

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 22, 2017

REGULAR CONSENT EFFECTIVE DATE August 31, 2017

DATE: June 27, 2017

TO: Public Utility Commission

FROM: Lance Kaufman

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: AVISTA CORPORATION: (Docket No. UM 1851) Modification of Meter Data Management System depreciation rate.

STAFF RECOMMENDATION:

I recommend the Public Utility Commission of Oregon (Commission) approve Avista Corporation's (Avista or the Company) application for approval of a depreciation rate with a 12.5 year depreciable life, with a depreciation rate of 8.0 percent, for the software component of the meter data management (MDM) system, and approval of this rate on or before August 31, 2017, subject to the following conditions:

1. The reduction in annual depreciation expense as a result of the change in rate shall be recorded and accrued with interest for later return to customers.
2. Avista's next depreciation study shall include an analysis of all Oregon plant, including the MDM system.
3. Approval is for accounting purposes only and does not reflect authorization of any future ratemaking treatment of depreciation expense.

DISCUSSION:

Issue

Whether the Commission should issue an accounting order approving the use of a straight-line depreciation rate over 12.5 years for the MDM system investment, effective on or before August 31, 2017.

Applicable Rule or Law

Avista makes this filing pursuant to Sections 757.120, 757.125 and 757.140 of the Oregon Revised Statutes (ORS). 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 ORS 757.140. Each utility under the Commission's jurisdiction is required to conform its depreciation accounts to the rates so ascertained and determined by the Commission per ORS 757.120 and ORS 757.125. The Commission may make changes in such rates of depreciation from time to time as the Commission may find necessary as stated in ORS 757.140(1).

Analysis

Background

Avista filed an application with the Commission on June 16, 2017 requesting an accounting order approving the use of a straight-line depreciation rate over 12.5 years for this software investment, and requests approval of this rate on or before August 31, 2017. Avista has 378,000 electric customers and 241,000 natural gas customers in eastern Washington and northern Idaho. Avista also serves approximately 101,000 natural gas customers in Oregon.

The Company periodically performs a depreciation study and requests modifications to its depreciation rates based on that study. The Company's last change in its Oregon depreciation rates was effective January 1, 2013, in accordance with Order No. 13-168 issued May 6, 2013, in Docket No. UM 1626. Prior depreciation studies and resulting depreciation rate modifications resulted in a five year depreciable life for software systems. However, the MDM system had not been installed prior to the most recent depreciation study. The MDM system is distinct from other general software in that it is integrated with Avista's customer care and billing system.

Avista discussed the relationship between the MDM system and the billing system with its depreciation consultant Gannett Fleming Inc. The consultant concluded that a 12.5 year depreciable life is appropriate for the MDM system because it will align the life of the MDM system with the life of the billing system. This modification results in a depreciation rate of 8.0 percent, for the software component of the MDM system under the FERC Account 303-Miscellaneous intangible plant.

Avista represents in the Company's application that currently, the Commission has approved a depreciable life of five (5) years for both software and hardware, with a depreciation rate of 20.0 percent. Current estimates indicate that the Oregon share

(9.227 percent allocation factor) of the MDM system represents approximately \$0.5 million of hardware and approximately \$1.9 million of software.

Impact on Depreciation Expense

Avista has an ongoing Oregon Rate case proceeding under Docket No. UG 325. A stipulation resolving all aspects of this rate case is currently on file with the Commission. This stipulation includes depreciation expense for the MDM system at the current rate of 20 percent per year. The reduction to the MDM depreciation rate from 20 percent to 5 percent will result in an Oregon-allocated depreciation expense reduction of approximately \$249,000, relative to the amount of depreciation expense included in the UG 325 stipulation, should it be approved by the Commission. Staff recommends that as a condition to approving this filing, the Company be required to track the reduction in depreciation expense associated with the MDM depreciation rate change, to allow it to be returned to customers with interest at a later date.

Future Depreciation Studies

This filing is made as an independent adjustment to the depreciation of a single Avista asset. It does not constitute a comprehensive depreciation study, and Staff understands that Avista intends to file a depreciation study within the next few years. The Commission's approval of this depreciation rate should not preclude the MDM system from the general depreciation study. Staff recommends that as a condition of approving this filing Avista agrees to include the MDM system as part of Avista's next general depreciation study.

Conclusion

The Company's application filed on June 16, 2017, meets the requirements of ORS 757.120, 757.125, and 757.140. I recommend the Commission approve Avista's application subject to the following conditions:

1. The reduction in annual depreciation expense as a result of the change in rate shall be recorded and accrued with interest for later return to customers.
2. Avista's next depreciation study shall include an analysis of all Oregon plant, including the MDM system.
3. Approval is for accounting purposes only and does not reflect authorization of any future ratemaking treatment of depreciation expense.

The Company has reviewed this memo and has not suggested any edits.

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PROPOSED COMMISSION MOTION:

Approve the use of a straight-line depreciation rate over 12.5 years for MDM system investment, effective August 31, 2017, subject to Staff's recommended conditions.

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