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 Natural Gas Book Depreciation Rates and Authorizing Deferred Accounting Treatment for the Difference in Depreciation Expense.	)))))))	Docket No. UG-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 natural gas 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 Petition as follows:

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4 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, RCW 80.04.350, and WAC 480-90-203(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 natural gas 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 natural gas 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 natural gas plant.

	Weighted Group Depreciation Rates	
Functional Group	**Existing**	**Proposed**
Underground Storage	1.96%	1.46%
Distribution Plant	2.52%	2.45%
General Plant	7.02%	6.40%

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 natural gas service would be decreased by approximately $1.1 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

[2] If these updated rates were applied to the natural gas pro forma capital additions proposed by Avista in its rebuttal testimony in Docket No. UE-170485 and UG-170486, the net incremental impact to depreciation expense would be a reduction of $30,000.

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 Natural Gas - Adjustment for Proposed Study Rates

Functional Group		**Total**
General Plant	$	(429,263)
Underground Storage Plant		(129,050)
Gas Distribution Plant		(272,475)
Transportation		(223,177)
Total Gas Plant	$	(1,053,966)

16 The overall decrease in Washington natural gas depreciation expense of approximately $1.1 million was relatively equally spread across functional groups. The overall decrease was generally driven by changes in net salvage values for distribution plant assets (in particular

[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.

natural gas mains), a decrease in the computer hardware depreciation rate, and increases in service lives for transportation equipment (partially offset by reductions in estimated salvage).

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

17 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 $522.6 million in natural gas service plant at December 31, 2016, approximately $95.8 million is allocated plant and approximately $426.7 million is Washington-direct plant. Therefore, allocated plant represents approximately 18% of Washington's total natural gas plant balance. Of the overall net incremental decrease of $1.1 million, Washington-direct plant depreciation expense represents a decrease of $0.4 million and Washington-allocated depreciation expense represents a decrease of $0.7 million. Attachment A provides supporting detail for these balances.

18 The Company requests that the Commission make its determination on depreciation rates by December 31, 2018, to commence with 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.

19 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 return to customers in a subsequent rate proceeding. With deferred accounting, the annual decrease in depreciation expense of $1,053,966, as shown in the preceding table, would be set aside, on a monthly basis, for the opportunity to return to customers at a later time. The deferred depreciation expense will accrue a carrying charge, on a monthly basis, equal to the current FERC rate,[5] which will cease when the refund begins in a future rate proceeding.[6] The deferral of the difference in depreciation expense would begin in the month book depreciation rates are updated.

20 The monthly accounting entries for the natural gas deferral would be as follows:

21

Account Description	FERC Account	Debit	Credit
Regulatory Debit - Deferred Costs	407.3XX GD.WA	xxx	
Regulatory Liability - Deferred Costs	254.XXX GD.WA		xxx

22 The monthly accounting entries to record the natural gas amortization would be as follows:

23

Account Description	FERC Account	Debit	Credit
Regulatory Liability - Deferred Costs	254.XXX GD.WA	xxx	
Regulatory Credit - Amortization of Costs	407.4XX GD.WA		xxx

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

VI. REQUEST FOR RELIEF

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

a. Authorize the Company to update natural gas 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 decrease in expense that will result from the change in natural gas 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

Patty L. Hanson

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

Commission Expires: 11-23-2021