liabilities, such that there is no impact to customer rates. Together, these requests allow the company to account for the impact of pension events, such as settlements and curtailments, in a manner that closely approximates the amortization that would have continued but for the accelerated recognition required by standard accounting principles as a result of a pension event.

2 For financial reporting on its employer-sponsored retirement plans, referred to as non-contributory defined benefit pension plans, Avista typically records certain pension-related costs and credits as a regulatory asset or liability and amortizes the balance over the actuarial

remaining life expectancy of pension plan participants. This allows for smooth recognition of the unrecognized costs each year through consistent amortization expense.

3 If certain pension events occur, however, Accounting Standards Codification (ASC) 715-30, which is the Financial Accounting Standards Board (FASB) accounting standard governing defined benefit pension plans, requires Avista to recognize portions of these otherwise amortizable costs in earnings immediately rather than continuing to record such costs as a regulatory asset or liability for amortization over a period of years. Absent an order from the Commission, this will necessitate recording certain pension-related gains or losses in annual earnings in each such year, rather than amortizing these gains and losses over the expected life of plan participants.

4 One of these pension events will occur in 2022, triggering a requirement for Avista to recognize approximately $11 million (system) in pension-related losses for the year. Avista requests deferral of the 2022 pension settlement losses that, absent the ability to defer and amortize over the average remaining lives of plan participants, would be immediately recognized in the Company’s financial statements. Approval by this Commission of the proposed deferral treatment of the settlement losses as described in this petition/application, as well as approval to amortize the deferred settlement loss balance over approximately 12 years (the actuarial assumption of the remaining life expectancy of plan participants) would result in no impact to customers and continue to allow recovery of these costs consistent with recovery in rates today.

5 The requested order to defer this expense and to amortize these and similar costs going forward as a regulatory asset or liability, notwithstanding the occurrence of certain pension

events, will reduce interannual variability in pension costs for the remaining life of Avista's non-contributory defined benefit pension plans.

6 In addition, and as further described below, this request is not new to the Commission. Pacific Power & Light Company made a similar request to the Commission in 2018. As discussed, that petition was approved by the Commission (Docket UE-181042, Order 01).

7 Avista is a utility that provides service to approximately 405,000 electric customers and 370,000 natural gas customers in a 26,000 square-mile area in eastern Washington, northern Idaho, and Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its corporate headquarters.

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9 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, and WAC 480-07-370(1)(b).

II. BACKGROUND

A. Avista Defined Benefit Pension Plan

10 Avista has a defined benefit pension plan (Pension Plan) covering substantially all regular full-time employees at Avista Utilities that were hired prior to January 1, 2014.[1] As a part of the plan, qualifying employees may consider early retirement options, subject to Pension Plan provisions, beginning as early as age 55. Benefits are paid under several options specified in the Pension Plan. Such payments include life annuity benefits, social security level income, ten-year certain benefits, and lump sum cash payments. It is the last option, lump sum cash payments (or distributions), that is the driver behind this filing. As will be discussed in more detail below, lump sum distributions can lead to settlement accounting being triggered, which has occurred in 2022.

B. ***Funded Status on the Balance Sheet***

11 Accounting Standards Codification (ASC) 715-30 requires recognition of the funded status of the Pension Plan on the balance sheet, measured annually at the measurement date (typically December 31).[2] The funded status is the difference between the fair value of the Pension Plan assets and the projected benefit obligation. As of December 31, 2021 (the last Pension Plan measurement date), the Pension Plan had a funded status of ($9.1) million—meaning the fair value of the Pension Plans' assets were less than the Pension Plan's projected benefit obligations.

C. ***Net Periodic Benefit Costs***

12 Pension Plan costs are affected by, among other things:

- employee demographics (including age, compensation, and length of service by employees),
- the amount of cash contributions we make to the Pension Plan,
- the actual return on Pension Plan assets,

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[1] For substantially all regular non-union full-time employees who were hired on or after January 1, 2014 and all Local 659 union employees hired after April 1, 2014, an enhanced defined contribution 401(k) plan replaced the Pension Plan. This changed the risk profile of the Pension Plan.

[2] https://asc.fasb.org/1943274/2147480243

- expected return on Pension Plan assets,
- discount rate used in determining the projected benefit obligation and Pension Plan costs,
- assumed rate of increase in employee compensation,
- life expectancy of participants and other beneficiaries, and
- expected method of payment (lump sum or annuity) of pension benefits.

13 Avista makes estimates and assumptions as to many of these factors. In accordance with ASC 715-30, changes in Pension Plan obligations associated with these factors may not be immediately recognized as pension costs, but are generally recognized in future years over the remaining average service period of Pension Plan participants. As such, costs recorded in any period may not reflect the actual level of cash benefits provided to Pension Plan participants. The amount to be recognized by Avista as the cost of a Pension Plan is comprised of the following components:

- Service cost - represents the cost of benefits attributable to service performed by employees during the period. Service cost is the actuarial present value of projected benefits attributed to the current period based on the pension benefit formula, including the effect of a substantive commitment to amend the plan.

- Interest cost - represents the portion of net benefit cost attributable to the cost of "carrying" the pension obligation from one period to the next. The projected benefit obligation is measured at present value, using a discount rate representing the time value of money. Thus, the interest cost component of pension cost is the increase in the projected benefit obligation due to the passage of time.

- Expected return on plan assets - represents the portion of net benefit cost attributable to the expected increase in the value of plan assets over the course of the period. The expected return on plan assets is the product of the expected long-term rate of return on plan assets and the market-related value of plan assets.

- Amortization of prior service cost/credit - represents the amortization of any balances previously recorded in accumulated other comprehensive income (AOCI) or regulatory asset/liability as a result of plan amendments.

- Amortization of gains and losses - represents the amortization of past actuarial gains and losses recorded in AOCI or regulatory asset/liability as a result of changes in actuarial assumptions such as the discount rate and the difference between actual and expected experience, such as the return on plan assets.

D. Unrecognized Net Periodic Benefit Costs (Past Actuarial Gains and Losses)

14 An unrecognized gain or loss can result from a change in either the value of plan assets different from that assumed (i.e., the expected return on plan assets) or the projected benefit obligation resulting from actuarial experience different from that assumed, as well as changes in discount rates and/or differences related to demographic experience. ASC 715 does not make a distinction between gains and losses arising from investment activities related to plan assets and those arising from changes in actuarial assumptions and experience different from what was assumed. Gains and losses arise at the time a remeasurement of the plan occurs. Unless a reporting entity has chosen to immediately recognize those gains and losses, they are charged or credited directly to Accumulated Other Comprehensive Income (AOCI). The amount of AOCI on Avista's December 31, 2021 balance sheet would have been a loss of $109.2 million prior to the application of regulatory accounting as described below.

15 Avista, as a regulated entity, applies the provisions of ASC 980-Regulated Operations and therefore records as a regulatory asset or liability amounts otherwise charged/credited to AOCI if it is probable that the amounts will be recovered in future rates. As of December 31, 2021, Avista's pension plan had an unrecognized net periodic benefit costs of $107 million, which was reflected as a regulatory asset. In addition, Avista had unrecognized prior service costs of $2.2 million as of December 31, 2021. Under ASC 715-30, Avista amortizes the unrecognized net losses over approximately 12 years, which represents the actuarial assumption of the remaining life expectancy of plan participants (remeasured annually by the Avista's actuaries). This allows for smooth recognition of the unrecognized costs rather than immediately recognizing the actuarial gains or losses as they arise.

E. Pension Plan Events that Impact Amortization of Unrecognized Costs

16 Under ASC 715, pension settlement and curtailment events change the timing for recognizing previously unrecognized net periodic benefit costs in earnings, requiring immediate recognition rather than recognition over time. This Application before the Commission pertains only to a pension settlement event. A settlement is a transaction that (a) is an irrevocable action, (b) relieves the employer (or plan) of primary responsibility for a pension obligation, and (c) eliminates significant risk related to the obligation and the assets used to affect the settlement. For example, a pension benefit obligation may be settled by making lump-sum cash payments to participants, or by purchasing nonparticipating (and certain participating) annuity contracts for vested benefits. Under ASC 715-30-35-82, any gain or loss from a settlement must be recognized in earnings "if the cost of all settlements during a year is greater than the sum of the service cost and interest cost components of net periodic pension cost for the pension plan for the year."

17 An entity that adopts an accounting policy to apply settlement accounting to one or more settlements that are below the service-and-interest-cost threshold must apply this policy to all settlements. ASC 715 requires immediate recognition in earnings of a pro rata portion of the unrecognized actuarial gains or losses recorded in AOCI or as a regulatory asset. The amount that is reclassified from AOCI or the regulatory asset when this occurs is not a new cost; it is merely an acceleration of the recognition of the cost in earnings. In other words, a portion of the net regulatory asset (or AOCI) is triggered for immediate recognition rather than continuing to be amortized to expense over time (the actuarial life expectancy of plan participants). If settlement accounting is triggered prior to the last month of the fiscal year, every lump sum distribution after the initial triggering event will result in additional settlement loss accounting and need to be

recorded no later than at the time of the annual year end remeasurement (i.e., all lump sum distributions above $48.8 million as described in Section D is subject to settlement accounting).

18 Through November 2022, lump sum distributions in the Avista Retirement Plan totaled $60.4 million. As such, 2022 lump sum distributions surpassed the $48.8 million settlement accounting service plus interest cost threshold for the plan in 2022. As a result of the distributions exceeding this threshold, settlement accounting was triggered, consistent with ASC 715, requiring remeasurement and accelerated recognition of a portion of net unrecognized losses.

19 Avista's actuaries will perform the remeasurement and compute the settlement loss in accordance with ASC 715-30 by applying the percentage reduction of pension liabilities settled to the net unrecognized losses. The 2022 settlement loss is estimated to be approximately $11 million, but the actual settlement loss will differ from this estimate after final actuarial calculations for 2022 are performed. If approved, Avista will notify Commission Staff of the final amount of the settlement losses for 2022 once known.

III. PREVIOUS COMMISSION DETERMINATIONS

20 The Company's request in this matter is not new to the Commission. In Docket UE-181042, Pacific Power & Light Company (Pacific Power) filed for an "Accounting Order Approving Deferred Accounting Related to Non-Contributory Defined Benefit Pension Plans" whereby Pacific Power sought "an accounting order authorizing the Company to: (1) defer the impacts associated with the occurrence of pension events, and (2) amortize the impact of pension events (i.e., the increase or reduction in regulatory assets or liabilities) over the same period used to amortize the underlying regulatory assets or liabilities".[3] Their request is similar to this request.

[3] Docket UE-181042, Order 01, ¶1.

21 Commission Staff (Staff) reviewed Pacific Power's request, and had the following findings:[4]

> Commission Staff (Staff) believes this practice is consistent with regulatory accounting theory that aims to spread the recognition of extraordinary and non-recurring costs and revenues in a manner that avoids unfairly assigning costs or revenues to one generation of ratepayers. Staff also points out that if the Commission were to deny the Company's request, the immediate recognition of the impact of pension-related events could have the undesirable effect of requiring a regulated utility to recognize large pension-related losses in a single year rather than matching those losses to the offsetting gains that the Company will experience over time through lower annual pension benefit expense.

22 Ultimately the Commission granted Pacific Power's petition. The Commission noted that it "agree[s] with Staff that Pacific Power's proposal to continue its accounting treatment, enabling the Company to continue to spread the effect of pension events over a number of years rather than recognizing the effect of those pension events in full in a single year, is appropriate."[5]

IV. PROPOSED ACCOUNTING TREATMENT

23 Avista is requesting to defer 2022 pension settlement losses that would otherwise trigger immediate recognition of a pro rata portion of net actuarial losses currently reflected as a net regulatory asset. Avista proposes to begin to amortize this deferral over the same period that is used to amortize the underlying net regulatory asset and continue to recover the annual amortization amount in rates as part of pension cost consistent with current recovery. Avista proposes to begin amortizing the balance the month subsequent to the remeasurement of the pension plans' funded status as a result of the settlement. For example, with the threshold expected to be exceeded in December 2022, Avista's actuaries will remeasure the funded status as of

[4] Id., ¶5
[5] Id., ¶7

December 31, 2022, with the results recorded by Avista in December 2022. In this example, Avista would begin to amortize the deferral January 1, 2023, the same month when new pension expense will be reflected subsequent to the December 31, 2022 remeasurement.

24 If the Commission approves this petition, Avista proposes to record deferred amounts in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit). In addition, the Company would then, following the month of recording the Other Regulatory Asset, begin amortizing the Other Regulatory Asset balance monthly over approximately 12 years, crediting FERC Account 182.3 (Other Regulatory Assets) and debiting FERC Account 407.X (Regulatory Debit). Approval of this accounting treatment as proposed by the Company would result in no impact to customers. In the absence of approval of this Petition, Avista would record the immediate recognition of a pro rata portion of actuarial losses and gains in Account 926, Employee Pensions and Benefits.[6]

V. REQUEST FOR RELIEF

25 As discussed above, Avista requests deferral of the 2022 pension settlement losses that, absent the ability to defer and amortize over the average remaining lives of plan participants, would be immediately recognized on the Company's income statement. Approval by this Commission of the proposed deferral treatment of the settlement losses as described in this petition/application, as well as approval to amortize the deferred settlement loss balance over approximately 12 years (the actuarial assumption of the remaining life expectancy of plan

[6] Beginning with Docket Nos. UE-140188 and UG-140189 the Commission approved the inclusion of balance sheet accounts related to pension and post retirement asset, liabilities and the associated deferred federal income tax balances ("post-retirement benefits") within Investor Supplied Working Capital ("ISWC"). If approved, the FERC Account 182.3 (Other Regulatory Assets) associated with the pension asset/liability would also be included in ISWC consistent with current treatment.

participants) would result in no impact to customers and continue to allow recovery of these costs consistent with recovery in rates today.

26 WHEREFORE, Avista respectfully requests that the Commission issue an accounting order authorizing the Company to (1) defer the expected impacts associated with the occurrence of pension events; and (2) amortize the impact of pension events (i.e., the increase or reduction in regulatory assets or liabilities) to expense over the same period used to amortize the underlying regulatory assets or liabilities, with the opportunity for rate recovery of the net periodic benefit costs.

DATED this 6th day of December, 2022

By: ______________________________
Patrick D. Ehrbar
Director of Regulatory Affairs