

Agenda Date: March 10, 2016
Item Number: A2

Docket: UE-160100
Company: Avista Corporation

Staff: Melissa Cheesman, Regulatory Analyst
Joanna Huang, Regulatory Analyst

Recommendation

Grant Avista Corporation's amended petition for an order authorizing deferred accounting treatment related to the undepreciated net book value of the company's existing electric meters as filed on March 4, 2016.

Background

On January 20, 2016, Avista Corporation (Avista or company) filed a petition requesting an order authorizing the deferred accounting treatment of the remaining net book value of its existing electric meters, following the execution of their vendor agreements. The company is considering a project which would retire and replace existing electric meters with new Advanced Metering Infrastructure (AMI) meters. Approximately 253,000 electric customers in the state of Washington will receive the new meters. The company is also planning to upgrade the existing natural gas meters with new digital communication modules.

As of December 31, 2015, the remaining net book value of the existing electric meters is approximately \$21 million. The company is seeking permission to defer the remaining net book value of existing electric meters to a regulatory asset. The company requests that the deferral of unrecovered investment (net book value) transfer to the regulatory asset account, Other Regulatory Assets – 182.3. Avista understands that the prudence of the AMI investment and the ultimate recovery of the remaining net book value will be addressed in a separate proceeding.

On March 4, 2016, Avista filed an amended petition to modify its request submitted on January 20, 2016.¹ The company now requests an order authorizing deferred accounting treatment of the remaining net book value of existing electric meters, to a regulatory asset as the meters are removed from service.² Staff agrees that the deferral of the net book value of the existing meters reflects the value of the meters as they are retired from service.

¹ Please see Attachment A for a complete list of Avista's amended request.

² UE-160100, Amended Petition of Avista Corporation, Page 2, at Paragraph 4.

Discussion

The company has not executed its agreements with the selected AMI vendors for the advanced meters and supporting software. The company has put the AMI project “on hold” pending the commission’s decision. Once the amended petition is approved, the company will begin moving forward with its AMI project. If the commission grants Avista’s amended petition, then the order granting the company’s amended petition should be contingent on the company moving forward with its AMI project.

WAC 480-100-203³ requires Washington electric utilities to use the Uniform System of Accounts (USOA) as published by the FERC for accounting direction.⁴ Conversely, GAAP’s Accounting Standards Code 980, Regulated Operations, provides guidance for the financial reporting of business transactions of regulated companies. It is not provided to give guidance to regulators. Instead of GAAP, Washington state regulators should look to the USOA for proper accounting if there is a conflict between GAAP guidance and the focus of regulatory accounting to set rates that are fair, just, reasonable and sufficient.

ASC 980-10-15-7⁵ specifically states that GAAP does not necessarily apply to recording of transactions using an entity’s regulatory accounting and does not limit a regulator’s actions. The ASC 980 only specifies how the effects of rate actions, or lack of rate action, are reported in financial statements.

Further, staff believes the actions of the regulatory body are paramount in determining the accounting for the regulated entity. Staff does not believe that the retirement and replacement of the existing electric meters would automatically equate to abandonment. While this approach for abandonment may be valid for overpriced nuclear power plants abandoned while under construction, it is not valid, nor was it ever meant to apply to electric meters that are providing service while simply awaiting a technical upgrade.

³ WAC 480-100-203(3) – Accounting system requirements...

(3) Any deviation from the uniform system of accounts, as prescribed by the FERC, will be accomplished only after due notice and order of this commission.

⁴ USC Title 18 Part 101.

⁵ ASC 980-10-15 (emphasis provided)

(7) The guidance in the Regulated Operations Topic does not apply to any of the following transactions:...

- b. An entity's regulatory accounting. Regulators may require regulated entities to maintain their accounts in a form that permits the regulator to obtain the information needed for regulatory purposes. This Topic neither limits a regulator's actions nor endorses them. Regulators' actions are based on many considerations. Accounting addresses the effects of those actions. This Topic merely specifies how the effects of different types of rate actions are reported in general-purpose financial statements.

ASC 360 defines abandonment as an asset that “ceases to be used.”⁶ The phrase “ceases to be used” is generalized because at some point in time it is probable that all long-lived assets will cease to be used. Thus it becomes important to determine the substance of the term abandonment. More specific to regulated operations, ASC 980-360-35, the basis of considerations discussed by the Financial Accounting Standards Board states that an abandoned asset cannot provide service.⁷ Clearly this means existing meters cannot be considered abandoned since they remain used and useful and providing service.

Conclusion

Avista requests an order to defer, to a regulatory asset account, the net book value of existing meters as they are retired over the calendar years 2017 through 2020. The company is not seeking an order to address recovery of the deferral. Staff believes that this request is reasonable and consistent with commission practice.

Recommendation

Grant Avista Corporation’s amended petition for an order authorizing deferred accounting treatment related to the undepreciated net book value of the company’s existing electric meters as filed on March 4, 2016.

⁶ ASC 360-10-35-47 Long-Lived Assets to Be Abandoned

For purposes of this Subtopic, a long-lived asset to be abandoned is disposed of when it ceases to be used. If an entity commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates shall be revised in accordance with paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 to reflect the use of the asset over its shortened useful life (see paragraph 360-10-35-22).

⁷ Statement of Financial Accounting Standards No. 90, Paragraph 44.

ATTACHMENT A

“Based on these plans, Avista requests approval of the following accounting treatment:⁸

1. As existing electric meters are removed from service during calendar years 2017 through 2020, the Company would transfer the undepreciated balance (meter investment less accumulated depreciation) of those meters to a regulatory asset account, FERC Account 182.3.
2. The calculation of the proper amount to record in Account 182.3 would involve a continuation of depreciation for those meters that remain in place during the 2017-2020 change-out period, net of accumulated depreciation, e.g., for those meters that are not changed out until Year 3, the calculation of the amount moved to the regulatory asset would reflect a continuation of depreciation for those meters until Year 3.
3. The annual estimated amount of meters removed for the periods 2017 through 2020 is shown in the table below:

Planned Retirement Schedule of Existing Meters		
Plant Balance 12/31/2015	\$	27,107,217
	<u>% Retired</u>	
Meters Retired in 2017	18.50%	(5,014,835)
Meters Retired in 2018	62.90%	(17,050,439)
Meters Retired in 2019	16.30%	(4,418,476)
Meters Retired in 2020	2.30%	(623,466)
	<u>100.00% \$</u>	<u>-</u>

The actual recording of the regulatory asset will be dependent upon the book value, net of accumulated depreciation, of the related retired meters.

4. The prudence and ultimate recovery of dollars recorded in the regulatory asset Account 182.3 would be addressed in a future regulatory proceeding.”

⁸ UE-160100, Petition of Avista Corporation, Page 10, at Paragraph 25.