$150,000.

<u>Pro Forma 2020 Short-Lived Additions,</u> column (3.15) electric and natural gas, reflect increases in capital additions related to various short-lived capital projects as supported by Mr. Kensok. Ms. Schultz sponsors the pro forma adjustment for these projects reflecting the increases in 2020 capital additions, together with associated A/D, ADFIT, and depreciation expense. Ms. Schultz also reflects 2020 retirements on plant-in-service at December 31, 2019, on similar assets, as an offset to expense, reducing the overall impact of this adjustment. The effect of this adjustment increases electric rate base by $10,886,000 and decreases NOI by $1,496,000. For natural gas, this adjustment increases rate base by $3,408,000 and decreases NOI by $489,000.

Q. Please continue with your discussion of the Pro Forma adjustments included on page 10 of Exh. EMA-2 and Exh. EMA-3.

A. The next adjustment is electric and natural gas **<u>Pro Forma AMI Capital Additions and Regulatory Amortization</u>**, column (3.16), which reflects the Company's adjustment to recover its investment in Automated Meter Infrastructure (AMI) that has been described by Ms. Rosentrater and Company witness Mr. DiLuciano. The <u>electric</u> adjustment increases regulatory amortization expense by $10.1 million, increases depreciation expense by $2.3 million, reduces O&M expenses by $2.8 million for offsets[50], increases AMI net

[50] Offsets included in this GRC reflect hard savings of $6.5 million expected during the rate period levels (October 1, 2021 – September 30, 2022) on a system basis. The Washington-share of these savings, net of 2019 test period savings already included ($2.4 system), reflect an incremental savings of $4.1 million, or $2.8 million Washington electric and $0.9 million natural gas. These savings mainly reflect reductions due to elimination of meter reading, remote service connectivity and conservation voltage reduction. Mr. DiLuciano provides the detailed analysis of the annual savings within his workpapers provided with the Company's filing. As discussed by Mr. DiLuciano, with the Commission's ruling in July 2020, including remote service disconnection, the Company will add 4 employees to meet the requirements of the new rule, at an estimated incremental cost of approximately $271,000 per year, the savings therefore, have been reduced to reflect this expected increase in cost.

plant by $34.4 million (after including pro formed AMI capital additions between January 1, 2020 through the completion of the project), and increases the regulatory asset by $53.2 million. The net effect of these adjustments, therefore, decreases electric NOI by $7,134,000 and increases total electric rate base by $87,585,000.

The natural gas adjustment increases regulatory amortization expense by $3.5 million, increases depreciation expense by $0.9 million, reduces O&M expenses by $0.90 million for offsets, increases AMI net plant by $17.5 million (after including pro formed AMI capital additions between January 1, 2020 through the completion of the project), and increases the regulatory asset by $15.6 million. The net effect of these adjustments decreases natural gas NOI by $2,511,000 and increases total natural gas rate base by $33,084,000.

As described by Mr. DiLuciano, the AMI project was first introduced to the Commission in 2015. In Docket UE-160100 the Commission approved deferred accounting treatment related to the undepreciated net book value of the existing electric meters. In Dockets UE-170327 and UG-170328, the Commission approved deferred accounting treatment related to the undepreciated net book value of the existing natural gas meter registers. In addition, the Commission authorized the Company to defer the depreciation expense associated with the investment in the AMI until such time plant is included in retail rates in a future general rate case, and required the Company to defer revenues collected from customers related to the existing electric meters and natural gas meter registers that exceeded the actual depreciation expense recorded on the existing investment. A summary of AMI accounting that forms the basis for the adjustments that have been included in this general rate case follows:

AMI Rate Base - Rate base in the Company's case includes the following as shown in Table No. 5.

Table No. 5 – AMI Rate Base: [Revised]

AMI RATE BASE (REVISED)				
Line #		**Electric**	**Natural Gas**	**Total**
	Plant in Service			
1	Plant	$ 100,944,477	$ 36,170,688	$ 137,115,165
2	A/D	(30,450,521)	(10,040,781)	(40,491,302)
3	**NBV**	70,493,956	26,129,907	96,623,863
	Regulatory Asset			
4	Deferred Depreciation Expense on AMI Investment	30,694,932	10,124,681	40,819,613
5	Existing Meters/Meter Registers	21,307,531	4,410,569	25,718,100
6	Regulatory Asset - AFUDC	1,031,168	324,977	1,356,145
7	Carrying Charge	2,378,532	867,308	3,245,840
8	Excess Depreciation Collected	(2,257,282)	(151,495)	(2,408,777)
9	ADFIT	(10,945,980)	(3,202,723)	(14,148,703)
10	**Total Regulatory Asset**	42,208,901	12,373,317	54,582,218
11	**Total Rate Base**	$ 112,702,857	$ 38,503,224	$ 151,206,081

As shown on lines 1 through 3, investment in AMI plant is $137.1 million ($100.9 million electric and $36.2 million natural gas). Accumulated depreciation on an AMA basis during the rate year is $40.5 million ($30.5 million electric and $10.0 million natural gas), leaving a net book value of $96.6 million ($70.5 million electric and $26.1 million natural gas).

As shown on lines 4 through 10, a number of regulatory assets associated with the AMI project have been included as rate base. A description of these regulatory assets follows:

- (Line 4) All of the depreciation expense that was recorded on the AMI investment since the project began has been deferred and totals $40.8 million ($30.7 million electric and $10.1 million natural gas).

- (Line 5) The net book value of the existing electric meters and natural gas meter registers have been deferred and totals $25.7 million ($21.3 million electric and $4.4 million natural gas).

- (Line 6) The net book value of AFUDC that has been recorded as a regulatory asset totals $1.3 million ($1.0 million electric and $0.3 million natural gas).

- (Line 7) The carrying charge that has been recorded on all of the AMI deferral accounts per the Commission order in Docket Nos. UE-170327 and UG-170328 totals $3.3 million ($2.4 million electric and $0.9 million natural gas).

- (Line 8) The deferred revenues collected from customers related to the existing electric meters and natural gas meter registers that exceeded the actual depreciation expense recorded on the existing investment totals $2.4 million ($2.3 million electric and $0.2 million natural gas). These amounts are regulatory liabilities and reduces the amount of rate base that will need to be collected from customers in the future.

- (Line 9) The accumulated deferred federal income taxes associated with the regulatory assets totals $14.2 million ($11.0 million electric and $3.2 million natural gas) and is a reduction to rate base.

AMI Expenses

Expenses in the Company's case includes the following as shown in Table No. 6.

<u>Table No. 6 – AMI Expenses: [Revised]</u>

AMI ANNUAL EXPENSES (REVISED)

Line #		Electric	Natural Gas	Total
1	Depreciation Expense	$ 9,558,026	$ 3,183,624	$ 12,741,650
2	AFUDC Amortization	42,076	13,320	55,396
3	Regulatory Asset Amortization	4,286,654	1,296,172	5,582,826
4	**Total AMI Expenses**	$ 13,886,756	$ 4,493,116	$ 18,379,872

- (Line 1) Annual depreciation expense on the AMI investment totals $12.7 million ($9.5 million electric and $3.2 million natural gas).

- (Line 2) Annual AFUDC amortization on the AMI investment totals $0.05 million ($0.04 million electric and $0.01 million natural gas).

- (Line 3) Annual amortization of the deferred costs on the AMI investment totals $5.6 million ($4.3 million electric and $1.3 million natural gas). This amortization represents the annual amount of the net deferrals of $51.1 million electric and $15.4 million natural gas amortized beginning the rate-effective date of October 1, 2021