CASE NO. AVU-E-23-02
CASE NO. AVU-G-23-02

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Avista Corp.
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February 22, 2023

Ms. Jan Noriyuki
Commission Secretary
11331 W. Chinden Blvd
Building 8, Suite 201-A
Boise, ID 83714

RE: **Application of Avista Corporation Requesting Authority to Revise its Electric and Natural Gas Book Depreciation Rates**

Provided for filing with the Commission is an Application by Avista Corporation, dba Avista Utilities (Avista), dated February 22, 2023 for authority to revise its electric and natural gas book depreciation rates, along with a request for Modified Procedure. The Company also requests, if applicable, the Commission approve deferred accounting treatment if allocated depreciation rates are not approved by all jurisdictions prior to September 1, 2023, resulting in a difference between allocated depreciation expense included in Case Nos. AVU-E-23-01 and AVU-G-23-01, and allocated depreciation expense ultimately approved in these dockets. Also provided are electronic copies of the Company's workpapers.

If you have any questions regarding the proposed filing, please contact Liz Andrews at (509) 495-8601.

Sincerely,

Patrick Ehrbar
Director of Regulatory Affairs

Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION, D/B/A AVISTA UTILITIES, REQUESTING AUTHORITY TO REVISE ITS ELECTRIC AND NATURAL GAS BOOK DEPRECIATION RATES AND AUTHORIZE DEFERRED ACCOUNTING TREATMENT FOR DIFFERENCE IN DEPRECIATIN EXPENSE	))))))	CASE NO. AVU-E-23-___ CASE NO. AVU-G-23-___

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 61-524 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 also requests, if applicable, that the Commission approve deferred accounting treatment if allocated depreciation rates are not approved by all jurisdictions prior to September 1, 2023, resulting in a difference between allocated depreciation expense included in Case Nos. AVU-E-23-01 and AVU-G-23-01, and allocated depreciation expense ultimately approved in these dockets. 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 406,000 electric customers and 373,000 natural gas customers in a 26,000 square-mile area in northern Idaho, eastern Washington, and Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its corporate headquarters. Communications in reference to this Application should be addressed to:

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A table of contents for this Petition 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 April 1, 2019, in accordance with Order 34276, dated March 19, 2019, issued in Case Nos. AVU-E-18-03 and AVU-G-18-02.

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, 2021.[1] The Company typically conducts such depreciation studies at approximately five-year intervals. Summaries and detailed information of the study are included in Attachments A and B for all studied plant. The detailed Depreciation Study prepared by Gannett Fleming, Inc. is included with the Company's filing as Attachment C. This Study has also been furnished in the Company's pending electric and natural gas rate cases (Case Nos. AVU-E-23-01 and AVU-G-23-01) as Exhibit No. 14, Schedule 2, along with the supporting direct testimony of Mr. Spanos. While the Company is by means of this separate Application seeking approval of the revised depreciation rates, the revenue requirement associated with these revised rates is embedded in the proposed revenue requirement in Avista's pending rate case.

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 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 2019 were developed from a study based on depreciable plant balances as of December 31, 2016. 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

[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.

procedures and the remaining life basis, based on estimates which reflect considerations of historical evidence and expected future conditions.

IV. STUDY RESULTS AND DETAILS

Table No. 1 and 2 below outlines the existing and proposed weighted depreciation rates, by functional group, for Idaho electric and natural gas plant.

Table No. 1 Electric Weighted Group Depreciation Rates – Existing vs Proposed

	Weighted Group Depreciation Rates	
Functional Group	**Existing**	**Proposed**
Steam Production Plant[2]	4.31%	4.17%
Hydraulic Production Plant	2.19%	2.27%
Other Production Plant	3.59%	3.09%
Transmission Plant	2.07%	2.32%
Distribution Plant	2.69%	2.47%
General Plant	6.55%	6.41%

Table No. 2 Natural Gas Weighted Group Depreciation Rates – Existing vs Proposed

	Weighted Group Depreciation Rates	
Functional Group	**Existing**	**Proposed**
Underground Storage	1.50%	1.51%
Distribution Plant	2.34%	2.24%
General Plant	6.55%	6.41%

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

[2] These totals omit the depreciation associated with production assets at Colstrip. The depreciation expense and other accounting treatment was addressed in AVU-E-18-03 and the collective settlement approved in Order 34276. This included accelerated depreciation of the production assets to an end of economic life of December 31, 2027.

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 revised depreciation rates to plant in service balances as of December 31, 2021. The results of the Study, as illustrated in Attachment A, show that the Company's current annual depreciation expense for its Idaho electric and natural gas service, would be decreased by $1,248,960 and $329,186, respectively, as a result of setting the depreciation accrual rates at the recommended level.[3] This recommended change is necessary to update asset lives and existing depreciation accrual rates, which are currently based upon a depreciation study completed in 2018.

In addition to the changes in depreciation, the Study evaluated specific recovery amounts established for the <u>reserve amortization</u> for certain general plant accounts for electric, gas and common assets. In order to achieve a more stable accrual for certain general plant accounts in the future, the Study recommends a five-year amortization to adjust unrecovered or over-recovered reserves based on the amortization period by account. This approach will achieve consistent amortization rates for existing assets as well as future assets. The reserve for each of these accounts is segregated into two components. The first component is the amount required to achieve the proper rate for the amortization period. The

[3] As indicated, the Company included the impact of the change in proposed depreciation rates and reserve amortization within its Idaho electric and natural gas general rate cases filed February 1, 2023 in Case Nos. AVU-E-23-01 and AVU-G-23-01. The results of the change in depreciation rates included in the Company's case reflected a reduction in depreciation expense effective September 1, 2023 of approximately $1.5 million for electric and $324,000 for natural gas.

remaining amount, which could be negative, is amortized over 5 years separately from the assets.

With regards to the 5-year recovery period, this is the most commonly established period and reflects the shortest amortization period for the related assets in amortization accounts. Therefore, the alignment of the reserve to the existing assets will be adjusted consistent with the time the assets are in service. In addition, five (5) years is a typical period of time that depreciation studies or rate cases are performed, so this filing is an appropriate opportunity to review the depreciation rates for all accounts. As shown in Table Nos. 3 and 4 below, the amortization of the Idaho electric and natural gas reserve adjustment reduces amortization expense by $193,898 for electric and $59,170 for natural gas.[4]

Table Nos. 3 and 4 below show a summary of the change in electric and natural gas depreciation and amortization 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;[5] and Attachment B-2 includes the supporting information for a general plant reserve adjustment.[6]

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[4] *Ibid.*

[5] 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.

[6] 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.

Table No. 3: Idaho Electric - Adjustment for Proposed Study Rates

Functional Group		Total
Production Plant:		
Steam Production Plant	$	(223,048)
Hydraulic Production Plant	$	179,226
Other Production Plant	$	(297,382)
Total Production Plant	$	(341,204)
Transmission Plant	$	823,486
Distribution Plant	$	(1,541,905)
Total General Plant	$	117,283
Transportation	$	(306,620)
Subtotal Depreciation Expense	$	(1,248,960)
Reserve Amortization	$	(193,898)
Total Electric Plant	$	(1,442,858)

Table No. 4: Idaho Natural Gas - Adjustment for Proposed Study Rates

Functional Group		Total
General Plant	$	26,742
Underground Storage Plant	$	895
Gas Distribution Plant	$	(278,065)
Transportation	$	(78,758)
Subtotal Depreciation Expense	$	(329,186)
Reserve Amortization	$	(59,170)
Total Natural Gas Plant	$	(388,356)

The overall net decrease in Idaho electric depreciation is mainly driven by changes in net salvage values and average useful lives of production plant and distribution assets, offset by changes in salvage costs for transmission assets. The overall decrease in Idaho natural gas depreciation expense is generally driven by changes in net salvage values for distribution plant assets (in particular natural gas mains), and increases in service lives for transportation equipment.

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

Although the production assets at the Colstrip production plant were incorporated into the Company's depreciation study, per requirements of Case No. AVU-E-18-03, the determined end of economic life is December 31, 2027. Accounting for these assets was most recently determined in Case No. AVU-E-21-01, Order 35169, and Avista is not proposing any adjustments to the levels currently approved. As illustrated in this table, the proposed depreciation rates reflect no changes in the assumed useful lives.[7]

	Current Economic Life - Terminal Year	Proposed Assumed Useful Life - Terminal Year
Colstrip Unit 3	**2027**	**2027**
Colstrip Unit 4	**2027**	**2027**

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

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 September 1, 2023, coincident with requested rate relief on September 1, 2023, in the Company's current general rate case

[7] The determination of an economic life of Colstrip Units 3 and 4 (2027) for depreciation purposes, says nothing about actual closure dates - therefore, no inferences should be drawn.

filings, Case Nos. AVU-E-23-01 and AVU-G-23-01, also reflecting such direct and allocated plant depreciation changes.

Avista has made similar filings with the Washington Utilities and Transportation Commission (WUTC) 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 allocated 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 Idaho's $1.8 billion in electric service plant at December 31, 2021, approximately $926 million is allocated plant (of which $704 million is production / transmission assets) and approximately $875 million is Idaho direct plant. Therefore, electric allocated plant represents approximately 51.4% of Idaho's total electric plant balance. Of the overall electric net incremental decrease of $1.4 million, including the reserve adjustment, Idaho direct electric plant depreciation expense represents a decrease of approximately $1.6 million, offset by an increase of approximately $181,000 in depreciation expense for Idaho-allocated depreciation expense. Attachments A and B provides supporting detail for these balances.

For natural gas, of Idaho's $351 million in natural gas service plant at December

31, 2021, approximately $56 million is allocated plant and approximately $295 million is Idaho-direct plant. Therefore, allocated plant represents approximately 16% of Idaho's total natural gas plant balance. Of the overall net incremental decrease of $0.4 million, including the reserve adjustment, Idaho direct plant depreciation expense represents a decrease of approximately $328,000, and Idaho-allocated depreciation expense represents an incremental decrease of approximately $61,000. Attachments A and B provide supporting information for these balances.

The Company requests that the Commission make its determination on depreciation rates by August 31, 2023, to commence Idaho direct plant and allocated plant depreciation effective September 1, 2023, coincident with the implementation of Idaho electric and natural base rates in Case Nos. AVU-E-23-01 and AVU-G-23-01, and 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 2023.

The Company requests that if allocated depreciation rates are not approved by all jurisdictions prior to September 1, 2023, resulting in a difference between allocated depreciation expense included in Case Nos. AVU-E-23-01 and AVU-G-23-01, and allocated depreciation expense ultimately approved in these dockets, that the difference in expense be deferred for later recovery from customers in a subsequent rate proceeding.

The difference in depreciation expense would be set aside, on a monthly basis, for the opportunity for later return or recovery from customers. The deferred depreciation expense will accrue a carrying charge at the Company's actual cost of debt while being deferred and during the amortization period, calculated semi-annually. The deferral of the difference in depreciation expense, if applicable, would begin September 1, 2023 until such time as final approved rates are included in base rates in the Company's next general rate case.

Accounting entries would be recorded monthly to defer the difference in Idaho electric and natural gas depreciation expense, if applicable. For example, a deferred liability to record a reduction in allocated Idaho electric depreciation expense, or a deferred asset to record an increase in allocated Idaho natural gas expense, would be a s follows:

Account Description	FERC Account	Debit	Credit
Regulatory Debit - Deferred Cost	407.3XX ED.ID	XXX	
Regulatory Liability - Deferred Costs	254.XXX ED.ID		XXX

Account Description	FERC Account	Debit	Credit
Regulatory Asset - Deferred Cost	182.3XX GD.ID	XXX	
Regulatory Credit - Deferred	407.4XX GD.ID		XXX

Continuing these examples, the monthly accounting entries for the amortization of the electric and natural gas deferrals would be as follows:

Account Description	FERC Account	Debit	Credit
Regulatory Liability - Deferred Costs	254.XXX ED.ID	XXX	
Regulatory Credit - Amortization of Costs	407.4XX ED.ID		XXX

Account Description	FERC Account	Debit	Credit
Regulatory Debit - Amortization of Costs	407.3XX GD.ID	XXX	
Regulatory Asset - Deferred Cost	182.3XX GD.ID		XXX

VII. 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, doing so in these dockets. The Company also requests, if applicable, that the Commission approve deferred accounting treatment if allocated depreciation rates are not approved by all jurisdictions prior to September 1, 2023, resulting in a difference between allocated depreciation expense included in Case Nos. AVU-E-23-01 and AVU-G-23-01, and allocated depreciation expense ultimately approved in this filing. The Company requests that the Commission make its determination by August 31, 2023, so depreciation rates can be updated concurrently 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 2023.

AVISTA CORPORATION

By ______________________

Patrick Ehrbar
Director of Regulatory Affairs