

AVISTA UTILITIES
WASHINGTON ELECTRIC RESULTS
(000'S OF DOLLARS)
TWELVE MONTHS ENDED DECEMBER 31, 2019

Line No.	DESCRIPTION	Remove AMI Rate Base
	Adjustment Number	1.04
	Workpaper Reference	E-AMI
REVENUES		
1	Total General Business	\$0
2	Interdepartmental Sales	-
3	Sales for Resale	-
4	Total Sales of Electricity	-
5	Other Revenue	-
6	Total Electric Revenue	-
EXPENSES		
Production and Transmission		
7	Operating Expenses	-
8	Purchased Power	-
9	Depreciation/Amortization	-
10	Regulatory Amortization	-
11	Taxes	-
12	Total Production & Transmission	-
Distribution		
13	Operating Expenses	-
14	Depreciation/Amortization	-
15	Taxes	-
16	Total Distribution	-
17	Customer Accounting	-
18	Customer Service & Information	-
19	Sales Expenses	-
Administrative & General		
20	Operating Expenses	-
21	Depreciation/Amortization	-
22	Regulatory Deferrals/Amortization	-
23	Taxes	-
24	Total Admin. & General	-
25	Total Electric Expenses	-
26	OPERATING INCOME BEFORE FIT	-
FEDERAL INCOME TAX		
27	Current Accrual	-
28	Debt Interest	251
29	Deferred Income Taxes	-
30	Amortized ITC - Noxon	-
31	NET OPERATING INCOME	(\$251)
RATE BASE		
PLANT IN SERVICE		
32	Intangible	(\$30,225)
33	Production	-
34	Transmission	-
35	Distribution	(19,146)
36	General	(8,297)
37	Total Plant in Service	(57,668)
ACCUMULATED DEPRECIATION/AMORT		
38	Intangible	4,432
39	Production	-
40	Transmission	-
41	Distribution	546
42	General	1,200
43	Total Accumulated Depreciation	6,178
44	NET PLANT	(51,490)
45	DEFERRED TAXES	3,384
46	Net Plant After DFIT	(48,106)
47	DEFERRED DEBITS AND CREDITS & OTHER	(182)
48	WORKING CAPITAL	-
49	TOTAL RATE BASE	(\$48,288)

WA Electric

	<u>Plant Cost</u>	<u>Plant A/D</u>	<u>Plant ADFIT</u>	<u>Reg Asset- AFUDC</u>	<u>Reg Asset- AFUDC A/D</u>
	<u>FERC 101000</u>	<u>FERC 108000/111000</u>	<u>FERC 282900</u>	<u>FERC 182332</u>	<u>FERC 182318</u>
12/31/2018	41,365,660	(3,067,117)	(2,820,085)	144,067	(5,133)
1/31/2019	44,114,493	(3,519,545)	(2,905,061)	144,067	(5,133)
2/28/2019	47,291,908	(4,000,521)	(3,000,471)	144,067	(5,133)
3/31/2019	50,978,125	(4,510,802)	(3,095,881)	144,067	(5,133)
4/30/2019	51,507,324	(5,036,253)	(3,194,281)	144,067	(5,133)
5/31/2019	55,404,632	(5,574,344)	(3,292,470)	154,500	(5,220)
6/30/2019	56,868,232	(6,127,252)	(3,388,717)	151,750	(5,370)
7/31/2019	58,605,592	(6,684,690)	(3,485,257)	149,069	(7,784)
8/31/2019	61,903,348	(7,182,526)	(3,564,543)	149,069	(7,865)
9/30/2019	64,771,713	(7,775,574)	(3,660,115)	149,205	(9,088)
10/31/2019	69,041,121	(8,389,650)	(3,756,955)	149,205	(9,170)
11/30/2019	72,468,793	(9,027,292)	(3,870,815)	151,416	(9,270)
12/31/2019	76,766,276	(9,561,793)	(3,960,277)	1,272,537	(144,869)
	57,668,437	(6,178,575)	(3,383,729)	194,899	(12,441)

Net Regulatory Asset

182,457

Note:

The AMA rate base included in ROO, including plant, A/D, ADFIT and regulatory asset (AFUDC) will be removed from CBR results.

WA Natural Gas

	<u>Plant Cost</u>	<u>Plant A/D</u>	<u>Plant ADFIT</u>	<u>Reg Asset- AFUDC</u>	<u>Reg Asset- AFUDC A/D</u>
	<u>FERC 101000</u>	<u>FERC 108000/111000</u>	<u>FERC 282900</u>	<u>FERC 182332</u>	<u>FERC 182318</u>
12/31/2018	14,377,965	(933,320)	(852,478)	40,933	(1,458)
1/31/2019	14,898,603	(1,076,559)	(877,551)	40,933	(1,458)
2/28/2019	16,176,167	(1,228,233)	(905,649)	40,933	(1,458)
3/31/2019	18,189,751	(1,391,962)	(933,747)	40,933	(1,458)
4/30/2019	18,934,943	(1,564,159)	(963,107)	40,933	(1,458)
5/31/2019	19,969,593	(1,741,389)	(992,070)	43,897	(1,483)
6/30/2019	22,376,816	(1,928,135)	(1,021,374)	43,116	(1,526)
7/31/2019	22,950,292	(2,121,901)	(1,050,074)	42,354	(2,212)
8/31/2019	24,061,779	(2,297,640)	(1,073,521)	42,354	(2,235)
9/30/2019	25,250,504	(2,503,593)	(1,102,100)	42,354	(2,582)
10/31/2019	25,245,647	(2,713,163)	(1,129,953)	42,354	(2,605)
11/30/2019	26,207,219	(2,925,393)	(1,158,833)	42,354	(2,628)
12/31/2019	28,958,728	(3,104,782)	(1,178,781)	403,176	(47,710)
	21,327,472	(1,959,265)	(1,018,634)	57,048	(3,807)
					53,240

Note:

The AMA rate base included in ROO, including plant, A/D, ADFIT and regulatory asset (AFUDC) will be removed from CBR results.

AMENDED ACCOUNTING PETITION – ATTACHMENT B
AVISTA UTILITIES
DOCKET NOS. UE-170327 and UG-170328

A. Deferral of Depreciation Expense on Advanced Metering Infrastructure (AMI):

1. The company may defer actual depreciation expense on its Advance Metering Infrastructure (AMI) plant investment¹ beginning in the month that the first transfers to plant of AMI investment occurs, and would continue monthly until such plant is included in retail rates in a future general rate case (GRC) proceeding.
2. The AMI deferred depreciation balance will accrue a carrying charge, on a monthly basis, equal to the current Federal Energy Regulatory Commission (FERC) rate, presently at 3.96 percent, annually.² The carrying charge will cease when recovery begins in a future rate proceeding.
3. The company may record the monthly depreciation expense in FERC Account 182.3, Other Regulatory Assets. The deferred carrying charge will be recorded in a separate regulatory asset account which will not earn interest and with the potential for independent recovery methods.
4. Two years after the initial meters are installed, Avista will provide a comprehensive status update reporting its use of the AMI system. This report should demonstrate how the AMI system benefits operational efficiency, increases customer reliability, impacts on power costs, and any other benefits. Also, Avista will report on the current status of deployment, the current expected completion date, and most recent expected cost to complete installations. Avista's report will contain a detailed analysis of AMI system costs and benefits relative to each customer rate class.
5. The above report will be an element in a prudence determination for the AMI project in whole. A request to determine prudence, including all necessary prudence requirements, may be filed simultaneously with the report with the intent of reaching an expedient prudence determination.
6. Recovery of the deferred depreciation balance, including accrued interest, may be proposed in a GRC with an effective date after an affirmative determination of the project's prudence.
7. The deferrals of depreciation and the carrying charges do not constitute pre-approval of the AMI project or its prudence, and is not a guarantee of recovery.

B. Deferral of undepreciated net book value of existing natural gas communicating modules (ERTs):

1. The company may defer the undepreciated net book value of existing natural gas communicating modules (consistent with the accounting treatment that Avista obtained on its existing electric meters) that will be retired as part of the AMI project.
 - a. As the natural gas communicating modules are removed from service the company may transfer the undepreciated balance (investment less accumulated depreciation) of those modules to a separate FERC Account 182.3, Other Regulatory Assets.

¹ AMI plant investment includes, but is not limited to, advanced meter deployment, metering communication network, meter data collection system, meter data management system and data analytics.

² <https://www.ferc.gov/enforcement/acct-matts/interest-rates.asp>

AMENDED ACCOUNTING PETITION – ATTACHMENT B
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- b. The calculation of the proper amount to record in FERC Account 182.3 would involve a continuation of depreciation for those modules that remain in service during the change-out period.
 2. The company will file for recovery of the regulatory asset balance within a future GRC proceeding. The deferral of undepreciated net book value of existing natural gas communicating modules is not pre-approval and does not guarantee recovery.
- C. Authorization of Meter Data Management System (MDM) software depreciable life of 12.5-years, and depreciable lives for AMI electric meters and gas modules:**

1. The company will use a depreciable life of 12.5-years (8.0 percent depreciation rate) for its Meter Data Management system software.
2. Before Avista begins deferring depreciation expense for AMI electric meters and gas modules, the company will file a depreciation study to establish depreciable lives and rates for the AMI electric meters and gas modules.

D. Depreciation Expense in rates:

1. The company will track revenues collected through rates related to existing electric meters and gas modules during the deferral period through to the company's request for recovery because rates will continue to recover costs related to existing electric meters and gas modules after they are replaced and their costs deferred.

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

AVISTA CORPORATION,

Petitioner,

For An Accounting Order Authorizing
Deferred Accounting Treatment related to
Advanced Metering Infrastructure and
Approval of Depreciation Rate

DOCKET UE-170327

DOCKET UG-170328

ORDER 01

ORDER GRANTING AMENDED
PETITION

BACKGROUND

- 1 On May 1, 2017, Avista Corporation (Avista or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition requesting an order authorizing deferred accounting treatment of both the remaining net book value of its existing natural gas communicating modules and the revenue requirement related to the future deployment of its Advanced Metering Infrastructure (AMI) (Petition). Avista also requests that the Commission approve a depreciable life of 12.5 years for the software component of the meter data management system of its AMI project, with a depreciation rate of 8.0 percent.
- 2 Avista plans to deploy advanced metering to approximately 250,000 electric and 160,000 natural gas customers, encompassing all of its Washington service area. Avista intends to begin its rollout of the advanced meters and new gas communication modules by 2018, and expects to complete the full implementation by 2021. Avista estimates Washington's share of the full project capital expenditure costs to be \$165.4 million.
- 3 Following discussions with Commission staff (Staff) and other stakeholders, Avista filed an Amended Petition on September 7, 2017, that narrowed the scope of its request for deferred accounting treatment.¹ In summary, the Amended Petition:

¹ On September 7, 2017, Avista filed an Amended Petition, accompanied by Attachment B, which revises its original Petition. That same day, Avista filed a replacement page, Substitute Page 1, to Attachment B. References to Avista's "Amended Petition" incorporate both revisions.

- a) No longer requests deferral of the full revenue requirement for AMI, but instead more narrowly requests deferral of only the depreciation expense and carrying costs;
- b) Requires the Company to provide a comprehensive project status report containing a detailed analysis using actual operational data of the AMI system's costs and benefits relative to each customer rate class;
- c) Requests that the undepreciated net book value of existing gas communicating modules be deferred consistent with the authorized deferral of existing electric meters;²
- d) Requests a depreciable life of 12.5 years for its meter data management system software; and
- e) Specifies that a prudence determination of the AMI project will be made in a future general rate case.

4 Both Public Counsel and the Industrial Customers of Northwest Utilities (ICNU) filed comments related to the Amended Petition. Public Counsel raised concerns that Avista is “attempting to set up a process in these dockets that will allow for piecemeal prudence determination.”³ Public Counsel argues that “piecemeal prudence” is problematic because AMI is a costly investment and Avista should be required to first demonstrate that the costs of the entire investment are outweighed by benefits that are realized, or very likely to be realized. Public Counsel further notes that the Company's proposed project status report does not alleviate its concerns regarding “piecemeal prudence.”

5 Public Counsel also recommends the Commission reject Avista's proposed depreciation schedule for its software because the Company did not present a depreciation study or any evidence that 12.5 years is the appropriate depreciation schedule for the AMI software.

6 Finally, Public Counsel notes that it has no objection to the proposed natural gas retirements being treated the same as the electric retirements of existing infrastructure.

7 ICNU supports the Company's Amended Petition, and places significant importance on the proposed comprehensive reporting, which will provide a granular analysis of AMI costs and investments. ICNU further expresses its appreciation that the Amended Petition notes in multiple places that both prudence and cost recovery will be addressed in future

² Deferral of the Company's existing electric meters was authorized in Docket UE-160100.

³ Public Counsel's Second Comments, p. 3 (September 11, 2017).

proceedings, and that no prudence determinations are being requested at this time.

8 At the Commission's regularly scheduled open meeting on September 14, 2017, Public Counsel argued that AMI is a costly investment for which benefits will not be realized until the meters are fully deployed, and that shareholders, not ratepayers, should bear the risk of that investment.

9 Staff reviewed the Company's filing and recommends the Commission approve the Amended Petition for several reasons. First, the Amended Petition is consistent with the Commission's practice to allow deferral of certain expenses rather than the Company's full revenue requirement, as originally proposed. Second, the comprehensive project status report will describe how AMI is being used and quantify any known costs and benefits. Finally, the revised Petition preserves the opportunity for the Company to recover AMI depreciation expenses and carrying costs without guaranteeing recovery of such costs.

DISCUSSION

10 We agree with Staff's recommendation and grant Avista's Amended Petition for the reasons set out below.

11 First, as the Company's AMI project is deployed, certain components will begin to serve customers prior to full build-out, which creates an important distinction from most major plant additions – such as generation assets – that are not typically useful until fully constructed. The nature of the technology at issue here, which will become used and useful on a rolling basis, is distinguishable, and does not lend itself to traditional accounting treatment. Granting the Company's Amended Petition, which allows for deferral of only depreciation and carrying charges, will appropriately mitigate regulatory lag for a project that provides incremental benefits to customers.

12 Second, the Company's comprehensive project status report will allow Staff an opportunity, outside the context of a contested proceeding, to engage in informal discussions with the Company. Moreover, as ICNU notes, the report will benefit all interested parties because it will provide an update on Avista's AMI deployment process that includes actual data related to the costs and benefits of the project.

13 Third, we approve the Company's proposed treatment of its natural gas communicating modules consistent with the treatment previously approved for retirement of the

Company's electric meters.

- 14 Finally, we approve the Company's proposed 12.5 year depreciation schedule for its AMI software. As the Company noted, this schedule is consistent with industry standards for the retirement of such a system. The Commission, however, retains the discretion to modify the depreciation schedule in the context of a future regulatory proceeding if such a modification is supported by evidence in the record.
- 15 We share Staff's concerns about the potential for double recovery of certain costs. For example, certain expenses related to existing electric meters would be deferred when the new meters are installed while remaining in current rates. Avista's Amended Petition, however, allows for a more detailed examination of exactly which AMI costs should be recovered in a future proceeding when actual costs and benefits are known.
- 16 Although we understand Public Counsel's concerns related to "piecemeal prudence" determinations, our decision in no way constitutes a preapproval of the Company's AMI investment, and the Commission makes no finding regarding the prudence of the investment. Avista's Amended Petition expressly recognizes that a determination of prudence and the eligibility for recovery of any costs associated with the Company's AMI investment will be addressed in a future regulatory proceeding.
- 17 Further, approving the Company's Amended Petition does not create an expectation of recovery of the deferred amounts. As the Commission stated in Order 01 in Docket UE-160100, related to Avista's Petition to defer undepreciated amounts for changed-out electric meters, "the Federal Energy Regulatory Commission's Uniform System of Accounts guidance on the recording of 'regulatory assets' does not provide any guarantee that amounts recorded in a regulatory asset account will be recoverable in a future period."⁴ Accordingly, as we stated in that proceeding, no party should interpret our decision here to imply that amounts deferred under the Company's Amended Petition will be granted full cost recovery in a future general rate case.
- 18 Overall, we find that the Amended Petition provides a fair and reasonable solution that mitigates the effects of regulatory lag without eliminating it entirely. Accordingly, we find that the Company's Amended Petition is in the public interest and should be granted.

⁴ Order 01, Order Granting Amended Accounting Petition Subject to Conditions, *In the Matter of the Petition of Avista Corp.*, Docket UE-160100, ¶ 7 (Mar. 15, 2016).

FINDINGS AND CONCLUSIONS

- 19 (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 companies.
- 20 (2) Avista is an electric company and a public service company subject to Commission jurisdiction.
- 21 (3) WAC 480-07-370(1)(b), allows companies to file petitions, including the Petition and Amended Petition Avista filed in these dockets.
- 22 (4) Staff has reviewed the Petition and the Amended Petition in Dockets UE-170327 and UG-170328, including related work papers.
- 23 (5) Staff recommends the Commission grant Avista's Amended Petition because it reasonably resolves the issue of regulatory lag for the Company's multi-year AMI project.
- 24 (6) This matter came before the Commission at its regularly scheduled meeting on September 14, 2017.
- 25 (7) After reviewing Avista's Petition filed in Docket UE-170327 on May 1, 2017, as revised on September 7, 2017, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that Avista's Amended Petition is consistent with the public interest and should be granted.

ORDER

THE COMMISSION ORDERS:

- 26 (1) Avista Corporation's Petition seeking deferred accounting treatment related to its investment in Advanced Metering Infrastructure as described in Attachment B to its Petition, as amended on September 7, 2017, and replacement page to Attachment B, Substitute Page 1, also amended on September 7, 2017, is granted.

- 27 (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. Nor shall this Order Granting Amended Petition be construed as an agreement to any estimate, determination of costs, valuation of property claimed or asserted or to the possible recovery of, or return on, the amounts deferred to the regulatory asset.
- 28 (3) The Commission retains jurisdiction over the subject matter and Avista Corporation to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective September 14, 2017.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner