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March 28, 2019

Washington Utilities and Transportation Commission
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COMMISSION

Attention: Mr. Mark Johnson, Executive Director and Secretary

RE: Docket No. UE-180167 and UG-180168 (consolidated)
Avista Corporation's Non-Acceptance of Condition Imposed by the Commission.

Dear Mr. Johnson,

On March 25, 2019, the Commission issued Order 04 in the above-referenced dockets. At Paragraph 60, the Commission stated: "Within three business days from the date of this Order, all Parties must notify the Commission whether they accept or reject the condition imposed by the Commission."

Avista appreciates the timely issuance of Order 04 in the above-captioned dockets. While the Order does approve the Settlement Stipulation in several respects, it does add a condition (Paragraph 35) with respect to the agreed-upon treatment of Colstrip that is problematic for Avista, and we believe that this was an unintended result that can be rectified with further explanation and a modification to the conditioning language of Paragraph 35. That unintended result would otherwise cause an annual impact to Avista's earnings of over \$5 million dollars, as detailed below. That clearly was not the intended outcome of the negotiations that led to the filed settlement.

The crux of the problem is this (and fortunately, it can be easily remedied): the Commission found "that the record in this proceeding does not establish that the proposed methodology to recover the \$104.1 million undepreciated balance of Colstrip Units 3 and 4 is consistent with the public interest" and conditioned its approval for the recovery of the \$104.1 million upon resolution of the proper method for doing so in the Company's next general rate case. (Order 04 at Paragraph 35) (emphasis added)

In so doing however, the Commission approved for implementation on April 1, 2019, revised Colstrip depreciation rates that will take effect now, and at least a year before the next rate case is implemented by Avista (to be filed by the end of second quarter of 2019). Application of those depreciation rates now would immediately begin to "work down" the \$104.1 million Washington undepreciated balance of Colstrip by approximately \$5.3 million over the next 12 months. Accordingly, at issue in the next case would not be the recovery of the \$104.1 million; it would be the recovery of only a lesser amount of \$98.8 million. This would result in the under-recovery of

\$5.3 million of Colstrip depreciation expense for no reason other than the mismatch in timing of the April 1, 2019, Colstrip depreciation rates and the later resolution of the method for recovering the then-undepreciated balance of \$98.8 million (not \$104.1 million). Finally, it is to be remembered that the Colstrip depreciation issue, including the 2027 date, was negotiated as “a package”- one that did not contemplate a \$5 million charge against earnings.

Fortunately, the remedy is straightforward and accomplishes what we believe was the intended result by the parties. The conditioning language of Paragraph 35 could be modified to make clear that the revised Colstrip depreciation rates will not change on April 1, 2019, but will be updated to the new rates effective with the general rate case that takes into account the remaining \$10.9 million in undepreciated excess deferred income taxes (EDIT) benefits in the context of a general rate case. It simply does not wish to be financially harmed in the meantime by early adoption of a revised Colstrip depreciation rate on our books beginning on April 1 of this year.

Accordingly, Avista believes that the conditioning language of Paragraph 35 should be revised as follows:

Condition. We determine that the record in this proceeding does not establish that the proposed methodology to recover the \$104.1 million undepreciated balance of Colstrip Units 3 and 4 is consistent with the public interest. Our approval of the Settlement Stipulation is conditioned, therefore, on the exclusion of the proposal for recovering this undepreciated balance as indicated in Appendix B to this Order. Avista may continue to recover Washington’s share of the annual depreciation expense of approximately \$4.533 million currently in rates, unchanged, until the method for recovering the \$104.1 million undepreciated balance is established in the Company’s next general rate case. In the meantime, the depreciation rates for Colstrip shall remain unchanged. This condition will also require Avista to present in its next general rate case a proposal for treating the remaining \$10.9 million in unprotected EDIT benefits, whether or not they are included as part of a method to recover the \$104.1 million undepreciated balance.¹

In addition, the language of Appendix B to the Settlement, which was otherwise approved by the Commission should be reconciled with the above, by modifying paragraph (4), page 2, as follows:

~~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.~~

In the alternative, Avista would agree to the provisions of Paragraph 35, as now written, if it would be allowed to defer the approximately \$5.3 million of Colstrip depreciation expense over the next year for later recovery in rates. And, in this regard, it would also agree to offset approximately \$1.6 million of other non-Colstrip electric depreciation benefits, resulting in a net deferral of approximately \$3.7 million. (See table below)

¹ The repeated reference to setting aside for the next general rate case a decision on methodologies for recovering the “\$104.1 million” of the undepreciated balance for Colstrip, leads further credence to the belief that the Commission did not intend for Avista to recover a lesser balance of approximately \$99 million were it otherwise required to begin implementing new Colstrip depreciation rates at this time.

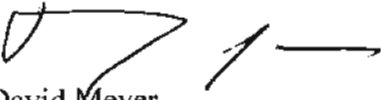
	WA Electric
Depreciation Change Impact Excluding Colstrip	\$ (1,591,715)
Change in Colstrip/ARO Depreciation/Accretion Expense	<u>\$ 5,251,397</u>
Net Deferral	<u>\$ 3,659,682</u>

By way of further process, Avista recommends the following: It will continue discussions that have begun with all other parties, and if there is consensus, at least on procedure, suggest an Order Conference under the Commission's rules so that all parties can be heard and the conditioning language can be addressed, and an Amended Order issued. This may avoid the need for Avista to file a Motion for Rehearing, Clarification or Reconsideration, at a later time, and create unnecessary process and delays. Avista reasonably believes that this is a matter about which there should be little controversy - and one that can be expeditiously rectified with an Amended Order 04. Ideally, Avista would need such an Order by April 26, 2019, in order to still implement appropriate depreciation rates with an effective date of April 1, 2019.

In all other respects, Avista is still supportive of the remaining non-Colstrip terms of the Settlement and wishes to carry through with its provisions as ordered by the Commission.

Questions regarding this filing should be directed to Karen Schuh at (509) 495-2293.

Sincerely,


 David Meyer
 Vice President and Chief Counsel for
 Regulatory and Governmental Affairs

cc: all Parties