



Bob Ferguson

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*Via Electronic and United States Mail*

September 23, 2015

Steven V. King, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Dr. SW  
P. O. Box 47250  
Olympia, Washington 98504-7250

RE: *Avista Corporation 2015 General Rate Case*  
Dockets UE-150204/UG-150205

Dear Mr. King:

Enclosed for filing in the above-referenced docket are the original and two copies  
Commission Staff's response to Bench Request No. 2.

Sincerely,

PATRICK J. OSHIE  
Assistant Attorney General

PJO:klg  
cc: Parties

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF  
RESPONSE TO DATA REQUEST

DATE PREPARED:	September 24, 2015	WITNESS:	Jason L. Ball
DOCKET:	UE-150204/UG-150205	RESPONDER:	Jason L. Ball
REQUESTER:	Bench No. 2	TELEPHONE:	(360) 664-1279

**Bench Request No. 2:** With regard to Jason L. Ball's exhibit, Exh. No. JLB-2C at 11:

- 1. Please explain how Staff calculated the amounts listed in line number 4 "Normalize 2014 Overhauls" for Coyote Springs 2 (CS2) and Colstrip. Please provide supporting workpapers in electronic form with formulas intact, including annotation and/or cross-reference to data source.**

Please see Confidential Attachment A to WUTC Response to Bench Request No. 2 for the appropriate workpaper.

- 2. Why was this method for Normalization selected?**

Staff recommends normalization be applied to the Overhauls for Coyote Springs 2 (CS2) and Colstrip for two reasons: one, to allow for the full recovery of this expense over time and two, for the sake of simplicity. Normalization is a standard regulatory tool that smooths the corresponding revenues for an expense over the appropriate time frame.<sup>1</sup>

The scheduled overhauls for CS2 and Colstrip occur regularly, but not annually. CS2 Overhauls are based on run hours and occur every four years approximately, while each unit of Colstrip is overhauled every three years. Since these Overhauls occur regularly but not every year, it is unfair to include them, without modification, in a traditional test period. These expenses may be adjusted in some manner, or that year's ultimate revenue requirement would not reflect an ongoing level of expense. There exists three standard options to handle these events:

- 1) The use of normalization to determine revenue requirement;
- 2) The creation of a regulatory asset and amortization schedule;
- 3) The creation of a tracker mechanism.

Staff recommends normalization as a simple translation of the Overhaul cost to an appropriate level of annual expense recovery. The derived revenues for the normalized expense over the maintenance cycle avoids the complex regulatory burdens of tracker mechanisms. A tracker mechanism is also inappropriate for an item that is moderately small, relative to the Company's entire revenue requirement.

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<sup>1</sup> Ball, Direct Exhibit No. \_\_\_ (JLB-1T) at 14:1-6

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The Company criticizes Staff because it does not advocate for the second approach, the creation of regulatory assets stating:

The proposed normalization of major maintenance expenses by Staff and ICNU normalizes the costs for customers; however, their proposals do not take into account the effect the major maintenance costs on the Company. Without Commission approval to defer these major maintenance expenses, and amortize them over the appropriate time period, Avista would be required to recognize the entire expense in the year the expenses are incurred.<sup>2</sup>

The Company suggests that the appropriate solution is to create a single regulatory asset for both CS2 and Colstrip Overhauls and amortize it over a four year time frame.<sup>3</sup>

Staff did not recommend creating a regulatory asset because the Company does not need regulatory intervention to defer these costs. Financial Accounting Standard 908-360 allows the Company to use the deferral method for overhauls and amortize the actual cost until the next overhaul.<sup>4</sup> Further, Staff believes the use of a regulatory asset linked to the incurred cost of the overhaul eliminates an important incentive for the Company to control the actual costs.

If the Commission is concerned about the Company's ability to use this type of FASB accounting, then Staff can accept the creation of a regulatory asset similar to the approach Avista recommends in its rebuttal case. However, Staff advocates a separate regulatory asset for each Overhaul with an amortization schedule matching the expected cycle of maintenance of each plant (three years for Colstrip, and four years for CS2). Although this somewhat increases the regulatory burden, Staff believes it is more important to maintain a consistent matching of the amortization for these regulatory assets with the maintenance cycle of each Overhaul.<sup>5</sup>

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<sup>2</sup> Norwood, Rebuttal Exhibit No. \_\_\_\_ (KON-1T) at 44:18-45:3

<sup>3</sup> *Idib.* at 46:3-9

<sup>4</sup> It was indicated to Staff through informal discussions with the Company that the reluctance to use this FASB accounting method is in part because the Company's auditors may require them to restate their books for the last few years. Such a restatement can be viewed as a negative event in the eyes of investor's.

<sup>5</sup> If Avista has a simpler approach that achieves the same result, that is, each major maintenance event is spread over the time until its next occurrence, then staff could accept that as well.

Line No.		CS2	Colstrip	Total
1		<i>Staff DR 176</i>	<i>ICNU DR 180</i>	
2	2016 Major Maintenance	\$ 3,442,000		
3	Avista Allocation	\$ 3,442,000		
4				
5		<i>Staff DR 173</i>	<i>WGJ-IT</i>	
6	Normalization Period	4	3	
7	Normalized Amount	\$ 860,500		
8				
9			<i>ICNU DR 180C</i>	
10	Test Period Major Maintenance	\$ -		
11				
12	<b>Total</b>	<b>\$ 860,500</b>	<b>\$ (1,285,587)</b>	<b>\$ (425,087)</b>