



Bob Ferguson

## ATTORNEY GENERAL OF WASHINGTON

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September 11, 2017

### SENT VIA WEB PORTAL

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, d/b/a Avista Utilities for an Order Authorizing Deferred Accounting Treatment related to the Company's Investment in Advanced Metering Infrastructure and Approval of Depreciation Rate, Dockets UE-170327/UG-170328, Open Meeting, September 14, 2017*

Dear Mr. King:

Public Counsel files these comments to address Avista's Petition for Order Authorizing Deferred Accounting Treatment related to the Company's Investment in Advance Metering Infrastructure and Approval of Depreciation Rate (Petition), filed in these dockets on May 1, 2017. On Thursday, September 7, 2017, Avista filed an amended Petition. In its Petition, Avista seeks approval of a depreciation rate for the software investment related to AMI, deferred treatment of existing natural gas communication modules upon retirement, and deferral of amounts related to new electric and natural gas meters. Public Counsel has several concerns regarding Avista's request in these Dockets and respectfully recommends that the Commission reject in part and grant in part Avista's Petition.

### I. HISTORY

These dockets represent the fourth proposal Avista has presented to the Commission regarding its plan to deploy AMI across its Washington territory. Avista presented proposals in its 2015 general rate case, its 2016 general rate case, and its accounting petition addressing electric meters.<sup>1</sup> In Avista's 2015 general rate case, the Commission declined to provide the guidance Avista sought regarding its decisions to pursue AMI investment despite the Commission's interest in monitoring new technological trends and Avista's leadership in deploying new technologies.<sup>2</sup> The issue was not ripe for decision because the Commission's prudence standards require a utility to make an investment

<sup>1</sup> Dockets UE-150204 and UG-150205, UE-160228 and UG-160229, and UE-160100, respectively.

<sup>2</sup> Dockets UE-150204 and UG-150205, Order 05 ¶¶ 188-192 (Jan. 6, 2016.)



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before seeking Commission approval. Further, the Commission noted “the considerable uncertainty surrounding the business case analysis” presented in that case.<sup>3</sup> The Commission also declined to decide whether Avista should receive deferred accounting on its existing meters, but stated that Avista could seek such an accounting order outside of the general rate case.<sup>4</sup>

Avista brought such an accounting petition in Docket UE-160100, in which it sought, and the Commission granted, the ability to defer the undepreciated balances of Avista’s existing meters. The Commission required that the undepreciated balances be transferred into a regulatory asset account after Avista executed a contract for new meters, and clearly stated that approval of the deferred treatment for existing meters did not constitute preapproval of Avista’s future AMI investment.<sup>5</sup>

In its 2016 general rate case, Avista sought a prudence determination on a portion of its AMI investment, but the Commission rejected Avista’s rate request and did not reach the AMI issue.<sup>6</sup> The Commission commented on the evidence presented in that case, noted that Avista could seek an accounting order for ongoing AMI expenses, and encouraged discussion among parties.<sup>7</sup>

## II. CONCERNS RAISED BY PUBLIC COUNSEL IN AVISTA’S 2016 GENERAL RATE CASE STILL EXIST

In both the 2015 and 2016 general rate cases, Public Counsel evaluated Avista’s AMI proposals and presented the testimony of Barbara Alexander. In the 2016 general rate case, Public Counsel noted the unique nature of the AMI investment, requiring multi-year investment and portions of plant being transferred into service over time.<sup>8</sup> For example, software associated with AMI will go into service immediately, while meters will be deployed between 2017 and 2020.<sup>9</sup>

Just as Avista attempted to piecemeal the prudence review of its AMI investment in its 2016 general rate case, Avista is attempting to set up a process in these dockets that will allow for piecemeal prudence determination.<sup>10</sup> Avista intends to deploy its AMI investment and seek incremental cost recovery and prudence determinations.<sup>11</sup> This is problematic because AMI is a costly investment, and Avista should be required to demonstrate that the costs of the entire investment are outweighed by benefits that are

<sup>3</sup> Dockets UE-150204 and UG-150205, Order 05 ¶¶ 193.

<sup>4</sup> Dockets UE-150204 and UG-150205, Order 05 ¶¶ 197.

<sup>5</sup> Docket UE-160100, Order 01 ¶¶ 6-9 (Mar. 15, 2016).

<sup>6</sup> Dockets UE-160228 and UE-160229, Order 06 ¶¶ 85 (Dec. 15, 2016).

<sup>7</sup> Dockets UE-160228 and UG-160229, Order 06 ¶¶ 85-93.

<sup>8</sup> Dockets UE-160228 and UG-160229, Public Counsel and The Energy Project Brief, a copy of which is attached hereto as Attachment A.

<sup>9</sup> Avista Petition ¶¶ 20.

<sup>10</sup> Attachment A ¶¶ 10-15; Avista Petition ¶¶ 21.

<sup>11</sup> Avista Petition ¶¶ 21, 23.



realized or very likely to be realized. In Avista's case, the benefits analysis presented in its business case is flawed, and Public Counsel presented analysis in Avista's general rate case regarding the projected benefits showing that they were not tangible or achievable.<sup>12</sup> Piecemeal prudence obscures whether Avista has met its overall burden to demonstrate that benefits outweigh the cost and prevents course-correction if it later becomes apparent that the overall investment is not cost effective.

Avista's amended Petition provides that the Company will file a report within two years of the initial installations detailing the benefits, current status of deployment, current expected completion date, and most recent expected cost estimates. The proposed report will provide information that Public Counsel agrees is relevant to evaluate prudence; however, it does not alleviate Public Counsel's concerns regarding piecemeal prudence determinations. Investment in AMI will continue through 2020 and Avista anticipates the investment to be completed in 2021.

There is ample time for costs, plans, and timelines to shift. We have already seen shifting cost estimates and timelines since Avista first presented its proposal in its 2015 general rate case. Moreover, Avista's amended Petition includes an example of the project's timeline shifting by approximately a year from the original contract schedule, revising implementation of the software system to the latter half of 2017 and deployment of meters to 2018.<sup>13</sup> The burden and risk should appropriately be on the Company with respect to its AMI investment; if the investment proves to be cost effective, then Avista may seek cost recovery in rates. If the investment ultimately proves not to be cost effective, it offends regulatory policy to ask ratepayers to pay for portions of the investment that appear cost effective when evaluated along the way and without the benefit of knowing the full extent of the costs and benefits.

### III. DEPRECIATION OF SOFTWARE

Avista requests that the Commission approve a depreciation schedule for the software component of the AMI investment. Avista seeks a 12.5 year depreciation schedule for the software, and ties the useful life to the Company's Customer Information System, which Avista intends to replace in 2020. Avista does not present a depreciation study or any evidence that 12.5 years is the correct depreciation schedule for the AMI software. Avista points to recent and anticipated decisions from Oregon and Idaho, and states that it has spoken to a consultant who has "indicated support."<sup>14</sup> With respect to decisions from other states, the Commission is not bound by such decisions.<sup>15</sup> Because Avista has not met its burden, the Commission should not approve the proposed depreciation schedule.

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<sup>12</sup> Attachment A, ¶¶ 26 -53; Testimony of Barbara Alexander, Dockets UE-160228 and UG-160229 (Aug. 17, 2016), attached hereto as Attachment B.

<sup>13</sup> Avista Petition ¶ 15.

<sup>14</sup> Avista Petition ¶¶ 23, 36, 38 and n.13.

<sup>15</sup> See, *WUTC v. PacifiCorp*, Docket UE-050684, Order 04 ¶ 55 (Apr. 17, 2006) ("In addition, PacifiCorp asserts that we can look to other state's determinations of prudence of Eastside resources as our basis for determining that the acquisitions were 'reasonable in cost and necessary to serve retail customers across the

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#### IV.      NATURAL GAS RETIREMENTS

Public Counsel does not object to the natural gas retirements being treated as the electric retirements of existing infrastructure. Public Counsel recommends that the same conditions be placed on the natural gas deferrals.

#### V.      CONCLUSION

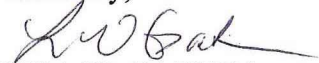
Public Counsel believes the Commission may approve in part and reject in part Avista's Petition. Public Counsel continues to be open to AMI in Washington and is not *prima facie* opposed to such investments. However, the Commission should weigh the issue after the system is fully deployed. Until that time, it is not used and useful, nor are the benefits to ratepayers adequately measurable.

Through its deferred accounting request, Avista seeks to establish piecemeal prudence evaluation of a multi-year, costly investment that may or may not ultimately prove to be cost effective. The Commission should decline to allow such a piecemeal prudence evaluation. Additionally, Avista has not met its burden with respect to the proposed depreciation schedule for its AMI software, and the Commission should reject the proposal.

Approving deferred accounting for existing plant that is retired allows Avista to avoid writing off the undepreciated amounts associated with the retired plant, and is consistent with the Commission's treatment of Avista's electric infrastructure, so approval of Avista's request is reasonable. Similar conditions as applied to Avista's deferral of existing electric infrastructure should be applied to the natural gas deferrals.

Public Counsel appreciates the opportunity to file these comments. Public Counsel will be present at the Open Meeting on September 14<sup>th</sup>.

Sincerely,



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Assistant Attorney General  
Public Counsel Unit Chief  
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LWG:cm

cc:     David Meyer, Avista (via E-mail)  
       Liz Andrews, Avista (via E-mail)  
       Thomas Schooley, UTC Staff (via E-mail)  
       Melissa Cheesman, UTC Staff (via E-mail)  
       Christopher Casey, AAG, UTC Staff (via E-mail)

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system and in Washington.' We cannot delegate our statutory responsibilities for determining prudence and protecting the interests of Washington ratepayers to other states...." (Internal footnote omitted.)