Agenda Date: December 23, 2008
Item Number: A5

Docket: UE-080986
Company Name: Avista Corp., d\b\a Avista Utilities

Staff: Thomas Schooley, Regulatory Analyst

Recommendation

Set for hearing Avista Utilities' petition in Docket UE-080986.

Background

On June 4, 2008, Avista Utilities (Avista, or company) filed a petition seeking an order authorizing the accounting of wind generation site costs as construction work in progress (CWIP). Such costs include wind generation site land, land rights, generation equipment reservation costs and other incremental costs associated with site evaluation, selection, and acquisition. Avista requests broadly applied and ongoing authority to account for these costs in this manner. The company presents as an example the site costs of a project near Reardon, Washington. A primary purpose of Avista seeking this accounting petition is to get commission permission to accrue interest on the amounts it books associated with these activities.

As we explain below, Avista is seeking an accounting treatment that departs significantly from normal accounting procedures.

Avista follows the accounting standards and practices prescribed by the commission, which has adopted the FERC Uniform System of Accounts (USoA). WAC 480-100-203. Under the USoA, Avista records the wind generation site costs in Account 183, Preliminary Survey and Investigation Charges.

Account 183 states: "A. This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be made to account 426.5, Other Deductions, or to the appropriate operating expense account." In other words, these preliminary costs are included in Account 183 until the project either goes forward, or it is abandoned. Account 183 does not permit Avista to accrue carrying costs on the amounts booked to that account.

Once construction begins, Avista transfers the amounts in Account 183 to Account 107, Construction Work in Progress, which states: "A. This account shall include the total of the balances of work orders for electric plant in process of construction."

Whether carrying costs are accrued on CWIP amounts depends on how a commission treats CWIP for ratemaking purposes. Some commissions include CWIP in rate base, and the utility would earn a return on those amounts, and thus the utility would not accrue carrying costs on CWIP balances. Other commissions do not include CWIP in rate base, but allow the utility to record in the CWIP account an allowance for funds used during construction (AFUDC). AFUDC represents the carrying costs, or capital costs the utility incurs on the funds it expends for construction.

Once construction is complete, the utility includes the CWIP amount in an asset account and the project costs, including AFUDC, are included in rate base and depreciated over the life of the asset.

This commission has discretion under RCW 80.04.250 to allow CWIP in rate base, or not, but in recent years, the commission has not included CWIP in rate base, and allowed accrual of AFUDC on CWIP balances. The AFUDC is recovered when the plant is in service, included in rate base, and depreciated.

In sum, Avista wants commission permission to include the pre-construction expenditures of wind generation sites in CWIP, before construction begins, in order to accrue carrying costs on these expenditures. This is a significant departure from the USoA.

Avista relies on RCW 19.285.050(2) as the basis for its filing. This section of the Energy Independence Act (Act) states, in part: “An investor-owned utility is entitled to recover all prudently incurred costs associated with compliance with this chapter.”

Discussion

To staff’s knowledge, this is the first time a utility has requested commission permission to capitalize carrying costs on preliminary survey amounts. Apparently, Avista interprets the phrase “entitled to recover all prudently incurred costs” as requiring the commission to include accrual of carrying costs during the pre-construction phase of a project, for later recovery through rates.

Staff does not agree that under the Act, a utility must include carrying costs related to preliminary surveys as a “prudently incurred cost,” contrary to the normal USoA treatment of such costs. The USoA sets requirements for accounting for these costs, and in effect, it establishes the risk investors take when investigating projects such as these. That risk relationship is reflected in the utility’s authorized return. In other words, Avista could recover twice for these carrying costs; once through the rate of return, and again when the carrying costs are added and later recovered through rates.

In any event, granting this petition is not the only way to achieve compliance with the Act, even if Avista were correct in its interpretation. For example, Avista could file a rate case and seek recovery of these preliminary survey costs.

In sum, this docket presents significant legal and policy issues that should be thoroughly aired before the commission.

Conclusion

Staff recommends that the commission set Avista Utilities' filing in Docket UE-080986 for hearing to more fully consider the legal and policy issues involved in this filing.