

Agenda Date: September 14, 2017
Item Numbers: A1 and A2

Dockets: UE-170327 and UG-170328
Company: Avista Corporation, d/b/a Avista Utilities

Staff: Melissa Cheesman, Regulatory Analyst
Thomas Schooley, Asst. Director, Energy Regulation
Joanna Huang, Regulatory Analyst

Recommendation

Grant Avista's amended accounting petition as described in Attachment B, filed on September 7, 2017, and replacement page to Attachment B, Substitute Page 1, also filed on September 7, 2017.¹

Background

On May 1, 2017, Avista Corporation (Avista or company) filed an accounting petition requesting an order authorizing the deferred accounting treatment of the remaining net book value of its natural gas communicating modules, and the full revenue requirement related to the future deployment of its Advanced Metering Infrastructure (AMI). The company also requested that the commission approve a depreciable life of 12.5 years, with a depreciation rate of 8.0 percent, for the software component of the meter data management system of the AMI project.

Avista's filing relates to its plans to serve Washington customers by deploying AMI to approximately 250,000 electric customers and 160,000 natural gas. This project will require the placement of advanced metering devices at each customer premise and back office hardware and software infrastructure. Avista currently estimates the full project capital expenditure costs to be \$165.4 million for Washington.

AMI deployment will take several years to complete. While the project has been subject to several delays, Avista currently expects to start rolling out the advanced meters and new gas communicating modules by 2018, and complete the project's implementation by 2021. As the AMI project is deployed, certain AMI components will begin to serve customers prior to the project full implementation. This is an important distinction as compared to most major plant additions (such as generation assets), which are not typically useful until fully constructed.

On September 7, 2017, Avista filed an amended petition that narrowed the scope of its request for deferred accounting treatment. The terms of the amended request are set forth in Attachment B to its petition, and Attachment B, Substitute Page 1. In summary, the amended petition:

¹ See Attachment 1 to this memo for a clean full version of Avista's amended accounting petition as described in Attachment B, filed on September 7, 2017, and replacement page to Attachment B, Substitute Page 1, also filed on September 7, 2017.

- a) No longer requests deferral of the full revenue requirement for AMI, rather it more narrowly requests deferral of only the AMI's depreciation expense and carrying costs;
- b) It requires the company to provide a comprehensive project status report containing a detailed analysis using actual operational data of the AMI system's costs and benefits relative to each customer rate class;
- c) It requests that the undepreciated net book value of existing gas communicating modules be deferred consistent with the authorized deferral of existing electric meters;²
- d) It requests a depreciable life of 12.5 years for its meter Data Management system software; and
- e) Specifies that a prudence of the AMI project will be conducted in a future general ratecase (GRC) as opposed to a separate proceeding outside of the context of a GRC.

Discussion

Staff supports Avista's revised petition, as presented in Attachment B and Attachment B, Substitute Page 1, for several reasons. First, the revised petition is consistent with commission's practice to allow deferral of certain expenses, but not for the company's full revenue requirement. Specifically, the revised petition more narrowly would allow for deferral of only depreciation and carrying charges. This serves to appropriately mitigate regulatory lag for a project that, by nature, is deployed over a period of several years and provides incremental benefits to customers while the project is being deployed.

Second, the report due two years after the initial meters are installed will describe how the AMI is being used and will quantify known costs and benefits. Staff would have the opportunity outside of adjudication to review this report and engage in informal discussions with the company. An added benefit to the report is that all interested parties will be able to get an update on Avista's AMI deployment process and receive actual data related to the costs and benefits.

Finally, the revised petition preserves the opportunity for the company to recover AMI depreciation expenses and carrying costs without guaranteeing recovery of such costs. Staff has concerns about the potential for double recovery of certain costs. For example, certain expenses related to existing electric meters would be deferred when the new meters are installed, but would remain in current rates. Avista's amended accounting petition, as detailed in Attachment B and Attachment B, Substitute Page 1, allows for a more detailed examination of exactly what AMI costs should be recovered in a future proceeding when actual costs and benefits are known.

Conclusion

The commission should grant Avista's amended accounting petition as described in Attachment B, filed on September 7, 2017, and replacement page to Attachment B, Substitute Page 1, also filed on September 7, 2017.

² Deferral of existing electric meters was authorized in Docket UE-160100.