

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 325

In the Matter of

AVISTA CORPORATION, dba
AVISTA UTILITIES,

Request for a General Rate Revision.

BENCH REQUEST

**DISPOSITION: PARTIES TO PROVIDE INFORMATION IN BRIEFS ON
REGULATORY TREATMENT OF CAPITAL BUDGETING
AND CAPITAL PROJECTS**

I. SUMMARY

The parties are asked to file briefs which will address their testimony, other parties' testimony and the joint stipulation with respect to the capital expenditures proposed by Avista Corporation (Avista), including the prudence of the process used to justify those investments and the appropriate extent of regulatory oversight under the Oregon Revised Statutes.

II. BACKGROUND INFORMATION

At Avista/200, Theis/4-11, the company discusses the planning and decisionmaking processes by which it determines its capital expenditures and the relationship to historical spending patterns. These processes, as described by the company, often result in planned projects being discontinued and projects of initially lower priority being moved forward to completion, even as the total dollar target amount of planned capital investment remains in a fairly narrow band.

In its analysis, Staff/800, Moore/1-18, Staff examined a number of proposed projects and their relationships to overall growth and investment rates and made recommendations with respect to specific projects, but also concludes by stating:

I make an overall management adjustment for all distribution projects except for those associated with new growth projects ER Nos. 1001, 1050, 1051 and 1053 of 10 percent, removing \$3.2 million. This adjustment reflects Staff concerns that *a certain portion of projects are not reasonable, prudent, or necessary at this point in time based on: a) findings of imprudence for some of the growth projects that were reviewed in detail; b) lack of evidence to support the timing for this level of capital investment; and c) concerns that the capital approval process is geared*

toward achieving a pre-determined target for spending. (Staff/800, Moore/17-18, emphasis added).

The Oregon Citizens' Utility Board (CUB) at CUB/100, McGovern/5-10, similarly challenged Avista's overall level of capital spending rather than address particular projects.

III. THE BASIS FOR THE BENCH REQUEST

In the Stipulation, the requested increase in the annual revenue requirement for utility plant in service was reduced by \$550,000 and the rate base increase was reduced by \$5.392 million. (Joint Testimony 100 at 7). Attachment A, line 26, shows the total Utility Plant in Service was reduced by slightly over \$10 million. The supporting testimony with respect to capital investment decisions was vague and inconclusive:

While the Stipulating Parties may not agree on all aspects of Avista's capital additions for natural gas utility plant, the Stipulating Parties' agreement regarding the reduction to rate base in this case and the associated reduction in revenue requirement is part of an overall compromise on revenue requirement issues that results in a fair financial settlement. With the additional terms requiring attestations for the inclusion in rate base for certain projects scheduled for completion near the rate effective date, the Parties agree that the agreed-upon rate base and revenue requirement reductions reflect the plant that will be in service and used and useful, consistent with ORS 757.355. (Joint Testimony/100 at 26).

ORS 757.355 provides that "a public utility may not, directly or indirectly, by any device, charge, demand, collect or receive from any customer rates that include the costs of construction, building, installation or real or personal property not presently used for providing utility service to the customer." Furthermore, the investment must have been prudent at the time that the investment was made in order to be included in rates.

If the Commission adopts the Joint Parties' stipulation, after the Commission Staff has scrutinized the application and agrees to the stipulation, that action becomes a finding that the investments were deemed prudent because the plant placed in service was "used and useful." The stipulation and supporting testimony do not appear to address the specific concerns raised by Staff/800, Moore/17-18.

Furthermore, by adopting the stipulation, the Commission appears to *ratify the process* used by Avista to aim for a dollar amount of capital investment *rather than approve a specific project or projects* as furthering the interests of the ratepayers and the public generally.

We ask the parties to address the apparent disconnect between investment in specific projects that are used and useful in providing safe and reliable service at reasonable rates and the notion

that the Commission may approve a stipulation based merely on a defined budget amount for capital investment in utility plant. The former may be readily examined for prudence in meeting the requirements set down for the Commission by the Legislature in ORS 757.355, but the latter may not.

IV. RULING

On or before Tuesday, September 5, 2017, the parties shall, either jointly or separately, file briefs with the Commission setting forth their reasons for adopting the language set forth in the stipulation and the joint testimony in support of the stipulation and its compliance with the Commission's statutory obligations.

Dated this 25th day of August, 2017, at Salem, Oregon.

A handwritten signature in blue ink that reads "Allan Arlow (leg)". The signature is written in a cursive style and is positioned above a horizontal line.

Allan J. Arlow
Administrative Law Judge