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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

The Staff of the Idaho Public Utilities Commission (“Staff”) submits the following comments regarding the above referenced case.

BACKGROUND

On May 29, 2020, Avista Corporation (“Company”) applied for an order authorizing the accounting and ratemaking treatment for the incremental costs the Company will incur due to its Wildfire Resiliency Plan (“WF Plan”). *Application* at 1. The Company represents it will seek a prudence determination and recovery method of the deferred costs in a future Commission proceeding. *Id.* at 1-2.

In June of 2019, the Company held wildfire workshops to explore how to reduce the wildfire risk associated with the Company’s electric transmission and distribution systems. *Id.* at 3. The Company developed its WF Plan using information from the workshops, inputs

from Company efforts, and information and experience gained from its peers in the energy and forestry industries. *Id.* at 3-4.

The WF Plan details development and implementation of a comprehensive multi-year effort that includes enhanced system hardening and vegetation management efforts aimed at reducing fire ignition events, and other situational awareness and operational efforts. *Id.* at 4. The recommendations made in the WF Plan are based on the ability 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.* at 4-5. The Company asserts 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 in it. *Id.* at 5. The customers' rates currently do not include the proposed incremental costs from the WF Plan, and those costs are not otherwise recovered through other mechanisms. *Id.*

The Company asks to defer, for later ratemaking treatment, the return on and of incremental capital 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.

STAFF ANALYSIS

Staff has reviewed the Company's Application and accompanying attachments requesting regulatory treatment for the incremental WF Plan costs. Staff believes that the WF Plan is a targeted and reasonable approach to managing its system in relation to wildfire mitigation. Based on its review, Staff recommends 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. Consistent with prior deferral cases, Staff recommends that the 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. Staff discusses its recommendation in greater detail below.

Wildfire Resiliency Plan Objectives

The WF Plan provides a proactive, strategic, improvement-oriented, and risk-informed approach to respond to the wildfire risks of the Company's system, encompassing immediate

steps, as well as long-term efforts to reduce wildfire risk. Specific WF Plan objectives include a focus in the following areas:

- Protect lives and property,
- Ensure emergency preparedness and align operating practices with fire threat conditions, and
- Protect Company's energy delivery infrastructure.

See Application at 4.

Though many elements of the WF Plan focus attention on 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.

Recommendations within the WF Plan consider geographic location and apply risk reduction measures in areas with higher fire threat potential. The boundaries of forest lands and homes and businesses are referred to as the Wildland Urban Interface ("WUI"). Homes and businesses located near the WUI are determined to be most at-risk from the impact of wildfires and are often located in rural areas that lack fire suppression resources. In 2019, the Company's Geographic Information System (GIS) Technical Group created a combined WUI map for the Company's electric Idaho and Washington service territories that is based on fuel concentration and housing density.

Using this information, the Company "WUI Risk Levels" were established identifying three wildfire 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).

The Company created the WUI map with designations of high fire risk areas (Tier 2 and Tier 3) within Company's Washington and Idaho service territories. Over 120,000 of Company's approximately 400,000 customers (or approximately 30%) live in WUI Tier 2 and Tier 3 high fire threat areas.

All costs provided in the Company's WF Plan are provided as combined electric system (Idaho and Washington) expenditures. However, expenditures will be allocated or directly charged to Idaho and Washington depending on the type of cost and location of the activity. The split between Idaho and Washington is estimated to be approximately 35% to 45% Idaho and

55% to 65% Washington. A higher percentage (up to 45%) of the cost is expected in Idaho due to a higher concentration of assets directly assigned in WUI Tier 2 and Tier 3 areas at risk in Company's Idaho service territory compared to Washington. Staff will examine the direct assignment or allocation of expenses to Idaho when the Company seeks recovery of the expenses to ensure that Idaho customers only pay for the appropriate jurisdictional costs.

Wildfire Resiliency Plan Components

The recommendations made in the WF Plan are based on the ability 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. The recommendations are summarized in four categories:

1. Grid Hardening and Dry Land Mode Operations;
2. Enhanced Vegetation Management;
3. Situational Awareness; and
4. Operations and Emergency Response.

Grid Hardening and Dry Land Mode Operations

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. As noted, the Company's wildfire strategy is targeted in the high fire threat districts as depicted in the WUI map, which are the boundaries of forest lands and homes and businesses.

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. 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. Additional transmission related costs include annual aerial inspections and the costs to effect maintenance repairs and costs associated with protective fire wraps on wood poles located in grassland areas. These costs are based on parametric estimates of the line miles included in the patrol and fire-resistant wrap program. These costs include \$3.0 million dollars to effect

capital replacements and \$4.45 million of maintenance related expense over the ten-year program life.

While the 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. Reliability data from the five-year period between 2013 and 2018 indicates that, on average, Company's distribution lines experience 92 pole fires per year. Pole fires are common throughout the industry and are generally the result of insulator "leakage current" being channeled through small contact surfaces. It is acknowledged 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 2000's. By accelerating the conversion of wood to fiberglass crossarms in the high fire threat districts (WUI Tiers 2 & Tiers 3), pole fires will be significantly reduced in these areas.

The Company has used a "non-reclosing" strategy for distribution lines located in high fire threat zones. The WF Plan includes recommendations to review this 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. The most significant cost is the addition of midline circuit reclosers in high fire threat districts. About \$5.4 million is allocated for this activity and reflects the costs to install 100 additional circuit reclosers.

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. This single recommendation accounts for \$193.2 million or approximately 60% of the estimated WF Plan costs.

Total costs in the Grid Hardening and Dry Land Mode category include a capital investment of \$245.6 million and associated O&M expenses of \$5.0 million (76% of WF Plan total).

Enhanced Vegetation Management

The largest cost driver in this category is the removal of risk trees at an estimated cost of \$25.5 million over ten years. This estimate was derived from the wildfire risk workshops and is

informed by subject matter experts and the anticipated rate of forest decline. 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.

The estimates reflect mileage-based costs to effect treatments and are based on historical norms and system averages. The risk cost associated with vegetation contacts is the most significant component of the overall wildfire mitigation plan and is estimated more than \$6.2 billion over a ten-year period (2020-2029). Mitigating the risk of tree contacts reflects a tremendous opportunity to reduce the risk of utility involved wildfires.

Cost estimates to identify and remove dead and dying trees adjacent to powerlines are based on historical averages. However, forest health is in general decline and it is anticipated that the Company will respond to higher rates of high-risk tree removals. 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.

Total costs in the Enhanced Vegetation Management category include a capital investment of \$5.1 million and associated O&M expenses of \$51.2 million (17% of WF Plan total).

Situational Awareness

A major tenet of the WF Plan is to enhance system protection and to align circuit protection with forecasted fire conditions. This effort requires an expansion of equipment automation and communications systems such as substation “supervisory control and data acquisition” (“SCADA”) and distribution management systems (“DMS”). These systems enable direct control and monitoring of circuits and equipment in the high fire threat districts. The estimated cost of these systems and equipment is \$18.0 million over ten years and require nearly \$1.0 million of maintenance and operating support. The bulk of that expense is associated with adding SCADA systems to so-called ‘dark’ substations where no communications systems exist. The SCADA system effort is expected to cost \$17 million and is based on historical costs to add SCADA equipment and software to existing stations. 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.

Total costs in the Situational Awareness category include a capital investment of \$17.9 million and associated operating and maintenance expenses of \$1.0 million (6% of WF Plan total).

Operations and Emergency Response

Wildfires will continue to occur throughout the western United States. 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. Most wildfires are human-caused and related to transportation, open burning, arson, and other activities such as camping. 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. Investments in people and systems are important to ensure proper and safe response from front-line workers. 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 fire fighters. Estimates to conduct training and coordinated response are based on historical labor rates and incident frequencies.

Total costs in the Operations and Emergency Response category include a capital investment of \$17.9 million and associated O&M expenses of \$1.0 million (1% of WF Plan total).

Forecasted Risk and Cost Summary

The Application has provided a summary of the Company's recommendations and forecasted costs for the annual period 2020 through 2029. Approval of the proposed incremental costs through some form of cost-recovery, as proposed in the Application, is an important element of the Company's WF Plan and helps support the level of wildfire mitigation efforts proposed in the Company's WF Plan. The proposed incremental costs are not currently included in Company's customer rates, or otherwise recovered through other recovery mechanisms.

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. This is one of the reasons that the Company is petitioning for deferral ratemaking treatment.

All costs provided in the Company's WF Plan are provided as combined electric system (Idaho and Washington) expenditures. However, expenditures will be allocated or directly charged to Idaho and Washington depending on the type of cost and location of the activity. The split between Idaho and Washington is estimated to be approximately 35% to 45% Idaho and 55% to 65% Washington. A higher percentage (up to 45%) of the cost is expected in Idaho due to a higher concentration of assets directly assigned in WUI Tier 2 and Tier 3 areas at risk in Company's Idaho service territory compared to Washington.

Accounting Treatment

The Company requests that the Commission issue an order authorizing it to defer, for later ratemaking treatment, the revenue requirement associated with the WF Plan, including the return of capital expenses and a return on the investment, beginning in 2020. The Company would record amounts subject to deferral in accordance with the Code of Federal Regulations to Federal Energy Regulatory Commission ("FERC") Account 182.3 (Other Regulatory Assets). Recovery of prudently incurred expenses, along with the amortization period, will be determined in a future rate proceeding. Due to the current COVID-19 pandemic, it is unclear when the Company's next general rate proceeding will occur. A deferral mechanism to capture the Company's WF Plan expenditures will provide reasonable assurance that the Company can recover prudently incurred costs until such time as they can be included in base rates.

Staff supports the Company's efforts to mitigate the effects of wildfires, therefore, supports the use of a deferral mechanism for incremental O&M expenditures only. Staff recommends that capital costs be excluded from the deferral mechanism and accounted for as they would be through normal procedures. Capital costs are recorded to Plant-in-Service when the project becomes used and useful, and depreciation begins at that point. 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. 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

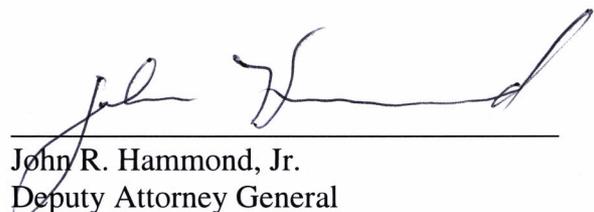
capital expenditure.” *Id at 10*. Staff’s recommendation in this case to include only O&M expenses, and not capital costs, in the deferral mechanism is consistent with the Commission’s prior order.

Staff recommends that the Company be denied a carrying charge on the deferral. Staff asserts that the ability to defer the O&M costs for future recovery, compared to the normal ratemaking treatment, provides sufficient benefit to the Company. In Order No. 33706, the Commission states, “A carrying charge in addition to the ability to defer costs would not be in the public interest.” *Id at 10*.

STAFF RECOMMENDATION

Staff recommends the Commission issue an order authorizing the deferral of incremental O&M expenses associated with the WF Plan into FERC Account 182.3 (Other Regulatory Assets) and that a carrying charge would not apply. Recovery of prudently incurred expenses, along with the amortization period, should be determined in a future rate proceeding. Staff further recommends that the capital investments associated with the WF Plan should be recorded to the appropriate plant account when the asset becomes used and useful, with depreciation expense being recorded in the usual manner.

Respectfully submitted this *26th* day of August 2020.



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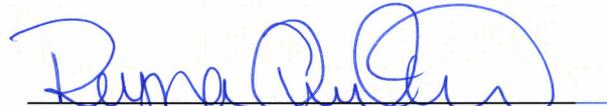
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 26th DAY OF AUGUST 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-20-05, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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