

Agenda Date: July 27, 2017  
Item Number: A2

**Docket:** UE-170327  
**Company:** Avista Corporation, d/b/a Avista Utilities

**Staff:** Joanna Huang, Regulatory Analyst  
Melissa Cheesman, Regulatory Analyst  
Thomas Schooley, Asst. Director, Energy Regulation

### **Recommendation**

Reject Avista Corporation's (Avista or company) accounting petition for deferred accounting treatment of:

- The revenue requirement related to the future deployment of its Advanced Metering Infrastructure (AMI).
- The undepreciated net book value of the company's existing natural gas communicating modules.
- A depreciable life of 12.5 years, with a depreciation rate of 8.0 percent, for the software component of the meter data management system of the AMI project.

### **Discussion**

Avista plans to deploy advanced metering infrastructure to serve all of its customers in Washington which encompasses approximately 250,000 electric customers and 160,000 natural gas customers. This project will require the placement of advanced metering devices at each customer premise as well as required back office infrastructure. The combination of back office infrastructure and advanced meters will provide a platform over which the company and its customers can better manage energy consumption and reduce certain operating costs associated with reading meters. Avista expects to complete the full implementation by 2021. Avista estimates the full project capital expenditure costs to be \$165.4 million for Washington.

The company requests the revenue requirement associated with prospective investments made in AMI between 2017 and 2021, would be deferred to preserve the opportunity for recovery in a future proceeding. In addition, Avista also seeks to recover revenue requirement related to the depreciation expense and property taxes on the plant that will be in service, the financing costs associated with the investment, and the related state and federal taxes.

Avista's request to defer revenue requirement violates regulatory principles and is a method to eliminate regulatory lag which frequently occurs with most capital investments made by utilities. Basically Avista's plan allows it full recovery of the AMI system as of the first day the back office computers are in service and as each meter is in service.

Utilities regulated by the Washington Utilities and Transportation Commission (commission) must follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory

Commission (FERC). The Code of Federal Regulations Title 18, Subchapter C, Part 101, Definition 31 states:

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 determinations 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.

Companies must ask the commission for permission for deferred accounting treatment of actual costs that the company would like to recover in a future period. If a company is granted accounting treatment, it books the relevant expenses in a regulatory asset or liability account.

Furthermore, The Financial Accounting Standards Board states in the Accounting Standards Codification 980-10-05-8:

Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the generally accepted accounting principles (GAAP) applicable to business entities in general. The mere issuance of an accounting order not tied to rate treatment does not change an entity's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of GAAP.

Staff interprets this to mean that without a commission statement of how the deferred cost will be recovered in rates, the utility must continue to adhere to the standard method of expensing a cost in the period of occurrence.

Authority to defer operating expenses should be granted only under specific circumstances and be material in financial impact. This includes expenses of a limited time that will benefit customer over longer periods of time, unexpected costs outside of the utilities control, or government required, but significant expense. An unexpected expense is not sufficient reason to receive deferred treatment. Evidence must be presented that without commission authority to defer the cost irreparable financial harm will come to the utility.

Avista requests the deferral of depreciation expense, property taxes, and the return on its AMI investment as it goes into service. In other words, when these elements are summed, Avista is requesting recovery of the full revenue requirement of the AMI system costs, not just expenses which are typically the only category of costs that are captured in an accounting deferral.

Moreover, capitalizing the purchase of long-term assets and the consequent depreciation expense by its very nature is a natural form of deferred accounting as the company expenses its upfront investment over the investment's economic life.

Avista is essentially asking the commission to allow it to defer for recovery in the future the full return of and return on its AMI investment plus its operating costs. This alone should give a reason for pause. It also does not meet the above specific circumstances to qualify to be deferred. These costs are expected and will grow over the course of several years. Avista has sufficient time to plan the timing of recovery without the need for deferred accounting. Yes, there is a lag between the in-service date of the investment and its inclusion in rates, but that is a natural fact of a regulated utility. There are other tools available to reduce regulatory lag, but it should not be eliminated through Avista's deferral of revenue requirement approach.

The commission already stated its preference with regard to Avista's investment in AMI. First in Dockets UE-150204/UG-150205, Order 05:

“We decline to rule on the prudence of Avista's proposed advanced metering infrastructure in this case because the issue is not ripe for Commission determination. Should the Company choose to do so, it may file an accounting petition requesting deferred accounting treatment of metering costs” [emphases added].<sup>1</sup>

“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.”<sup>2</sup>

Again the commission provided guidance to Avista in Dockets UE-160228/UG-160229, Order 04:

“Indeed, the Commission discussed in its final order in Dockets UE-150204 and UG-150205 that “[i]f the Company decides to procure a new metering system, it may file a well-supported accounting petition on a timely basis to avoid a write-off.”<sup>3</sup> While this referred to Avista's request for deferred accounting for its net investment in meters that would be replaced as part of the AMI implementation, the discussion, and other

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<sup>1</sup> Wash. Utils. & Transp. Comm'n v. Avista Corporation, Dockets UE-150204 and UG-150205, Order 05, 3, ¶ \_\_ (January 6, 2016).

<sup>2</sup> Wash. Utils. & Transp. Comm'n v. Avista Corporation, Dockets UE-150204 and UG-150205, Order 05, 68, ¶ 191 (January 6, 2016).

<sup>3</sup> Wash. Utils. & Transp. Comm'n v. Avista, Dockets UE-150204 and UG-150205 (consolidated), Order 05 ¶ 199 (January 6, 2016).

discussion in Order 05, is equally applicable to the costs belatedly proposed for deferred accounting treatment in this general rate case.”<sup>4</sup>

Also the commission provided guidance in Dockets UE-160228/UG-160229, Order 05:

“We begin with the observation that Avista can file an accounting petition at any time asking for deferred accounting treatment of the ongoing expenses it continues to incur as it moves toward initial deployment of AMI in Washington. Were the Commission to rule favorably on such a petition, these costs could be included in FERC Account No. 182.3 or 186 and the Company’s opportunity to recover prudently incurred costs going forward would be protected until such time as Avista makes a timely request for rate recovery of all, or a portion of, its costs. The Commission discussed this very point in its final order in Dockets UE-150204 and UG-150205, Avista’s 2015 general rate case.”<sup>5</sup>

Although Avista did file this accounting petition, its request is not what the commission asked. Staff does not believe the commission implied that Avista may file an accounting petition to defer revenue requirement. Avista still requests to defer revenue requirement even though the commission told Avista several times they can file an accounting petition to defer “ongoing expenses” related to moving forward with its AMI deployment. At some point the requests to defer revenue requirement must stop.

Staff could entertain an accounting petition requesting deferral of ongoing operating expenses if offsets of operational cost savings are included. But staff offers no assurance of a positive recommendation. As staff stated above, deferred accounting treatment should be reserved for unexpected or extraordinary expenses beyond the utility’s control; or for large expenses that provide benefits beyond the current period. Planned rate base additions are normal ongoing expenditures that accrue an allowance for funds used during construction. These are captured in rates after they are in service to the customers. The utility accepts the risk of a delay in capturing the return on this plant as a normal cost of doing business.

## **Conclusion**

Reject Avista Corporation’s accounting petition to defer the revenue requirement related to the future deployment of its Advanced Metering Infrastructure, reject the deferred accounting treatment requested for the undepreciated net book value of the company’s existing natural gas communicating modules, and reject the request to establish at this time a depreciation rate of 8.0 percent for the software component of the meter data management system of the AMI project.

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<sup>4</sup> Wash. Utils. & Transp. Comm’n v. Avista Corporation, Dockets UE-160228 and UG-160229, Order 04, 3, ¶ 13 (October 10, 2016).

<sup>5</sup> Wash. Utils. & Transp. Comm’n v. Avista Corporation, Dockets UE-160228 and UG-160229, Order 04, 51, ¶ 86 (December 15, 2016).