

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF
RESPONSE TO DATA REQUEST

DATE PREPARED: November 16, 2015
DOCKET: UE-150204/UG-150205
REQUESTER: Bench

WITNESS:
RESPONDER:
TELEPHONE:

Bench Request No. 18: With regard to Kelly O. Norwood's exhibit, Exh. No. KON-1T at 41:1-11

Please provide the specific GAAP provision that requires Avista to write-off its existing \$21 million net investment in electric meters once a vendor is selected and an agreement is signed and any supporting opinions, guidance, interpretations or any authoritative attestations.

STAFF REPLY TO AVISTA RESPONSE:

Meter retirements.

Avista's response to Bench Request 18 concerning "meter abandonment," as they claim, concentrates almost exclusively on Accounting Standard Codification (ASC) 980-360. This standard in the Generally Accepted Accounting Principles (GAAP) speaks to situations applicable to regulated industries, but it may be informative to consider also the broader context of long-lived assets in general. These GAAP standards are found in ASC 360-10.

As noted in several attachments provided by Avista, ASC 980-360 states:

"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."

Staff believes the operative language in this statement are the terms "probable (likely to occur)" and "will be abandoned." "Probable" is defined by GAAP as the likelihood of occurrence being greater than 50 percent. But "abandoned" is not explicitly defined. To determine the proper accounting treatment, Staff would need much more information prior to offering any confident recommendation as to whether Avista's contemplated meter replacement program would result in "abandonment" of the assets. Certainly, the likelihood of meter replacement will turn on a decision by the Commission that replacing the existing meters would be prudent.

Staff believes that replacement of the existing meters would not automatically equate to abandonment. While Avista provides guidance from accounting firms, Deloitte and Price Waterhouse Coopers, regarding asset abandonment and ASC 980-360-35, the company's testimony and response to BR 18 does not include their evaluation on whether abandoning the existing meters is appropriate or whether it can demonstrate that replacement of the existing meters with the automatic metering infrastructure (AMI) will result in a positive

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cost benefit determination and therefore prudence.

An accounting codification to consider is (emphasis added):

FASB ASC paragraph 360-10-45-15

A long-lived asset to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) shall continue to be classified as held and used until it is disposed of. The guidance on long-lived assets to be held and used in Sections 360-10-35, 360-10-45, and 360-10-50 shall apply while the asset is classified as held and used. If a long-lived asset is to be abandoned or distributed to owners in a spinoff together with other assets (and liabilities) as a group and that disposal group is a component of an entity, paragraphs 205-20-45-1 through 45-5 and 205-20-50-5 shall apply to the disposal group at the date it is disposed of.

In summary, there are major unknowns to deciding the probability of meter replacement including a positive showing that the benefits associated with AMI would exceed its costs, when compared current metering operations. Such a showing of cost effectiveness must include the recovery of the old meters.

Until these unknowns are solved, there can be no pre-determination of a regulatory asset that may or may not come to pass. There is still time to give this matter a full airing among the parties. Avista's dilemma should be around proving the benefits of AMI, not whether or not the old meters will be recovered. Staff is willing to engage in the discussion and has no predetermined opinion on some future outcome of AMI metering, nor on the need for a regulatory asset to recover the costs of old meters.