Avista Corp.
1411 East Mission, P.O. Box 3727
Spokane, Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

October 8, 2026

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Salem, OR 97301-3612

Re: Docket No. AR 676 – Avista Utilities' Other Costs Pre-Read

Filing Center:

Avista Corporation, dba Avista Utilities (Avista or the Company), hereby submits for filing with the Oregon Public Utility Commission (Commission) its other costs pre-read, as requested by Commission Staff in their AR 676 Phase 2 workplan. If you have any questions regarding this filing, please contact me at (509) 495-2782 or shawn.bonfield@avistacorp.com

Sincerely,

/s/ *Shawn Bonfield*

Shawn Bonfield
Sr. Manager, Regulatory Policy & Strategy

AR 676

OTHER Expense Cost Recovery

Avista Pre-Read

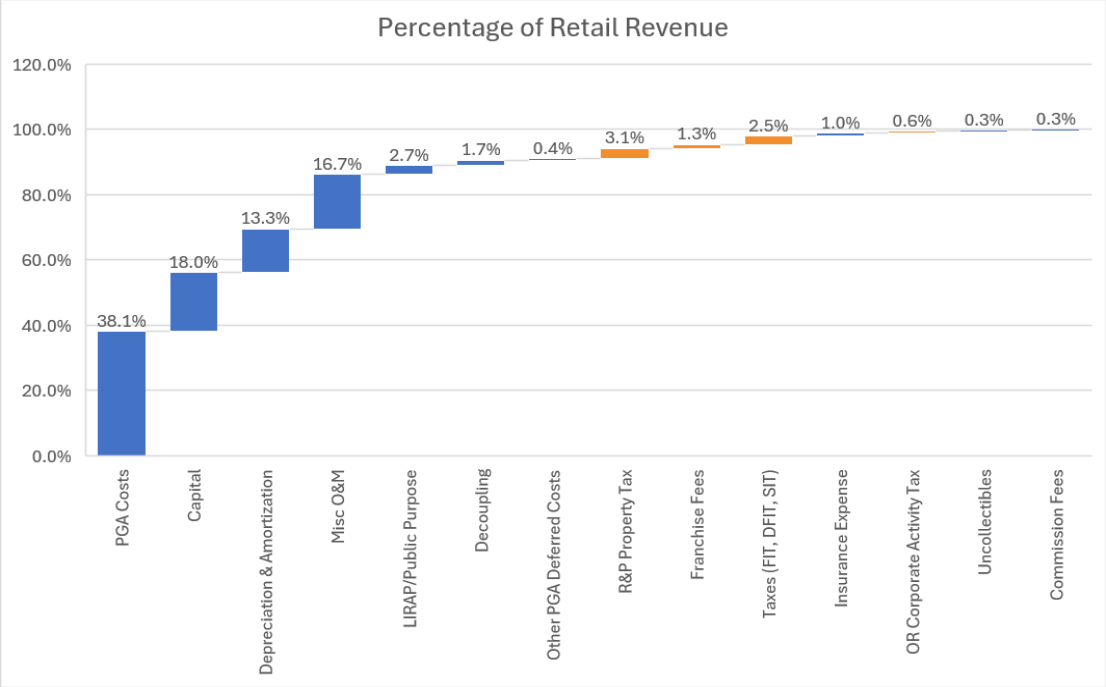
1. Purpose and Guiding Principle

Avista believes the starting point for costs categorized as "Other" under a Multi-Year Rate Plan should be straightforward: going-in rates should reflect the best available estimate of the actual costs customers will be responsible for during the rate-effective period. This is consistent with Avista's broader AR 676 position that first-year rates should closely reflect expected actual costs using known and measurable information rather than relying unnecessarily on generalized escalation assumptions.

Staff's current concept similarly describes the primary MRP approach as establishing going-in rates for the test year and then adjusting revenues annually using indices, while recognizing that certain cost types and circumstances may warrant forecasting, normalization, Z-factors, reopeners, or other alternative approaches.

For the Other category, primarily taxes, Avista believes that distinction is important because the category can include costs that do not behave like most other inflation-driven operating expenses.

For broader context, the chart below illustrates broad cost categories as a percentage of total retail revenue for Avista from its last general rate case filing (UG-519).



2. Taxes Are the Primary Focus Within "Other"

For Avista, taxes are the primary cost category that merits specific consideration within Other. Avista's historical rate-case methodology already recognizes that taxes should not automatically be treated like generic O&M: for example, property taxes have been forecast using detailed, cost-specific information rather than a general CPI adjustment, while Avista's Oregon cost presentation separately identifies other taxes such as CAT and franchise fees. That distinction matters because taxes are fundamentally driven by law, governmental action, taxable bases, tax rates, regulatory treatment, and timing. They therefore may change for reasons that have little or no relationship to inflation. The objective should be to put the appropriate expected tax expense into going-in rates whenever reasonably known, rather than knowingly beginning an MRP with a mismatch that may persist or compound during the plan.

3. Flexibility Is Particularly Important for Tax Costs

The MRP framework should preserve sufficient flexibility to address material tax changes that cannot reasonably be reflected when going-in rates are established. Unlike many recurring expenses, tax obligations can change materially and abruptly through:

- federal or state legislation;
- changes in tax rates or tax bases;
- new or modified state and local taxes;
- changes in regulatory or tax-accounting requirements; and
- other governmental actions outside a utility's control.

Consequently, Avista recommends avoiding a rigid rule that assumes every tax-related cost can be adequately addressed through a predetermined inflation index for the full MRP term. Staff's framework already recognizes the broader principle that some scenarios may need mechanisms outside ordinary annual indexing, including Z-factors and reopeners. The appropriate framework should therefore combine accurate going-in rates with the ability to address significant, externally driven tax changes when they occur.

4. Why Flexibility Matters

The Tax Cuts and Jobs Act of 2017 (TCJA) provides a useful illustration. The TCJA reduced the federal corporate income-tax rate from 35% to 21% effective January 1, 2018, which affected both ongoing utility income-tax expense and accumulated deferred income taxes (ADIT). The change was sufficiently significant that FERC undertook specific ratemaking actions intended to ensure that customers received the benefit of the lower federal tax rate and to establish treatment of excess and deficient ADIT. The implementation issues were not simply a matter of applying a different percentage to an inflation formula. The IRS subsequently addressed normalization requirements associated with excess tax reserves created by the TCJA and specifically identified ratemaking questions arising from the corporate tax-rate change. That experience illustrates the benefit of regulatory flexibility in both directions. If tax law produces a material reduction in costs, the framework should allow those benefits to flow appropriately to customers. Conversely, if future legislation imposes material incremental tax costs, a utility should have a reasonable mechanism to reflect those costs without waiting until the next general rate case.

5. Other Deferrals - Climate Protection Program Costs Should Be Recovered Outside the MRP Framework

Compliance costs associated with the Climate Protection Program (CPP) should be recovered outside the MRP framework. These costs are driven by regulatory requirements, compliance obligations, and program implementation decisions rather than the ordinary inflationary factors that annual MRP adjustments are designed to address. While these costs are small today, they are expected to increase dramatically in the future. A separate recovery mechanism would allow CPP costs to be updated based on actual or reasonably forecast compliance requirements, provide transparency into the underlying cost drivers, and support timely regulatory review. Keeping these costs outside the MRP also reduces the risk that customers or the utility will bear material differences between indexed amounts and actual compliance costs. As the Company has mentioned elsewhere, AR 676 will be a living docket, and perhaps in the future costs like these could be included in the MYRP framework. Too little is known at this time, however, to have them included.

6. Recommended Treatment

Avista recommends that the AR 676 framework apply the following principles to **Other** costs:

1. **Get going-in rates right.** Use the best available known and measurable information to establish representative tax and other material costs at the beginning of an MRP, consistent with Avista's existing AR 676 approach. 1
2. **Treat taxes according to their underlying drivers.** Do not presume that a broad inflation index adequately represents costs determined by tax statutes, tax rates, taxable bases, or other governmental action.
3. **Use normal MRP adjustments where reasonable.** Routine or predictable costs can remain within the generally applicable framework.
4. **Preserve flexibility for material tax changes.** The rules should permit an appropriate alternative mechanism when a significant change in tax law or tax treatment occurs after going-in rates are established.
5. **Maintain symmetry for customers and utilities.** A mechanism should be capable of addressing material decreases as well as increases in tax costs. The TCJA demonstrates why that symmetry is important: its reduction in the federal corporate tax rate ultimately required corresponding ratemaking treatment so that tax benefits could be returned to customers.