

**BEFORE THE WASHINGTON  
UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of AVISTA CORPORATION for an Order Authorizing the  
Company to Revise its Electric and Natural Gas Book Depreciation and Authorizing Deferred  
Accounting Treatment for the Difference in Depreciation Expense

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Dockets UE-180167 and UG-180168 (*Consolidated*)

**EXHIBIT CJD-1T**

SETTLEMENT TESTIMONY OF COREY J. DAHL  
ON BEHALF OF  
PUBLIC COUNSEL

**FEBRUARY 15, 2018**

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**I. INTRODUCTION / SUMMARY**

**Q. Please state your name and business address.**

A: My name is Corey J. Dahl, and my business address is 800 5<sup>th</sup> Avenue, Seattle, WA 98104.

**Q. By whom are you employed and in what capacity?**

A. I am a Regulatory Analyst for the Public Counsel Unit of the Washington State Office of the Attorney General (“Public Counsel”). Public Counsel is a statutory party to proceedings before the Washington Utilities and Transportation Commission (“Commission” or “WUTC”) under RCW 80.01.100, RCW 80.04.510, and RCW 81.04.500.

**Q. On whose behalf are you testifying?**

A. I am testifying on behalf of Public Counsel.

**Q. Please describe your professional qualifications.**

A. I earned a B.A. in Economics and a B.A. in English from the University of St. Thomas in St. Paul, Minnesota in 2011. In 2016, I completed the course requirements and earned a Master of Public Administration degree from the Daniel J. Evans School of Public Policy and Governance at the University of Washington in Seattle. While completing my graduate studies, I worked on low-income and housing policy for a non-profit advocacy organization and worked as a legislative assistant for the Seattle City Council.

My current employment with Public Counsel began in October 2016. Since joining the Attorney General’s Office, I have worked on a variety of energy and telecommunications matters, including Cascade’s 2017 General Rate Case

1 (UG-170929), Puget Sound Energy's 2017 General Rate Case (Dockets UE-170033  
2 and UG-170034), Avista's 2017 General Rate Case (Dockets UE-170485 and  
3 UG-170486), the Puget Sound Energy Greenwood Explosion Complaint  
4 (PG-160924), Pacific Power's Schedule 300 Tariff Revision case (UE-161204), and  
5 the CenturyLink-Level 3 Merger (UT-170042). I testified on behalf of Public  
6 Counsel in support of the settlement regarding the merger of CenturyLink and  
7 Level 3 Communications (Docket UT-170042) in May 2017, low-income issues in  
8 Cascade General Rate Case (UG-170929), and in support of the settlement in the  
9 Avista-Hydro One Merger Application (U-170970). I am serving as Public  
10 Counsel's lead analyst in the ongoing Cost of Service Collaborative (UE-170002  
11 and UG-170003) and Regulatory Framework Adequacy proceeding (U-180907).

12 Beyond adjudications, I have worked on low-income rate assistance, energy  
13 conservation, and integrated resource plan issues for multiple Washington utilities.  
14 In particular, I participate in conservation advisory groups for Puget Sound Energy  
15 and Cascade Natural Gas, as well as the Northwest Natural Gas IRP Technical  
16 Working Group, Cascade Natural Gas IRP Technical Advisory Group, and Avista's  
17 Electric IRP Technical Advisory Committee. I also participate in low-income  
18 advisory groups for Cascade Natural Gas, Puget Sound Energy, and Avista.  
19 Additionally, I completed Michigan State University and the National Association  
20 of Regulatory Utility Commissioners' Utility Rate School in May 2017 and Public  
21 Utilities Reports Guide's Principles of Public Utilities Operations and Management  
22 course in autumn 2018.

1       **Q.     Briefly explain Public Counsel’s recommendations.**

2       A.     Public Counsel recommends that the Commission approve the Stipulation without  
3             condition, because the Stipulation terms resolve all issues and are consistent with  
4             the public interest. All parties to this proceeding agreed to the Stipulation after  
5             negotiations during and following the first settlement conference. The agreed-upon  
6             terms of the settlement are explained in the Full Settlement Stipulation.

7       **Q.     Who are the settling parties?**

8       A.     Public Counsel is joined in supporting the settlement by the Company and all  
9             interveners, including WUTC Staff, Association of Western Energy Consumers  
10            (“AWEC”), and Sierra Club. As a result, this is a full settlement of all issues  
11            presented in Avista’s original petition and issues raised in settlement negotiations.<sup>1</sup>

12      **Q.     What is the purpose of your testimony in this proceeding?**

13      A.     I am testifying in support of the Full Settlement Stipulation (“Stipulation”), filed in  
14             this docket on February 12, 2019. My testimony will describe the standard for  
15             settlement agreements before the WUTC, Public Counsel’s interests in this  
16             proceeding, and why Public Counsel believes the Stipulation is in the public  
17             interest.

18                   Mr. David Garrett is also testifying on behalf of Public Counsel.<sup>2</sup> His  
19             testimony addresses the reasonableness of the service lives, net salvage rates, and  
20             depreciation rates included in the Stipulation, as well as the agreement regarding

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<sup>1</sup> WAC 480-07-730(1).

<sup>2</sup> Testimony in Support of Settlement of David J. Garrett, Exh. DJG-1T.

1 vintage year accounting for FERC Account No. 397. Together, our testimony will  
2 illustrate why the Stipulation terms are in the public interest.

3 **Q. Please provide a brief outline of your testimony.**

4 A. In my testimony, I will address the following issues:

- 5 • The public interest standard for settlements,
- 6 • Public Counsel’s interest in this Stipulation, and
- 7 • Accelerated depreciation of Colstrip Units 3 and 4.

8 **II. THE PUBLIC INTEREST STANDARD**

9 **Q. What standard must settlement agreements meet to receive the Commission’s**  
10 **approval?**

11 A. Any settlement, whether joined by some or all interveners, must be “consistent with  
12 the law and the public interest” in order to be approved by the Commission.<sup>3</sup> The  
13 public interest standard is what this Stipulation must be evaluated against and is the  
14 principle applied by Public Counsel in analyzing the terms.

15 **Q. Does the Stipulation meet the public interest standard?**

16 A. Yes. Public Counsel believes that the depreciation rates set in this docket will  
17 produce fair, just, and reasonable rates charged to customers as the depreciation  
18 rates become effective. The depreciation rates set by the agreement will allow the  
19 Company to recover their investment in assets over a reasonable period of time,  
20 while ensuring that ratepayers are protected from rate shocks in the near or long  
21 term. My testimony, along with the testimony of Mr. Garrett, will illustrate in detail

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<sup>3</sup> WAC 480-07-740(3).

1 why the Stipulation is consistent with the public interest from Public Counsel's  
2 perspective.

3 **III. PUBLIC COUNSEL'S INTERESTS IN THIS PROCEEDING**

4 **Q. From Public Counsel's perspective, what is the general objective in a**  
5 **depreciation proceeding?**

6 A. On a high level, Public Counsel's goal in this proceeding is to ensure that a  
7 company's assets are depreciated at a rate that is consistent with company-specific  
8 data and industry trends that will ultimately result in customer rates that are fair and  
9 reasonable. Public Counsel witness Mr. Garrett will discuss the analysis and  
10 treatment of depreciation rates and net salvage values in greater detail in his  
11 testimony, Exhibit DJG-1T.

12 **Q. From Public Counsel's perspective, what are the pitfalls of setting**  
13 **inappropriate or unreasonable depreciation rates?**

14 A. The results of a depreciation study should, to the greatest extent possible, accurately  
15 estimate the useful life and net salvage characteristics of a utility's plant assets.  
16 Depreciation rates, based on the results of the study, are set in order to allow the  
17 utility to recover the costs of their plant investment incrementally throughout the  
18 life of the assets, as they are used to provide service to customers.

19 If, for example, the rate of depreciation for an asset is set "too high," the  
20 Company will recoup the investment in that particular asset too fast. This means  
21 that customers today will be charged too much for an asset on an annual basis that  
22 may ultimately have a longer useful life than what is reflected in the amount of  
23 annual depreciation expense.

1                   On the other side of the coin, it is also not beneficial to customers to  
2 depreciate assets based on useful life estimates that are too lengthy. This could  
3 result in a situation in which future customers are left with a significant balance in a  
4 particular asset's account, but the asset is no longer used and useful. This concept,  
5 whether useful lives are estimated to be too short or too long, is generally known as  
6 intergenerational inequity.

7                   Depreciation studies are very complex and require a utility to develop an  
8 aggregated depreciation rate for assets.<sup>4</sup> As a result, they are an estimate based on  
9 available data to ensure that accounting is done correctly and customers are being  
10 charged for the share of assets being used to deliver service to their home or  
11 business. A study produces a range of reasonable rates, based on a variety of  
12 methodologies. The testimony of David Garrett, Exhibit DJG-1T, will explain this  
13 in greater detail.

14 **Q. Are the rates set in this Stipulation fair and reasonable?**

15 A. Yes. In large part, the rates set in the Company's filed depreciation study were  
16 based on reasonable estimations of useful life and, thus, would result in reasonable,  
17 fair rates charged to Avista's current and future customers. However, Public  
18 Counsel and other interveners proposed depreciation rates for Accounts 356, 376,  
19 380, 385, 392, and 396 that were determined to be more accurate and reasonable  
20 than the filed amounts. Through discussion with the Company and interveners, the

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<sup>4</sup> For example, an electric utility would not have a separate account to track the depreciation for each pole used to deliver service to customers. Rather, electric poles are treated together and rates are based on an aggregate useful life based on the stock of hardware/assets in service.



1 Parties arrived at the settlement positions. Public Counsel witness David Garrett  
2 will discuss the specific adjustments and the reasons for the proposed changes in  
3 detail in his testimony.<sup>5</sup>

4 **Q. What effect will the Stipulation have on customer rates?**

5 A. If the Commission approves the proposed Stipulation, Avista's Washington  
6 customers will ultimately see a reduction in the portion of their monthly rates  
7 dedicated to depreciation expenses.<sup>6</sup> For illustrative purposes, the adjustments made  
8 to the accounts included in the Company's original filing, when applied to the  
9 Company's plant balances as of December 31, 2016, will result in a reduction in  
10 electric depreciation expense of \$1,591,714 and a reduction in natural gas  
11 depreciation expense of \$1,281,264, excluding the impacts of accelerating the  
12 depreciation of Colstrip Units 3 and 4, which are discussed below.<sup>7</sup> These numbers  
13 are Washington system-wide, so the reductions will be spread across all rate  
14 classes.

15 Electric depreciation expenses will be further affected by the accelerated  
16 depreciation of Colstrip Units 3 and 4. With those changes considered, overall  
17 electric depreciation expense will increase by \$1.54 million annually, but this  
18 increase will be entirely offset by federal tax savings from the Tax Cut and Jobs Act  
19 of 2017. I discuss the depreciation of Colstrip Units 3 and 4 in greater detail below.

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<sup>5</sup> Garrett, Exh. DJG-1T.

<sup>6</sup> Since billed rates to customers are composed of multiple components beyond simple base rates, it is difficult to state with precision the magnitude of the impact on an individual customer's monthly electric and/or natural gas bill. However, it is accurate to say that the amount of depreciation expense included in customer rates will decrease on a system-wide basis, if the Settlement is approved.

<sup>7</sup> Full Settlement Stipulation, ¶ 13, Table 1.

1 Customers will not see this impact in rates immediately. Rather, the new  
2 depreciation expenses will be rolled into customer rates that will be determined in  
3 Avista's next General Rate Case before the Commission.

4 **IV. ACCELERATED DEPRECIATION OF COLSTRIP UNITS 3 AND 4**

5 **Q. Did Parties include new terms in the Stipulation that were not included in the**  
6 **Company's originally filed Depreciation Study and Petition?**

7 A. Yes, Avista's originally filed petition did not include any changes to the  
8 depreciation rates for Colstrip Units 3 and 4.<sup>8</sup> The Company's "proposed  
9 depreciation rates reflect no changes in assumed useful lives"<sup>9</sup> for Colstrip assets.  
10 At the time the Company filed the petition, Public Counsel and all Parties to this  
11 proceeding were engaged in the Avista-Hydro One merger case, Docket U-170970.  
12 The proposed settlement in that proceeding, which Public Counsel joined,  
13 accelerated depreciation and set the end of useful life for Units 3 and 4 to  
14 December 31, 2027.<sup>10</sup> However, the Commission ultimately rejected the  
15 Application for Merger<sup>11</sup> and, thus, the end of useful life for Colstrip Units 3 and 4  
16 remains at 2034 and 2036, respectively. In the Order rejecting the Application for  
17 Merger, the Commission "direct[ed] Avista to work cooperatively with  
18 Commission Staff and any interested parties to determine how best" to deal with the

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<sup>8</sup> Colstrip is a coal-fired electric generation plant consisting of four generating units located in Colstrip, Montana. Avista owns 15 percent of Units 3 and 4.

<sup>9</sup> Docket UE-180167, Petition of Avista Corporation, ¶ 17.

<sup>10</sup> Settlement Stipulation and Agreement, *In the Matter of the Joint Application of Hydro One Ltd. & Avista Corp. for an Order Authorizing Proposed Transaction*, Docket U-170970 (Mar. 27, 2018).

<sup>11</sup> *In the Matter of the Joint Application of Hydro One Ltd. & Avista Corp. for an Order Authorizing Proposed Transaction*, Docket U-170970, Order 07: Final Order Denying Joint Application for Transfer of Property, at 9, n.20 (Dec. 5, 2018).

1 excess deferred income taxes used to accelerate Colstrip's depreciation.<sup>12</sup> In  
2 conjunction with the Commission's Order, Parties agreed to address the Colstrip  
3 depreciation issue in this proceeding and reached agreement on terms to accelerate  
4 depreciation.

5 **Q. How does the proposed Stipulation change the depreciation rates and useful**  
6 **life for Colstrip Units 3 and 4?**

7 A. The Parties agree to fully depreciate Colstrip Units 3 and 4 by December 31, 2027.  
8 Avista owns 15 percent of Colstrip Units 3 and 4. Puget Sound Energy also has  
9 ownership interest in these coal-fired generating units, and the settlement approved  
10 in Puget Sound Energy's 2017 General Rate Case fully depreciates Units 3 and 4 to  
11 December 31, 2027.<sup>13</sup> Without including depreciation for Avista's ownership share  
12 of Colstrip in this proceeding, the end of useful life would be misaligned for the two  
13 Washington utilities.

14 It is worth noting, however, that this agreement represents a change to the  
15 useful lives of Units 3 and 4 to the end of 2027 for accounting purposes. This does  
16 not constitute an agreed-upon closure and decommissioning date for the Colstrip  
17 Generating Station.<sup>14</sup>

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<sup>12</sup> *In the Matter of the Joint Application of Hydro One Ltd. & Avista Corp. for an Order Authorizing Proposed Transaction*, Docket U-170970, Order 07: Final Order Denying Joint Application for Transfer of Property (Dec. 5, 2018).

<sup>13</sup> *WUTC v. Puget Sound Energy*, Dockets UE-170033 and UG-170034, Order 08; Final Order, ¶ 71 (Dec. 5, 2017).

<sup>14</sup> Full Settlement Stipulation, ¶ 15.

1       **Q.     How does the Stipulation propose to accelerate the depreciation for Colstrip**  
2       **Units 3 and 4?**

3       A.     The Parties agree to leverage benefits from the Tax Cut and Jobs Act of 2017 to  
4       offset the increased depreciation expenses.<sup>15</sup> Moving the end of life date up by  
5       several years inevitably increases the annual depreciation expense that must be  
6       compensated. In this case, however, Avista’s ratepayers will not experience a rate  
7       shock or a dramatic increase in their monthly electric bill. The increase in annual  
8       depreciation expense will be offset by the Company’s tax savings. The benefits  
9       associated with the Tax Cut and Jobs Act constitute ratepayer funds, but using these  
10      funds to offset the accelerated depreciation prevents intergenerational equity issues  
11      later if the plant closes earlier than the mid-2030s.

12                     Shielding ratepayers from the impact of accelerating the deprecation of  
13      Units 3 and 4 is critical to Public Counsel’s support of this component of the  
14      Stipulation.

15   **V.     CONCLUSION**

16      **Q.     What is Public Counsel’s overall recommendation?**

17      A.     Public Counsel recommends that the Commission approve the Stipulation without  
18      condition. Our independent review finds that the proposed depreciation rates and  
19      subsequent depreciation expenses collected through customer rates are just and  
20      reasonable. Furthermore, the depreciation rates set in this Stipulation represent the  
21      work of all Parties in determining useful lives and calculated rates of depreciation

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<sup>15</sup> Full Settlement Stipulation, ¶ 15.

1           that are reasonable, reflect company-specific data, and are in line with industry  
2           trends. Public Counsel believes that the proposed Stipulation is in the public interest  
3           and will allow the Company to recover their investment in assets over a reasonable  
4           time period. In addition, Public Counsel supports the accelerated depreciation of  
5           Colstrip Units 3 and 4 because the impacts are offset by federal tax savings and  
6           brings Avista's full depreciation of these assets in line with other Washington  
7           utilities.

8           **Q.    Does this conclude your testimony?**

9           A.    Yes.