Office of the Secretary
Service Date
December 29, 2023

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AN ACCOUNTING ORDER AUTHORIZING ACCOUNTING AND RATEMAKING TREATMENT OF COSTS ASSOCIATED WITH THE COMPANY'S INVESTMENT IN AMI (ADVANCED METERING INFRASTRUCTURE)	)	**CASE NO. AVU-E-23-07** **AVU-G-23-04** **ORDER NO. 36044**

On July 10, 2023, Avista Corporation, dba Avista Utilities ("Company"), applied for an order approving the following: (1) "[d]eferral of the undepreciated net book value of existing electric meters, natural gas communicating modules . . . and Automated Meter Reading ("AMR") communication equipment[;]" (2) adoption of the depreciable lives proposed for electric Automatic Metering Infrastructure ("AMI") electric meters and gas digital monitors; and (3) deferral of AMI-related depreciation expenses until their inclusion in rates through a future rate case. Application at 1-2.

On August 10, 2023, the Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 35885. Commission Staff ("Staff") submitted comments to which the Company replied. No public comments were received. Having reviewed the record, the Commission issues this Order approving the Company's Application as follows.

BACKGROUND

The Company represents that its existing AMR infrastructure has exceeded its 15-year expected service life and components of the system are either out of production or otherwise no longer supported. Accordingly, the system must be updated to avoid excessive replacement costs and to continue providing reliable electric and natural gas operations in Idaho. After conducting a cost-benefit analysis, the Company determined that replacing its existing AMR system with a new AMI system would be prudent and cost-effective to meet the Company's long-term customer service objectives.

THE APPLICATION

The Company indicated that transitioning to an AMI system requires, among other things, replacement of existing electric meters, natural gas communicating modules, and AMR communication equipment. As there is no market for the volume of equipment to be replaced, the existing AMR equipment will be removed and recycled during the transition to an AMI system. Accordingly, the Company requests authority to defer the undepreciated net book value of existing AMR equipment as a regulatory asset to avoid writing off its investment in that equipment. The Company proposes to record the deferred amounts as a regulatory asset in Federal Energy Regulatory Commission ("FERC") Account 182.3 – Other Regulatory Assets. As the AMR equipment is currently included in rate base earning the authorized rate of return, the Company seeks to include the AMR equipment regulatory asset in the base rates until fully amortized.

The Company further requests that the Commission adopt the 7.03% depreciation rate for electric and natural gas AMI metering equipment contained in the Company's recent depreciation study filed in Case Nos. AVU-E-23-02 and AVU-G-23-02. Although transitioning to an AMI system will occur over multiple years, the Company indicated that certain components of the system will be put in service prior to completion of the entire AMI system. Because depreciation and other costs related to the AMI system cannot be included in a general rate case until 2025, the Company seeks deferral of the depreciation expense on AMI investment from the beginning of the month in which the first transfer to plant of the AMI investment occurs until such plant is included in the Company's next general rate case. The Company proposes a rate of return on this regulatory asset equal to the rate of return authorized in Case Nos. AVU-E-23-01 and AVU-G-23-01 until the asset is fully amortized.

STAFF COMMENTS

Based upon its review of the Company's Application, accompanying exhibits, and responses to production requests, Staff believed that the Company's accounting and some of its proposed rate making treatments are reasonable. Furthermore, Staff believed that the Company demonstrated the need for transitioning to an AMI system based on the age and obsolescence of current AMR infrastructure and the future need for advanced technology that AMI will provide. Staff noted that prior experience with other utilities implementing AMI in Idaho has shown that the technology enables (1) instantaneous price signals reflecting the time-value of delivered energy; (2) better rate design; (3) net-billing of customers exporting energy; (4) more accurate avoided costs for Demand-Side Management programs; (5) dynamic distribution grid and customer battery management; (6) better cost of service characterization based on more exacting class-wide load profiles throughout the year. According to Staff, AMI is necessary to much of what other utilities are currently implementing. Consequently, Staff concluded that the Company's cost-benefit analysis of transitioning to an AMI system, including the estimated $67.3 million in total savings from switching to such a system over "refreshing" the existing AMR system, is reasonable. However, Staff indicated that it would examine how cost-effectively the Company implements the project when the Company seeks cost recovery through its retail rates, as proposed by the Company.

Accordingly, Staff recommended the Commission accept the Company's proposal to defer the undepreciated net book value of the existing AMR system into FERC Account 182.3 *without* allowing a rate of return on the account. As of December 31, 2022, the Company reported $16 million in undepreciated net book value for AMR system. Because the current AMR system is already embedded in customer rates, Staff observed that the Company's request to amortize the undepreciated book value over the remaining depreciable life of the assets will not impact customer rates until the next general rate case. During the Company's next general rate case, the amortization period of the regulatory asset for the AMR system can be revisited.

Depreciable Life of AMI Electric Meters and Natural Gas Digital Monitors

Staff also believes the Company's proposed composite depreciation rate of 7.03% is a reasonable rate of recovery for AMI system investments and recommends its approval.

Deferral and Carrying Charge on AMI Systems

Staff opposed authorizing deferral of depreciation expenses on AMI investments or allowing a return on any deferred amounts. Normally, plant investment between rate cases depreciates upon placement into service. Additionally, older plant retires, and the Company continues to recover the depreciation expense associated with that retired plant until the next rate case.

In a general rate case, the depreciation expense allowed for recovery resets, ensuring that the Company recovers the appropriate level of depreciation expense for its plant in service. Staff saw no valid reason for an exception in this case to allow deferral of depreciation expense associated with AMI investment without also deferring as a regulatory liability all depreciation expense currently embedded in rates for plant retirements prior to the Company's next rate case. Furthermore, Staff opposed recovery of depreciation expense prior to a review of the prudency of all capital additions in the Company's next general rate case. Accordingly, Staff recommended the Company continue to follow routine accounting treatment by depreciating assets as they are placed in service and become used and useful.

COMPANY REPLY

The Company generally agreed with Staff's recommendations—but identified two remaining issues. First, the Company acknowledged that the issues of whether to authorize deferral of depreciation expenses related to the installation of the AMI system is unripe and better addressed in the Company's next general rate case. Second, the Company disagreed with Staff regarding the denial of a rate of return on AMR related deferrals. The Company noted that denial of a rate of return on the deferral of unamortized balances would result in a potential write-off of that unrecovered return. To avoid this, the Company proposed the Commission expressly state that the issue of whether a return component is appropriate is unripe, but can be taken up in the Company's next general rate case. According to the Company, this would allow further discussion and development of a record regarding the transition to an AMI system, AMR deferrals, and other related issues.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over the Company's Petition and the issues in this case under Title 61 of the Idaho Code including, *Idaho Code* §§ 61-501, 502, and -503. Based on our review of the record, we find it reasonable to grant the Company's Application as set forth below. Installation of the Company's existing AMR system began in 2005. Now, not only has the existing AMR system exceeded its 15-year expected service life, but many components of the system are no longer manufactured or supported. To continue providing reliable service to gas and electric customers without excessive replacement costs, the Company had to choose between "refreshing" the AMR system or replacing it. After performing a cost-benefit analysis of these two options, the Company determined that transitioning to an AMI system was the most prudent and cost-effective course of action. As set forth below, we find this decision reasonable.

In addition to its AMR system's age and flagging support necessitating re-investment, the Company's existing AMR system lacks potentially cost-saving functionality of AMI systems. In particular, the superior data transferring capabilities of AMI systems offers collection of granular information on customer utility consumption, better customer battery and overall grid management, and improved rate design over AMR systems. Considering the additional functionality of AMI systems and dwindling AMR support, we agree with Staff's opinion that the Company's estimated $67.3 million in total savings from switching to such a system over "refreshing" the existing AMR system is reasonable. Similarly, the financial assumptions the Company made regarding the disposal and salvage of its existing AMR system are reasonable.

Accordingly, we find the Company reasonably determined that investing in an AMI system was a necessary and cost-effective solution.

Considering the above, we approve the Company's request to defer the undepreciated net book value of its existing electric meters, natural gas communication modules (ERTs), and AMR communication equipment. Additionally, as the Company's investment in its existing AMR system is already embedded into base rates, amortization of this deferral over the remaining depreciable life of the removed equipment will not affect customer rates until the Company's next rate case. We therefore find the Company's request to amortize the deferred amounts over the remaining depreciable life of the removed equipment reasonable. Although we decline to authorize the Company to earn a rate of return on any deferred amounts at this time, both this issue and the amortization period of the deferral may be revisited during the Company's next general rate case.

We next address the Company's request that we establish a depreciation rate for its investment in new AMI system investments. In its most recent depreciation cases (Case Nos. AVU-E-23-02 and AVU-G-23-02), the Company proposed a 7.03% depreciation rate for AMI investments and proposes the same rate in this case. Considering these prior requests and Staff's comments, we find the Company's proposed 7.03% composite depreciation rate based on a 15-year life, S2.5 survivor curve, and negative 2% salvage value to be a reasonable rate of depreciation for AMI system investments.

As Staff noted, plant investment between rate cases depreciates upon placement into service. In a general rate case, depreciation expense allowed for recovery resets to ensure recovery of the proper level of depreciation for plant servicing customers. Thus, until the Company's next general rate case, there will not be a final determination on the prudence of its *actual* investment in AMI. Accordingly, we reject the Company's proposal to defer and allow a rate of return on AMI system investments until the prudence of such investment is reviewed in the Company's next general rate case.

ORDER

IT IS HEREBY ORDERED that the Company's request to defer as a regulatory asset the undepreciated net book value of its existing electric meters, natural gas communication modules (ERTs), and AMR communication equipment, to be amortized over the remaining depreciable life of the removed equipment, is approved. Although no rate of return on the deferral account is authorized, this issue may be revisited during the Company's next general rate case.

IT IS FURTHER ORDERED that the Company's proposed 7.03% composite depreciation rate based on a 15-year life, S2.5 survivor curve, and negative 2% salvage value for AMI metering equipment is approved.

IT IS FURTHER ORDERED that the Company's request to defer depreciation expenses and earn a return on its AMI system is denied. This issue may be revisited during the Company's next general rate case when Staff can review the prudence of the Company's actual investment in AMI.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order about any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29th day of December 2023.

ERIC ANDERSON, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Monica Barrios-Sanchez
Interim Commission Secretary

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