

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-180167

DOCKET UG-180168

JOINT TESTIMONY OF

KAREN SCHUH (AVISTA)
BRADLEY G. MULLINS (AWEC)
DOUG HOWELL (SIERRA CLUB)

IN SUPPORT OF
THE SETTLEMENT STIPULATION

I. INTRODUCTION

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Q. Please state your names, titles, and the party you represent in this matter.

- A. Our names, titles, and representation are as follows:
- Karen Schuh, Manager of Regulatory Affairs, Avista
 - Bradley G. Mullins, Independent Consultant, representing Alliance of Western Energy Consumers (AWEC)
 - Doug Howell, Senior Campaign Representative, Sierra Club

Together we are representatives of the “Parties” in this Joint Testimony. Representatives of the other parties to this proceeding will be filing individual testimony in support of the Settlement Stipulation.

Q. Are you sponsoring Joint Testimony in support of the Settlement Stipulation filed with this Commission on February 12, 2019?

A. Yes. This Joint Testimony of the Parties recommends approval of the Settlement Stipulation by the Commission. The Settlement Stipulation represents a compromise among differing points of view. Concessions were made by the Parties to reach a reasonable balancing of interests. As will be explained in the following testimony, the Settlement Stipulation received significant scrutiny and is supported by sound analysis and sufficient evidence. Its approval is in the public interest. The Settlement Stipulation has been marked as Exhibit 2.

Q. What is the scope of your testimony?

A. This Joint Testimony addresses Avista's electric and natural gas depreciation study in these dockets and the scope of the Settlement Stipulation. It also

1 includes a statement of the Parties' views about why the Settlement satisfies their interests
2 and the public interest.

3 **Q. Who are the signatories to the Settlement Stipulation?**

4 A. The Settlement Stipulation, filed February 12, 2019, was signed by Avista
5 Corporation (“Avista” or the “Company”), the Staff of the Washington Utilities and
6 Transportation Commission (“Staff”), the Public Counsel Unit of the Washington Office of
7 Attorney General (“Public Counsel”), the Alliance of Western Energy Consumers
8 (“AWEC”), and Sierra Club, jointly referred to herein as the “Parties.” These represent all
9 parties to these proceedings.

10 **Q. Are there any intervening parties in this docket that did not sign the**
11 **Stipulation?**

12 A. No, there are not. As such, the Stipulating Parties represent all parties in
13 this proceeding as of the date of the Stipulation. Accordingly, this represents a “full
14 settlement” under WAC 480-07-730.

15 **Q. Please summarize Avista’s depreciation study.**

16 A. Avista’s electric and natural gas depreciation study recommended revisions
17 in depreciation lives, curves, and net salvage rates for all plant accounts, and a revision to
18 life span from average remaining life methodology for electric and natural gas plant assets.
19 On February 22, 2018, Avista filed an application requesting authority to revise its book
20 depreciation rates and to defer the effects of the change in depreciation rates once those
21 rates are approved by the Commission. The Company requested authorization to revise its

1 book depreciation rates consistent with the results of the depreciation study undertaken by
2 the Company.¹

3 That study showed that the Washington share of annual depreciation expense
4 recorded on the Company's books should be increased by approximately \$1,279,189 for
5 electric plant and decreased by approximately \$903,685 for natural gas plant, based on the
6 average service life rates of plant in service as of December 31, 2016.² The Company
7 requested that the difference between depreciation expense under current book depreciation
8 rates and depreciation expense under the updated depreciation rates be deferred for later
9 return to customers in a subsequent rate proceeding.

10 Because Avista is a utility that also provides service to electric and natural gas
11 customers in northern Idaho and natural gas in Oregon, it also filed depreciation studies in
12 its other jurisdictions under Case Nos. AVU-E-18-03 and AVU-G-18-02 in Idaho, and
13 Docket No. UM 1933 in Oregon. The Idaho cases are ongoing, with a settlement
14 stipulation signed by all Parties on February 14, 2019, whereas a settlement of new
15 depreciation rates has been approved by the Oregon Public Utility Commission.^{3/4} In both
16 Idaho and Oregon, the Company will be changing depreciation rates on April 1, 2019,
17 hence the request for an April 1 effective date in Washington as well.

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 of the Settlement Stipulation, in Exhibit 2.

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).

⁴ Avista is required by the Oregon Public Utility Commission to file for new depreciation rates every five years under OAR 860-027-0350 and as such, Avista makes depreciation filings in its other jurisdictions in order to keep depreciation rates consistent among its services and jurisdictions.

1 **Q. Please summarize the procedural history of this case.**

2 A. On August 22, 2018, the Company filed to amend its petition to 1) propose
3 an effective date of April 1, 2019, and 2) after discussions with Staff, to withdraw the
4 request for deferred accounting treatment for the difference in depreciation expense under
5 current and proposed depreciation rates. On November 30, 2018, the Company submitted a
6 letter requesting that the Commission forgo the presentation of the depreciation study at an
7 open meeting and issue an order classifying this proceeding as an adjudicative proceeding.
8 The Commission issued a notice on December 6, 2018, approving this request and
9 providing notice of a prehearing conference. On January 16, 2019, the Parties held and
10 attended a settlement conference. The Parties ultimately reached agreement on revisions to
11 the Company's book depreciation rates following additional negotiations and recalculations
12 of depreciation rates for select accounts.

13 If approved by the Commission, in accordance with this Stipulation, such
14 depreciation rates would become effective for accounting purposes on April 1, 2019, for
15 both Washington direct and common plant. Customer rates, however, would not change to
16 reflect the revised depreciation rates until inclusion in the Company's next general rate
17 case, as discussed further below.

18 **Q. Why is it important to synchronize the effective date in all three**
19 **jurisdictions for any change in depreciation rates?**

20 A. The Company has assets that are common to all three of its Jurisdictions in
21 Washington, Idaho and Oregon. In the event that different depreciation rates or methods
22 are imposed for common plant, it would result in multiple sets of depreciation accounts

1 and records that would need to be adjusted annually for changes in allocation factors,
2 which would impose a costly and unnecessary administrative burden on the Company, as
3 well as additional expense for the Company's customers, and possible unrecovered assets.

4

5 **II. QUALIFICATIONS OF WITNESSES**

6 **Q. Ms. Schuh, please provide information pertaining to your educational**
7 **background and professional experience.**

8 A. My name is Karen Schuh. I am employed by Avista Utilities as Manager of
9 Regulatory Affairs. I am a 1999 graduate of Eastern Washington University with a
10 Bachelor of Arts Degree in Business Administration, majoring in Accounting. I worked
11 for Moss Adams LLP from 1999 to 2006, before joining the Company in January 2006. I
12 have held various positions within the sections of the Finance Department, including
13 Supply Chain Accounting Analyst and Resource Accounting Analyst until 2008. In 2008, I
14 was hired into the Regulatory Affairs Department and am currently Manager of Regulatory
15 Affairs. I have also attended several utility accounting, ratemaking and leadership courses.

16 **Q. Mr. Mullins, please provide information pertaining to your educational**
17 **background and professional experience.**

18 A. My name is Bradley G. Mullins. I am an independent consultant appearing
19 on behalf of the Alliance of Western Energy Consumers AWEC, a non-profit trade
20 association whose members are large customers served by electric utilities throughout the
21 Pacific Northwest, including Avista. I have been performing independent utility consulting
22 services on matters such as power costs, revenue requirement, rate spread and rate design

1 for approximately five years, and have sponsored testimony in several regulatory
2 jurisdictions, including before the Washington Utilities and Transportation Commission
3 (“Commission”). Previously, I worked at PacifiCorp as an analyst involved in power
4 supply cost forecasting. I also previously worked at Deloitte, where I ultimately
5 specialized in research and development tax incentives. I have a Master of Science degree
6 in Accounting from the University of Utah.

7 **Q. Mr. Howell, please provide information pertaining to your professional**
8 **experience.**

9 A. My name is Doug Howell. I am the Senior Campaign Representative for
10 the Sierra Club’s Beyond Coal Campaign. I am responsible for coordinating advocacy and
11 strategy for the Beyond Coal Campaign in the Pacific Northwest. My work includes
12 engaging with utilities to advocate for the responsible transition away from fossil
13 generating resources toward clean energy and energy efficiency. I have managed Sierra
14 Club’s advocacy work related to Colstrip for the past eight years.

15 **Q. Will the remaining Parties be submitting separate testimony in support**
16 **of the Settlement?**

17 A. Yes. Both Staff and Public Counsel will be submitting their own testimony
18 in support of the Stipulation.

19 **Q. Would you please describe the process that led to the filing of the**
20 **Settlement Stipulation?**

21 A. Yes. Representatives of all Parties participated in a Settlement Conference
22 held on January 16, 2019, which was held for the purpose of narrowing or resolving the

1 contested issues in this proceeding. Extensive discussions occurred on many components
2 of the Company's filing. The Parties engaged in the "give-and-take" that characterizes
3 settlement discussions and attempted to arrive at a reasonable balance of differing interests.
4 Each of the Parties ultimately agreed to concessions on matters which would not have been
5 agreed to if each of the Parties were to proceed to evidentiary hearings. Significant formal
6 and informal discovery occurred in the eleven months leading to the Settlement
7 Conferences.

8

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III. SETTLEMENT CONTENTS

Depreciation Rate Adjustments

11 **Q. Could you please describe the terms of the Stipulation?**

12 A. Yes. The Stipulation resolves all issues regarding proposed changes to the
13 Company's depreciation rates as raised by the Company's petition and filed depreciation
14 study. Before reflecting the agreed-upon depreciation rates for the Colstrip generating
15 plant, the change in all other electric depreciation rates (based upon plant balances at
16 December 31, 2016) results in an annual reduction to electric depreciation expense of
17 \$1,591,715.⁵ After reflecting the agreed-upon revisions to Colstrip Units 3 and 4 to reflect
18 an earlier 2027 end-of-service life for depreciation purposes⁶ (resulting in an annual
19 Colstrip regulatory amortization expense of \$1,540,772), the Stipulation results in an
20 annual overall decrease in electric depreciation and amortization expense of \$50,943. This

⁵This amount reflects the removal of the impact of Colstrip depreciation as filed, which reflects a 2034-2036 depreciable life.

⁶ The Colstrip depreciation rates by FERC account, reflecting a 2027 depreciable life as discussed further below, are provided in Attachment C to the Settlement Stipulation.

1 represents an electric reduction of \$1,330,132 depreciation/amortization expense on plant
2 compared to the Company's original filing.

3 Reflecting the agreed-upon depreciation rates for natural gas operations, based upon
4 plant balances at December 31, 2016, results in an annual overall decrease in depreciation
5 expense of approximately \$1,281,264. This represents a natural gas reduction of \$377,579
6 in depreciation expense on plant beyond what the Company had originally filed.

7 **Q. Please show a summary table describing the impact to the 2016**
8 **depreciation expense balances.**

9 A. The summary Table below captures the agreed-upon results:

Line		Electric	Gas
10	1 Depreciation study net impact per filings	\$ 554,082	\$ (1,053,966)
11	2 Inadvertent reduction included in petition in error	725,107	150,281
12	3 Revised depreciation study net impact	1,279,189	(903,685)
	4 Remove Colstrip	(1,410,061)	-
13	5 Net impact excluding Colstrip	(130,872)	(903,685)
	6 Agreed upon changes		
14	7 Common-Transportation	(2,151)	905
15	8 Common - Transmission	(197,058)	-
	9 Washington Electric Distribution	(1,261,634)	
16	10 Washington Natural Gas Distribution		(378,484)
17	11 Total Washington Adjustments	(1,460,843)	(377,579)
	12 New impact <u>excluding</u> Colstrip	(1,591,715)	(1,281,264)
18	13 Proposed Colstrip Amortization	\$ 1,540,772	
19	14 Net Impact <u>including</u> Colstrip	\$ (50,943)	\$ (1,281,264)

20 **Q. Line 2 in the above table refers to an "Inadvertent reduction included**
21 **in petition in error". Please describe this item.**

1 A. These amounts represent a benefit, or reduction to depreciation expense,
2 that was inadvertently included in the Company’s original petition balances. These electric
3 and natural gas petition balances showed a larger reduction in overall depreciation expense
4 for natural gas and a smaller increase in electric overall depreciation than will actually
5 occur. Therefore, Line 3 shows the revised and accurate depreciation study net impact
6 balance per the filed depreciation study.

7 **Q. Please explain the line 7 in the table above “Common –**
8 **Transportation”.**

9 A. The Parties agreed on these Common–Transportation assets to be consistent
10 with the depreciation rates established in Oregon through settlement. Transportation assets
11 are common assets to all of Avista’s jurisdictions due to the pooling of the Company’s
12 depreciation expense. Therefore, these changes were also being proposed in Washington
13 and Idaho. The overall estimated impact based on 2016 plant balances is a reduction of
14 \$2,151 to electric and an increase of \$905 to natural gas.

15 **Q. Referencing the table above, it appears that Common Transmission**
16 **assets were also adjusted. Please describe what adjustment was made.**

17 A. For Common Transmission assets, Line 8, the Parties agreed to change the
18 depreciation rate on account *356 Overhead Conductor and Devices*. This depreciation rate
19 change resulted in an estimated decrease based on 2016 plant balances of approximately
20 \$197,058.

21 **Q. Line 9 labeled “Washington Electric Distribution” also shows some**
22 **changes. Please explain these adjustments.**

1 A. In this adjustment the Parties agreed to change depreciation rates on three
2 Washington Electric Distribution accounts: *366 Underground Conduit, 364 Poles, Towers*
3 *and Fixtures and 365 Overhead Conductor and Devices*). The estimated impact based on
4 2016 plant balances is a reduction to depreciation expense of approximately \$1,261,634.

5 **Q. Please provide some more detail surrounding the Washington Natural**
6 **Gas Distribution changes in Line 10.**

7 A. The Washington Natural Gas Distribution changes reflect changes in
8 Account *376 Mains, 380 Services and 385 Measuring/Regulating Industrial Equipment*.
9 The overall estimated impact based on 2016 plant balances is a reduction to depreciation
10 expense of approximately \$378,484.

11 See Attachment A to the Settlement Stipulation for detailed changes related to
12 Lines 7-10.

13 **Q. When should the Company change depreciation rates?**

14 A. The agreed-upon Washington Electric and Natural Gas Depreciation Rates
15 set forth in the Stipulation are proposed to be effective for accounting purposes on April 1,
16 2019, in order to coincide with the Company's other Idaho and Oregon jurisdictions'
17 implementation of depreciation rates on Common Plant. It is critical that the Company
18 maintain uniform utility accounts and depreciation rates for common plant that are
19 consistent among the Company's regulatory jurisdictions. In the event different
20 depreciation rates or methods were to be ordered for common plant, it would result in
21 multiple sets of depreciation accounts and records that would need to be adjusted annually
22 for changes in allocation factors, which would impose a costly administrative burden on

1 the Company and unnecessary expense for the Company's customers, as well as possible
2 unrecovered or stranded costs. The Stipulation does not provide for the adjustment of
3 customers' rates until the conclusion of the Company's next general rate case.

4 **Q. What other terms are included in the Stipulation?**

5 A. In addition, the Parties agreed to allow the Company to implement Vintage
6 Year accounting⁷ as prescribed in FERC AR-15 for FERC Account No. 397 –
7 Communication Equipment. Avista therefore, in accordance with FERC AR-15, will retire
8 fully depreciated vintages of communication equipment with the implementation of
9 depreciation rates with this Study, and will utilize Vintage Year accounting going forward
10 for all of its general plant accounts.

11 Finally, the Parties also agreed to adopt a depreciation schedule for Colstrip Units 3
12 and 4 that assumes a depreciable life through December 31, 2027, which represents
13 essentially the same agreement as in the Company's Idaho Depreciation Case No. AVU-E-
14 18-03 and as proposed in Docket U-170970, the Washington Avista/Hydro One Merger
15 Case. This agreement as discussed further below, makes use of the tax dollars that were a
16 result of the Tax Cuts and Jobs Act and also removes any intergenerational inequities.

17

⁷ 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 year as a vintage group for each account.

1 **Colstrip Depreciation**

2 **Q. Please describe the agreement by the Parties regarding the Company’s**
3 **depreciation of its ownership in its Colstrip Units 3 and 4 generation assets.**

4 A. Avista owns a 15% share of the coal-fired generation facilities, Colstrip
5 Units 3 and 4, located in Colstrip, Montana, which have a combined capacity of
6 approximately 1,480 MW. These two facilities were placed in service in 1984 and 1986.
7 Current rates include depreciation expense on Colstrip Units 3 and 4 with assumed
8 remaining useful lives of these units through December 31, 2034, and December 31, 2036,
9 respectively. Per this Settlement Stipulation, the Parties agree to adopt a depreciation
10 schedule for Colstrip Units 3 and 4 that assumes a remaining useful life, for depreciation
11 purposes, of December 31, 2027. The Parties also acknowledge that there presently is no
12 plan to close Colstrip Units 3 and 4 by a specific date, nor has Avista agreed to do so.

13 **Q. With an agreed-upon acceleration of the depreciable lives of the**
14 **Colstrip Units 3 and 4 assets to December 31, 2027, how does the Settlement address**
15 **recovery of the Colstrip Unit 3 and 4 undepreciated asset balances as of December 31,**
16 **2017?**

17 A. Washington’s share of the Company’s Colstrip Units 3 and 4 generation and
18 transmission asset balances at December 31, 2017, offset by accumulated depreciation
19 through March 31, 2019, as well as estimated asset retirement obligations (ARO) presently
20 not included in customer rates, produces an undepreciated balance for Colstrip Units 3 and
21 4 as of March 31, 2019 of \$104.1 million. Through this Settlement Stipulation, the Parties
22 agree that this undepreciated balance will be recovered by Avista through (i) the use of

1 unprotected Excess Deferred Federal Income Tax (“DFIT”) benefits of \$10.9 million (set
2 aside for possible use in connection with the acceleration of depreciation of the Company’s
3 Colstrip assets)⁸; (ii) an annual depreciation expense of approximately \$4.533 million
4 (Washington share) currently in customer rates, over the remaining 8.75 years, totaling
5 \$39.7 million; and (iii) recovery of the remaining balance, net of (i) and (ii), or \$53.5
6 million treated as a Colstrip Regulatory Asset, over 34.75 years.

7 **Q. With depreciation expense in rates remaining the same, please explain**
8 **how the recovery of the Colstrip Regulatory Asset impacts customer rates.**

9 A. Amortizing the Colstrip Regulatory Asset over 34.75 years results in an
10 annual regulatory amortization expense of approximately \$1.54 million. Consistent with
11 the change in depreciation rates effective April 1, 2019, on the Company’s books, the
12 Parties agree Avista will begin amortizing the Colstrip Regulatory Asset effective April 1,
13 2019. However, this increase in amortization expense will not be adjusted in customer
14 rates until Avista’s next general rate case. In addition, the Colstrip Regulatory Asset
15 balance, net of accumulated deferred federal income taxes and other related accounts⁹, will
16 be included as rate base in the Company’s next general rate case and will earn Avista’s
17 authorized rate of return.

18

⁸ As explained in Docket UE-170485, Order 07, the unprotected DFIT benefits are a result of the Tax Cuts and Jobs Act (TCJA) signed into law on December 22, 2017. At page 2, of Order 7, the Commission approved the continued deferral of these dollars. The \$10.4 million tax benefit disclosed in Order 07 has been revised to \$10.9 million to reflect updated information after filing of the Company’s 2017 tax return in September 2018.

⁹ 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.

1 **Q. Please explain the use of 34.75 years to amortize the Colstrip**
2 **Regulatory Asset.**

3 A. The use of 34.75 years to amortize the Colstrip Regulatory Asset was
4 chosen to coincide with the remaining amortization period of TCJA protected Excess DFIT
5 tax benefits being returned to customers beginning May 1, 2018. As explained in Docket
6 UE-170485, Order 07, Avista has an electric plant excess ADFIT balance (Regulatory
7 Liability) of approximately \$208.3 million. In accordance with the TCJA's Average Rate
8 Assumption Method (ARAM), the Company is required to reverse (i.e. normalize) these
9 balances over the depreciable lives of its capital assets that created the ADFIT, estimated to
10 be approximately 36 years (or \$5.7 million annual benefit) as of January 1, 2018. With
11 April 1, 2019 being 1.25 years after January 1, 2018 (the effective date of the TCJA), the
12 remaining life of the ARAM is 34.75 years, hence the use of that figure for the Colstrip
13 Regulatory Asset. The concurrent timing of both the return of the TCJA protected excess
14 DFIT benefit, coinciding with the collection of amortization expense associated with the
15 acceleration of Colstrip Units 3 and 4 depreciation, results in a unique opportunity to offset
16 intergeneration inequities that has occurred and will occur in the future.

17 **Q. What do you mean by intergenerational inequities?**

18 A. Avista over a period of years has collected funds from past ratepayers for
19 the purpose of paying taxes at a future date in the form of Deferred Federal Income Taxes,
20 or DFIT. However, as noted above, with the passing of the TCJA in December 2017, and
21 the revaluation of its assets from a 35% to a 21% deferred tax rate, these funds (\$208.3
22 million) are no longer obligated to be paid in the future, and therefore, it is appropriate to

1 return these funds to customers. However, “ratepayers” are a constantly-changing group.
2 Therefore, the ratepayers which have paid for the DFIT expense in the past, will not be the
3 same customers who will receive the return of these funds in the future.

4 Similarly, the depreciation study filed by the Company includes an Asset
5 Retirement Obligation associated with Colstrip Units 3 and 4 that has not previously been
6 collected from customers, totaling approximately \$38 million (system), and the current
7 depreciation schedule for Colstrip Units 3 and 4 has been at 2034 and 2036, respectively.
8 Recently, however, with the impact of coal-fired power plants around the country closing
9 much sooner than anticipated by utilities and their regulators, it has become a higher risk
10 that ratepayers in the near and medium term could incur more than their fair share of costs.
11 Although the actual closure date of Colstrip Units 3 and 4 are undetermined, if a shorter
12 life had been anticipated, depreciation rates would have been higher for previous
13 customers, and future depreciation expenses related to these plants would be lower.

14 By matching the amortization schedule of the regulatory asset (which can be
15 thought of as the portion of Colstrip 3 & 4 costs under-recovered from previous
16 generations of customers) to the amortization schedule of the regulatory liability (which are
17 excess taxes paid by previous generations of customers), we will have matched the flow of
18 funds from previous generations of customers to cover the flow of costs attributable to
19 previous generations of customers. As a result, we will have mitigated the
20 intergenerational inequities related to Colstrip 3 and 4, particularly in the event that
21 Colstrip 3 and 4 have a shorter economic life than currently anticipated – all while
22 maintaining the status quo for ratepayers in terms of recovering depreciation expense.

1 **Q. Does the Settlement agreed to by the Parties impact recovery of future**
2 **capital additions or additional asset retirement costs related to Colstrip Units 3 and 4**
3 **that occur beyond January 1, 2017?**

4 A. No. As explained in Attachment B of the Settlement, nothing in the
5 Settlement agreed to by the Parties precludes Avista from seeking recovery of costs that
6 occur beyond January 1, 2017, that result from additional future asset retirement costs, or
7 from future capital maintenance costs incurred in the normal course of business, all based
8 on a showing of prudence in future general rate cases.

9 **Q. Is this approach, including both the accelerated depreciable life to 2027**
10 **and method of recovery, consistent with the approach used in other Avista**
11 **proceedings?**

12 A. Yes. In Avista's Idaho jurisdiction, the Company recently filed a Stipulation
13 and Settlement agreement in its Electric Depreciation Case No. AVU-E-18-03, on behalf of
14 all parties to that proceeding, also proposing a depreciation schedule for Colstrip Units 3
15 and 4 of December 31, 2027.¹⁰ The Idaho Settlement agreement also requested the same
16 recovery treatment as proposed here: (i) use of deferred Idaho specific electric unprotected
17 Excess DFIT tax benefits; (ii) annual Idaho depreciation expense remains consistent with
18 current expense in rates, over the remaining 8.75 years; and (iii) recovery of the Colstrip
19 Regulatory Asset balance, net of (i) and (ii), to be recovered and amortized over 34.75
20 years.

21

¹⁰ The use of December 31, 2027 also coincides with the agreement reached in Puget Sound Energy's general rate case proceeding (Dockets UE-170033 and UG-170034 (consolidated)) to resolve the depreciable life for their share of Colstrip Units 3 and 4.

1 As explained above, the Idaho Stipulation has also reflected an April 1, 2019 effective date
2 for the change in depreciation rates, as well as, the amortization of the Colstrip Regulatory
3 Asset, with the impact to customer rates occurring in the Company's next general rate case.

4 Furthermore, the treatment proposed in this proceeding is the same as that proposed
5 in Docket U-170970 (Avista/Hydro One Merger), and agreed to by all Parties in that
6 proceeding, prior to the termination of that docket. In Docket U-170970, in Commission's
7 Order 07 "Final Order Denying Joint Application for Transfer of Property," the
8 Commission denied the Avista/Hydro One Merger effort, and with that the proposed
9 treatment of Colstrip Units 3 and 4. Further the Commission stated at Footnote 20, page 8-
10 9 of Order 07:

11 It accordingly will be necessary to revisit the question of how to treat the
12 "continued deferral of the unprotected excess deferred income taxes of
13 approximately \$10.4 million" that was left for resolution in Docket U-
14 170970... In this Order, we direct Avista to work cooperatively with
15 Commission Staff and any interested parties to determine how best to bring
16 this matter before the Commission for further consideration within 60 days
17 after the date of this Order [February 4, 2019].
18

19 The Company filed a responsive letter, dated February 4, 2019, in compliance with
20 Order 07, notifying the Commission that the parties in Avista's pending depreciation
21 dockets (UE-180167 and UG-180168) had reached a settlement-in-principle that addresses
22 the "continued deferral of the unprotected excess deferred income taxes of approximately
23 \$10.4 million" that was set over for later resolution in Docket U-170970 (merger docket).
24 That settlement-in-principle was reduced to writing and filed on February 12, 2019. It
25 would therefore, resolve the matter of the "continued deferral of the unprotected excess
26 deferred income taxes of approximately \$10.4 million."
27

1 **V. PUBLIC INTEREST**

2 **Q. Do each Party's Statement of Position represent their view of why the**
3 **Settlement Stipulation is in the public interest?**

4 A. Yes. The following statements are provided from the perspective of each
5 of the settling Parties, and as such, represent their views only. As such, no other party
6 shall be deemed to have agreed to the statements of a particular party.

7 **Statement of Avista**

8 **Q. Please explain why Avista believes the Settlement Stipulation is in the**
9 **public interest.**

10 A. The Settlement strikes a reasonable balance between the interests of Avista
11 and its customers on depreciation rates and depreciation expense. The Settlement
12 Stipulation was a compromise among differing interests and represents give-and-take. The
13 Settlement Stipulation was entered into following extensive formal and informal discovery,
14 audit and review of the Company's filing and books and records.

15 Under the terms of the Settlement, the Parties agree that Avista will implement new
16 electric and natural gas depreciation rates beginning April 1, 2019. Customers rates,
17 however, will not reflect this change until the conclusion of the Company's next general
18 rate case.

19 As the Settlement relates to the treatment of Colstrip Units 3 and 4 assets, this
20 Settlement makes use of temporary tax credits associated with the TCJA as an offset, and
21 presents a unique opportunity to resolve the intergenerational inequities of accelerating the
22 depreciation of these units to 2027 from 2034 and 2036, respectively. While the Settlement

1 does not dictate any specific closing date at these units, it adopts certain measures that will
2 mitigate the risk and increased expenses to Avista's customers, while providing fair
3 recovery to Avista for past capital expenditures.

4 Finally, the overall reduction to depreciation/amortization expense of
5 approximately \$51,000 for Washington Electric and \$1.3 million for Natural Gas, will be
6 reflected in future rate case proceedings, and is in the public interest.

7 **Statement of AWEC**

8 **Q. Please explain why AWEC believes the Settlement Stipulation is in the**
9 **public interest.**

10 A. AWEC believes the depreciation rates proposed in the Stipulation represent
11 a reasonable estimate of the depreciable lives of the various categories of Avista's utility
12 plant. In addition, the Stipulation aligns the depreciable lives of Avista's interest in
13 Colstrip Units 3 and 4 with Puget Sound Energy's, while using tax benefits from the TCJA
14 to offset the associated increased depreciation expense. This holds current customers
15 harmless from these increased costs, while making it more likely that an agreement over
16 the ultimate retirement of these coal units among their various owners can be made in a
17 reasonable and amicable manner that inures to the benefit of customers. Finally, while the
18 overall depreciation expense identified in the Stipulation represents a reduction to both
19 electric and gas plant, AWEC supports the Stipulation's provision that this reduction will
20 not be deferred until the effective date of new rates. Adherence to Commission precedent
21 that deferrals should be strictly limited to unusual or extraordinary events is important to
22 AWEC. These reductions in depreciation expense are not extraordinary and, therefore, do

1 not meet the threshold for deferrals. Further, AWEC generally opposes deferred
2 accounting for depreciation expense, as this expense is recovered over many years and,
3 therefore, is not a proper type of expense for deferred accounting.

4 **Statement of Sierra Club**

5 **Q. Why does Sierra Club support the Settlement?**

6 A. In its Application, Avista proposed to retain the current depreciation
7 schedule for Colstrip Units 3 and 4, which is based on a remaining useful life of 2034 and
8 2036, respectively. The Settlement would change the depreciation schedule based on
9 assuming a remaining useful life of December 31, 2027 for Colstrip Units 3 and 4. The
10 new depreciation schedule would be identical to the depreciation schedule the Commission
11 approved in Puget Sound Energy's ("PSE") most recent rate case the schedule proposed by
12 PacifiCorp in its pending depreciation docket. Moreover, the depreciation schedule
13 contained in the Settlement reflects the economic, regulatory, and political pressures that
14 Colstrip Units 3 and 4 face, as explained below.

15 **Q. Please elaborate on why the Sierra Club supports the Settlement's**
16 **proposed depreciation schedule for Colstrip Units 3 and 4.**

17 A. All else being equal, the goal of a depreciation schedule is to align the time
18 period over which customers pay for an asset with the time period during which the asset
19 provides benefits to those customers. At its most basic, the principle of intergenerational
20 equity is that, to the extent practicable, a customer should not have to pay for a resource
21 that the customer does not use and benefit from.

1 This settlement includes a depreciation schedule for Colstrip Units 3 and 4 that
2 better aligns with the expected remaining useful life of those Units. Sierra Club continues
3 to believe that, given the economic and regulatory pressures on coal-fired generation,
4 Colstrip Units 3 and 4 are likely to retire before the end of 2027. However, Avista’s
5 application proposed a depreciation schedule for Colstrip Units 3 and 4 based on a
6 remaining useful life extending through 2034 and 2036, respectively.¹¹ For the reasons
7 explained below, Sierra Club believes that a depreciation schedule for Colstrip Units 3 and
8 4 based on a remaining useful life that ends in December 31, 2027 reflects a more realistic
9 expectation for the remaining useful life of those units than the 2034 and 2036 dates in
10 Avista’s application.

11 The depreciation schedule in the settlement agreement would reduce the
12 undepreciated plant balances that would otherwise remain if Colstrip Units 3 and 4 retire
13 by the end of 2027, or before. From Sierra Club’s perspective, this is an important step
14 toward ensuring that the transition toward clean energy does not leave customers with
15 excessive stranded costs and minimizes the risk that future customers who do not receive
16 power from Colstrip Units 3 and 4 will have to pay for those Units.

17 Finally, by basing the depreciation schedule on a more realistic remaining useful
18 life for Colstrip Units 3 and 4, the settlement agreement is a positive step toward avoiding
19 the situation that utilities have faced with Colstrip Units 1 and 2, which will be retired far
20 earlier than utilities had planned.

¹¹ See Docket UE-180167 and UG-180168, Petition of Avista Corporation at 6.

1 **I. Evidence from Puget Sound Energy’s Rate Case Supporting Accelerated**
2 **Depreciation for Colstrip Units 3 and 4**

3 **Q. Why is Puget Sound Energy’s Rate Case, Docket UE-170033/UG-**
4 **170034, relevant to this case?**

5 A. In PSE’s most recent rate case, Docket UE-170033/UG-170034, the parties
6 reached a unanimous settlement that contained the same depreciation dates for Colstrip
7 Units 3 and 4 that the parties have agreed to in this case: namely, for depreciation
8 purposes, the parties assume a remaining useful life for Colstrip Units 3 and 4 that runs
9 through December 31, 2027.¹² The Commission approved this depreciation schedule for
10 Colstrip Units 3 and 4 in Docket UE-170033/UG-170034.¹³

11 **Q. What evidence was submitted in PSE’s Rate Case that supported a**
12 **depreciation schedule for Colstrip Units 3 and 4 that assumes a remaining useful life**
13 **of no later than December 31, 2027?**

14 A. In Docket UE-170033/UG-170034, Sierra Club submitted the pre-filed
15 Response Testimony and Exhibits of Ezra D. Hausman on June 30, 2017 (Exh. EDH-1T
16 through EDH-9) and Cross-Answering Testimony of Ezra D. Hausman on August 9, 2017
17 (Exh. EDH-10T). Mr. Hausman explained that the viability of Colstrip Units 3 and 4 is
18 threatened by several trends, including: the increasing cost of coal-fired generation relative
19 to natural gas and renewable generation; increasingly stringent state and federal

¹² *WUTC v. Puget Sound Energy*, Dockets UE-170033 and UG-170034 (*consolidated*), Multiparty Settlement Stipulation and Agreement (Sept. 15, 2017), ¶ 26.

¹³ *WUTC v. Puget Sound Energy*, Dockets UE-170033 and UG-170034 (*consolidated*), Order 08 (Dec. 5, 2017), ¶ 71.

1 environmental requirements for coal-fired generation; and challenges of continuing to
2 supply the Units with coal from the Rosebud mine. In light of these pressures on Colstrip
3 Units 3 and 4, Mr. Hausman recommended that the depreciation schedule for the Units
4 assume a remaining useful life of no later than the end of 2024.

5 Sierra Club also submitted the testimony of Douglas Howell (Exh. DHH-1T), who
6 explained Sierra Club's support for the Colstrip-related provisions in the settlement in
7 Docket UE-170033/UG-170034.

8 **Q. Did any other parties in PSE's Rate Case submit evidence in support of**
9 **accelerated depreciation for Colstrip Units 3 and 4?**

10 A. Yes. The Northwest Energy Coalition, Renewable Northwest, and the
11 Natural Resources Defense Council (collectively, the "Coalition") submitted testimony
12 from Wendy Gerlitz (Exh. WMG-1T), who noted that setting a depreciation schedule for
13 Colstrip Units 3 and 4 based on a remaining useful life extending until the end of 2027
14 would reflect a more realistic remaining useful life for the Units. In addition, the Coalition
15 submitted the testimony of Thomas Michael Power (Exh. TMP-1T, TMP-9T), who
16 explained at length that utilities had not adequately prepared for the early retirement of
17 Colstrip Units 1 and 2, and urged the Commission to ensure that a similar situation is
18 avoided regarding Colstrip Units 3 and 4.

1 **II. Developments Occurring After Puget Sound Energy’s Rate Case Supporting**
2 **Accelerated Depreciation for Colstrip Units 3 and 4**

3 **Q. After the Commission approved the settlement in Docket UE-**
4 **170033/UG-170034, have any events strengthened the case for accelerating**
5 **depreciation for Colstrip Units 3 and 4?**

6 A. Yes, recent events have only strengthened the case for assuming a remaining
7 useful life for Colstrip Units 3 and 4 of no later than the end of 2027 for depreciation
8 purposes. In particular:

- 9 • PacifiCorp, one of the co-owners of Colstrip Units 3 and 4, has proposed
10 new depreciation rates for Washington based on Colstrip Unit 4 having a
11 remaining useful life running through the end of 2027;¹⁴
- 12 • PacifiCorp released a draft Coal Study showing that Colstrip Units 3 and 4
13 are only marginally economic to operate compared to replacement
14 resources¹⁵;
- 15 • Westmoreland filed for bankruptcy on October 9, 2018. Westmoreland
16 operates the Rosebud mine, which supplies the coal burned at Colstrip Units
17 3 and 4. Co-owners of Colstrip have stated in filings to the bankruptcy
18 court that if Westmoreland is able to cancel its coal contracts with Colstrip

¹⁴ See Docket UE-180778, Direct Testimony of Chad A. Teply, Exh. CAT-1T at 9.

¹⁵ See PacifiCorp, 2019 Integrated Resource Plan (IRP) Public Input Meeting December 3-4, 2018 at 8-12, available at

http://www.pacificorp.com/content/dam/pacificorp/doc/Energy_Sources/Integrated_Resource_Plan/2019_IRP/PacifiCorp_2019_IRP_December_3-4_2018_PIM.pdf.

1 and then increase the price of coal from the Rosebud mine, Colstrip Units 3
2 and 4 may have to curtail operations or shut down¹⁶; and

3 • The economic and regulatory trends pressuring coal units have continued,
4 leading utilities throughout the country to announce the closure of coal
5 units. More coal capacity was retired in 2018 than in any year other than
6 2015.¹⁷

7 **Q. What do you recommend?**

8 A. I recommend that the Commission approve the Settlement in full.

9 **Q. Does that conclude your testimony?**

10 A. Yes, it does.

¹⁶ See Power, “Colstrip Power Plant Threatened by Westmoreland Bankruptcy” (Jan. 30, 2019), *available at* <https://www.powermag.com/colstrip-power-plant-threatened-by-westmoreland-bankruptcy/>; Bloomberg Environment, “Power Plant Risks Early Closure in Westmoreland Bankruptcy” (Feb. 11, 2019), *available at* <https://news.bloombergenvironment.com/environment-and-energy/power-plant-risks-early-closure-in-westmoreland-bankruptcy>.

¹⁷ See Bloomberg New Energy Finance, “U.S. Coal Plant Retirements Near All-Time High” (Nov. 9, 2018), *available at* <https://about.bnef.com/blog/u-s-coal-plant-retirements-near-all-time-high/>.