Appendix B
DOCKETS UE-180167 and UG-180168 (*consolidated*)

Modifications to Settlement Stipulation Pursuant to Condition Required in Final Order 04

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 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 year~~[10]~~, over the remaining 8.75 years, totaling $39.7 million;~~

[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.

~~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 (DFTT) 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 DFlT 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 prudency review in future rate proceedings.

[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.

Modifications to Attachment B to the Settlement Stipulation Pursuant to Condition Required in Final Order 04

<u>Colstrip Depreciation Summary and Description</u>

Avista owns a 15% share of two coal-fired generation facilities located in Colstrip, Montana, known as Colstrip Units 3 & 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 & 4 with assumed remaining useful lives of these units through December 31, 2034 and December 31, 2036, respectively.

The Parties acknowledge that there presently is no plan to close Colstrip Units 3 & 4 by a specific date, nor has Avista agreed to do so. The parties to the Settlement Stipulation in this docket (the "Parties") agree, however, to a depreciation schedule for Colstrip Units 3 & 4 that assumes a remaining useful life of those units through December 31, 2027. ~~The Parties agree to set depreciation rates for Colstrip Units 3 & 4 at amounts that will yield an annual depreciation expense of approximately $4.533 million (WA Share)[1] for the remaining depreciable lives of those units, which is the current level of annual depreciation expense.~~

The Parties agree to adopt a depreciable balance of Colstrip Units 3 & 4 of $104.1 million. This includes the currently recognized unrecovered plant balance, as well as estimated asset retirement obligations previously not included in rates[2]. Nothing in this Settlement will preclude Avista from seeking recovery of additional future asset retirement costs, based on a showing of prudency in future general rate cases.

~~The $104.1 million balance will be recovered as follows:~~

- ~~$10.9 million (WA share) of "temporary" tax credits approved by the WUTC in Avista's general rate case (Docket No. UE-170485).[3]~~
- ~~$39.7 million, through an annual depreciation expense of approximately $4.533 million (WA Share), which is the current level of annual depreciation expense.~~

~~[1] Annual depreciation expense is approximately $7.0 million on system-basis.~~

[2] The asset retirement obligations are currently estimated at approximately $38.4 million (WA share). These costs include cost of removal, decommissioning and remediation costs.

~~[3] The tax credits were the result of H.R.1 – Tax Cuts and Jobs Act signed into law in December 2017.~~

- ~~$53.5 million, through the amortization of a Regulatory Asset (FERC Account No. 183.3) (approximately $1.54 million per year – WA share), offset entirely over time by the amortization of protected Excess DFIT. The amortization schedule of the Regulatory Asset will be structured to match the remaining amortization schedule of protected Excess DFIT, so that the amortization of protected Excess DFIT covers the remaining depreciable balance.~~

Nothing in this Settlement will preclude Avista from seeking recovery of routine future capital maintenance costs incurred in the normal course of business beyond January 1, 2017 not intended to extend operational life, based on a showing of prudency in future general rate cases.

~~The Regulatory Asset~~[4]~~, net of accumulated deferred federal income taxes, will be included in rate base and will earn Avista's rate of return.~~

~~Concurrent with Avista's change in depreciation rates, effective April 1, 2019, Avista will begin amortizing the Colstrip Regulatory Asset at an annual amount of approximately $1.54 million. Avista agrees it will absorb this annual increase ($1.54 million) until such time this balance is reflected in base rates.~~

~~A summary of the Colstrip costs and offsetting tax credits follows:~~

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[4] ~~The Colstrip 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.~~

Summary of Colstrip Costs (WA Share)

		Total Amount	~~Amortization Period (Years)~~	~~Annual Amount~~
Net Book Value of Colstrip Units 3 & 4, including transmission assets, at December 31, 2017*	$	65,711,049		
Estimated asset retirement obligations		38,349,829		
Undepreciated Balance		104,060,878		
~~Future depreciation expense recovered April 1, 2019 - December 31, 2027~~		~~(39,668,057)~~		
~~Temporary Tax Credits~~		~~(10,851,000)~~		
~~Net Colstrip Costs Recorded as Regulatory Asset~~	~~$~~	~~53,541,821~~	~~34.75~~	~~$ 1,540,772~~

*Includes accumulated depreciation through March 31, 2019 on Colstrip plant balances at December 31, 2017.