

**2014 Capital Expenditure Final Report  
and  
2015 Capital Expenditure Plan Update**

**September 1, 2015**

**Provided Pursuant to Order No. 05  
Docket Nos. UE-140188 & UG-140189 (Consolidated)**



## Background

This report is being provided pursuant to the Washington Utilities and Transportation Commission Order No. 5 in Docket Nos. UE-140188 & UG-140189 (Consolidated). Paragraph 50 of that Order states:

Avista agrees to provide semi-annual reporting of 2014 and 2015 capital expenditures with actual data by expenditure request, in the categories provided in its pro forma “cross check” plant adjustments. The settling parties agree to meet no later than January 31, 2015, to establish any additional details of the capital reporting requirements.

The Company conferred with all Parties on January 26, 2015, to discuss the details of the capital reporting requirements. In addition to providing actual data by expenditure request, the parties agreed Avista would include details by expenditure request, a construction work in progress (CWIP) roll-forward; 2013-2015 expenditure request detail for capital spend and transfers-to-plant; business case description, and transfers to plant by service and jurisdiction. Avista would also breakout the actual and budgeted data provided in the CWIP roll-forward (2013-2017).

The capital budget for 2014 and 2015 that was approved by Avista’s Board of Directors in 2013 reflected a total Company budget for 2014 of \$331 million and for 2015 of \$355 million. These capital investment dollar amounts for 2014 and 2015 were reflected in Avista’s last general rate case<sup>1</sup>, and were part of the foundation for the Settlement Agreement approved by the Commission in December 2014. As discussed in this report, Avista spent approximately \$352 million in 2014, and currently plans to spend \$376 million in 2015.

### **1. Final report on 2014 Capital Expenditures**

Avista spent approximately \$352 million in 2014. As compared to the \$331 million originally budgeted for 2014, the Company spent approximately \$21 million or 6.3% more than that reflected in our last general rate case. Please see Attachment 1 for a listing of business cases that comprised the approximate \$352 million of spend, and Attachment 2.2 for a detailed listing of projects at the expenditure request level.

### **2. 2015 Capital Expenditure Plan**

In the previous general rate case<sup>2</sup> the Company included \$355 million of capital investment for 2015. During 2014 the Board of Directors increased this amount to approximately \$376 million. As explained in the Company’s previous general rate case by Company witness Mr. Thies<sup>3</sup>, the Company is making significant capital investments in electric generation, transmission and

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<sup>1</sup> Included in Exhibit No \_\_\_\_ (DBD-2) in Docket Nos. UE-140188 & UG-140189.

<sup>2</sup> Id.

<sup>3</sup> Docket Nos. UE-140188 & UG-140189, Exhibit Nos. \_\_\_\_ (MTT-1T)

distribution facilities, and in our natural gas distribution system to better serve the needs of our customers. These investments target the preservation and enhancement of safety, service reliability, and the replacement of aging infrastructure. As further explained by Mr. Thies, there are three primary drivers of the need to increase Avista’s level of capital investment, including: 1) the business need to fund a greater portion of the departmental requests for new capital investments that in the past have not been funded; 2) the need to capture investment opportunities and benefits identified by our asset management capabilities, and 3) a continued focus on controlling the increase in operation and maintenance (O&M) spending through prudent capital investment.

Please see Attachments 2.1-2.4 for details surrounding capital spend and transfers to plant for 2014 and 2015.

### **3. Construction Work in Progress, Spend and Transfers to Plant and Business Case Support**

The table below shows the balances in construction work in progress (CWIP), spend and transfers to plant from 2008 through 2017, to arrive at an ending CWIP balance. This table shows the relationship that the increased spending has on the overall transfers to plant and ending CWIP balance.

**TABLE No. 1:**

Construction Work in Progress (CWIP) Roll Forward System Level Including Growth										
Year	Beginning Balance - CWIP	Actual Spend	Attach.	Forecast Spend	Attach.	Actual Transfers to Plant	Attach.	Forecast Transfers to Plant	Attach.	Ending Balance - CWIP
2007										75,679,838
2008	75,679,838	214,676,440				(214,788,054)				75,568,224
2009	75,568,224	203,921,574				(222,272,320)				57,217,478
2010	57,217,478	197,852,082				(194,303,406)				60,766,153
2011	60,766,153	246,790,433				(229,374,357)				78,182,229
2012 <sup>1</sup>	78,182,229	264,615,808				(203,284,146)				139,513,892
2013 <sup>3</sup>	139,513,892	295,863,630	2.1	268,312,000		(272,392,659)	2.4	(220,444,921)		162,984,863
2014 <sup>3</sup>	162,984,863	351,553,982	2.2	331,000,000		(279,642,278)	2.5	(329,175,816)		234,896,568
2015	234,896,568			376,313,654	2.3			(448,375,780)	2.6	162,834,441
2016	162,834,441			350,000,000				(356,701,055)		156,133,386
2017	156,133,386			350,000,000				(365,985,095)		140,148,291
<b>Total 2008-2017</b>		<b>1,775,273,948</b>		<b>1,675,625,654</b>		<b>(1,616,057,218)</b>		<b>(1,720,682,667)</b>		

<sup>1</sup> – Starting in 2012, the CWIP balance began to grow, mainly due to long-term projects, such as the Company’s Customer Information System (CIS) Project, which was moved into service in February of 2015.

<sup>2</sup> – The Parties agreed to only provide forecasted information starting in 2013.

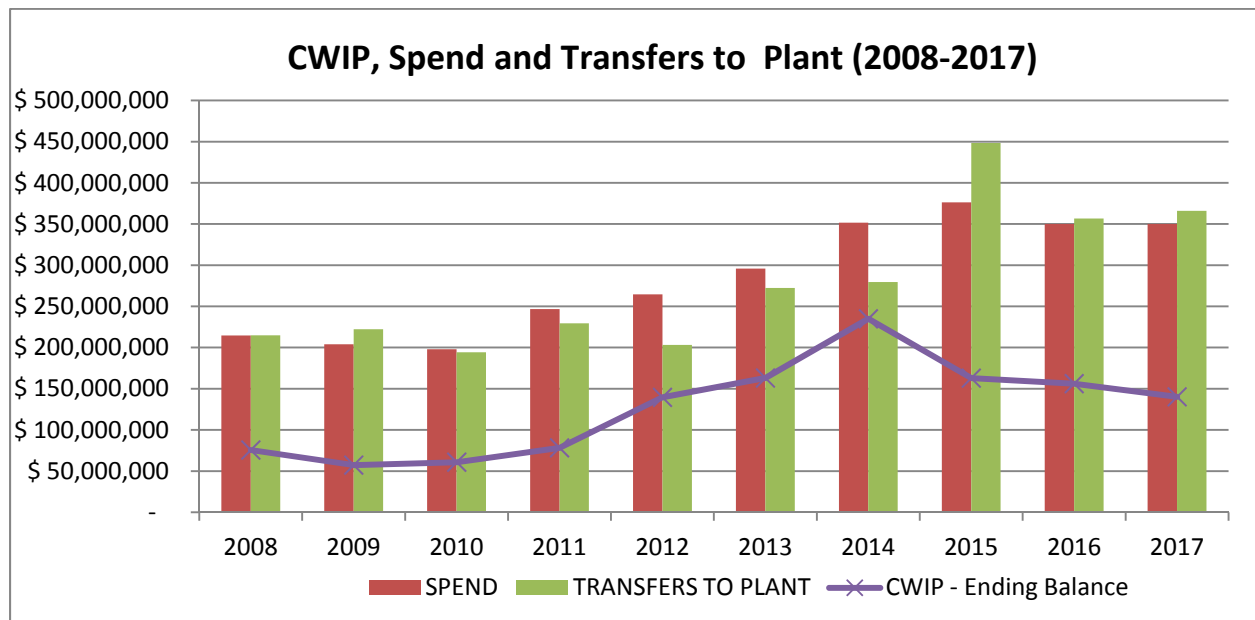
<sup>3</sup> – The actual spend listed above for 2013 and 2014 includes cost of removal.

This information is also included in Attachment 2 along with additional expenditure request detail for the years 2013 -2015 in Attachments 2.1-2.6. The components of the above table are described as follows:

- Beginning Balance CWIP – System CWIP balance from the Company's general ledger.
- Actual Spend – The actual amount of system capital spending. Expenditure Request Number (ER) detail for the years 2013-2014 are provided in Attachments 2.1 and 2.2 to the report. The ER data is categorized in the Attachments by functional group and agrees to the total spend listed in the above table.
- Forecast Spend - Forecasted amount of system capital spending. ER detail for the year 2015 is provided in Attachment 2.3. The spend amounts by ER are categorized in the Attachment by functional group and agree to the total spend listed in the above table.
- Actual Transfers to Plant – The actual amount of system Transfers to Plant (TTP). ER detail for the years 2013-2014 is included in Attachments 2.4 and 2.5. The TTP amounts by ER are categorized in Attachments 2.4 and 2.5 by functional group and agree to the total TTP listed in the above table.
- Forecast TTP - Six months of actual and six months of forecasted system TTP. The ER detail for 2015 is provided as Attachment 2.6 to the report. The TTP amounts by ER are categorized in the attachment by functional group and agree to the total TTP listed in the above table.
- Ending Balance CWIP – System CWIP Balance, which is the sum of the beginning balance, spend and transfers to plant.

The above information is graphed below as Illustration No. 1 to better demonstrate the relationship of CWIP, spend and transfers to plant.

**ILLUSTRATION No.1:**



The Company provided the business case summary sheets for 2015 as Attachment 3<sup>4</sup> in the March 1, 2015 Compliance filing. The Business case summary documents provide support and analysis for a capital project or program. They are created at the beginning or planning phase of the project, are a summary of the projects for project review and approval, and do not reflect updates or changes throughout the project life unless there are significant changes to the dollars or scope of the project. The Capital Planning Group (CPG) reviews the status of projects when the project owners submit funding changes (requests for additional funds or release of funds) based on the timing of equipment, permits, available crews, priorities of projects, etc. The CPG approves or declines the requests based on managing a total budget amount. Therefore, as timing, project priorities and other changes discussed above occur throughout the project, project funding may change, or one project may be funded while another is removed or delayed to allow higher priority projects to be funded, while remaining within the total approved capital budget amount.

The information provided on those sheets is what Avista's Capital Planning Group uses to prioritize, approve or reject projects. Some of the components of the summary sheets are as follows:

- Project description
- Project alternatives
- Cost Summary (not transfers to plant)
- Business Risk
- Financial Assessment
- Strategic Assessment
- Justification for the project (Mandatory, etc.)
- Milestones
- Resource Requirements
- Key Performance indicators
- Earned Value Metrics

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<sup>4</sup> This information was also provided in the Company's 2015 general rate case, Dockets UE-150204 & UG-150205, Exhibit Nos.\_\_(KKS-4) and (KKS-5). The projects included in KKS-4 relate to capital transfers to plant in 2015, whereas, the capital budget amounts discussed above relate to capital spend in 2015.