

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	
Avista Corporation, d/h/a Avista Utilities,)	Docket No. UE-180167 &
For an Order Authorizing the Company to)	Docket No. UG-180168
Revise its Electric and Natural Gas Book)	
Depreciation Rates and Authorizing Deferred)	
Accounting Treatment for the Difference in)	FULL SETTLEMENT STIPULATION
Depreciation Expense)	

I. PARTIES

1. This Full Settlement Stipulation is entered into by Avista Corporation (“Avista” or the “Company”), the Staff of the Washington Utilities and Transportation Commission (“Staff”), the Public Counsel Unit of the Washington Office of Attorney General (“Public Counsel”), Alliance of Western Energy Consumers (“AWEC”), and Sierra Club, jointly referred to herein as the “Parties.” This represents a “full settlement” under WAC 480-07-730 because it is entered into by all parties and it resolves all issues in this case. The Parties, representing all who have intervnced or appeared in these dockets, agree that this Full Settlement Stipulation (hereinafter “Settlement” and/or “Stipulation”) complies with applicable legal requirements, is consistent with the public interest, and should be accepted by the Commission as a full resolution of the known issues in these Dockets.

2. The Parties understand this Settlement Stipulation is subject to approval of the Washington Utilities and Transportation Commission (“Commission”). As discussed further in Paragraph 25, the Parties agree that this proceeding is not a general rate case and request that review proceeds on a timetable for less complex matters, as provided in WAC 480-07-740(2)(b). The Parties agree that a

formal settlement hearing is not necessary in this case and request a streamlined review of the proposed settlement on a paper record.

II. INTRODUCTION

3. On February 22, 2018, Avista filed an application requesting authority to revise its book depreciation rates and to defer the effects of the change in depreciation rates once those rates are approved by the Commission. The Company requested authorization to revise its book depreciation rates consistent with the results of the depreciation study undertaken by the Company.¹ That study showed that the Washington share of annual depreciation expense recorded on the Company's books should be increased by approximately \$1,279,189 for electric plant and decreased by approximately \$903,685 for natural gas plant, based on the average service life rates of plant in service as of December 31, 2016.² The Company requested that the difference between depreciation expense under current book depreciation rates and depreciation expense under the updated depreciation rates be deferred for later return to customers in a subsequent rate proceeding.

4. Because Avista is a utility that also provides service to electric and natural gas customers in northern Idaho and natural gas in Oregon, it also filed depreciation studies in its other jurisdictions under Case Nos. AVU-E-18-03 and AVU-G-18-02 in Idaho, and Docket No. UM 1933 in Oregon. The Idaho cases are ongoing, whereas a settlement of new depreciation rates has been approved by the Oregon Public Utility Commission.³

¹ Avista hired Gannett Fleming, Inc. to undertake a depreciation study of its depreciable electric, natural gas and common plant in service. The study was completed in 2017. The objective of this assignment was to recommend depreciation rates to be utilized by Avista for accounting and ratemaking purposes.

² These balances reflect corrected amounts from that shown in the Company's originally filed application as discussed further on page 5.

³ *In the Matter of Avista Corporation, dba Avista Utilities, Application to Revise Book Depreciation Rates and Request Deferred Accounting*, Oregon Public Utility Commission Docket UM 1933, Order (Dec. 04, 2018).

5. On August 22, 2018, the Company filed to amend its petition to 1) propose an effective date of April 1, 2019, and 2) after discussions with Staff, to withdraw the request for deferred accounting treatment for the difference in depreciation expense under current and proposed depreciation rates.
6. On November 30, 2018, the Company submitted a letter requesting that the Commission forgo the presentation of the depreciation study at an open meeting and issue an order classifying this proceeding as an adjudicative proceeding. The Commission issued a notice on December 6, 2018, approving this request and providing notice of a prehearing conference.
7. On January 16, 2019, the Parties held and attended a settlement conference. The Parties ultimately reached agreement on revisions to the Company's book depreciation rates following additional negotiations and recalculations of depreciation rates for select accounts. If approved by the Commission, in accordance with this Stipulation, such rates would constitute revised depreciation rates, which would become effective for accounting purposes on April 1, 2019, for both Washington direct and common plant. Customer rates, however, would not change to reflect the revised depreciation rates until inclusion in the Company's next general rate case, as discussed below.
8. Approval of this Stipulation by April 1, 2019, would provide for the opportunity to simultaneously implement new depreciation rates for accounting purposes for common plant in all three jurisdictions in which Avista serves: Washington, Idaho, and Oregon.⁴ Allowing Washington common depreciation rate changes to be effective for accounting purposes at the same time as the other two jurisdictions will synchronize the timing of the Company's common depreciation

⁴ In Oregon, the Commission approved a Stipulation that will adjust common plant depreciation items on April 1, 2019. The Company's request is still pending before the Idaho Commission, with a proposed April 1, 2019 effective date.

accounting changes for the three States, simplifying future accounting and audits of depreciation expense, if the same rates and methodology are in effect for all jurisdictions.

III. TERMS OF THE STIPULATION AND SETTLEMENT

9. This Stipulation resolves all issues regarding proposed changes to the Company's depreciation rates as raised by the Company's petition and filed depreciation study.
10. The Parties have agreed to book depreciation rates on directly assigned and common plant effective April 1, 2019. The agreed-upon depreciation rates are shown in Attachments A and C. Attachment A provides detail of the affected plant accounts, specified depreciation rates, and the Washington allocated share of the depreciation expense impact on December 31, 2016, plant balances. Attachment C provides the agreed-upon depreciation rates specific to the Colstrip Units 3 and 4 assets, as discussed further below in Paragraph 14.
11. Before reflecting the agreed-upon depreciation rates for the Colstrip generating plant (discussed later in Paragraph 14), the change in all other electric depreciation rates (based upon plant balances at December 31, 2016) results in an annual reduction to electric depreciation expense of \$1,591,715. After reflecting the agreed-upon revisions to Colstrip Units 3 and 4 to reflect an earlier 2027 end of service life for depreciation purposes⁵ (resulting in an annual Colstrip regulatory amortization expense of \$1,540,772 as discussed in Paragraph 14), this Stipulation results in an annual overall decrease in electric depreciation and amortization expense of \$50,943. See Table I on page 5, column Electric, lines 12 – 14.

⁵ Colstrip units 3 &4, as shown in in the filed depreciation study, previously had a scheduled depreciable life of 2034 & 2036, respectively.

12. Reflecting the agreed-upon depreciation rates for natural gas operations, based upon plant balances at December 31, 2016, results in an annual overall decrease in depreciation expense of approximately \$1,281,264. See Table I on page 5, column Gas, line 14.

13. Summary Table I below captures the agreed-upon results:

Table I – Summary of Impact on Depreciation Expense with and without Colstrip⁶

Line	Electric	Gas
1 Depreciation study net impact per filings	\$ 554,082	\$ (1,053,966)
2 Inadvertent reduction included in petition in error	725,107	150,281
3 Revised depreciation study net impact	1,279,189	(903,685)
4 Remove Colstrip	(1,410,061)	-
5 Net impact excluding Colstrip	(130,872)	(903,685)
6 Agreed upon changes		
7 Common-Transportation	(2,151)	905
8 Common - Transmission	(197,058)	-
9 Washington Electric Distribution	(1,261,634)	
10 Washington Natural Gas Distribution		(378,484)
11 Total Washington Adjustments	(1,460,843)	(377,579)
12 New impact excluding Colstrip	(1,591,715)	(1,281,264)
13 Proposed Colstrip Amortization	\$ 1,540,772	
14 Net Impact including Colstrip	\$ (50,943)	\$ (1,281,264)

The following describes each of the agreed-upon adjustments:

- Line 2 “Inadvertent reduction included in petition in error” reflects a benefit, or reduction in depreciation expense, inadvertently included in the Company’s original petition balances, which showed a larger reduction in overall depreciation expense for natural gas and a smaller increase in electric overall depreciation than will actually occur.⁷ Line 3 provides the revised and accurate depreciation study net impact balance per the filed depreciation study.

⁶ Line 4, column Electric of Table I above “Remove Colstrip” of \$1,410,061, reflects the impact of revised Colstrip depreciation as filed, which reflects a 2034-2036 depreciable life. This line removes the impact of Colstrip depreciation for informational purposes to show the as filed change in depreciation **excluding** the impact of Colstrip (or \$130,872) as shown on line 5.

⁷ The numbers in Line 2 in Table I reflect excess theoretical reserve for accumulated depreciation calculated by the Company’s depreciation consultant for informational purposes. The Company determined that the actual reserve (accumulated depreciation) is **properly stated**, based on depreciation rates previously approved by the Company’s State Commissions. The excess theoretical reserve, however, does not reduce future annual depreciation expense, and will reverse over time. As such, it should not have been included in the estimated depreciation change in balances as stated in the Company’s original petition. This correction has no impact on depreciation rates proposed in the filed depreciation

- Line 7 “Common – Transportation” – the Parties agree to revise depreciation rates for certain common transportation assets to be consistent with the depreciation rates established in Oregon via settlement. Transportation assets are common assets to all jurisdictions due to the pooling of the Company’s depreciation expense. Therefore, these changes are also being proposed in Washington and Idaho. The annual impact to Washington Electric and Natural Gas is a \$2,151 reduction and a \$905 increase, respectively, as shown on line 7.
- Line 8, “Common Transmission” – the Parties agree to change Common Transmission account *356 Overhead Conductor and Devices*. The overall impact of this agreement reduces Washington Electric depreciation expense by approximately \$197,058.
- Line 9, “Washington Electric Distribution” – the Parties agree to change depreciation rates in Account *366 UG Conduit* with a total impact to reduce expense \$387,281. The Parties also agree to change depreciation rates in Accounts *364 Poles, Towers & Fixtures* and account *365 OH Conductor & Devices*. The impact of these adjustments is to reduce expense by \$230,688 and \$643,665, respectively. The overall impact of these adjustments is a total reduction to annual electric distribution depreciation expense of \$1,261,634. See further detail in Attachment A.
- Line 10, “Washington Natural Gas Distribution” – the Parties agree to change depreciation rates in Washington Natural Gas Distribution accounts *376 Mains, 380 Services*, and *385 Measuring/Regulating Industrial Equipment*. The effect of these natural gas distribution adjustments decreases annual depreciation expense by \$378,484 as shown on line 10 and in further detail in Attachment A.

14. **Vintage Year Accounting** - As described on Page VI-17 of the depreciation study, FERC AR-15 allows utilities to utilize vintage year accounting for general plant assets, including FERC Account Nos. 391 through 399, as long as certain requirements are met.⁸ Avista uses vintage year accounting for all general plant accounts, except FERC Account No. 397 – Communication Equipment. In the depreciation study, Avista proposed utilizing vintage year accounting for its communication equipment (FERC Account No. 397). The Company meets the requirements as

study.

⁸ FERC AR-15 Vintage Year accounting for general plant accounts, permits public utilities to adopt a Vintage Year accounting method for general plant accounts, which would eliminate the unitization and record keeping requirements associated with individual items of property and allow companies to record only the total cost of plant additions for the

detailed in the FERC Accounting Release (FERC AR-15). The Parties accept this proposed accounting treatment of Account No. 397 per FERC AR-15. Avista therefore, per FERC AR-15, will retire fully depreciated vintages of communication equipment with the implementation of depreciation rates with this Study, and will utilize vintage year accounting going forward for all of its general plant accounts.

15. **Colstrip Depreciation** – Avista owns a 15% share of two coal-fired generation facilities located in Colstrip, Montana, known as Colstrip Units 3 and 4, which have a combined capacity of about 1,480 MW. These two facilities were placed in service in 1984 and 1986. No decommissioning date has been established for these assets. Current rates include depreciation expense on Colstrip Units 3 and 4 with assumed remaining useful lives of these units through December 31, 2034, and December 31, 2036, respectively. Per this Settlement Stipulation, the Parties agree to the following treatment of Colstrip Units 3 and 4 for depreciation purposes. See also Attachment B for further detail.

- a) The Company agrees to adopt a depreciation schedule for Colstrip Units 3 and 4 that assumes a remaining useful life for depreciation purposes of December 31, 2027. The Parties also acknowledge that there presently is no plan to close Colstrip Units 3 and 4 by a specific date, nor has Avista agreed to do so.
- b) The Colstrip Units 3 and 4 generation and transmission asset balances at December 31, 2017, offset by accumulated depreciation through March 31, 2019, as well as estimated asset retirement obligations (ARO) previously not included in rates, produces an undepreciated balance for Colstrip Units 3 and 4 as of March 31, 2019, of

year as a vintage group for each account.

approximately \$104.1 million. This undepreciated balance of \$104.1 million will be recovered as follows:

- 1) Use of \$10.9 million (WA share) of “temporary” tax credits will be used as an offset. The “temporary” tax dollars are a result of the Tax Cut and Jobs Act signed into law in December 2017 as further discussed in Docket UE-170485, Order 07.⁹
- 2) Annual Colstrip depreciation expense will remain at the current depreciation level of \$4.533 million per year¹⁰, over the remaining 8.75 years, totaling \$39.7 million;
- 3) The remaining balance of \$53.5 million will be recovered through the amortization of a Regulatory Asset (FERC Account No. 183.3). The amortization schedule of the Regulatory Asset will be structured to match the amortization schedule of protected Excess Deferred Federal Income Taxes (DFIT) benefit that began being returned to customers on May 1, 2018, (as described in Order 07 in Docket UE-170485. See Synopsis page 2). Using a 34.75 year amortization, consistent with the remaining protected Excess DFIT schedule, results in an annual amortization of approximately \$1.54 million per year – WA share. The amortization of the Regulatory Asset over time, therefore, would be recovered from customers over the same time period as the amortization of protected Excess DFIT is returned to customers, offsetting the entire remaining Colstrip Regulatory Asset over the 34.75 years. This figure is also shown at Column Electric, Line 13 of Table I above. The Regulatory Asset, net of accumulated deferred federal income taxes, will be included in rate base and will earn Avista’s rate of return.¹¹
- 4) Starting April 1, 2019, Colstrip capital additions will be depreciated at the revised depreciation rates reflecting a 2027 depreciable life (see Attachment C for specific revised Colstrip depreciation rates). Capital additions not yet embedded in current rates are subject to prudence review in future rate proceedings.

16. **Effective Date** – Under this Stipulation depreciation rates will change effective April 1, 2019, within the Company’s books of record. Customer rates, however, will not reflect this change until the Company’s next general rate case.

⁹ Per Order 07 in Docket UE-170485. See Synopsis page 2. Amount per Order 07 of \$10.4 million has been revised to \$10.9 million to reflect updated information after filing of the Company’s 2017 tax return in September 2018.

¹⁰ Annual depreciation expense is approximately \$7.0 million on a system-basis.

¹¹ The Colstrip related accounts included as rate base include the following: FERC Account No. 101.0 – Plant Cost, FERC Account No. 108.0 – Accumulated Depreciation, FERC Account No. 182.3 – Regulatory Asset ARO, FERC Account No. 182.3 – Regulatory Asset Colstrip, FERC Account No. 230.0 – Colstrip ARO, and FERC Account No. 242.0 – Colstrip Accounts Payable.

IV. GENERAL PROVISIONS

17. Binding on Parties. The Parties agree to support the terms of the Settlement Stipulation throughout this proceeding and recommend that the Commission issue an order adopting the Settlement Stipulation contained herein. The Parties understand that this Settlement Stipulation is subject to Commission approval. The Parties agree that this Settlement Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements and documents disclosed in the negotiation of this Settlement Stipulation shall not be admissible evidence in this or any other proceeding.

18. Integrated Terms of Settlement. The Parties have negotiated this Settlement Stipulation as an integrated document. Accordingly, the Parties recommend that the Commission adopt this Settlement Stipulation in its entirety. Each Party has participated in the drafting of this Settlement Stipulation, so it should not be construed in favor of, or against, any particular Party.

19. Procedure. The Parties agree that this proceeding is not a general rate case and request that review proceeds on a timetable for less complex matters, as provided in WAC 480-07-740(2)(b). This Stipulation includes a proposed effective date of April 1, 2019, which is aligned with the effective date for new depreciation rates in Oregon and the proposed the effective date for new depreciation rates in Idaho. To facilitate an effective date of April 1, 2019, the Parties agree that a formal settlement hearing is not necessary in this case and request a streamlined review of the proposed settlement on a paper record. The Parties shall cooperate in submitting this Settlement Stipulation promptly to the Commission for acceptance. Each Party shall make available a witness or representative in support of this Settlement Stipulation. The Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Settlement Stipulation and to supplement the record accordingly.

20. Reservation of Rights. Each Party may offer into evidence its prefiled testimony and exhibits as they relate to the issues in this proceeding, together with such evidence in support of the Stipulation as may be offered at the time of the hearing on the Settlement. If the Commission rejects all or any material portion of this Settlement Stipulation, or adds additional material conditions, each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within seven (7) days of the date of the Commission's Order, to withdraw from the Settlement Stipulation. If any Party exercises its right of withdrawal, this Settlement Stipulation shall be void and of no effect, and the Parties will support a joint motion for a procedural schedule to address the issues that would otherwise have been settled herein.

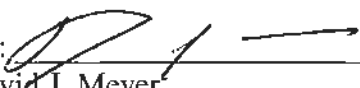
21. No Precedent. The Parties enter into this Settlement Stipulation to avoid further expense, uncertainty, and delay. By executing this Settlement Stipulation, no Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at the Settlement Stipulation, and, except to the extent expressly set forth in the Settlement Stipulation, no Party shall be deemed to have agreed that such a Settlement Stipulation is appropriate for resolving any issues in any other proceeding.

22. Public Interest. The Parties agree that this Settlement Stipulation complies with applicable legal requirements and is consistent with the public interest.

23. Execution. This Settlement Stipulation may be executed by the Parties in several counterparts and as executed shall constitute one Settlement Stipulation.

Entered into this 12th day of February 2019.

Company:

By: 
David J. Meyer
VP, Chief Counsel for Regulatory and
Governmental Affairs

Staff:

By: _____
Chris Casey
Assistant Attorney General
Nash Callaghan
Assistant Attorney General

Public Counsel:

By: _____
Nina Suetake
Assistant Attorney General
Lisa Gafken
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AWEC:

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Tyler Pepple
Attorney at Law

Sierra Club:

By: _____
Matthew Gerhart
Attorney at Law

Entered into this _____ day of February 2019.

Company:

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Chris Casey
Assistant Attorney General
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AWEC:

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Sierra Club:

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Matthew Gerhart
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Entered into this 12th day of February 2019.


Company:

By: _____
David J. Meyer
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Staff:

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AWEC:

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Tyler Pepple
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Sierra Club:

By: _____
Matthew Gerhart
Attorney at Law

Entered into this 8th day of February 2019.

Company:

By: _____
David J. Meyer
VP, Chief Counsel for Regulatory and
Governmental Affairs


Staff:

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Chris Casey
Assistant Attorney General
Nash Callaghan
Assistant Attorney General

Public Counsel:

By: _____
Nina Suetake
Assistant Attorney General
Lisa Gafken
Office of the Attorney General

AWEC:

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Tyler Pepple
Attorney at Law

Sierra Club:

By: _____
Matthew Gerhart
Attorney at Law

Entered into this _____ day of February 2019.

Company:

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David J. Meyer
VP, Chief Counsel for Regulatory and
Governmental Affairs

Staff:

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Nash Callaghan
Assistant Attorney General

Public Counsel:

By: _____

Nina Suetake
Assistant Attorney General
Lisa Gafken
Office of the Attorney General

AWEC:

By: _____

Tyler Pepple
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Sierra Club:

By:  _____

Matthew Gerhart
Attorney at Law