

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

AVISTA CORPORATION d/b/a
AVISTA UTILITIES

For an Order Authorizing the Company
to Revise its Electric and Natural Gas
Book Depreciation Rates and
Authorizing Deferred Accounting
Treatment for the Difference in
Depreciation Expense

DOCKET UE-180167
DOCKET UG-180168
(Consolidated)

ORDER 04 (MODIFIED)

APPROVING SETTLEMENT
STIPULATION SUBJECT TO
CONDITION

Synopsis: *The Washington Utilities and Transportation Commission (Commission) approves and adopts a full settlement (Settlement Stipulation) between Avista Corporation d/b/a Avista Utilities (Avista or Company) and all other parties to this proceeding (Settling Parties or Parties) as a proposed resolution of all issues, with one condition.*

The Settling Parties agree to, and the Commission approves in this Order: (1) an effective date for changes to depreciation rates of April 1, 2019, consistent with the effective date in Avista's other regulatory jurisdictions; (2) Avista's utilization of vintage year accounting for FERC Account No. 397 – Communication Equipment and for all general plant accounts going forward; (3) modifications to depreciation rates, curve lives, and net salvage percentage for electric and natural gas assets found in accounts 392.2 Light Trucks; 392.4 Heavy Trucks; 392.5 Other; 396.5 Power Operated Equipment – Other; 356.0 Overhead Conductors and Devices; 364.0 Poles, Towers & Fixtures; 365.0 OH Conductor & Devices; 366.0 UG Conduit; 376.0 Mains; 380.0 Services; and 385.0 Measuring/Regulating Industrial Equipment; (4) a remaining useful life for depreciation purposes of December 31, 2027, for Colstrip Units 3 and 4; (5) modifications to the depreciation rates for generation and transmission assets associated

with Colstrip Units 3 and 4 based upon a remaining useful life for depreciation purposes of December 31, 2027; and, (6) a remaining undepreciated balance for Colstrip Units 3 and 4, including estimated asset retirement obligations, as of March 31, 2019, of approximately \$104.1 million.

The Commission determines, however, that the method proposed to recover the \$104.1 million undepreciated balance for Colstrip Units 3 and 4 should not be approved outside of a general rate case. Accordingly, the method for recovering the \$104.1 million undepreciated balance for Colstrip Units 3 and 4 in rates, including any proposals involving unprotected excess deferred income tax set aside in Dockets UE-170485, UG-170486, and U-170970, will be considered in Avista's next general rate case, commensurate with the Parties' agreement in the Settlement Stipulation to avoid any change to customer rates until the next general rate case. This is the only term of the Settlement Stipulation that the Commission does not approve.

The Commission therefore approves the Settlement Stipulation subject to the condition that the proposal to recover the \$104.1 million undepreciated balance for Colstrip Units 3 and 4 is removed from the Settlement Stipulation.

BACKGROUND

- 1 Avista Corporation d/b/a Avista Utilities' (Avista or Company) owns a 15 percent share of Colstrip Generating Station (Colstrip) Units 3 and 4, located in Colstrip, Montana. Colstrip Units 3 and 4 were placed in service in 1984 and 1986, respectively. Avista's current depreciation rates, which were approved by the Washington Utilities and Transportation Commission (Commission) in Order 09 in Dockets UE-120436 and UG-120437 (*consolidated*),¹ assume remaining useful lives for Units 3 and 4 of December 31, 2034, and December 31, 2036, respectively.²
- 2 On February 22, 2018, Avista filed with the Commission a petition in Docket UE-180167 requesting approval of a proposed change to its electric book depreciation rates and authorizing deferred accounting treatment for the difference in depreciation expense. Avista simultaneously filed with the Commission in Docket UG-180168 a petition requesting approval of a proposed change to its natural gas book depreciation rates and authorizing deferred accounting treatment for the difference in depreciation expense. On August 22, 2018, Avista filed amended petitions in both dockets that no longer include requests for deferred accounting treatment for the difference in depreciation expense.
- 3 On December 12, 2018, the Commission convened a prehearing conference in these dockets, and on December 13, 2018, entered Order 01, Order of Consolidation; Prehearing Conference Order; Notice of Hearing (Order 01). Order 01 granted the petitions to intervene filed by the Alliance of Western Energy Consumers (AWEC) and the Sierra Club.
- 4 On February 12, 2019, all parties to the proceeding (Parties or Settling Parties) jointly filed a full settlement (Settlement Stipulation) and requested the Commission approve and adopt it as a full resolution of the issues in this proceeding.

¹ *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-120436, UG-120347, UE-110876, and UG-110877 (*consolidated*), Order 09, Order 14, 11, 13, 37, ¶¶ 29, 34, 112, Appendix A at 4, ¶ 9 (Dec. 26, 2012). Depreciation rates for Avista's generation and transmission assets associated with Colstrip were included. Not included were Avista's share of the increased asset retirement obligation (ARO) resulting from an April 17, 2015, rule published by the Environmental Protection Agency (EPA), which Avista first began recording in 2015. Petition at 6-7, ¶ 18.

² Schuh, Mullins, Howell, Exh. JT-1 at 12:2-12.

5 Simultaneously, the Parties filed a joint motion requesting a February 15, 2019, deadline
for filing testimony in support of the settlement. They also requested that this matter be
resolved on a paper record without a hearing, and that the Commission consider the
proposed settlement on an expedited schedule to accommodate the Parties' requested
April 1, 2019, effective date.

6 On February 15, 2019, the Parties filed testimony and exhibits supporting the Settlement
Stipulation. On February 19, 2019, the Commission entered Order 03, Granting Joint
Motion, in Part, finding a settlement hearing was unnecessary to aid the Commission's
decision in whether to approve the settlement and that proceeding on a paper record was
sufficient.

7 David J. Meyer, Vice President and Chief Counsel for Regulatory and Governmental
Affairs, Spokane, Washington, represents Avista. Nash Callaghan, Assistant Attorney
General, Olympia, Washington, represents Commission staff (Staff).³ Lisa W. Gafken
and Nina Suetake, Assistant Attorneys General, Seattle, Washington, represent the Public
Counsel Unit of the Attorney General's Office (Public Counsel). Tyler Pepple, Davison
Van Cleve, P.C., Portland, Oregon, represents AWEC. Matthew Gerhart, Staff Attorney,
Denver, Colorado, represents the Sierra Club.

SETTLEMENT STIPULATION⁴

8 The Settlement Stipulation addresses changes to various depreciation rates and other
adjustments. The Settlement Stipulation accepts those portions of the Company's initial

³ In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

⁴ The Settlement Stipulation and its attachments are included as Appendix A to this Order. Appendix A is incorporated into, and made part of, this Order by this reference. In this Order, we briefly summarize the Settling Parties' proposed commitments. With the exception of the condition we require as explained in this Order, the terms of the Settlement Stipulation (and its attachments) control to the extent of any arguable inconsistency between our descriptive summary and the terms of the Settlement Stipulation (and its attachments).

filing that are not in dispute.⁵ With respect to the disputed portions, the Parties present the Settlement Stipulation as their agreed resolution.⁶

9 The changes in depreciation rates unrelated to Colstrip and agreed to by the Parties are found in accounts 392.2 Light Trucks; 392.4 Heavy Trucks; 392.5 Other; 396.5 Power operated equipment - other;⁷ 356.0 Overhead Conductors and Devices;⁸ 364.0 Poles, Towers & Fixtures; 365.0 OH Conductor & Devices; 366.0 UG Conduit;⁹ 376.0 Mains; 380.0 Services; and 385.0 Measuring/Regulating Industrial Equipment.¹⁰ The Settlement Stipulation also will allow Avista to utilize vintage year accounting for its communication equipment (FERC Account No. 397) and, going forward, for all its general plant accounts.¹¹

10 Additionally, the Settlement Stipulation sets the end-date of the remaining useful life for depreciation purposes for Colstrip Units 3 and 4 at December 31, 2027, makes various changes to depreciation rates associated with Colstrip generation and transmission assets, and sets a remaining undepreciated balance for Colstrip Units 3 and 4 of approximately \$104.1 million.¹² The Settlement Stipulation does not include a closure or retirement date for Colstrip Units 3 and 4. Rather, it changes only the useful lives of Colstrip Units 3 and 4 for accounting purposes. Lastly, the Settlement Stipulation determines that the \$104.1 million undepreciated balance will be recovered as follows: (1) continued recovery of

⁵ See Liu, Exh. JL-1T at 15:13-21.

⁶ See *id.*; Dahl, Exh. CJD-1T at 6:17 - 17:1.

⁷ “Common–Transportation” is the reference used by the Parties in the Settlement Stipulation to categorize these adjustments. Settlement Stipulation at 6, ¶ 13; Settlement Stipulation, Attachment A.

⁸ “Common–Transmission” is the reference used by the Parties in the Settlement Stipulation to categorize these adjustments. Settlement Stipulation at 6, ¶ 13; Settlement Stipulation, Attachment A.

⁹ “Washington Electric Distribution” is the reference used by the Parties in the Settlement Stipulation to categorize these adjustments. Settlement Stipulation at 6, ¶ 13; Settlement Stipulation, Attachment A.

¹⁰ “Natural Gas Distribution” is the reference used by the Parties in the Settlement Stipulation to categorize these adjustments. Settlement Stipulation at 6, ¶ 13; Settlement Stipulation, Attachment A.

¹¹ Settlement Stipulation at 6-7, ¶ 14.

¹² Settlement Stipulation at 7, ¶ 15(a) and (b); Settlement Stipulation, Attachments B and C.

Washington's share of the annual depreciation expense at \$4.533 million for Colstrip Units 3 and 4 until the end of 2027;¹³ (2) application of approximately \$10.9 million in unprotected excess deferred income tax (EDIT) benefits set aside in Dockets UE-170485 and UG-170486;¹⁴ and, (3) amortization of a regulatory asset of the remaining \$53.5 million of the undepreciated balance, using a 34.75 year amortization, which matches the time period over which \$208.3 million in protected EDIT benefits will be reversed to customers according to the Average Rate Assumption Method (ARAM).¹⁵

DISCUSSION AND DECISION

11 Settlements must comply with applicable legal requirements and be consistent with the public interest.¹⁶ The Commission “will approve a settlement if it is lawful, supported by an appropriate record, and consistent with the public interest in light of all the

¹³ Continued recovery of the annual depreciation expense for Colstrip Units 3 and 4 until the end of 2027 (8.75 years) would result in a total recovery of approximately \$39.7 million. Settlement Stipulation at 7-8, ¶ 15(b)(2); Schuh, Mullins, Howell, Exh. JT-1 at 13:3-5.

¹⁴ Settlement Stipulation at 7-8, ¶ 15(b)(1); Schuh, Mullins, Howell, Exh. JT-1 at 12:22 - 13:3. In Order 07 in Dockets UE-170485 and UG-170486 (*consolidated*), the Commission ordered the continued deferral of \$10.4 million in unprotected EDIT benefits as a result of the Tax Cuts and Jobs Act for resolution in Docket U-170970, the proposed Avista-Hydro One merger. *See Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils., In re Petition for an Order Authorizing Deferral of Federal Income tax Expenses for the Effects of Revisions of the Federal Income Tax Code Upon Avista's Cost of Service, In re Petition for an Order Authorizing Deferral of Federal Income Tax Code Upon Avista's Cost of Service*, Dockets UE-170485, UG-170486, UE-171221, and UG-171222 (*consolidated*), Order 07, Order 02, Final Order, 12-13, ¶ 22 (Apr. 26, 2018) [hereinafter 2017 GRC Final Order]. The Commission ultimately denied the Avista-Hydro One merger, and, consequently, the proposed treatment of the \$10.4 million in unprotected EDIT benefits. Accordingly, we directed Avista, Commission staff, and any interested parties to work cooperatively to determine how best to bring the treatment of the \$10.4 million in unprotected EDIT benefits before the Commission for further consideration. *See In re Joint Application of Hydro One Limited (acting through its indirect subsidiary, Olympus Equity LLC) and Avista Corp. for an Order Authorizing Proposed Transaction*, Order 07, Final Order, 8-9, ¶ 21 and n. 20 (Dec. 5, 2018) [hereinafter Avista-Hydro One Final Order]. This \$10.4 million has since been revised to \$10.9 million, as presented by Avista and the other Parties in this case. *See* Schuh, Mullins, Howell, Exh. JT-1 at 12:13 - 13:6 and n. 8.

¹⁵ Settlement Stipulation at 7-8, ¶ 15(b)(3); Schuh, Mullins, Howell, Exh. JT-1 at 13:5-6. As part of the proposed agreement, this regulatory asset would be included in rate base and earn at Avista's authorized rate of return. Settlement Stipulation, Attachment B.

¹⁶ WAC 480-07-740.

information available to the commission.”¹⁷ The Commission may approve a settlement agreement, with or without conditions, or reject it.¹⁸

12 If the Commission approves a proposed settlement subject to one or more conditions, all parties to the settlement will have an opportunity to accept or reject the Commission’s conditions. If all parties accept the conditions, the terms in the settlement and the Commission’s conditions will resolve the issues identified and the Order will become final. If a party to the settlement rejects a condition or fails to accept the conditions unequivocally and unconditionally, the adjudication returns to its status at the time the Commission suspended the procedural schedule to consider the settlement.¹⁹

13 We address the components of the Settlement Stipulation below.

1. Settlement Terms Unrelated to Colstrip

14 The Settlement Stipulation provides that Avista will book depreciation rates on directly assigned and common plant effective April 1, 2019.

15 The Settlement Stipulation resolves depreciation rates for Avista’s natural gas operations, based on plant balances as of December 31, 2016, resulting in an annual decrease in depreciation expense of approximately \$1,281,264.²⁰ The depreciation rates for Avista’s natural gas operations are unaffected by the Parties’ proposal for Colstrip.

16 The proposal for Avista’s electric operations, however, includes a Colstrip impact.²¹ Excluding that impact, the Settlement Stipulation proposes to change electric depreciation rates based on plant balances as of December 31, 2016, resulting in an annual decrease to electric depreciation expense of \$1,591,715.²²

17 In addition to the changes in depreciation rates, the Settlement Stipulation recognizes that Avista meets applicable requirements to use vintage year accounting for general plant

¹⁷ WAC 480-07-750(2).

¹⁸ *Id.*

¹⁹ WAC 480-07-750(2)(b).

²⁰ Settlement Stipulation at 5, ¶ 12; Settlement Stipulation at 5, ¶ 13, Table 1, ln 12.

²¹ *See* Settlement Stipulation at 5, ¶ 13, Table 1, ln 14.

²² Settlement Stipulation at 4, ¶ 11; Settlement Stipulation at 5, ¶ 13, Table 1, ln 12.

assets.²³ It also allows Avista to use vintage year accounting for its communication equipment (FERC Account No. 397) and its general plant accounts going forward.²⁴

18 **DECISION.** We approve the provisions of the Settlement Stipulation unrelated to Colstrip for the reasons discussed below.

19 **Effective Date.** Avista, AWEC, and the Sierra Club jointly testified that the April 1, 2019, effective date coincides with the other jurisdictions in which Avista operates. They state:

It is critical that the Company maintain uniform utility accounts and depreciation rates for common plant that are consistent among the Company's regulatory jurisdictions. In the event different depreciation rates or methods were to be ordered for common plant, it would result in multiple sets of depreciation accounts and records that would need to be adjusted annually for changes in allocation factors, which would impose a costly administrative burden on the Company and unnecessary expense for the Company's customers, as well as possible unrecovered or stranded costs.²⁵

20 We agree with Avista, AWEC, and the Sierra Club that, in this instance, maintaining consistent utility accounts and depreciation rates for common plant across all of Avista's regulatory jurisdictions has a cost-saving benefit to Washington customers. Our decision, however, is limited to the specific facts before us in this proceeding. The Commission focuses its analysis on whether a settlement's provisions are consistent with the public interest in Washington. Thus, if the public interest requires practices in Washington different from those required in other states, we would implement those requirements despite any resulting inconsistencies. Here, we find that an April 1, 2019, effective date, which enables a uniform application of depreciation rates across Avista's regulatory jurisdictions, is consistent with the public interest.

21 **Natural Gas and Electric Depreciation Adjustments Unrelated to Colstrip.** The Settlement Stipulation explains why transportation assets should be consistent across

²³ Settlement Stipulation at 6-7, ¶ 14.

²⁴ Settlement Stipulation at 6-7, ¶ 14.

²⁵ Schuh, Mullins, Howell, Exh. JT-1 at 10:17 - 11:2.

Oregon, Washington, and Idaho. It states: “[t]ransportation assets are common assets to all jurisdictions due to the pooling of the Company's depreciation expense.”²⁶ The Parties explain in the Settlement Stipulation that the adjustments in Common–Transportation are consistent with those established and approved in Oregon. As discussed above, this factor influences, but does not control, our determination. Considering the facts presented here, we find that the Parties’ agreement on Common–Transportation assets, resulting in a decrease of \$2,151 to electric depreciation expense and an increase of \$905 to natural gas depreciation expense is lawful, supported by an appropriate record, and consistent with the public interest.

- 22 Mr. David J. Garrett, testifying on behalf of Public Counsel, conducted an analysis of the service lives, net salvage, and depreciation rates Avista presented, including those relating to Common–Transmission, Washington Electric Distribution, and Washington Natural Gas Distribution. These adjustments to depreciation rates would result in a decrease to Washington Electric depreciation expense by approximately \$197,058, a decrease to annual electric distribution depreciation expense of \$1,261,634, and a decrease to annual natural gas distribution depreciation expense of \$378,484, respectively.
- 23 Mr. Garrett testified: “[i]n my opinion, the service lives, Iowa curves, and net salvage rates stipulated by the Parties are reasonable based upon analyses of the Company’s historical data, a comparison of typical industry ranges, and professional judgement.”²⁷ Both Mr. Garrett, on behalf of Public Counsel, and Ms. Jing Liu, on behalf of Staff, testify that the agreements reached by the Parties in the Settlement Stipulation regarding Common–Transmission, Washington Electric Distribution, and Washington Natural Gas Distribution are reasonable and should be approved.²⁸ We agree. We find that the service lives, salvage percentages, and depreciation rates agreed upon by the Parties fall within an acceptable range of reasonableness and are supported by an appropriate record.
- 24 Accordingly, we find that the Parties’ agreements on Common–Transmission, resulting in a decrease of \$197,058 to electric depreciation expense; on Washington Electric Distribution, resulting in a decrease of \$1,261,634 to electric depreciation expense; and,

²⁶ Settlement Stipulation at 6, ¶ 13.

²⁷ Garrett, Exh. DJG-1T at 6:2-5.

²⁸ Garrett, Exh. DJG-1T at 6:6 - 7:7, 8:1-4; Liu, Exh. JL-1T at 17:12 - 18:12.

Washington Natural Gas Distribution, resulting in a decrease of \$378,484 to natural gas depreciation expense are reasonable and consistent with the public interest.

- 25 **Vintage Year Accounting.** Avista currently uses vintage year accounting for all general plant accounts except FERC Account No. 397. The Parties agree that Avista may use vintage year accounting for FERC Account No. 397. Mr. Garrett explains that this will “eliminate the unitization and record keeping requirements associated with individual items of property and allow Avista to record only the total cost of plant additions for the year as a vintage group.”²⁹ Because Avista meets all the requirements to use vintage year accounting,³⁰ we determine that the Parties’ agreement to allow Avista to use vintage year accounting for FERC Account No. 397 and for all general plant accounts going forward is reasonable and consistent with the public interest.

2. Settlement Terms Related to Colstrip

- 26 The Settlement Stipulation addresses several issues associated with Colstrip Units 3 and 4. First, it proposes a remaining useful life for depreciation purposes for Colstrip Units 3 and 4 of December 31, 2027, and adjusts depreciation rates based on this updated useful life. The Settlement Stipulation does not include any agreement on a closure or retirement date. These updates to the Colstrip depreciation rates increase the overall electric depreciation expense by \$1,540,772, resulting in a net decrease (when combined with the other agreed changes to electric depreciation rates unassociated with Colstrip) to electric depreciation expense of \$50,943.³¹
- 27 Second, the Settlement Stipulation sets the remaining undepreciated balance for Colstrip Units 3 and 4 at approximately \$104.1 million. Lastly, it determines how Avista will recover the \$104.1 million undepreciated balance for Colstrip Units 3 and 4 by utilizing a combination of annual depreciation expense currently in rates, \$10.9 million in unprotected EDIT benefits, and amortization of a regulatory asset for approximately \$53.5 million over the next 34.75 years (approximately \$1.54 million annually). The Parties’ proposal would not impact customer rates until this methodology is incorporated into the Company’s next general rate case; until then, Avista would incur the approximate \$1.54 million annual amortization of the regulatory asset. At that time, the Parties

²⁹ Garrett, Exh. DJG-1T at 7:14-16; *see also* Settlement Stipulation at 6, n. 8.

³⁰ Settlement Stipulation at 6-7, ¶ 14.

³¹ Settlement Stipulation at 4, ¶ 11; Settlement Stipulation at 5, ¶ 13, Table 1, ln 12-14.

propose the regulatory asset will be included in rate base and will earn Avista's authorized rate of return.³²

- 28 **DECISION.** We find that each of the elements of the Settlement Stipulation related to Colstrip is lawful, supported by an appropriate record, and consistent with the public interest, with one exception.
- 29 We find that the Parties have expanded the issue of depreciation associated with Colstrip Units 3 and 4 to the extent that it must be considered in the context of a general rate case. The proposed revisions to Avista's depreciation rates unassociated with Colstrip were limited to their impact on depreciation expense. However, the proposed methodology for recovering the \$104.1 million undepreciated balance of Colstrip Units 3 and 4 is not so limited. The inclusion of tax benefits, creation of a regulatory asset, and the addition of that asset in rate base make this issue substantially more complex.
- 30 In this instance, the proposed methodology does not merely update the useful life and depreciation rates for Colstrip Units 3 and 4. It proposes to establish a regulatory asset of \$53.5 million to be amortized over 34.75 years. It also requires inclusion of that regulatory asset in rate base, earning the Company's authorized rate of return, in the next general rate case. Finally, it applies tax benefits resulting from the Tax Cuts and Jobs Act (TCJA) to Colstrip, including part of the \$208.3 million in protected EDIT benefits set to reverse to customers over 34.75 years as an offset to recover Colstrip depreciation expenses.³³
- 31 These adjustments are inextricably intertwined with multiple other aspects of ratemaking, including rate base, rate of return, and tax. Accordingly, they are properly considered in the context of a general rate case when the Commission can assess effects on and by other rate adjustments. The Commission determines whether a settlement is "consistent with the public interest *in light of all the information available.*"³⁴ Here, we do not have sufficient information to determine that the proposed method for recovering the \$104.1

³² Schuh, Mullins, Howell, Exh. JT-1 at 13:7-17.

³³ On December 22, 2017, the TCJA was signed into law, reducing the federal corporate income tax rate from 35 to 21 percent. Tax Cuts and Jobs Act of 2017, Pub. L. 115-97, 131 Stat. 2054 (2017); *see* Commission Press Release re TCJA, dated Jan. 8, 2018. Because utilities regulated by the Commission collect taxes directly from rate payers, the TCJA affected the amount of deferred income tax utilities collect from their customers.

³⁴ WAC 480-07-750(2) (emphasis added).

million undepreciated balance is in the public interest, or that the impact it would have on rates in the next general rate case will be fair, just, reasonable, and sufficient in context with all other rate adjustments. We find that the proposed methodology can only be considered if presented with other rate adjustments in a general rate case. Accordingly, we decline to approve the proposed methodology outside of a general rate case.³⁵

32 Second, we reject the Parties' proposed method for recovering the \$104.1 million undepreciated balance for Colstrip Units 3 and 4 because it would greatly reduce our ability to assess and address rate impacts in the Company's next general rate case. Essentially, the proposal would require us to conclude that the proposed methodology is appropriate absent the ability to assess, in the context of all other rate adjustments, whether directing the \$10.9 million in unprotected EDIT benefits and part of the \$208.3 million protected EDIT reversal received by customers over the next 34.75 years to Colstrip depreciation expense is fair, just, reasonable, and sufficient.

33 Finally, the Settlement Stipulation unnecessarily restricts Avista's ability to make any needed adjustments to the annual depreciation expense recovered from Washington customers by limiting recovery to \$4.533 million annually. While not dispositive, pending state legislation may complicate this term of the Settlement Stipulation. As Staff's witness, Ms. Liu, testified:

Washington State Senate Bill 5116 provides that "[o]n or before December 31, 2025, all electric utilities must eliminate from electric rates all costs associated with delivering electricity to Washington customers that is generated from a coal-fired resource." If the bill becomes law, the depreciation rates will have to be revisited.³⁶

34 We agree. Although our decision is not contingent on whether Senate Bill 5116 passes, it nevertheless provides context for considering whether the proposed settlement is consistent with the public interest. Enactment of Senate Bill 5116 may make it necessary to revise more than the depreciation rates associated with Colstrip Units 3 and 4. For example, we may be required to consider an increase to the annual depreciation expense

³⁵ In general rate cases, the Commission determines whether proposed changes to rates are fair, just, reasonable, and sufficient. RCW 80.04.130; RCW 80.28.020.

³⁶ Liu, Exh. JL-1T at 14-16 (internal citations omitted); *see* SB 5116, 66th Leg., Reg. Sess. (Wash. 2019), *available at* <https://lawfilesexternal.wa.gov/biennium/2019-20/Pdf/Bills/Senate%20Bills/5116.pdf>.

currently recovered in rates, or a revision to the proposed recovery of the undepreciated balance for the next 34.75 years. This uncertainty further supports our conclusion that fixing the methodology by which Avista will recover the \$104.1 million undepreciated balance at this juncture is not in the best interest of Avista or its customers.

35 **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.³⁷ 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.

36 **CONCLUSION.** Subject to the condition described above, we find that the Settlement Stipulation is lawful, supported by an appropriate record, and consistent with the public interest. We therefore conclude that the Settlement Stipulation should be approved subject to condition.

FINDINGS OF FACT

The Commission makes the following findings of fact:

- 37 (1) The Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including electric and natural gas companies.
- 38 (2) Avista is a “public service company,” an “electrical company,” and a “gas company” as those terms are defined in RCW 80.04.010, and as those terms are

³⁷ Appendix B to this Order illustrates the edits to the Settlement Stipulation required by this condition. Briefly, the condition requires the exclusion of paragraph 15(b)(1)-(3) and part of paragraph 15(b)(4) in the Settlement Stipulation as well as associated language in Attachment B to the Settlement Stipulation.

otherwise used in Title 80 RCW. Avista is engaged in Washington in the business of supplying utility services and commodities to the public for compensation.

- 39 (3) On February 22, 2018, Avista filed petitions proposing to change its electric and natural gas book depreciation rates and authorizing deferred accounting treatment for the difference in depreciation expense. Avista filed amended petitions on August 22, 2018, removing its request for deferred accounting treatment for the difference in depreciation expense.
- 40 (4) On February 12, 2019, all parties in this proceeding filed the Settlement Stipulation, which is attached to this Order as Appendix A, and requested the Commission approve and adopt it as a full resolution of the issues in this proceeding.
- 41 (5) The Settlement Stipulation accepts all undisputed adjustments presented by Avista's depreciation study and resolves all disputed adjustments.
- 42 (6) The Settlement Stipulation, among other provisions, provides an effective date for changes to depreciation rates of April 1, 2019, consistent across all of Avista's regulatory jurisdictions.
- 43 (7) The Settlement Stipulation, among other provisions, allows Avista to use vintage year accounting for FERC Account No. 397 – Communication Equipment and for all general plant accounts going forward.
- 44 (8) The Settlement Stipulation, among other provisions, provides agreed modifications to depreciation rates, expected remaining useful lives, and net salvage percentage for electric and natural gas assets found in accounts 392.2 Light Trucks, 392.4 Heavy Trucks, 392.5 Other, 396.5 Power Operated Equipment – Other, 356.0 Overhead Conductors and Devices, 364.0 Poles, Towers & Fixtures, 365.0 OH Conductor & Devices, 366.0 UG Conduit, 376.0 Mains, 380.0 Services, and 385.0 Measuring/Regulating Industrial Equipment.
- 45 (9) Avista owns a 15 percent share of Colstrip Units 3 and 4, located in Colstrip, Montana.
- 46 (10) The Settlement Stipulation, among other provisions, provides for a remaining useful life for depreciation purposes of December 31, 2027, for Colstrip Units 3 and 4.

- 47 (11) The Settlement Stipulation, among other provisions, modifies the depreciation rates for generation and transmission assets associated with Colstrip Units 3 and 4 based upon a remaining useful life for depreciation purposes of December 31, 2027.
- 48 (12) The Settlement Stipulation, among other provisions, determines that the remaining undepreciated balance for Colstrip Units 3 and 4, including estimated asset retirement obligations, as of March 31, 2019, is approximately \$104.1 million.
- 49 (13) The Settlement Stipulation, among other provisions, provides for recovery of the \$104.1 million undepreciated balance for Colstrip Units 3 and 4 by: use of \$10.9 million in unprotected EDIT benefits set aside in Dockets UE-170485 and UG-170486 (*consolidated*); \$4.533 million annual depreciation expense that is currently in rates; and, amortization of a \$53.5 million regulatory asset over 34.75 years, commensurate with the remaining 34.75 years for the reversal of approximately \$208.3 million of protected EDIT benefits according to ARAM.
- 50 (14) The Settlement Stipulation, among other provisions, provides that starting April 1, 2019, Colstrip capital additions will be depreciated at the revised depreciation rates reflecting a remaining useful life for depreciation purposes of December 31, 2027.
- 51 (15) The Settlement Stipulation, among other provisions, provides that customer rates will not reflect changes to depreciation rates until the Company's next general rate case.

CONCLUSIONS OF LAW

The Commission makes the following conclusions of law:

- 52 (1) The Commission has jurisdiction over the subject matter of, and parties to, this proceeding.
- 53 (2) The Commission has an independent obligation to determine whether the Settlement Stipulation is lawful, supported by the evidence, and consistent with the public interest.

- 54 (3) The record contains insufficient information or evidence to support a finding that the Parties' proposed method for recovering the \$104.1 million undepreciated balance for Colstrip Units 3 and 4 is consistent with the public interest.
- 55 (4) The Commission should approve the Settlement Stipulation, subject to the condition set out in paragraph 35 that the proposed method for recovering the \$104.1 million undepreciated balance of Colstrip Units 3 and 4 is removed from the Settlement Stipulation consistent with Appendix B to this Order. With this condition, the Settlement Stipulation is lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the Commission.
- 56 (5) Subject to the condition set out in paragraph 35, above, the rates, terms, and conditions in the Settlement Stipulation are fair, just reasonable, and sufficient.
- 57 (6) The Commission's Secretary should be authorized to accept by letter all filings or submissions, with copies to all parties to this proceeding.
- 58 (7) The Commission should retain jurisdiction over the subject matter and the parties to effectuate the terms of this Order.

ORDER

THE COMMISSION ORDERS:

- 59 (1) Except as discussed in paragraphs 31 and 54 above, the full settlement agreed to by all parties to this proceeding is lawful, supported by an appropriate record, and consistent with the public interest and is, therefore, approved, subject to the condition set out in paragraph 35, above, and Appendix B to this Order.
- 60 (2) 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.
- 61 (3) Avista Corporation d/b/a Avista Utilities, and any other party to the proceeding, is authorized and required to make any compliance filing and any other filing or submission necessary to effectuate the terms of this Order.

- 62 (4) The Commission retains jurisdiction to enforce the terms of this Order and delegates to the Executive Director and Secretary the authority to confirm compliance with this Order.

DATED at Olympia, Washington, and effective April 3, 2019.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.

APPENDIX A – SETTLEMENT STIPULATION AND ATTACHMENTS

**APPENDIX B – MODIFICATIONS TO SETTLEMENT STIPULATION AND
ATTACHMENT B PURSUANT TO CONDITION**