

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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EXH. PDE-4

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION



Date: September 7, 2017

To: All Employees

From: Kelly Norwood 

Subject: Protocol for Direct Assignment of Costs Associated with Hydro One's Acquisition of Avista Corp.

### **Accounting for Costs Related to Hydro One Prior to Closing**

Prior to the date of closing of the Hydro One's acquisition of Avista Corp, presently anticipated to be in the second half of 2018, all costs associated with due diligence and other activities will continue to be recorded below the line to a non-utility account (FERC Account No. 426500). The following table summarizes the accounting for such expenses:

FERC Acct	Service	Jurisdiction	FERC Acct Description	Project Number	Project Description	Debit
426500	ZZ	ZZ	Miscellaneous Income Deduction	77705316	Hydro One Avista Acquisition	XXXX

### **Direct Assignment of Costs to Hydro One Post-Closing**

Following the date of closing, to the extent Avista employees dedicate time and incur costs supporting the operation of Hydro One, those costs would be separately tracked and directly assigned to Hydro One.<sup>1/ 2</sup>

In the future, if opportunities arise for the consolidation of certain Avista and Hydro One utility functions, where the utilities have an opportunity to benefit from specialized expertise or to achieve efficiencies, the following situations may arise whereby Administrative Services may be provided between and among the Company and its Utilities, a) the Companies may directly assign or allocate any corporate or administrative costs, common costs, or costs incurred for the benefit of the Utility or Utilities, to a Utility or the Utilities, b) the Companies may procure any

<sup>1</sup> Time and costs incurred include, but are not limited to activities for the following: a) services by the Board of Directors, and executive, management, professional, technical and clerical employees; b) financial and accounting services, corporate governance and compliance services, legal services, audit services, information and technology services, treasury services, investor relations services, governmental and regulatory services, human resources services, communications services, payroll processing services,

employee benefits participation, procurement and fleet management, tax and related services, contract negotiation and administration services, insurance and risk management services, environmental services and engineering and technical services; c) the use of office facilities, including but not limited to office space, furniture, equipment, machinery, supplies, computers and computer software, communications equipment, insurance policies and other personal property; d) the use of automobiles, airplanes, other vehicles and equipment;

<sup>2</sup> Likewise, if Hydro One employees were to provide support for Avista's utility operations, such costs would be directly assigned to Avista. The Company expects such assignment of costs, both to Hydro One and from Hydro One, to be relatively small since Avista will continue to operate as a standalone utility.

corporate or administrative services from a Utility or the Utilities for the Company's benefit, or c) the Companies may procure any corporate or administrative services from each other or agree to directly assign or allocate common costs to each other.<sup>3</sup>

With regard to the accounting process for assigning and billing corporate or administrative costs, these employee costs would be charged to suspense accounts (Deferred Debit Account No. 186), loaded for benefits, and would then be established as a receivable (FERC Account No. 146) when billed to Hydro One. If other resources are expended during the course of this work, such as travel or consulting services, these costs are also charged to suspense accounts and billed to Hydro One. All corporate services provided, and costs incurred, would be direct billed to Hydro One at cost and no margin or profit shall be included and no assets allocated, provided that any amount billed to Hydro One shall be adjusted to the extent necessary to comply with any U.S. federal or Canadian transfer pricing or similar tax law. Avista will use the same methodology for direct assignment of costs to the proposed Hydro One subsidiary operations, as we currently do for existing subsidiary operations.

A summary of the accounting for post-closing costs directly assigned to Hydro One is provided below.

### **Hydro One Transactions**

#### **To record transaction when employee charges time or incurs costs related to Hydro One:**

FERC Acct	Service	Jurisdiction	FERC Acct Description	Project Number	Project Description	Debit	Credit
186XXX	ZZ	ZZ	Miscellaneous Deferred Debits	777XXXX	Sub Billing - Hydro One	XXXX	

#### **To record transaction to establish a receivable from Hydro One:**

FERC Acct	Service	Jurisdiction	FERC Acct Description	Project Number	Project Description	Debit	Credit
146XXX	ZZ	ZZ	Accouts Receivable Assoc Company - Hydro One	777XXXX	Sub Billing - Hydro One	XXXX	
186XXX	ZZ	ZZ	Miscellaneous Deferred Debits	777XXXX	Sub Billing - Hydro One		XXXX

#### **To record transaction of a payment made to Avista Corp from Hydro One:**

FERC Acct	Service	Jurisdiction	FERC Acct Description	Project Number	Project Description	Debit	Credit
131XXX	ZZ	ZZ	Cash	-	-	XXXX	
146XXX	ZZ	ZZ	Accouts Receivable Assoc Company - Hydro One	777XXXX	Sub Billing - Hydro One		XXXX

For questions regarding direct assignment of costs associated with Hydro One or any other subsidiary costs, please contact Jeanne Pluth, Manager of Regulatory Accounting 495-2204, or Jennifer Smith, Senior State and Federal Regulatory Analyst at 495-2098.

<sup>3</sup> The Company would file proposals with the Commission as required.