BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of Avista Corporation, d/b/a Avista Utilities, For an Order Authorizing the Company to Revise its Electric Book Depreciation Rates and Authorizing Deferred Accounting Treatment for the Difference in Depreciation Expense.	)))))))	Docket No. UE-18____ PETITION OF AVISTA CORPORATION

I. INTRODUCTION

1 In accordance with WAC 480-07-370, Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby applies to the Commission for approval of a proposed change to electric book depreciation rates.

2 Avista is a utility that provides service to approximately 378,000 electric customers and 241,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 101,000 natural gas customers in Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its main office.

3 Please direct all correspondence related to this Application as follows:

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4 Rules and statutes that may be brought at issue in this Application include RCW 80.01.040, RCW 80.28.020, RCW 80.04.350, and WAC 480-100-203(3).

5 A table of contents for this Petition follows:

II. BACKGROUND

6 The Commission is empowered to ascertain and determine the proper and adequate rates of depreciation of the Company's property used in the rendering of retail electric service under the provisions of RCW 80.04.350. Each utility under the Commission's jurisdiction is required to conform its depreciation accounts to the rates so ascertained and determined by the Commission. The Commission may make changes in such rates of depreciation from time to time as the Commission may find necessary.

7 The Company periodically completes a depreciation study and requests modifications to its depreciation rates. The Company last changed its electric depreciation rates in Washington effective January 1, 2013, in accordance with Order No. 09 dated December 26, 2012, issued in Docket Nos. UE-120436 and UG-120437 (consolidated).

III. OBJECTIVE OF THE DEPRECIATION STUDY

8 Avista hired Gannett Fleming, Inc. to undertake a depreciation study of its depreciable electric, gas, and common plant in service as of December 31, 2016.[1] The Company typically conducts such depreciation studies at approximately five-year intervals. Summaries of the study are included in Attachment A for all studied plant. The detailed Depreciation Study prepared by Gannett Fleming, Inc. is included with the Company's filing as Attachment C.

9 The objective of this study was to recommend depreciation rates to be utilized by Avista for accounting and ratemaking purposes. Further, sound accounting practice dictates periodic updates to depreciation rates in order to recognize additions to investment in plant assets and to reflect changes in asset characteristics, technology, salvage, removal costs, life span estimates and other factors that impact depreciation rate calculations. The depreciation rates approved by the Commission in 2012 were developed from a study based on depreciable plant balances at December 31, 2010 (for all plant other than transportation plant) and depreciable plant balances at December 31, 2011 (for all transportation plant). Similar to these preceding studies, the annual accrual rates proposed in this filing were primarily calculated in accordance with the straight-line method of depreciation, using the average service life procedures and the remaining life basis, based on estimates which reflect considerations of historical evidence and expected future conditions.

[1] Gannett Fleming, Inc. is an independent subject matter expert in utility depreciation. Additionally, Gannett Fleming, Inc. is an expert in this geographical region, doing work for regional utilities (e.g., Puget Sound Energy, Idaho Power, and Northwest Natural Gas) and Avista for a number of years.

IV. STUDY RESULTS AND DETAILS

10 The table below outlines the existing and proposed weighted depreciation rates, by functional group, for Washington electric plant.

	Weighted Group Depreciation Rates	
Functional Group	**Existing**	**Proposed**
Steam Production Plant	1.94%	2.72%
Hydraulic Production Plant	1.91%	2.20%
Other Production Plant	3.25%	3.56%
Transmission Plant	1.80%	2.11%
Distribution Plant	2.90%	2.57%
General Plant	6.75%	6.68%

11 The depreciation study consisted of the following phases and methods:

12 Phase One estimates the service life and net salvage characteristics for each depreciable group. This was done by compiling historical plant data and analyzing it to determine historical trends of survivor and net salvage characteristics. This phase also involves obtaining additional information from the Company's personnel relating to operations of the plant and making judgments of average service life and net salvage characteristics.

13 Phase Two calculates the composite remaining lives and annual depreciation accrual rates. This phase was done by using the straight line remaining life method, using remaining lives weighted consistently with the average service life procedure.

14 The Company applied the Study depreciation rates to plant in service balances as of December 31, 2016. The results of the Study, as illustrated in Attachment A, show that the Company's current annual depreciation expense for its Washington electric service would be increased by approximately $0.6 million as a result of setting the depreciation accrual rates at

the recommended level.[2] This recommended change is necessary to update asset lives and existing depreciation accrual rates, which are currently based upon a depreciation study completed in 2012.

15 The following table shows a summary of the change in expense between existing rates and the recommended rates, at an aggregate level by functional group. Attachment A shows an expanded view of this table; Attachment B-1 shows the underlying detail, by FERC account, for assets excluding transportation assets; Attachment B-2 includes the underlying detail for transportation assets;[3] and Attachment B-3 includes the supporting information for the general plant reserve adjustment.[4]

Washington Electric - Adjustment for Proposed Study Rates

Functional Group	**Total**
Production Plant:	
Steam Production Plant	$ 2,132,224
Hydraulic Production Plant	1,139,011
Other Production Plant	612,132
Total Production Plant	3,883,367
Transmission Plant	1,342,636
Distribution Plant	(3,281,059)
Total General Plant	(860,716)
Transportation	(530,146)
Total Electric Plant	$ 554,082

[2] If these updated rates were applied to the electric pro forma capital additions proposed by Avista in its rebuttal testimony in Docket No. UE-170485 and UG-170485, the net incremental impact to depreciation expense would be a reduction of $110,000.

[3] The Company accounts for transportation depreciation expense by allocating the overall costs to capital and to expense through a pooling process based on the actual usage of vehicles on specific projects. This attachment illustrates the allocation of the incremental reduction in depreciation expense.

[4] This adjustment is proposed to align the actual accumulated depreciation with the theoretical reserve associated with certain of the Company's general plant FERC accounts, and is proposed to be amortized over a five-year period.

16 A substantial portion of this increase in Washington electric depreciation expense of $0.6 million was a result of increased expense of $1.2 million related to the recovery of asset retirement obligations for Colstrip Units 3 and 4, resulting from the Environmental Protection Agency's Disposal of Coal Combustion Residuals from Electric Utilities Final Rule, which was published in 2015.[5] This increase will be further discussed in Section V below. The overall increase was also driven by changes in net salvage values and average useful lives of production plant assets and changes in salvage costs for transmission assets, partially offset by changes in average useful lives for distribution assets.

V. COLSTRIP GENERATING UNITS 3 AND 4 DEPRECIABLE LIVES AND ASSET RETIREMENT OBLIGATIONS

17 The following table illustrates the assumed useful lives for depreciation purpose for Colstrip Units 3 and 4 for both present depreciation rates and proposed depreciation rates. As illustrated in this table, the proposed depreciation rates reflect no changes in the assumed useful lives.[6]

	Current Assumed Useful Life - Terminal Year	Proposed Assumed Useful Life - Terminal Year
Colstrip Unit 3	2034	2034
Colstrip Unit 4	2036	2036

18 Consistent with Order No. 01 in Docket No. UE-051852, Avista shall recover costs associated with asset retirement obligations ("AROs") through depreciation expense based on

[5] The final rule can be found at https://www.federalregister.gov/documents/2015/04/17/2015-00257/hazardous-and-solid-waste-management-system-disposal-of-coal-combustion-residuals-from-electric.
[6] The determination of a useful life of Colstrip Units 3 and 4 (2034 and 2036, respectively) for depreciation purposes, says nothing about actual closure dates—therefore, no inferences should be drawn.

Commission-approved depreciation rates.[7] On April 17, 2015, the EPA published a final rule regarding coal combustion residuals ("CCR"), also termed coal combustion byproducts or coal ash, in the Federal Register, and this rule became effective on October 15, 2015. Colstrip, of which Avista is a 15 percent owner of Units 3 & 4, produces this byproduct. The rule established technical requirements for CCR landfills and surface impoundments under Subtitle D of the Resource Conservation and Recovery Act, the nation's primary law for regulating solid waste. The Company, in conjunction with the other Colstrip owners, developed a multi-year compliance plan to strategically address the CCR requirements and existing state obligations, while maintaining operational stability. As a result, Avista first recorded this obligation on its books in 2015. The current total expected cost of Avista's share of the ARO for Colstrip Units 3 & 4 is approximately $37.6 million ($24.7 million Washington-share), or approximately $1.9 million ($1.2 million Washington-share) per year.[8] As the Company's existing depreciation rates are based on the Company's previous depreciation study (based upon balances as of December 31, 2010) and were approved by this Commission in 2012, the Company's current depreciation expense does not include a component for the recovery of AROs. Therefore, an additional depreciation expense component has been included in this application to begin recovery of this ARO through depreciation expense collected from customers.

19 The actual asset retirement costs related to the CCR rule requirements may vary substantially from the current estimates of the ARO cost due to uncertainty about the compliance

[7] An asset retirement obligation, as used in this application, is defined as "an environmental remediation liability that results from the normal operation of a long-lived asset and that is associated with the retirement of that asset" (Financial Accounting Standards Board, Accounting Standards Codification 410-20-15-2b).

[8] These annual depreciation expense balances are based on the 20 years of depreciation from December 31, 2016 (the as-of date for the balances evaluated in this depreciation study) through 2036 (the existing probable retirement year, for depreciation purposes only, for Colstrip Unit 4). However, given that the new rates set through this application would not go into effect until January 1, 2019, it may be more appropriate to recover this balance over the 18 years of depreciation from 2019 through 2036. In that case, the annual depreciation expense would be $2.1 million ($1.4 million Washington-share).

strategies that will be used and the preliminary nature of available data used to estimate costs, such as the quantity of coal ash present at certain sites, and the volume of fill that will be needed to cap and cover certain impoundments. Avista will coordinate with the plant operator and continue to gather additional data in future periods to make decisions about compliance strategies. As additional information becomes available, Avista will update the estimated ARO cost for changes in estimates, and would petition the Commission for updates to the amounts recovered from customers through depreciation expense, if the changes are material.

VI. IMPLEMENTATION AND DEFERRED ACCOUNTING FOR THE CHANGE IN DEPRECIATION EXPENSE

20 Avista has made similar filings with the Idaho Public Utilities Commission (IPUC) and the Public Utility Commission of Oregon (OPUC) concurrently with this filing. It is critical that the Company maintain uniform utility accounts and depreciation rates for common plant that are consistent among the Company's regulatory jurisdictions. In the event different depreciation rates or methods were to be ordered for allocated plant (a category which is primarily composed of production, transmission, intangible, and general plant assets serving multiple jurisdictions), the result would require multiple sets of depreciation accounts and records that would need to be adjusted annually for changes in allocation factors, which would impose a costly administrative burden on the Company and unnecessary expense for the Company's ratepayers, as well as possible unrecovered or stranded costs. Of Washington's $2.7 billion in electric service plant at December 31, 2016, approximately $1.7 billion is allocated plant (of which $1.3 billion is production/transmission assets) and approximately $1.1 billion is Washington direct plant. Therefore, allocated plant represents approximately 61% of Washington's total electric plant balance. Of the overall net incremental increase of $0.5 million, Washington direct plant

depreciation expense represents a decrease of $3.3 million, offset by an increase of $3.8 million in depreciation expense for Washington-allocated depreciation expense. Attachment A provides supporting detail for these balances.

21 The Company requests that the Commission make its determination on depreciation rates by December 31, 2018, to commence Washington direct plant and allocated plant depreciation effective January 1, 2019, coincident with the implementation of depreciation rate updates in the Company's Idaho and Oregon jurisdictions. The Company anticipates the depreciation rates will be approved in Idaho and Oregon during 2018.

22 The Company requests that the difference between depreciation expense under current book depreciation rates and depreciation expense under the updated depreciation rates be deferred for later recovery from customers in a subsequent rate proceeding. With deferred accounting, the annual increase in depreciation expense, $554,082, as shown in the preceding table, would be set aside, on a monthly basis, for the opportunity for future recovery. The deferred depreciation expense will accrue a carrying charge, on a monthly basis, equal to the current FERC rate,[9] which will cease when recovery begins in a future rate proceeding.[10] The deferral of the difference in depreciation expense would begin in the month book depreciation rates are updated.

23 The monthly accounting entries for the electric deferral would be as follows:

24

Account Description	FERC Account	Debit	Credit
Regulatory Asset - Deferred Costs	182.3XX ED.WA	xxx	
Regulatory Credit - Deferred Costs	407.4XX ED.WA		xxx

[9] Presently the current FERC rate is at 4.25%. See https://www.ferc.gov/enforcement/acct-matts/interest-rates.asp.
[10] The deferred carrying charge will be recorded in a separate regulatory asset account from the deferred depreciation expense regulatory account, and will not earn interest.

25 The monthly accounting entries to record the electric amortization would be as follows:

26

Account Description	FERC Account	Debit	Credit
Regulatory Debit - Amortization of Costs	407.3XX ED.WA	xxx	
Regulatory Asset - Deferred Costs	182.3XX ED.WA		xxx

VII. REQUEST FOR RELIEF

27 WHEREFORE, Avista respectfully requests that the Commission issue an Order for the following:

a. Authorize the Company to update electric book depreciation rates to reflect the proposed depreciation rates, as described in this Petition.

b. Authorize the deferred accounting treatment detailed in this Petition related to the increase in expense that will result from the change in electric depreciation rates. Avista will address the prudence and recovery of these costs in its next general rate case filing or other future proceeding, as appropriate.

DATED this 22nd day of February 2018

By: _____
Patrick D. Ehrbar
Director of Regulatory Affairs

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

Patrick D. Ehrbar, being first duly sworn on oath, deposes and says: That he is a Director of Regulatory Affairs for Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Petition, knows the contents thereof, and believes the same to be true.

SIGNED AND SWORN to before me on this 22nd day of February 2018, by Patrick D. Ehrbar.

PATTY L HANSON
COMMISSION EXPIRES
NOTARY
PUBLIC
11-23-21
STATE OF WASHINGTON

NOTARY PUBLIC in and for the State of Washington, residing at Spokane.

Commission Expires: 11-23-2021