

DECISION MEMORANDUM

TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DON HOWELL

DATE: NOVEMBER 15, 2007

SUBJECT: AVISTA'S APPLICATION FOR A CHANGE IN ITS ELECTRIC AND
NATURAL GAS DEPRECIATION RATES, CASE NOS. AVU-E-07-11
AND AVU-G-07-03

On November 1, 2007, Avista Corporation dba Avista Utilities filed an Application requesting that the Commission approve changes to the Company's depreciation rates for electric and natural gas property. Avista serves customers in Washington, Idaho and a small portion of Oregon. The Company seeks an effective date for the proposed changes to its depreciation rates of January 1, 2008.

BACKGROUND

Avista last changed its Idaho depreciation rates in September 2004 in accordance with Order No. 29602. In that Order, the Commission adopted an agreement between the Company and Staff to synchronize depreciation rates so that Idaho rates would become effective with new depreciation rates approved by the Washington Utilities and Transportation Commission (WUTC).

In April 2007, Avista filed an application with the WUTC to increase its rates for electric and natural gas service. Included in the Company's Application was a proposal to change its depreciation rates based upon a depreciation study completed by Gannett Fleming, Inc. The depreciation study was based upon depreciable electric, gas and common plant in-service as of December 31, 2004. Application at 2.

In October 2007, Avista, the WUTC staff, and other intervenors in the Washington rate case agreed to accept the depreciation rates proposed in the depreciation study with four exceptions proposed by the WUTC staff. The WUTC staff proposed reductions in negative net

salvage values Avista uses to determine new depreciation rates in four electric accounts – changes which result in lowered depreciation accrual rates than were proposed in the study. The four accounts include: Account 311 – Structures & Improvements; Account 312 – Boiler Plant Equipment; Account 356 – Overhead Conductor and Devices; and Account 369 – Services. *Id.* at 3. On October 29, 2007, the parties in the Washington case settled all remaining issues in the general rate case including an agreement for an effective date of January 1, 2008. The Company notes that neither the stipulated depreciation rates nor the settlement of all the remaining issues has yet been approved by the Washington Commission.

PROPOSED CHANGES IN DEPRECIATION RATES

The Company's current depreciation application updates the Company's depreciation study based upon all plant in-service as of December 31, 2006. Commensurate with the depreciation settlement in Washington, the Company asserts that the annual depreciating expense for electric property in Idaho should be increased by approximately \$128,000; and decreased by approximately \$132,000 for its natural gas property. *Id.* at 4. Approval of the new depreciation rates would be for accounting purposes only and the Company does not seek a change in customer service rates at this time. If approved, the new depreciation rates would become effective January 1, 2008 and the net change in depreciation rates "would be reflected in Avista's next general rate case." *Id.* at 4-5. Staff anticipates that the Company's next general rate case will be filed in the spring of 2008.

The Company requests that the Commission process its depreciation application under Modified Procedure. In support of its Application, the Company has submitted prefiled testimony of David DeFelice, Senior Business Analyst, with four exhibits.

STAFF RECOMMENDATION

Staff concurs that Modified Procedure is an appropriate means to process Avista's depreciation application. Staff recommends that the Commission issue a Notice of Application and establish a deadline for intervention. Once intervention is passed, the parties may informally meet to review the Company's proposed changes in depreciation rates.

Staff further agrees that it is reasonable to coordinate depreciation rates with Washington and the proposed effective date for the new depreciation rates should be January 1, 2008.

COMMISSION DECISION

Does the Commission find that Modified Procedure with a deadline for intervention is an appropriate means to process this case?



Don Howell

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