

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	
)	
Avista Corporation, d/b/a Avista Utilities)	Docket No. UG-23 _____
)	
For an Order Authorizing the Company to)	
Revise its Natural Gas Book Depreciation Rates)	PETITION OF AVISTA
and Authorizing Deferred Accounting Treatment for)	CORPORATION
the Difference in Depreciation Expense.)	

I. INTRODUCTION

1 In accordance with WAC 480-07-370, Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby applies to the Commission for approval of a proposed change to natural gas book depreciation rates.

2 Avista is a utility that provides service to approximately 406,000 electric customers and 267,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 106,000 natural gas customers in Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its main office.

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4 Rules and statutes that may be brought at issue in this Application include RCW 80.01.040, RCW 80.28.020, RCW 80.04.350, and WAC 480-90-203(3).

5 A table of contents for this Petition follows:

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II. BACKGROUND

6 The Commission is empowered to ascertain and determine the proper and adequate rates of depreciation of the Company's property used in the rendering of retail natural gas service under the provisions of RCW 80.04.350. Each utility under the Commission's jurisdiction is required to conform its depreciation accounts to the rates so ascertained and determined by the Commission. The Commission may make changes in such rates of depreciation from time to time as the Commission may find necessary.

7 The Company periodically completes a depreciation study and requests modifications to its depreciation rates. The Company last changed its natural gas depreciation rates in Washington effective April 1, 2019, in accordance with Order No. 04 (Modified) dated April 3, 2019, issued in Docket Nos. UE-180167 and UG-180168 (consolidated).

III. OBJECTIVE OF THE DEPRECIATION STUDY

8 Avista hired Gannett Fleming, Inc. to undertake a depreciation study of its depreciable electric, gas, and common plant in service as of December 31, 2021.¹ The Company typically conducts such depreciation studies at approximately five-year intervals. Summaries and detailed information of the study are included in Attachments A and B for all studied plant. The detailed Depreciation Study prepared by Gannett Fleming, Inc. is included with the Company's filing as Attachment C.

9 The objective of this study was to recommend depreciation rates to be utilized by Avista for accounting and ratemaking purposes. Further, sound accounting practice dictates periodic updates to depreciation rates to recognize additions to investment in plant assets and to reflect changes in asset characteristics, technology, salvage, removal costs, life span estimates and other factors that impact depreciation rate calculations. The depreciation rates approved by the Commission in 2019 were developed from a study based on depreciable plant balances as of December 31, 2016. Similar to these preceding studies, the annual accrual rates proposed in this filing were primarily calculated in accordance with the straight-line method of depreciation, using the average service life procedures and the remaining life basis, based on estimates which reflect considerations of historical evidence and expected future conditions.

¹ Gannett Fleming, Inc. is an independent subject matter expert in utility depreciation. Additionally, Gannett Fleming, Inc. is an expert in this geographical region, doing work for regional utilities (e.g., Puget Sound Energy, Idaho Power, and Northwest Natural Gas) and Avista for a number of years.

IV. STUDY RESULTS AND DETAILS

10 The table below outlines the existing and proposed weighted depreciation rates, by functional group, for Washington natural gas plant.

Table No. 1 Weighted Group Depreciation Rates – Existing versus Proposed

<u>Functional Group</u>	<u>Weighted Group Depreciation Rates</u>	
	<u>Existing</u>	<u>Proposed</u>
Underground Storage	1.50%	1.51%
Distribution Plant	2.54%	2.48%
General Plant	6.55%	6.41%

11 The depreciation Study consisted of the following phases and methods:

12 Phase One estimates the service life and net salvage characteristics for each depreciable group. This was done by compiling historical plant data and analyzing it to determine historical trends of survivor and net salvage characteristics. This phase also involves obtaining additional information from the Company's personnel relating to operations of the plant and making judgments of average service life and net salvage characteristics.

13 Phase Two calculates the composite remaining lives and annual depreciation accrual rates. This phase was done by using the straight-line remaining life method, using remaining lives weighted consistently with the average service life procedure.

14 The Company applied the revised depreciation rates to plant-in-service balances as of December 31, 2021. The results of the Study, as illustrated in Attachment A, show that the Company's current annual depreciation expense for its Washington natural gas service would be decreased by approximately \$562,589 as a result of setting the depreciation accrual rates at the

recommended level.² This recommended change is necessary to update asset lives and existing depreciation accrual rates, which are currently based upon a depreciation study completed in 2018.

15 In addition to the changes in depreciation, the Study evaluated specific recovery amounts established for the reserve amortization for certain general plant accounts for electric, gas and common assets. In order to achieve a more stable accrual for certain general plant accounts in the future, the Study recommends a five-year amortization to adjust unrecovered or over-recovered reserves based on the amortization period by account. This approach will achieve consistent amortization rates for existing assets as well as future assets. The reserve for each of these accounts is segregated into two components. The first component is the amount required to achieve the proper rate for the amortization period. The remaining amount, which could be negative, is amortized over 5 years separately from the assets.

16 With regards to the 5-year recovery period, this is the most commonly established period and reflects to the shortest amortization period for the related assets in amortization accounts. Therefore, the alignment of the reserve to the existing assets will be adjusted consistent with the time the assets are in service. In addition, five (5) years is a typical period of time that depreciation studies or rate cases are performed, so this filing is an appropriate opportunity to review the depreciation rates for all accounts. As shown in Table No. 2 below, the amortization of the natural gas reserve adjustment reduces amortization expense by \$238,576.³

² The Company will review the impact of these updated depreciation rates on the electric and natural gas pro forma capital additions approved in Docket No. UE-220053 and UG-220054, *consolidated*, and the amortization of the reserve, for calendar 2024, to determine if the expected net incremental impact to depreciation/amortization expense during the time the deferral will be in place would be materially different than shown in Table No. 2 above, and provide that to all parties during this proceeding.

³ *Ibid.*

Table No. 2 below shows a summary of the change in expense between existing rates and the recommended rates, at an aggregate level by functional group. Attachment A shows the summary tables; Attachment B-1 shows the underlying detail, by FERC account;⁴ and Attachment B-2 includes the supporting information for a general plant reserve adjustment.⁵

Table No. 2: Washington Natural Gas - Adjustment for Proposed Study Rates

Functional Group	Total
General Plant	\$ 52,163
Underground Storage Plant	\$ 1,931
Gas Distribution Plant	\$ (379,594)
Transportation	\$ (237,089)
Subtotal Depreciation Expense	\$ (562,589)
Reserve Amortization	\$ (238,576)
Total Natural Gas Plant	\$ (801,165)

The overall decrease in Washington natural gas depreciation expense is generally driven by changes in net salvage values for distribution plant assets (in particular natural gas mains), and increases in service lives for transportation equipment average useful lives of distribution plant assets.

VI. IMPLEMENTATION AND DEFERRED ACCOUNTING FOR THE CHANGE IN DEPRECIATION EXPENSE

Avista has made similar filings with the Idaho Public Utilities Commission (IPUC) and the Public Utility Commission of Oregon (OPUC) concurrently with this filing. It is critical that the

⁴ The Company accounts for transportation depreciation expense by allocating the overall costs to capital and to expense through a pooling process based on the actual usage of vehicles on specific projects.

⁵ This adjustment is proposed to align the actual accumulated depreciation with the theoretical reserve associated with certain of the Company's general plant FERC accounts, and is proposed to be amortized over a five-year period.

Company maintain uniform utility accounts and depreciation rates for common plant that are consistent among the Company's regulatory jurisdictions. In the event different depreciation rates or methods were to be ordered for allocated plant (a category which is primarily composed of production, transmission, intangible, and general plant assets serving multiple jurisdictions), the result would require multiple sets of depreciation accounts and records that would need to be adjusted annually for changes in allocation factors, which would impose a costly administrative burden on the Company and unnecessary expense for the Company's ratepayers, as well as possible unrecovered or stranded costs. Of Washington's \$798 million in natural gas service plant at December 31, 2021, approximately \$139.3 million is allocated plant and approximately \$658.4 million is Washington-direct plant. Therefore, allocated plant represents approximately 17% of Washington's total natural gas plant balance. Of the overall net incremental decrease of \$801,165, including the reserve adjustment, Washington direct plant depreciation expense represents a decrease of approximately \$578,000, and Washington-allocated depreciation expense represents an incremental decrease of approximately \$223,000. Attachments A and B provide supporting information for these balances.

20 The Company requests that the Commission make its determination on depreciation rates by August 31, 2023, to commence Washington direct plant and allocated plant depreciation effective September 1, 2023, coincident with the implementation of depreciation rate updates in the Company's Idaho and Oregon jurisdictions. The Company anticipates the depreciation rates will be approved in Idaho and Oregon during 2023.

21 The Company requests that the difference between depreciation expense under current book depreciation rates and depreciation expense under the updated depreciation rates be deferred for later return or recovery from customers in a subsequent rate proceeding. With deferred accounting, the annual decrease in depreciation expense is estimated to be approximately \$801,165 based on December 31, 2021 balances, as shown in the preceding table. The difference in depreciation expense would be set aside, on a monthly basis, for the opportunity for future recovery. The deferred depreciation expense will accrue a carrying charge at the Company's actual cost of debt while being deferred and during the amortization period, calculated semi-annually. The deferral of the difference in depreciation expense would begin in the month book depreciation rates are updated and continue until such time as new rates are included in base rates in the Company's next general rate case.

22 The monthly accounting entries for the natural gas deferral would be as follows:

Account Description	FERC Account	Debit	Credit
Regulatory Debit - Deferred Cost	407.3XX ED.WA	XXX	
Regulatory Liability - Deferred Costs	254.XXX ED.WA		XXX

23 The monthly accounting entries for the natural gas amortization would be as follows:

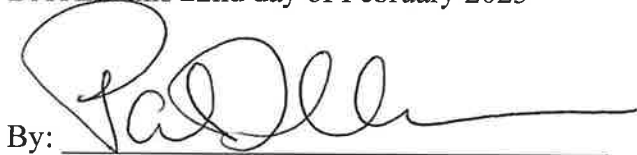
Account Description	FERC Account	Debit	Credit
Regulatory Liability - Deferred Costs	254.XXX ED.WA	XXX	
Regulatory Credit - Amortization of Costs	407.4XX ED.WA		XXX

VII. REQUEST FOR RELIEF

24 WHEREFORE, Avista respectfully requests that the Commission issue an Order for the following:

- a. Authorize the Company to update natural gas book depreciation rates to reflect the proposed depreciation rates, as described in this Petition.
- b. Authorize the deferred accounting treatment detailed in this Petition related to the decrease in expense that will result from the change in natural gas depreciation rates. Avista will address the prudence and recovery of these costs in its next general rate case filing or other future proceeding, as appropriate.

DATED this 22nd day of February 2023



By: _____
Patrick D. Ehrbar
Director of Regulatory Affairs