

Exhibit No. \_\_\_ (JH-3)  
Dockets UE-120436, et al.  
Witness: Joanna Huang

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, d/b/a  
AVISTA UTILITIES,

Respondent.

DOCKETS UE-120436/UG-120437  
*(consolidated)*

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WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA  
UTILITIES,

Respondent.

DOCKETS UE-110876/UG-110877  
*(consolidated)*

EXHIBIT TO TESTIMONY OF

Joanna Huang

STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

*PCB Transformer Restating Adjustment*

September 19, 2012

**AVISTA CORP.**  
**RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	WASHINGTON	DATE PREPARED:	05/14/2012
CASE NO:	UE-120436 & UG-120437	WITNESS:	Elizabeth Andrews
REQUESTER:	WUTC Staff - Huang	RESPONDER:	Howard Grimsrud
TYPE:	Data Request	DEPT:	Projects/Fixed Assets
REQUEST NO.:	Staff – 150	TELEPHONE:	(509) 495-2936
		EMAIL:	howard.grimsrud@avistacorp.com

**REQUEST:**

Please provide monthly journal entries recorded during the periods 2007-2011 pertaining to the cost of the PCB transformer system testing removal project, including attachments and supporting documents.

**RESPONSE:**

There were two (2) journal entries posted to correct account coding for PCB testing from 2007 – 2011. Since testing under Avista's accelerated identification and removal of PCB tainted transformers program should be expensed, the journals were prepared to correct previously posted transactions. The original transactions were testing vendor invoices charged to the project, so no monthly journals were processed. The adjusting journal for June 2011 (Staff\_DR\_150 Attachment A) was a reversing journal entered to re-classify the transactions for quarter reporting and the journal for July 2011 (Staff\_DR\_150 Attachment B) represents the final adjusting entry.

05/15/2012 13:39 -8 UTIL ACCTG

Printed 07/06/2011 at 9:02 am

**Avista Corporation Journal Entry**

Effective Date: 201106  
 Journal: NS1012 - PCB Testing Adjustment  
 Team: Energy Delivery Accounting  
 Type: A  
 Category: NSJ  
 Currency: USD  
 Last Saved by: Howard Grimsrud  
 Submitted by: Howard Grimsrud  
 Approved by:  
 Last Saved: 07/06/2011 9:02 AM  
 Approval Requested: 07/06/2011 9:02 AM

Seq	Co.	FERC	Ser.	Jul.	S.L.	Debit	Credit	Comment
10	001	108000 - ACCUMULATED PROVISION DEPRECIATION	ED	WA	DL			
20	001	595000 - DISTRIBUTION MAINT-TRANSFORMERS DEPRECIATION	ED	WA	DL	1,400,725.19		PCB Field Testing Adjustment
<b>Totals:</b>						1,400,725.19	1,400,725.19	

Prepared by: Howard Grimsrud  
 Received by: *[Signature]*  
 Approved for Entry: *[Signature]*  
 Corporate Accounting use Only

**Explanation:**  
 In 2007 a comprehensive field testing program for PCBs was initiated and incorrectly coded as COR. Since testing was for identification only it should be expense. This reversing JE records adjustment for 2007 thru June 2011 for June reporting.

**PCB Transformer System Removal Project**

Year	2007	2008	2009	2010	2011
Bucket	784	2942	5614	3964	1075
Climb	120	136	549	1444	171
Ave Cost	96	93	95	100	96
Tested	904	3078	6163	5408	1246
Retired	144	772	849	560	460
Active	760	2306	5314	4848	786
GL Adj	73,047.43	215,310.58	503,562.50	486,144.67	75,655.97
<b>Total</b>					<b>1,353,721.16</b>

Estimated GL Adj amount calculated on best estimate of tested and retired transformers.

*Dependent on the subject*  
*1,353,721.16*  
*ADDITIONAL ADJ. ADT. → 47,000.00*  
*0.00*  
*1,353,721.16*  
*1,353,721.16*

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Trans Id	Receiver GL	Receiver GL Da	Project	Task	Task Name	Expend Type	Item Date	Quantity	Proj Func Burd	Project Burd
7484912	201104	04/22/2011	02805664	108000	Remove Plant	020 Profession	03/11/2011	27923	27,923.00	27,923.00
7484913	201105	05/10/2011	02805664	108000	Remove Plant	020 Profession	04/29/2011	153	153.00	153.00
7590915	201106	06/15/2011	03805203	108000	Remove Plant	020 Profession	04/30/2011	45753	45,753.00	45,753.00
							05/31/2011	48831	48,831.00	48,831.00
									122,660.00	122,660.00

*Approved*

2011  
 2011 ADJUSTMENT 22,540.00  
 AS OF 6/30/11 → 15,653.00  
 ADDITIONAL → 67,000.00  
 2011 ADJUSTMENT 6/30/11

Item Details  
 Totals  
 Proj Request

Transformer mineral oil contained PCBs to provide heat and fire resistance until PCBs were prohibited in 1979. With the prohibition of PCBs Avista began to manage and remove PCB tainted transformers to meet compliance obligations with Federal EPA standards. Avista has removed all known transformers that fall under the federal EPA standards and plans to remove all tainted transformers to meet the more stringent state standards. Although there is no requirement to remove PCB tainted transformers there are specific disposal requirements when they are removed from service. Avista has recorded an Asset Retirement Obligation for these disposal costs.

In 2007 Avista initiated a program to perform a comprehensive accelerated identification and removal of all PCB tainted transformers as part of an overall asset management program. This identification program is outside the scope of the recorded ARO. The testing program focused on approximately 16,000 units could not be identified through serial number sequencing, manufacture year or batch number for specific testing. A testing vendor, JACO Construction Inc., developed a method for PCB field testing in-service transformers that would allow a systematic approach for identification of tainted transformers without requiring removal of all unidentified units for testing. Upon initiation of the identification program a new capital project was requested by operations management to capture the program costs as capitalized Cost of Removal (FERC account 108).

Past experience indicated 10% of unidentified transformers would contain PCBs and therefore be scheduled for removal. Since field testing was performed for PCB identification and did not result in immediate removal of any transformers field identification should have been treated as a period expense. This treatment is consistent with FERC accounting standards and Avista's documented accounting policy.



05/15/2012 13:42 -8 UTIL ACCTG

Printed 08/03/2011 at 9:48 am

**Avista Corporation Journal Entry**

Effective Date: 201107

Journal: NSJ003 - PCB Testing Reclass  
 Team: Energy Delivery Accounting  
 Type: C  
 Category: NSJ  
 Currency: USD

Last Saved by: Howard Grimsrud  
 Submitted by: Howard Grimsrud  
 Approved by:

Last Saved: 08/03/2011 9:47 AM  
 Approval Requested: 08/03/2011 9:48 AM

Seq	Project	Task	Exp.	Org.	Quantity Co.	FERC	Set.	Jul.
10	02801380 - PCB Retire Dispos-Sp	108000 - Remove Plant	020 Professional Se	X57	-1,278,065.18 001	184057 - CLEARING ACCT-ENERGY DLIVERY ACCT	ZZ	ZZ
20	02805746 - PCB Transformer Testi	595000 - Maint Line Xformers	020 Professional Se	X57	1,163,950.57 001	184057 - CLEARING ACCT-ENERGY DLIVERY ACCT	ZZ	ZZ
30	03389313 - PCB Transformer Testi	595000 - Maint Line Xformers	020 Professional Se	X57	114,114.61 001	184057 - CLEARING ACCT-ENERGY DLIVERY ACCT	ZZ	ZZ
					Total:	0.00		

**Explanation:**

In 2007 a comprehensive field test program for PCB transformers was initiated and incorrectly recorded as COR. Since testing only for identification should be expense. This records 2007-2010 reclass adjustment in projects.

Prepared by: Howard Grimsrud  
 Date: 8/3/11

Reviewed by: *Howard A. Mueller*  
 Date: 8/3/2011

Approved for Entry  
 Corporate Accounting use Only

05/15/2012 13:42 -8

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**PCB PROJECT RECLASSIFICATION ANALYSIS  
 FOR MONTH ENDING JULY 31, 2011**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Total Best Estimate Adjustment*	73,047.43	215,310.58	503,562.50	486,144.67	1,278,065.18
Washington**	100%	47%	100%	100%	-
Idaho**	0%	53%	0%	0%	-
Washington	73,047.43	101,195.97	503,562.50	486,144.67	1,163,950.57
Idaho	-	114,114.61	-	-	114,114.61
<b>Total</b>	<b>73,047.43</b>	<b>215,310.58</b>	<b>503,562.50</b>	<b>486,144.67</b>	<b>1,278,065.18</b>

↓ ≈ 10% ID

\* As provided by Glenn Madden, Darrell Soyars, Amber Gifford  
 \*\* Ratios (except 2007) provided by Clarice Garcia based on actual testing.

**Journal Entry:**

	DR	CR
02801380/108000/020/E14		1,278,065.18
02805746/595000/020/X57	1,163,950.57	
03805313/595000/020/X57	114,114.61	

*Clarice Garcia*  
*Glenn Madden*  
*Darrell Soyars*



05/15/2012 13:42

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**Grimsrud, Howard**

From: Evans, Heide  
 Sent: Wednesday, June 15, 2011 9:05 AM  
 To: Grimsrud, Howard  
 Cc: Soyars, Darrell  
 Subject: PCB Identification and Disposal

To provide for a better understanding of how Avista has managed the removal and disposal of PCBs, we have attached a recent communication strategy for the ongoing PCB Elimination Project. Prior to 2007, Avista, like many utilities, managed and removed PCB equipment to meet compliance obligations with Federal and State regulations. As regulations have continued to evolve, including regulations and efforts at all levels of government and Indian Tribes, Avista's approach has progressed to meet the growing pressures created by regulatory and community initiatives.

Most recently, the Washington Department of Ecology began targeting PCBs by addressing discharges to the Spokane River through programs such as the Urban Waters Initiative (info docs attached) and enhanced storm water and industrial discharge permitting through the Clean Water Act; environmental groups gave notice to sue the City of Spokane for stormwater discharges that contain PCBs, reaching a recent settlement which requires the City to seek out potential PCB sources, historical and current; and the Spokane Tribe set a controversial (lower than background) PCB standard for the river downstream of Long Lake. The EPA has also recently announced its intention for a major overhaul of the TSCA regulations, which govern most PCB handling and disposal.

As described in a 2008 presentation to the Business Review meeting, and as discussed at several Operations Council meetings, Avista began the "Accelerated Removal of PCBs" program to lay the ground work for a comprehensive PCB Elimination Project, which officially kicked off in 2011. The initial step of the Accelerated Removal Program needed to address our biggest hurdle in developing a future comprehensive program for the removal of PCB contaminated units from service...to locate and identify all of the PCB equipment. A systematic approach was needed to identify these individual units in the field; otherwise, we would be forced to remove over 90% of the unidentified units in the system by default, given the lack of information regarding PCB content.

A few years back, a testing vendor (Jaco) developed and patented a method to "field test" in-service transformers. This created an opportunity to systematically conduct field tests on all the unidentified units (approx. 16,000) that could not be identified by other methods such as serial number sequencing, manufacturer year or batch number, etc. while avoiding the huge costs of default unit removal. An example of how this systematic field testing is performed follows to help inform the correct accounting approach. Based on past experience that 10% of tests are positive, we could systematically field test up to ten (10) unidentified units just to identify the one (1) contaminated unit that we need to remove. Our past accounting practice has been that all the field testing performed in order to identify this one (1) unit is charged to the books as "cost of removal." In other words, the systematic field testing is a necessary precursor to identifying the correct units for removal and replacement.

The PCB Policy Document dated stamped 7/15/99 (attached) was recently distributed as a potential retroactive approach to the accounting practice described above. It is our understanding that this Policy document was written to address a specific practice that was taking place 12 years ago at the Spokane Service Center where the testing costs needed to be separated out for refurbished equipment going back into active service. Due to the date and specific nature of the Policy Document, we are uncertain of its applicability to the current PCB Elimination Project.

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The figures below represent our best estimate of tested transformers that have remained in-service. The Active totals were provided from Asset Management via query of METS by the respective years. The testing vendor, Jaco, provided the number of tests by type (bucket or climb), which vary in price, to calculate an average test cost per year. This average test cost X active number = GL Adj. This represents the cost of tested transformers that are still active and have been charged to capital accounting.

### PCB Transformer System Removal Project

Year	2007	2008	2009	2010	2011
\$92 Bucket	784	2942	5614	3964	1075
\$123 Climb	120	136	549	1444	171
Ave Cost	96	93	95	100	96
→ Tested	904	3078	6163	5408	1246
Retired	144	772	849	560	460
→ Active	760	2306	5314	4848	786
GL Adj	73,047.43	215,310.58	503,562.50	486,144.67	75,655.97
<b>Total</b>					<b>1,353,721.16</b>

*to be released through invoice transfers in AP*

Estimated GL Adj amount calculated on best estimate of tested and retired transformers.

Attachments:

- draft PCB comm strategy.docx
- UWI Info.pdf
- PCB Policy .pdf

Darrell Soyars  
 Manager, Environmental Compliance  
 Avista Corp.

**AVISTA CORP.**  
**RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	WASHINGTON	DATE PREPARED:	05/11/2012
CASE NO:	UE-120436 & UG-120437	WITNESS:	Elizabeth Andrews
REQUESTER:	Public Counsel	RESPONDER:	Jeanne Pluth
TYPE:	Data Request	DEPT:	State & Fed. Regulation
REQUEST NO.:	PC – 081	TELEPHONE:	(509) 495-2204
		EMAIL:	jeanne.pluth@avistacorp.com

**REQUEST:**

Reference Electric Restating Adjustment 2.14 (PCB Transformer). The workpapers supporting this adjustment appear to indicate that a total amount of \$1,400,725.19 was transferred from Accumulated Depreciation (FERC Account No. 108) to Distribution Maintenance Account 595, but that only \$1,278,063 was eliminated as non-recurring with concurrent recognition of proposed amortization of such amount over three years. Please answer/explain:

- a. What constitutes the difference between the \$1,400,725 recorded in Account 595 and the total amount of \$1,278,063 removed from account 595?
- b. Was/is it the Company's intent to leave unadjusted within recorded test year operations \$122,662 of ongoing transformer removals? If so, please explain and justify such ratemaking proposal.

**RESPONSE:**

- a) The difference of \$122,662 represents the amount of costs that were for 2011.
- b) The Company intended to remove only the 2007 through 2010 costs as prior period costs. The costs incurred in 2011 were incurred during the test year, therefore it is appropriate to leave those costs in the 2011 results.