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UTILITIES COMMISSION

AVISTA
Corp.

February 22, 2018

Diane Hanian, Secretary
Idaho Public Utilities Commission
472 W. Washington St.
Boise, ID 83702

AVU-E-18-03
AVU-G-18-02

RE: **Application of Avista Corporation Requesting Authority to Revise Its Book Depreciation Rates**

Enclosed for filing with the Commission are an original and seven copies of an Application by Avista Corporation, dba Avista Utilities (Avista), dated February 22, 2018 for authority to revise its book depreciation rates, along with a request for Modified Procedure. Also enclosed are three electronic copies of the Company's workpapers.

If you have any questions regarding the proposed filing, please contact Dave Machado at (509) 495-4554.

Sincerely,

David J. Meyer
Vice President and Chief Counsel for Regulatory & Governmental Affairs

Enclosures

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David J. Meyer
Vice President and Chief Counsel of
Regulatory and Governmental Affairs
Avista Corporation
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Phone: (509) 489-0500, Fax: (509) 495-8851

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION, dba AVISTA UTILITIES, REQUESTING AUTHORITY TO REVISE ITS ELECTRIC AND NATURAL GAS BOOK DEPRECIATION RATES	)	CASE NO. AVU-E-18-03 CASE NO. AVU-G-18-02 APPLICATION OF AVISTA CORPORATION

I. INTRODUCTION

Avista Corporation, doing business as Avista Utilities (hereinafter Avista or Company), at 1411 East Mission Avenue, Spokane, Washington, pursuant to Section 61-525 Idaho Code and Rule 52 of the Idaho Public Utilities Commission ("Commission Rules of Procedure") hereby applies to the Commission for approval of a proposed change to electric and natural gas book depreciation rates. The Company requests that this filing be processed under the Commission's Modified Procedure rules through the use of written comments.

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 also serves approximately 101,000 natural gas customers in Oregon. The largest community served in the area is Spokane, Washington, which is the location of the corporate headquarters.

Communications in reference to this Application should be addressed to:

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Director of Regulatory Affairs

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A table of contents for this application follows:

II. BACKGROUND

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 and natural gas service under the provisions of Idaho Code Section 61-525. 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.

The Company periodically completes a depreciation study and requests modifications to its depreciation rates. The Company last changed its electric and natural gas depreciation rates in Idaho effective in two parts; depreciation rates for common/allocated plant were effective January 1, 2013, with the remaining direct Idaho plant depreciation rates changed effective April

1, 2013, in accordance with Order No. 32769 dated March 27, 2013, issued in Case Nos. AVU-E-12-08 and AVU-G-12-07 (consolidated).

III. OBJECTIVE OF THE DEPRECIATION STUDY

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.

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 2013 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

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

Functional Group	Weighted Group Depreciation Rates 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	3.06%	2.83%
General Plant	6.17%	6.25%

The table below outlines the existing and proposed weighted depreciation rates, by functional group, for Idaho natural gas plant.

Functional Group	Weighted Group Depreciation Rates Existing	Proposed
Underground Storage	1.96%	1.46%
Distribution Plant	2.46%	2.34%
General Plant	6.83%	6.34%

The depreciation study consisted of the following phases and methods:

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.

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.

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 Idaho electric service would be increased by approximately $1.0 million and the Company's current annual depreciation expense for its Idaho natural gas service would be decreased by approximately $0.5 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 (approved in 2013).

The following tables 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]

The following table shows a summary of the change in depreciation expense for Idaho electric service:

[2] As a two year "stay-out" was stipulated in the Multi-Party Settlement agreement in Avista's most recent general rate case (Case Nos. AVA-E-17-01 and AVA-G-17-01), the Company is not seeking a rate adjustment associated with the expected changes in depreciation expense that will result from changes in depreciation rates to the proposed rates. Avista's next general rate case filing will include depreciation expense based upon the depreciation rates ultimately approved through this application.

[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.

Electric - Change in Expense due to Proposed Study Rates

	Total
Production Plant:	
Steam Production Plant	$ 1,111,689
Hydraulic Production Plant	593,852
Other Production Plant	319,151
Total Production Plant	2,024,692
Transmission Plant	700,017
Distribution Plant	(1,273,916)
General Plant	(222,558)
Transportation	(249,301)
Total Electric Plant	$ 978,934

Idaho electric depreciation expense would increase approximately $1.0 million, primarily due to increased expense of $0.6 million related to the recovery of asset retirement obligations associated with 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.

The following table shows a summary of the change in depreciation expense for Idaho natural gas service:

[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.

Natural Gas - Change in Expense due to Proposed Study Rates

	Total
General Plant	$ (150,536)
Underground Storage Plant	(53,926)
Distribution Plant	(247,315)
Transportation	(91,025)
	-
Total Gas Plant	$ (542,802)

Idaho natural gas depreciation expense would decrease $0.5 million. The overall decrease was generally driven by changes in net salvage values for distribution plant assets (in particular gas mains and meters), a decrease in the computer hardware depreciation rate, and increases in service lives for transportation equipment (partially offset by reductions in estimated salvage).

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

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

[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.

Consistent with Order No. 29962 in Case Nos. AVU-E-05-09 and AVU-G-05-03 (consolidated), Avista shall recover costs associated with asset retirement obligations ("AROs") through depreciation expense based on 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 ($12.9 million Idaho-share), or approximately $1.9 million ($0.6 million Idaho-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 2013, 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.

[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 ($0.7 million Idaho-share).

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 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. PROPOSAL AND IMPLEMENTATION

Under Section 61-525 Idaho Code, which authorizes the Commission to determine the proper and adequate rates of depreciation of property used by a public service company, the Commission may ascertain and by order fix the proper and adequate rates of depreciation of utility property. The Company requests that the Commission allow the Company to implement the proposed depreciation rate revisions effective January 1, 2019.

Avista has made a similar filing with the Washington Utilities and Transportation Commission (WUTC) and the Public Utility Commission of Oregon (OPUC). 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 common plant, it would result in 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 Idaho's $1.5 billion in electric service plant at December 31, 2016, approximately $0.9 billion is allocated plant (of which $0.7 billion is production/transmission assets) and approximately $0.6 billion is Idaho direct plant. Therefore, allocated plant represents approximately 60% of Idaho's total electric plant balance. Of the overall net incremental increase of $1.0 million for Idaho electric service, Idaho electric direct plant depreciation expense represents a decrease of $1.2 million, offset by an increase of $2.2 million in depreciation expense for Idaho-allocated depreciation expense. Attachment A provides supporting detail for these balances.

Likewise, of Idaho's $273.8 million in natural gas service plant at December 31, 2016, approximately $45.6 million is allocated plant and approximately $228.2 million is Idaho direct plant. Therefore, allocated plant represents approximately 17% of Idaho's total natural gas plant balance. Of the overall net incremental decrease of $0.5 million for Idaho natural gas service, Idaho natural gas direct plant depreciation expense represents a decrease of $0.3 million and Idaho-allocated plant depreciation expense represents a decrease of $0.2 million. Attachment A provides supporting detail for these balances.

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

IV. REQUEST FOR RELIEF

WHEREFORE, Avista respectfully requests that the Commission issue a final Order authorizing the Company to update electric and natural gas book depreciation rates to reflect the proposed depreciation rates, as described in this application. The Company requests that the Commission make its determination by December 31, 2018, so depreciation rates can be updated concurrent with the implementation of revised depreciation rates in the Company's Washington and Oregon jurisdictions.

The Company requests that the matter be processed under the Commission's Modified Procedure rules through the use of written comments.

Dated at Spokane, Washington this 22nd day of February 2018.

AVISTA CORPORATION

BY____________________
David J. Meyer
Vice President and Chief Counsel for
Regulatory & Governmental Affairs

<u>VERIFICATION</u>

STATE OF WASHINGTON)
)
County of Spokane)

David J. Meyer, being first duly sworn on oath, deposes and says: That he is the Vice President and Chief Counsel for Regulatory & Governmental Affairs of Avista Utilities and makes this verification for and on behalf of Avista Corporation, being thereto duly authorized;

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

____

SIGNED AND SWORN to before me this 22nd day of February 2018, by David J. Meyer.

____

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

Commission Expires: 11-23-2021