

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)
Avista Corporation, d/b/a Avista Utilities) Docket No. UE-16 _____
For an Order Authorizing Deferred Accounting) PETITION OF AVISTA
Treatment related to the Undepreciated Net Book) CORPORATION
Value of the Company's Existing Electric Meters)
_____)

I. INTRODUCTION

1 In accordance with WAC 480-100-203(3), Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Commission for an Order authorizing the deferred accounting treatment detailed in this Petition related to the undepreciated net book value of the Company's existing electric meters.

2 Avista is a utility that provides service to approximately 370,000 electric customers and 232,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 98,000 natural gas customers in Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its main office. Please direct all correspondence related to this Petition as follows:

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3 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

4 In the Company's 2015 general rate case (Docket Nos. UE-150204 and UG-150205),
Avista presented its plans related to the deployment of Advanced Metering Infrastructure
(AMI) for its electric and natural gas customers in Washington. The AMI project will build
on the Company's experience with automated meter reading (AMR) in Idaho and Oregon, and
AMI in Pullman, Washington, to provide a range of customer benefits to all of Avista's
Washington operations. The project will deploy AMI to approximately 253,000 electric
customers and 155,000 natural gas customers.

5 AMI includes advanced electric meters that are digital meters capable of two-way
communication, and which are equipped with the ability to measure the incoming and
outgoing flow of electricity from a customer's premise in configurable intervals that range
from 5 minutes to an hour. This communication capability means the meter can remotely
transmit energy-use information to the utility and the customer, and can also receive and
respond to signals sent from the utility to the meter. Advanced meters themselves are only part
of an integrated metering system. The meter must be connected with specialized
communication networks and information management systems in order to deliver value to the
consumer. This entire system of meters, communications, and digital hardware and software
systems is referred to as advanced metering infrastructure.

6 Avista is planning to replace all of its existing Washington electric meters, the majority of
which are conventional electro-mechanical meters, with a new advanced meter. Existing

natural gas meters will be upgraded with a new digital communicating module. The natural gas meter itself will not be replaced.

7 Avista is committed to achieving a greater degree of customer satisfaction, and offering information and choices that help customers better understand and manage their energy costs. Advanced metering supports these goals by enabling a range of benefits that will improve the quality and cost-effectiveness of services they receive from Avista. These benefits include near real-time energy use information, energy alerts, more accurate billing, improved energy efficiency, theft-loss prevention and outage management, and remote service connectivity. And as the industry moves toward increased use of time-of-use and demand-based pricing, and with the greater prevalence of customer-owned distributed generation, Avista will have the technology to effectively evaluate and implement such programs.

8 Customers will experience benefits from the deployment of advanced metering in a variety of ways. These include improvements in service quality and customer experience and satisfaction, as well as those that serve to reduce operating costs of providing service. A brief description of some of these customer benefits is provided below:

1. Improved Customer Service

- a. Privacy – reduces the frequency of the need for utility personnel to physically visit the customer’s property.
- b. Improved Customer Experience – provides improved service levels in several areas as well as information that allows customers to better understand and manage their energy use.

2. Platform for Future Rate Options

- a. Rates, smart grid, distributed resources – provides the platform needed to implement grid upgrades, integrate increasing amounts of customer-owned generation, and to offer additional service and billing options in the future.

3. Customer Financial Benefits

- a. Energy efficiency – when coupled with energy conservation tips, enables the customer to implement cost effective efficiency measures.
- b. Reduced outage duration – better information helps us restore service more quickly, saving customers money.
- c. Eliminating manual meter reading – allows savings by implementing automated meter reading.
- d. Remote Rapid reconnection of service – significantly shortens the time required to reconnect electric service.
- e. Improved outage management – integrates with the outage management system to help allocate crews more efficiently, and provides a verification of service restoration without having to call the customer.
- f. Increased electrical system efficiency – allows the utility to reduce the amount of electricity required to maintain the required line voltage along each feeder.
- g. Reduced energy theft and unbilled usage – helps quickly identify meter tampering and energy theft, and reduce unbilled usage.
- h. Greater billing accuracy – reduces the potential for human error in reading, recording and entering meter data into the billing system, and eliminates the need to estimate bills when the meter may be inaccessible for manual reads.
- i. Better data for studies – provides better information and lowers the cost of performing various system studies.

9 To date Avista has developed the initial system requirements for the deployment of AMI, prepared requests for proposals (RFPs) for vendors, and evaluated bids in response to the RFPs. Avista has already selected vendors for advanced meters and supporting software systems, but has not yet executed agreements with the vendors.

10 The AMI Project is currently “on hold” pending the Commission’s decision on this accounting petition. If the accounting petition is approved, the installation of new communications and computer hardware and software systems that are required to enable AMI will begin immediately. The deployment of digital meters would begin in 2017. The Company plans to complete installation of residential meters in 2019. Final installation of

communications infrastructure is also scheduled to be completed in 2019. The plan is to complete the advanced metering project in 2020.¹

III. WUTC ORDER NO. 05 IN DOCKET NOS. UE-150204 AND UG-150205

11 In the Commission's Order No. 05 in Docket Nos. UE-150204 and UG-150205 the WUTC declined to rule on the prudence of Avista's AMI proposal, and stated as follows:²

We decline Avista's requested action because this issue is not ripe for Commission determination. The Commission's longstanding practice is to review the prudence of a utility's investment in plant after that plant is placed in service and is used and useful. (footnote omitted)

12 The Commission further stated that, "The responsibility for a decision to move forward with an investment rests with the Company."³ We agree. The decision to move forward with the AMI Project rests solely with the Company. We also agree the obligation to demonstrate that both the decision to move forward was prudent, and the costs of installation are prudent, rest solely with the Company, and we will proceed on that basis.

13 In Avista's general rate case filing in the above-referenced Dockets, the Company requested certain deferred accounting treatment related to the remaining investment in Avista's existing electric meters that will be replaced through the AMI Project. In its Order 05, the Commission did not approve the Company's proposed accounting treatment, and, among other things, stated as follows:⁴

¹ While the Company's plans are to complete the AMI project in 2020, it is possible that the completion of certain components may occur in early 2021.

² Docket Nos. UE-150204 and UG-150205, Order No. 5, ¶ 191.

³ *Id.* at ¶ 192.

⁴ *Id.* at ¶ 194.

Avista's discussion ignores the Commission's longstanding regulatory practice of reviewing and approving accounting petitions in a timely manner and deciding on the recovery of costs in a future proceeding.

The Commission further stated that:⁵

If the Company chooses to acquire new meters, it may file an accounting petition that requests the Commission issue an order determining whether the Company is allowed to defer the undepreciated amounts related to the replaced meters in a regulatory asset account. Our normal practice is to approve such a petition without undue delay, then decide on the recovery of costs in a future proceeding at which the Company must demonstrate that its acquisition was prudent and is used and useful.

14 The purpose of this accounting petition is to request such an order from the Commission; to establish a regulatory asset for the undepreciated amounts related to the existing electric meters that will be replaced through the AMI Project. The recovery of the costs associated with both the AMI Project and the costs of the existing meters would be addressed in a separate, future regulatory proceeding.

IV. REASON FOR PROPOSED ACCOUNTING TREATMENT

15 As mentioned earlier in this Petition, implementation of AMI will involve, among other things, the replacement of the existing electric meters. The Company plans to begin changing out meters in 2017, and needs to execute an agreement with a meter vendor in early 2016 in order to do so. When Avista executes an agreement with a meter vendor, it will be committing to remove and replace the existing electric meters with new meters. This commitment triggers, and requires, certain accounting to occur under Generally Accepted Accounting Principles (GAAP). The relevant accounting provision is Accounting Standard

⁵ *Id.* at ¶ 197.

Codification (ASC) 980-360-35. The full text of ASC 980-360-35 is attached as Attachment

A. ASC 980-360-35-1 states the following:

When it becomes probable (likely to occur) that an operating asset or an asset under construction will be abandoned, the cost of that asset shall be removed from construction work-in-process or plant-in-service. (emphasis added)

16 When Avista executes an agreement with a vendor to replace the existing electric meters, it will be “probable (likely to occur)” that the meters will be removed from service. In fact, after Avista executes an agreement the Company will, absent some unusual event, replace the electric meters, and the old meters will be sold for scrap and recycled, because there is no market for this volume of old mechanical and digital meters. In accordance with ASC 980-360-35, the execution of an agreement which involves a commitment for the replacement and disposition of the existing electric meters requires that the investment in the meter assets be “removed from plant in service.” Unless Avista has justification to record the investment in another asset account (i.e., a regulatory asset), it must be written off in the current period.

17 In January 2015, Deloitte, Avista’s independent outside audit firm, issued a report including a summary of the provisions of ASC 980-360. The relevant portion of the report is attached as Attachment B, and an excerpt from the report states the following:

ASC 980-360 states that when it becomes probable that an operating asset or an asset under construction will be abandoned, the associated cost should be “removed from construction work-in-process or plant-in-service.” ASC 980-360 further indicates that if the regulator is likely to provide a full return on the recoverable costs, a separate asset should be established with a value equal to the original carrying value of the abandoned asset less any disallowed costs. In practice, most companies have classified the separate asset as a regulatory asset or as a category of plant other than CWIP or plant in service. (emphasis added)

18 PricewaterhouseCoopers (PwC) also issued a report in 2013 addressing the provisions of ASC 980-360. The relevant excerpt from the PwC report is attached as Attachment C. With regard to ASC 980-360-35-1, the PwC report states the following:

A loss on abandonment should be recognized when it becomes probable that all or part of the cost of the asset will be disallowed from recovery in future rates and such amount is reasonably estimable. The amount, if any, that the regulated utility expects to recover should be recorded as a new regulatory asset. (emphasis added)

19 This guidance from PwC indicates that the investment in the existing electric meters that will be removed should be written off, unless there is an expectation that this investment will be recovered in the future. The last sentence in the quote above states, “The amount, if any, that the regulated utility expects to recover should be recorded as a new regulatory asset.”

20 The Federal Energy Regulatory Commission’s (FERC) Uniform System of Accounts provides guidance on the recording of “regulatory assets.” The full text of the provisions of FERC Account 182.3 is attached as Attachment D. Excerpts from the guidance are as follows:

A. This account shall include the amounts of regulatory-created assets, not includible in other accounts, resulting from the ratemaking actions of regulatory agencies. (See Definition No. 31.) (emphasis added)

D. The records supporting the entries to this account shall be kept so that the utility can furnish full information as to the nature and amount of each regulatory asset included in this account, including justification for inclusion of such amounts in this account. (emphasis added)

21 Paragraph A above is clear that the amounts recorded in this FERC account are the result of “actions of the regulatory agencies.” Paragraph A also refers to Definition 31 within the FERC system of accounts, which states the following:

31. *Regulatory Assets and Liabilities* are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains, or losses that would have been included in net income determination in

one period under the general requirements of the Uniform System of Accounts but for it being probable:

- A. that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or
- B. in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required. (emphasis added)

22 From the accounting guidance above from FERC, ASC 980-360-35, Deloitte, and PwC, it is important to know whether there is a reasonable expectation that the amounts will be recovered in future rates, based on a sufficient showing of prudence.

23 The accounting guidance does not use any form of the word “guarantee,” and therefore, there is no implication or assurance that all amounts recorded in a regulatory asset account will be recovered in a future period. Therefore, there is opportunity for the Commission to address the ultimate prudence and recoverability of amounts in a regulatory asset account in a future regulatory proceeding.

24 All of the foregoing accounting guidance from FERC, ASC 980-360-35, Deloitte and PwC is fully consistent with the direction provided to Avista by the Commission in its Order 05, where the Commission stated:⁶

If the Company chooses to acquire new meters, it may file an accounting petition that requests the Commission issue an order determining whether the Company is allowed to defer the undepreciated amounts related to the replaced meters in a regulatory asset account. Our normal practice is to approve such a petition without undue delay, then decide on the recovery of costs in a future proceeding at which the Company must demonstrate that its acquisition was prudent and is used and useful. (emphasis added)

V. REQUESTED ACCOUNTING TREATMENT

25 Avista’s net investment in Washington electric meters is approximately \$21 million (at December 31, 2015). Following approval of the accounting treatment in this petition, Avista

⁶ *Id.*

would execute agreements with vendors for meters and other supporting systems.⁷ Avista's plan is to begin installing these systems in early 2016, and to complete the Project in 2020.

Based on these plans, Avista requests approval of the following accounting treatment:

1. Immediately following execution of vendor agreements, Avista's analysis as shown in Attachment E, would be updated to determine the amount to record as a regulatory asset in FERC Account 182.3 – Other Regulatory Assets. The net plant investment dollar amount for the existing electric meters would be immediately transferred from net plant to a regulatory asset account, FERC Account 182.3.
2. The calculation of the proper amount to immediately record in Account 182.3 would involve a continuation of depreciation for those meters that remain in place during the 2017-2020 change-out period, e.g., for those meters that are not changed out until Year 3, the calculation of the regulatory asset would reflect a continuation of depreciation for those meters until Year 3.
3. The estimated amount to transfer from net plant to Account 182.3 is \$18.6 million. A schedule showing the 12/31/15 net plant meter investment of \$21 million, the continued depreciation of meters during the change-out period, and the estimated regulatory asset to be recorded immediately following execution of the meter agreement of \$18.6 million is shown in Attachment E.
4. The prudence and ultimate recovery of dollars recorded in the regulatory asset Account 182.3 would be addressed in a future regulatory proceeding.
5. Avista's new retail rates approved by the Commission effective January 11, 2016 include a return of (depreciation) and return on the existing electric meter investment, i.e., the existing meters are currently included in rate base. The Company is not requesting a separate return to accrue on the regulatory asset for 2016. However, beyond 2016, Avista is requesting that a rate of return continue to be earned on the unamortized balance of the regulatory asset until the balance is reduced to zero. Avista will propose an amortization period in its next general rate case, and when rate base is reset in 2017 at the conclusion of that case, the Company requests that a rate of return be accrued on the unamortized balance of the regulatory asset. As with the establishment of the regulatory asset, if there is not a reasonable expectation of a continuing return on the regulatory asset balance, a present value calculation would occur to determine the write-off. The estimated write-off for the Company would be approximately \$3.5 million, as shown in Attachment F.

⁷ Avista has already selected a meter and supporting systems vendors through RFP processes, but has not executed any agreements.

VI. REQUEST FOR RELIEF

26 WHEREFORE, Avista respectfully requests that the Commission issue an Order authorizing the deferred accounting treatment detailed in this Petition related to the undepreciated net book value of the Company's existing electric meters. The deferral would commence coincident with the signing of the new contract for AMI meters. No return would accrue on the regulatory asset balance for 2016, however, when rate base is reset in 2017 at the conclusion of Avista's next general rate case, a rate of return would accrue on the unamortized balance of the regulatory asset until the balance is reduced to zero.

DATED this 20th day of January 2016

By: 
Kelly O. Norwood
Vice President, State & Federal Regulation

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

Kelly O. Norwood, being first duly sworn on oath, deposes and says: That he is a Vice President of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Petition, knows the contents thereof, and believes the same to be true.

Kelly O. Norwood

SIGNED AND SWORN to before me on this 20th day of January 2016.



Patty L. Hanson

NOTARY PUBLIC in and for the State of Washington, residing at Spokane.

Commission Expires: 11/23/2017