Office of the Secretary
Service Date
December 31, 2020

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR AN ORDER AUTHORIZING ACCOUNTING AND RATEMAKING TREATMENT OF COSTS ASSOCIATED WITH THE COMPANY'S WILDFIRE RESILIENCY PLAN	**)**	**CASE NO. AVU-E-20-05**
	)	**ORDER NO. 34883**

On May 29, 2020, Avista Corporation ("Company" or "Avista") applied for accounting and ratemaking treatment for the incremental costs the Company will incur from its Wildfire Resiliency Plan ("WF Plan") pursuant to *Idaho Code* § 61-524 and Commission Rule of Procedure 52, IDAPA 31.01.01.052. *Application* at 1. The Company asked that its Application be processed by Modified Procedure. *Id*. at 2.

On July 20, 2020, the Commission issued a Notice of Application and Notice of Modified Procedure establishing a public comment period and Company reply deadline. The Commission Staff ("Staff") filed comments on August 26, 2020, and was the only party to do so. Avista filed reply comments on September 2, 2020.

Having reviewed the record, the Commission enters this Order approving the Company's Application as modified by the Commission's findings set forth herein.

APPLICATION

The Company represented the WF Plan was informed by a series of wildfire workshops it held in 2019, the Wildfire Steering Committee[1], and the broader wildfire Subject-Matter-Experts ("SME").[2] *Id*. Avista also asserted it developed the WF Plan using the experience and information from peers in the energy and forestry industries in the Company's electric service territories.[3] *Id*. at 3-4.

[1] The Company represented the Wildfire Steering Committee is made up of Company management personnel across divisions including: Operations, Environmental, Risk, Legal, Regulatory and Communications.
[2] Avista stated SMEs include Company division managers and area operating engineers representing both Idaho and Washington electric facilities.
[3] To further inform the WF Plan the Company represented that it hosted a Pacific Northwest working group, including Idaho Power Company, Puget Sound Energy, Portland General, Northwestern Energy, and PacifiCorp. Avista stated it continues to work with Idaho Power managers and engineers to ensure consistency. Avista also consulted with Kootenai Electric and Northern Lights; the Idaho Department of Lands; the Idaho community fire protection agency "Smart Growth Alliance"; and the University of Idaho. Avista stated it also belongs to the Western Energy Institute, participating in their Wildfire Taskforce meetings.

The Company asserted that the WF Plan details the development and implementation of a comprehensive multi-year effort that includes enhanced system hardening and vegetation management efforts to attempt to reduce fire ignition events as well as other situational awareness and operational efforts. *Id*. at 4. Avista asserted that the recommendations in the Company's WF Plan seek to reduce the risk of wildfire from the interaction of Avista's energy delivery system and the environment, as well as the impacts of wildfire to Avista's system. *Id*. at 4, n. 7. The Company asserted the WF Plan is a proactive, strategic, continuous improvement and risk-informed approach to respond to wildfire risks on the Company's system, encompassing immediate steps and long-term efforts to reduce wildfire risk. *Id*. The Company represented that the recommendations in the WF Plan will be periodically reviewed to ensure that it is consistent with industry best practices and is providing benefits to customers and the communities the Company serves. *Id*. The Company represented that WF Plan objectives focus on:

- Protecting lives and property;
- Ensuring emergency preparedness and aligning operating practices with fire threat conditions; and
- Protecting Avista's energy delivery infrastructure (which includes both Company transmission and distribution systems).

Id.

Avista represented it provides electrical service to approximately 400,000 customers in Idaho and Washington, with over 120,000 of those customers living in elevated fire risk areas. *Id*. The Company asserted that the WF Plan makes recommendations aimed at reducing the risks associated with public and worker safety, the risks to property and infrastructure, and to lessen the impact of electric system outages to customers and the community in its service territory. *Id*. at 5. The Company represented that the WF Plan's goals are:

- Enhancing Emergency Operation Preparedness (EOP): to recognize wildfire as a recurring threat to utility infrastructure, the communities we serve, and our customers.

- Promoting Safety: to protect physical assets, property, and human lives. To manage the risk of wildfire through design-based, system operations, asset maintenance, and outreach activities.

- Safeguarding Company Assets: to mitigate the impact of direct financial costs and liability exposure associated with large-scale wildfire events.

Id. at 6.

The Application provided a summary of the forecasted costs for the WF Plan for 2020 through 2029. *Id*. at 5. The Company asserted approval of the proposed incremental costs through cost-recovery is an important element of the Company's WF Plan and helps support the level of wildfire mitigation efforts proposed. *Id.* The Company represented its customers' rates currently do not include the proposed incremental costs from the WF Plan and are not otherwise recovered through other mechanisms. *Id*. The Company requested authorization to defer, for later ratemaking treatment, the return on incremental capital investment, return of the incremental capital investment (depreciation) and expenses related to the Company's WF Plan until the annual costs and capital investment are included in base rates. *Id*. at 20-21. In a future proceeding, Avista would address the prudence of the costs incurred and request recovery of the deferred costs, including a carrying charge on the deferral at the authorized rate of return. *Id*. at 22. At that time, the Company would also propose an amortization period to recover the costs from Idaho customers over a future period. *Id*.

COMMENTS

1. Staff Comments

Staff believed that the WF Plan is a targeted and reasonable approach for wildfire mitigation. *Id*. at 2. Staff recommended that the Commission issue an order authorizing the deferral of Operation and Maintenance ("O&M") costs associated with the WF Plan to a regulatory asset for future prudence review and potential recovery. *Id*. Consistent with prior deferral cases, Staff recommended that capital investments be treated as any other capital expenditure - recorded to the appropriate plant account when the asset becomes used and useful, with depreciation expense being recorded in the usual manner. *Id.* Staff also recommended that the Company be denied a carrying charge on the deferral. *Id*.

Wildfire Resiliency Plan Objectives

Staff stated that although many elements of the WF Plan focus attention on the Company's transmission and distribution infrastructure and the effort to reduce spark ignition events, the primary objective is to protect lives and property by reducing the number of utility-involved wildfires. *Id*. at 3.

Staff stated that the recommendations in the WF Plan consider geographic location and apply risk reduction measures in areas with higher fire threat potential. *Id*. Staff noted that in the

WF Plan, boundaries of forest lands and homes and businesses are referred to as the Wildland Urban Interface ("WUI"). *Id*. Staff asserted that homes and businesses located near the WUI are most at risk from the impact of wildfires and are often located in rural areas that lack fire suppression resources. *Id*. In 2019, the Company's Geographic Information System Technical Group created a combined WUI map for the Company's Idaho and Washington electric service territories based on fuel concentration and housing density. *Id*. Staff stated the Company used this information to establish three "WUI Risk Levels":

- Tier 1 - Moderate levels of fuel and low to moderate housing densities (low),
- Tier 2 - Moderate to high levels of fuel and moderate housing densities (medium), and
- Tier 3 - High fuel levels and moderate to high housing densities (high).

Staff noted that all costs in the WF Plan are combined electric system (Idaho and Washington) expenditures.[4] *Id*. Staff represented that it would examine the direct assignment or allocation of expenses to Idaho when the Company seeks recovery of those expenses to ensure that Idaho customers only pay for appropriate jurisdictional and prudently incurred costs. *Id*. at 4.

Wildfire Resiliency Plan Components

Staff stated the WF Plan aims to reduce the risks associated with public and worker safety, the risks to property and infrastructure, and to lessen the impact of electric system outages to customers and the community. *Id*. Staff noted there are four categories of recommendations:

- Grid Hardening and Dry Land Mode Operations;
- Enhanced Vegetation Management;
- Situational Awareness; and
- Operations and Emergency Response.

Id.

Grid Hardening and Dry Land Mode Operations

Staff stated that the Company adopted a "steel only" strategy in 2006, in large part, due to the replacement costs associated with wildfire events but also reflecting the reliability advantages of steel transmission structures. *Id*. Staff noted the Company's wildfire strategy is

[4] The Company represented the allocation of costs between Idaho and Washington is estimated to be approximately 35 to 45 percent to Idaho and 55 to 65 percent to Washington. *Application* at 5, n. 10. The Company claimed a higher percentage (up to 45 percent) of the cost is expected in Idaho due to a higher concentration of WUI Tier 2 and Tier 3 areas at risk in Avista's Idaho service territory compared to Washington. *Id*.

targeted in high fire threat districts depicted in the WUI map. *Id.* The WUI map indicates that approximately 20% of the Company's transmission lines are in WUI Tiers 2 and Tiers 3 and are subject to accelerated wood to steel conversion. *Id.* Based on a cost per structure estimate of $25,000 per 230 kV structure and $15,000 per 115 kV structure, a feasibility cost estimate of $44.0 million was rendered to convert existing wood structures to steel. *Id.* Staff noted additional transmission-related costs include annual aerial inspections and the costs to make maintenance repairs and protective fire wraps on wood poles located in grassland areas. *Id.* These costs include $3.0 million to make capital replacements and $4.45 million of maintenance-related expense over ten-years. *Id.* at 4-5.

Staff stated that while the Company's focus on transmission hardening is to protect critical infrastructure from the impact of wildfires, the strategy for distribution hardening is centered on reducing the number of spark ignition events. *Id.* at 5. Staff noted that on average the Company's distribution lines experience 92 pole fires per year. *Id.* Staff stated that pole fires are common in the industry and generally are the result of insulator "leakage current" being channeled through small contact surfaces. *Id.* Staff stated that wood crossarm to wood pole interfaces are subject to ignition and, as a result, the Company adopted a fiberglass crossarm standard in the mid-2000s. *Id.* By accelerating the conversion of wood to fiberglass crossarms in the high fire threat districts (WUI Tiers 2 & Tiers 3) pole fires will likely be significantly reduced. *Id.*

Staff stated that the Company has used a "non-reclosing" strategy for distribution lines located in high fire threat zones. *Id.* The WF Plan includes recommendations to review the program and to enhance its effectiveness through additional deployment of midline circuit reclosers, a fire threat dashboard system, and a transition to a risk-based, dynamic operation of dry land mode so that as fire threat conditions warrant, the sensitivity of system protection is aligned to mitigate the perceived risk. *Id.* The most significant cost is the addition of midline circuit reclosers in high fire threat districts with about $5.4 million allocated for this activity. *Id.*

Staff stated the costs to harden distribution lines was based on a per mile allocation of $55,000 to $60,000 and reflects a generalized system cost based on the number of wood crossarms and the amount of small copper wire in the high fire threat districts. *Id.* This recommendation accounts for $193.2 million or approximately 60% of the estimated WF Plan costs. *Id.*

Total costs in the Grid Hardening and Dry Land Mode category are $245.6 million and O&M expenses of $5.0 million (76% of WF Plan total costs). *Id.*

Enhanced Vegetation Management

Staff stated the largest cost driver in this category is the removal of risk trees at an estimated cost of $25.5 million over ten years. *Id.* This estimate was derived from the wildfire risk workshops, SMEs and the anticipated rate of forest decline. *Id.* at 5-6. Costs to perform digital data capture flights and data processing account for $14.6 million and will inform vegetation planners on the rate of encroachment, the number of fall-in risk trees, and the effectiveness of past year vegetation treatments. *Id.* at 6.

Staff noted the estimates reflect mileage-based costs to effect treatments and are based on historical norms and system averages. *Id.* Staff stated the risk cost associated with vegetation contacts is the most significant component of the overall wildfire mitigation plan and is estimated at more than $6.2 billion over ten years (2020-2029). Staff believed mitigating the risk of tree contacts is a tremendous opportunity to reduce the risk of utility involved wildfires. *Id.*

Staff stated cost estimates to identify and remove dead and dying trees adjacent to powerlines are based on historical averages. *Id.* However, forest health is in general decline and it is anticipated that the Company will respond to higher rates of high-risk tree removals. *Id*. Some elements of the vegetation plan are new to the Company such as acquiring Laser Imagery, Detection and Ranging (LIDAR) and high-resolution digital imagery, participating with fire protection agencies in fuel reduction activities, and actively encouraging customers in high-risk areas to remove tall-growing trees underneath powerlines. *Id*.

Total costs in the Enhanced Vegetation Management category are $5.1 million and O&M expenses of $51.2 million (17% of WF Plan total costs). *Id.*

Situational Awareness

Staff noted that a major reason for the WF Plan is to enhance system protection and to align circuit protection with forecasted fire conditions. *Id*. This requires an expansion of equipment automation and communications systems such as substation "supervisory control and data acquisition" ("SCADA") and distribution management systems ("DMS"). *Id*. Staff stated these systems enable direct control and monitoring of circuits and equipment in the high fire threat districts. *Id*. The bulk of the costs in this category is associated with adding SCADA systems to so-called 'dark' substations where no communications systems exist. *Id.* The number of non-

communication stations located in high fire threat districts is known, but the engineering design effort is in a planning phase, therefore, cost estimates will need to be refined. *Id.* at 6-7.

Total costs in the Situational Awareness category are $17.9 million and associated operating and maintenance expenses of $1.0 million (6% of WF Plan total costs). *Id.* at 7.

Operations and Emergency Response

Staff stated wildfires will continue to occur throughout the western United States. *Id.* Though many utilities are making investments to reduce the number of spark-ignition events, powerline caused outages only account for 4% to 6% of wildfires. *Id.* Staff asserted that most wildfires are human-caused and related to transportation, open burning, arson, and other activities such as camping. *Id.* Staff stated that the Company is committed to reducing the number of powerline-involved wildfires but recognizes the need to train first responders to act safely in fire situations and to coordinate their work with fire-fighting personnel. *Id.* Safety training for Company first responders is the single largest line item in the cost forecast and reflects the program costs to conduct annual fire-safety and electrical hazard training for Company first responders and firefighters. *Id.* Total costs in the Operations and Emergency Response category are $17.9 million and O&M expenses of $1.0 million (1% of WF Plan total costs). *Id.*

Forecasted Risk and Cost Summary

Staff stated the Application provides a summary of the Company's recommendations and forecasted costs for 2020 through 2029. *Id.* Staff stated the proposed incremental costs are not currently included in the Company's customer rates, or otherwise recovered through other recovery mechanisms. *Id.* Staff noted that the WF Plan cost forecast of $268.9 million (capital investments) and $59.6 million (O&M expenses) will change as the program matures and the estimates to perform field activities are better understood. *Id.* at 7-8. Staff confirmed all costs provided in the Company's WF Plan are provided as combined electric system (Idaho and Washington) expenditures. *Id.* at 8. However, expenditures will be directly charged or allocated to Idaho and Washington depending on the type of cost and location of the activity. *Id.*

Accounting Treatment

Staff noted a deferral mechanism to capture the Company's WF Plan expenditures will provide reasonable assurance that the Company can recover prudently incurred costs until they can be included in base rates. *Id.* Staff supported the Company's efforts to mitigate the effects of wildfires. *Id.* Accordingly, Staff supported the use of a deferral mechanism for incremental O&M

expenditures. *Id.* However, Staff recommended that capital costs be excluded from the deferral mechanism and accounted for as they would be through normal procedures. *Id*. Staff asserted capital costs are recorded to Plant-in-Service when the project becomes used and useful, and depreciation begins at that point. *Id*. Staff stated the Company will include capital in rate base and will begin recovery of prudent capital costs, and the associated depreciation expense when new base rates become effective after its next general rate case. *Id*. In Order No. 33706 (Case No. IPC-E-16-19), the Commission disallowed capital costs for Idaho Power to be included in a regulatory asset, stating that "the deferral treatment applies to the O&M expenses of joining the EIM, and not to capital costs, which should be treated as any other capital expenditure." *Id*. at 8-9. Staff also recommended that the Company be denied a carrying charge on the deferral. *Id*. at 9. Staff asserted that the ability to defer the O&M costs for future recovery, compared to the normal ratemaking treatment, provides sufficient benefit to the Company. *Id*; *see also* Order No. 33706.

2. Avista's Reply Comments

Avista generally agreed with Staff's position, but respectfully requested that the Commission at least consider all expenses associated with the WF Plan be considered for deferred accounting treatment. *Avista Reply Comments* at 2. The Company asserted removal of all costs associated with capital investment limits the opportunity for Avista to recover at a minimum its WF Plan expenses that will be incurred prior to new rates going into effect. *Id*. at 3. The Company stated that while capital investment, net of accumulated depreciation, may be included in net plant in future general rate case ("GRC") proceedings, all expenses associated with that investment, prior to new rates going into effect, are lost to recovery unless deferred at the time the expense is recorded, or included in rate year expenses per the latest GRC. *Id.* The Company, therefore, requested the Commission also consider including the actual depreciation expense associated with actual WF Plan plant investment costs that are transferred to plant-in-service for deferred accounting. *Id.*

Avista asserted that precedent related to treatment of EIM costs is not applicable in this case. *Id*. at 4. In the case cited in Staff's Comments, the Company did not request deferred accounting treatment of its investment - return of or on that investment, as the Company expects future benefits associated with those investments, which would need to be aligned in a future GRC. *Id*. The Company asserted that in this case there is not a stream of future benefits that will start

once the capital investment is placed into service with the WF Plan. *Id*. As such, deferral of at least the return of investment (depreciation expense) would help to minimize the cost to the Company prior to a base-level of costs associated with the WF Plan being reflected in rates at the end of the Company's next GRC. *Id.*

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-501, 61-502 and 61-503. The Commission is empowered to investigate rates, charges, rules, regulations, practices, and contracts of public utilities and to determine whether they are just, reasonable, preferential, discriminatory, or in violation of any provision of law, and to fix the same by order. *Idaho Code* §§ 61-502 and 61-503.

As asserted by the Company, the threat of wildfires across the west has been increasing. Whether a wildfire is started from utility equipment or by any other cause the potential consequences are extremely high. As demonstrated by recent wildfires, the resulting loss of life and property damage, including damage to energy infrastructure and the disruption of power service can be catastrophic. It is, therefore, reasonable to micro-target high risk areas under the WUI criteria with increased focus on fuel reduction and removal sooner than might otherwise be budgeted. We anticipate that some of these expenses will simply be incurred sooner than when they would have otherwise. But we acknowledge that, to mitigate the risk of the devastating consequences that have occurred in other states, some additional costs and expenses may be necessary. Idaho has unique forest management practices and, as such, the risks and benefits to Idaho customers will be independently evaluated. We encourage the Company's focus on fuel reduction and removal--to reduce the risk of fall-in trees and removal of downed debris.

The Company has represented that it will periodically review the WF Plan to ensure that it is consistent "with industry best practices and that it is providing benefits to customers and the communities Avista serves." *See Attachment A* (WF Plan) *to the Application* at 4. The Commission expects that the Company will engage in a recurring review process and keep the Commission apprised to ensure that the WF Plan remains in the public interest and promotes the safety, health, comfort and convenience of Avista's customers, employees and the public. *See Idaho Code* § 61-302. The Commission is supportive of enhancing the micro-targeting criteria as additional knowledge and experiences are gained. The Commission is also encouraged by the Company's attention to industry standards and details, specifically the ongoing use and evaluation

of fire retardant paint and fire mesh products for some applications in addition to the use of steel poles.

The Company represented that the WF plan "includes an emphasis on collaboration with land-management and fire response agencies." *Application* at 6, n. 15. In the development of the WF Plan the Company also stated that "[c]ollaboration extended well beyond the internal walls of Avista to include voices from the community, fire protection professionals, regulators, utility peers, and professional service and material suppliers. *Attachment A* (WF Plan) at 8; *see also* Attachment A at 21. Furthermore, the Company noted that a key element of the WF Plan is to ensure:

> Avista's stakeholders know the plan is in place and that the Company is taking the right precautionary steps to reduce the potential for and impact of a wildfire. . . . This plan must be in place and directed at all of Avista's key stakeholders, including customers, employees, state and local government officials and regulators, law enforcement and fire departments, local media, and shareholders.

Application at 13. As the WF Plan is implemented the Commission anticipates that the Company will continue to work and communicate effectively with all relevant stakeholders and SMEs (inside and outside of the Company), including, but not limited to,the Idaho Department of Lands, Idaho fire districts, Idaho tribes and other Idaho entities, so the objectives of the WF Plan are realized. The Commission also encourages the Company to evaluate what benefits and efficiencies might be gained from joint fire safety training opportunities with these stakeholders.

After considering Avista's and Staff's positions regarding deferred accounting, the Commission finds that a deferral account is the appropriate mechanism to capture the incremental O&M expenses of the Company's WF Plan. We find it fair, just, and reasonable to authorize the Company to book the incremental O&M expenses to FERC Account 182.3 (Other Regulatory Assets) and that no carrying charge apply to the deferral. The ability to defer O&M costs for future recovery, compared to normal ratemaking treatment, provides sufficient benefit to the Company. A carrying charge in addition to the ability to defer costs would not be in the public interest.

We further find it fair, just, and reasonable for the Company to defer the monthly depreciation expense of additional capital investments associated with the WF Plan for later recovery. Allowing depreciation expense to be deferred is specific to this deferral application and does not change our view that normal ratemaking treatment for capital investments and associated depreciation expense is appropriate for most authorized deferrals. Consistent with our position

declining to authorize a carrying charge for deferred O&M expense, we also decline to authorize the Company to defer a carrying charge (return) on the capital investment. When the prudently incurred capital investment is included in the Company's Plant-in-Service at the conclusion of its next general rate case, the Company will be allowed a return on its net rate base. Recovery of prudently incurred O&M expenses and deferred depreciation expense, along with the amortization period, should be determined in a future rate proceeding. Additionally, we remind the Company that authority to defer does not guarantee recovery. The prudency and reasonableness of the deferred expenses will be determined in a future rate proceeding.

ORDER

IT IS HEREBY ORDERED that the Company's Application is approved as modified herein. The Commission authorizes the Company to defer incremental O&M expenses and monthly depreciation expense associated with the WF Plan investment into FERC Account 182.3 (Other Regulatory Assets) and that no carrying charge apply.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order about any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31st day of December 2020.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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