

**Exh. CSH-7
Docket U-170970
Witness: Christopher S. Hancock**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Joint Application of
Hydro One Limited and Avista
Corporation for an Order Authorizing
Proposed Transaction**

DOCKET U-170970

**EXHIBIT TO
TESTIMONY OF**

Christopher S. Hancock

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Avista Response to NWECA Data Request No. 18

April 10, 2018

**AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Washington	DATE PREPARED:	02/23/2018
CASE NO.:	U-170970	WITNESS:	Mark Thies
REQUESTER:	NWEC/RNW/NRDC	RESPONDER:	David Machado
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	NWEC – 018(AVA)	TELEPHONE:	(509) 495-4554
		EMAIL:	david.machado@avistacorp.com

REQUEST:

- a) Please identify the amount of asset retirement obligations (AROs) associated with Colstrip and describe how those are treated on Avista's books.
- b) Is the amount identified in the response to (a) the best estimate of AROs associated with Colstrip? If not, what is Avista's best estimate of AROs associated with Colstrip?
- c) If Avista intends to revise the amount of AROs associated with Colstrip when does Avista intend to do this?
- d) If Avista revises the amount of AROs associated with Colstrip will Avista seek to change their regulatory treatment from what Avista described in their response to (a) above?
- e) Please define "asset retirement obligation" as used in the response to this data request, including what the term includes and does not include.

RESPONSE:

- a) The current total estimated cost of asset retirement obligations (AROs) associated with Colstrip (Units 3 & 4) is \$37,568,654. For financial reporting purposes (US GAAP and FERC reporting), the net present value of AROs is recorded as a liability on Avista's balance sheet. However, for ratemaking purposes, the ARO liability is not included on the balance sheet. Consistent with Order No. 01 in Docket No. UE-051852, Avista recovers the cost of its AROs through depreciation rates. However, the ARO associated with Colstrip Units 3 & 4 is not included in current depreciation rates.

On April 17, 2015, the EPA published a final rule regarding coal combustion residuals ("CCR"), also termed coal combustion byproducts or coal ash, in the Federal Register, and this rule became effective on October 15, 2015. Colstrip, of which Avista Corp. is a 15 percent owner of units 3 & 4, produces this byproduct. The rule established technical requirements for CCR landfills and surface impoundments under Subtitle D of the Resource Conservation and Recovery Act, the nation's primary law for regulating solid waste. The Company, in conjunction with the other Colstrip owners, developed a multi-year compliance plan to strategically address the CCR requirements and existing state obligations, while maintaining operational stability. As a result, Avista first recorded this obligation on its books in 2015. As the Company's existing depreciation rates are based on the Company's previous depreciation study (based upon balances as of December 31, 2010) and were approved by this Commission in 2012, the Company's current depreciation expense does not include a component for the recovery of AROs.

- b) Yes, the amount identified in response to part (a) is the current best estimate of AROs associated with Colstrip.
- c) The actual asset retirement costs related to the CCR rule requirements may vary substantially from the current estimates of the ARO due to uncertainty about the compliance strategies that will be used and the preliminary nature of available data used to estimate costs, such as the quantity of coal ash present at certain sites and the volume of fill that will be needed to cap and cover certain impoundments. Avista will coordinate with the plant operator and continue to gather additional data in future periods to make decisions about compliance strategies and the timing of closure activities. As additional information becomes available, Avista will update the ARO for these changes in estimates.
- d) As discussed in part (c), as additional information becomes available regarding expected costs of complying with the ARO, Avista will seek to reflect the updated expectations in the amount to be recovered through customer rates.
- e) An asset retirement obligation is defined as “an environmental remediation liability that results from the normal operation of a long-lived asset and that is associated with the retirement of that asset.”¹ Asset retirement obligations do not include routine costs of removal or closure associated with the normal operation and retirement of the plant asset, such as shut-down and dismantling (i.e., standard actions associated with asset retirement but which are not legally or contractually obligated).

¹ (Financial Accounting Standards Board, Accounting Standards Codification 410-20-15-2b).