BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of HYDRO ONE LIMITED (acting through its indirect subsidiary, Olympus Equity LLC) **and** **AVISTA CORPORATION** **For an Order Authorizing Proposed Transaction**	Docket No. U-170970 FIRST AMENDMENT TO SETTLEMENT STIPULATION AND AGREEMENT

I. PARTIES

1. The undersigned parties (hereinafter "Parties") represent all who have signed the Settlement Stipulation and Agreement entered into on March 27, 2018 (hereinafter "Stipulation"). The Parties hereby agree to amend the Stipulation to reduce the amount of deferred federal income tax benefit from $16.7 million to $10.4 million to be used for purposes of accelerating the depreciation of Colstrip Units 3 and 4 to reflect a "useful life" of 2027 for depreciation purposes, to recognize the impact of Order No. 7 in Dockets UE-170485 and UG-170486, dated April 27, 2018, in Avista's recently-concluded general rate filings.

2. Accordingly, the Parties agree to amend Commitment No. 76, appearing at page 22 of Appendix A to the Stipulation, and Attachment A to Appendix A, in the manner set forth in the attachment to this First Amendment, appearing in legislative format (denoting changes). The Parties agree to substitute these revised pages for corresponding pages in the Stipulation. In addition the Parties agree to make corresponding changes to the Joint Testimony and Exhibits

(Exh. JNT-1T, JNT-3 and JNT-4), and testimonies of Witnesses Hancock (Exh. CSH-1T) and Andrews (Exh. EMA-1T), and file these revisions with the Commission.

3. In all other respects, the Stipulation as previously entered into by the Parties, shall remain the same.

Entered into this 7th day of May, 2018.

HYDRO ONE LIMITED

By:______________________________
Elizabeth Thomas, Partner, K&L Gates LLP
Kari Vander Stoep, Partner, K&L Gates LLP
On Behalf of Hydro One Limited and
Olympus Equity LLC

AVISTA CORPORATION

By:______________________________
David J. Meyer
Chief Counsel for Regulatory and
Governmental Affairs

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ALLIANCE OF WESTERN ENERGY CONSUMERS

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Cascadia Law Group
On Behalf of NWEC/RNW/NRDC

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By: ______________________________
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74. **Tribal Communities:** In implementing these conditions, Avista will reach out to tribal communities to encourage participation of members of such communities in receiving the benefits of this settlement.

H. Miscellaneous Commitments

75. **Sources of Funds for Hydro One Commitments:** Throughout this list of merger commitments, any commitment that states Hydro One will arrange funding is not contingent on Hydro One's ability to arrange funding, particularly from outside sources, but is a firm commitment to provide the dollar amount specified over the time period specified and for the purposes specified. To the extent Avista has retained earnings that are available for payment of dividends to Olympus Equity LLC consistent with the ring fencing provisions of this list of merger commitments, such retained earnings may be used. Funds available from other Hydro One affiliates may be used without limitation. Avista will not seek cost recovery for any of the commitments funded or arranged by Hydro One in this list of merger commitments. Hydro One will not seek cost recovery for such funds from ratepayers in Ontario.

76. **Colstrip Depreciation:** Hydro One and Avista agree to a depreciation schedule for Colstrip Units 3 and 4 that assumes a remaining useful life of those units through December 31, 2027. Existing undepreciated balance ($114.2 Million) will be recovered as follows:

- $~~16.7~~10.4 Million – unprotected Excess DFIT~~/Deferral of January – April 2018 tax credit~~.

- $45.3 Million – through an annual depreciation expense of approximately $4.533 million (WA Share), which is the current level of annual depreciation expense presently being recovered from ratepayers (i.e., no increase to rates)

- $~~52.2~~58.5 Million – regulatory asset offset by the amortization of protected Excess DFIT, i.e. over 36 years

See Attachment A to Appendix A (Master List of Commitments in Washington) to the Settlement Stipulation, "Colstrip Commitment Summary and Description", which is incorporated herein by reference.

77. **Montana Community Transition Fund:** Hydro One and Avista will arrange funding of $3.0 Million towards a Colstrip community transition fund.

Attachment A to Appendix A of Settlement Stipulation in U-170970

Merger Commitment No. 76 (Colstrip)

Summary and Description

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 $114.2 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 $114.2 million balance will be recovered as follows:

- $~~16.7~~10.4 million (WA share) of "temporary" tax credits. These tax credits were described in Bench Request No. 9 in Avista's current general rate case (Docket Nos. UE-170485 and UG-170486).[3]

- $45.3 million, through an annual depreciation expense of approximately $4.533 million (WA Share), which is the current level of annual depreciation expense.

- $~~52.2~~58.5 million, through the amortization of a Regulatory Asset (FERC Account No. 183.3) (approximately $1.6~~5~~ million per year – WA share), offset entirely by the amortization of protected Excess DFIT. The amortization schedule of the Regulatory Asset will be structured to match the amortization schedule of protected Excess DFIT, so that the amortization of protected Excess DFIT covers the remaining depreciable balance.

[1] Annual depreciation expense is approximately $6.937 million on system-basis.
[2] The asset retirement obligations are currently estimated at approximately $42.7 million (WA share). These costs include 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.

Attachment A to Appendix A of Settlement Stipulation in U-170970

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, 2018 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.

Beginning October 1, 2018, Avista will include the $1.6~~5~~ million Colstrip amortization costs, in customers' base rates, but which would be offset by the electric Rate Credit of $4.9 million, thereby reducing customers' rates approximately $3.3~~4~~ million. The incremental rate reduction on October 1, 2018 would be spread to customers on a uniform percent of base revenue basis, and on an equal percentage to the volumetric blocks in each schedule (the Rate Credit would be spread in accordance with Commitment No. 19 "Rate Credit" for Schedule 25). Avista would effectuate this through a compliance filing of its base tariffs and electric Rate Schedule 73 (for the Rate Credit).

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

Summary of Colstrip Costs (WA Share)

	Total Amount	REVISED	Amortization Period (Years)	Annual Amount	REVISED
Net Book Value of Colstrip Units 3 & 4, including transmission assets, at December 31, 2017	$ 71,506,933				
Estimated asset retirement obligations	42,738,900				
Undepreciated Balances:	114,245,833				
Future depreciation expense recovered January 1, 2018 - December 31, 2027	(45,334,922)				
Temporary Tax Credits	~~(16,700,000)~~	(10,400,000)			
Net Colstrip Costs Recorded as Regulatory Asset	~~$ 52,210,911~~	$ 58,510,911	36	~~$ 1,450,303~~	$ 1,625,303
Electric Rate Credit	$ (24,606,700)		5	$ (4,921,340)	
Net Impact to Customers Beginning October 1, 2018				~~$ (3,471,037)~~	$ (3,296,037)

[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.

Commitment 69] will be included in the OBRP. Under no circumstance will the ratepayer population be responsible for any default related to the OBRP."

XI. COLSTRIP

Q. Please describe the new commitment added by the Parties regarding the depreciation of Colstrip Units 3 and 4.

A. Yes, through new Commitment 76 in the Settlement, Hydro One and Avista agree to a depreciation schedule for Colstrip Units 3 and 4 that assumes a remaining useful life of those units through December 31, 2027. These units are presently on a depreciation schedule of 2034 and 2036, respectively. The undepreciated balance of $114.2 million will be recovered through (i) the unprotected Excess Deferred Federal Income Tax ("DFIT")~~/Deferral of the January-April 2018 tax credit,~~ totaling $~~16.7~~10.4 million; (ii) an annual depreciation expense of approximately $4.533 million (Washington share) for a total of $45.3 million; and (iii) a regulatory asset offset by the amortization of protected Excess DFIT, i.e., over 36 years, in the amount $~~52.2~~58.5 million.

Q. Please describe the new commitment added by the Parties regarding "Montana Community Transition Fund".

A. Under new Commitment 77 in the Settlement, Hydro One and Avista commit to provide $3,000,000 in funding towards a Colstrip community transition fund. This commitment is not a cap on the amount Avista and/or Hydro One may ultimately commit to this fund.[4]

[4] This commitment, like other Settlement terms, will be funded as described in Commitment 75.

income programs with a focus on underserved, vulnerable, and high energy burden households. This commitment will include expanding marketing, outreach, and data analysis.

74. **Tribal Communities:** In implementing these conditions, Avista will reach out to tribal communities to encourage participation of members of such communities in receiving the benefits of this settlement.

H. Miscellaneous Commitments

75. **Sources of Funds for Hydro One Commitments:** Throughout this list of merger commitments, any commitment that states Hydro One will arrange funding is not contingent on Hydro One's ability to arrange funding, particularly from outside sources, but is a firm commitment to provide the dollar amount specified over the time period specified and for the purposes specified. To the extent Avista has retained earnings that are available for payment of dividends to Olympus Equity LLC consistent with the ring fencing provisions of this list of merger commitments, such retained earnings may be used. Funds available from other Hydro One affiliates may be used without limitation. Avista will not seek cost recovery for any of the commitments funded or arranged by Hydro One in this list of merger commitments. Hydro One will not seek cost recovery for such funds from ratepayers in Ontario.

76. **Colstrip Depreciation:** Hydro One and Avista agree to a depreciation schedule for Colstrip Units 3 and 4 that assumes a remaining useful life of those units through December 31, 2027. Existing undepreciated balance ($114.2 Million) will be recovered as follows:

- $~~16.7~~10.4 -Million – unprotected Excess DFIT~~/Deferral of January – April 2018 tax credit~~.
- $45.3 Million – through an annual depreciation expense of approximately $4.533 million (WA Share), which is the current level of annual depreciation expense presently being recovered from ratepayers (i.e., no increase to rates)
- $~~52.2~~58.5 Million – regulatory asset offset by the amortization of protected Excess DFIT, i.e. over 36 years

See Attachment A to Appendix A (Master List of Commitments in Washington) to the Settlement Stipulation, "Colstrip Commitment Summary and Description", which is incorporated herein by reference.

77. **Montana Community Transition Fund:** Hydro One and Avista will arrange funding of $3.0 Million towards a Colstrip community transition fund.

REVISED May 7, 2018

Attachment A to Appendix A of Settlement Stipulation in U-170970

Merger Commitment No. 76 (Colstrip)

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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 $114.2 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 $114.2 million balance will be recovered as follows:

- $~~16.7~~10.4 million (WA share) of "temporary" tax credits. These tax credits were described in Bench Request No. 9 in Avista's current general rate case (Docket Nos. UE-170485 and UG-170486).[3]

- $45.3 million, through an annual depreciation expense of approximately $4.533 million (WA Share), which is the current level of annual depreciation expense.

- $~~52.2~~58.5 million, through the amortization of a Regulatory Asset (FERC Account No. 183.3) (approximately $1.6~~5~~ million per year – WA share), offset entirely by the amortization of protected Excess DFIT. The amortization schedule of the Regulatory Asset will be structured to match the amortization schedule of protected Excess DFIT, so that the amortization of protected Excess DFIT covers the remaining depreciable balance.

[1] Annual depreciation expense is approximately $6.937 million on system-basis.

[2] The asset retirement obligations are currently estimated at approximately $42.7 million (WA share). These costs include 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.

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, 2018 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.

Beginning October 1, 2018, Avista will include the $1.6~~5~~ million Colstrip amortization costs, in customers' base rates, but which would be offset by the electric Rate Credit of $4.9 million, thereby reducing customers' rates approximately $3.3~~4~~ million. The incremental rate reduction on October 1, 2018 would be spread to customers on a uniform percent of base revenue basis, and on an equal percentage to the volumetric blocks in each schedule (the Rate Credit would be spread in accordance with Commitment No. 19 "Rate Credit" for Schedule 25). Avista would effectuate this through a compliance filing of its base tariffs and electric Rate Schedule 73 (for the Rate Credit).

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Future depreciation expense recovered January 1, 2018 - December 31, 2027	(45,334,922)				
Temporary Tax Credits	~~(16,700,000)~~	(10,400,000)			
Net Colstrip Costs Recorded as Regulatory Asset	~~$ 52,210,911~~	$ 58,510,911	36	~~$ 1,450,303~~	$ 1,625,303
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Net Impact to Customers Beginning October 1, 2018				~~$ (3,471,037)~~	$ (3,296,037)

[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.

73. **Improve Penetration of Low-Income Programs:** Hydro One and Avista will undertake a targeted effort with a goal of improving the penetration rate of low-income programs with a focus on underserved, vulnerable, and high energy burden households. This commitment will include expanding marketing, outreach, and data analysis.

74. **Tribal Communities:** In implementing these conditions, Avista will reach out to tribal communities to encourage participation of members of such communities in receiving the benefits of this settlement.

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- $45.3 Million – through an annual depreciation expense of approximately $4.533 million (WA Share), which is the current level of annual depreciation expense presently being recovered from ratepayers (i.e., no increase to rates)
- $~~52.2~~58.5 Million – regulatory asset offset by the amortization of protected Excess DFIT, i.e. over 36 years

See Attachment A to Appendix A (Master List of Commitments in Washington) to the Settlement Stipulation, "Colstrip Commitment Summary and Description", which is incorporated herein by reference.

77. **Montana Community Transition Fund:** Hydro One and Avista will arrange funding of $3.0 Million towards a Colstrip community transition fund.

We are therefore faced with two intergenerational inequities that run in opposing directions to one another. The intergenerational inequity posed by Colstrip 3 and 4 benefits previous ratepayers at the expense of the ratepayers of today and tomorrow. The intergenerational inequity posed by the reduction in corporate tax rate benefits the ratepayers of today and tomorrow at the expense of previous generations of ratepayers.

This Settlement presents a unique opportunity to resolve these intergenerational inequities, by assigning funds collected from previous generations of ratepayers to cover costs that were not recovered from previous generations of ratepayers.

Q. How does Commitment 76 accomplish this?

A. First, ~~all~~ funds available for immediate return to customers (approximately $~~16.7~~10.4 million)[20] will be put towards the balance of customer liabilities related to Colstrip 3 and 4. This produces an immediate reduction in Net Plant of $~~16.7~~10.4 million.

Second, the Settlement establishes that the depreciation expense for these assets will remain at the current level of approximately $4.53 million per year, through 2027. The cumulative amount of Net Plant recovered through 2027 will be approximately $45 million.

Third, the Settlement proposes that the remaining portion of customer liabilities (approximately $~~52.2~~58.5 million) related to Colstrip 3 and 4 are accounted for

[20] ~~This consists of unprotected excess DFIT as well as protected excess DFIT that meets the Average Rate Assumption Method provision and excess taxes collected since January 1, 2018.~~This consists of unprotected excess DFIT as of December 31, 2017.

useful life of those units for depreciation purposes to December 31, 2027. This also coincides with the agreement reached in Puget Sound Energy's recent rate proceeding (Dockets UE-170033 and UG-170034 (*consolidated)*) to resolve the depreciable life for those assets.

Q. As a part of the Settlement is there any agreement on the closure date of Colstrip Units 3 and 4?

A. No. The Parties 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. This is plainly referenced in Attachment A to Appendix A of the Settlement.

Q. With an agreed-upon acceleration of the depreciable lives of Colstrip Units 3 and 4, how does the Settlement therefore impact customer depreciation expense?

A. The Parties agree to keep the current level of depreciation expense included in existing rates for Colstrip Units 3 and 4, which yields an annual depreciation expense of approximately $4.533 million (Washington share). This results in no increase in depreciation expense included in customers' rates associated with the current undepreciated balance of Colstrip Units 3 and 4.

Q. With the receipt of Order No. 7 in Dockets UE-170485 and UG-170486, dated April 27, 2018 in Avista's recently-concluded general rate filings, what changes have been agreed to by the Parties in this Docket to reflect Order No. 7?

A. Specifically, the Parties have agreed to amend Commitment No. 76, appearing at page 22 of Appendix A to the Stipulation, and Attachment A to Appendix A, to reduce the amount of deferred federal income tax benefit from $16.7 million to $10.4 million, as described further below, to be used for purposes of accelerating the depreciation of Colstrip Units 3 and 4 to reflect a "useful life" of 2027 for depreciation purposes.

Q. With depreciation expense in rates remaining the same, how then will the current depreciable balance for Colstrip Units 3 and 4 be recovered?

A. The Parties agree to adopt a depreciable balance of Colstrip Units 3 and 4, including Colstrip transmission assets, of $114.2 million (Washington share) as of December 31, 2017. This includes the unrecovered plant balance of $71.5 million (Washington share), as well as the estimated asset retirement obligations previously not included in rates of $42.7 million (Washington share).[3] Table No. 1 below summarizes the recovery of Washington's current depreciable Colstrip Unit 3 and 4 balance of $114.2 million:

Table No. 1

Summary of Colstrip Costs (Washington Share) (000s)					
	Total Amount	REVISED	Amortization Period (Years)	Annual Amount	REVISED
Net Book Value of Colstrip Units 3 & 4, including transmission assets, at December 31, 2017	$ 71,507				
Estimated asset retirement obligations	42,739				
Undepreciated Balance:	114,246				
Future depreciation expense recovered January 1, 2018 - December 31, 2027	(45,335)				
Temporary Tax Credits	~~(16,700)~~	(10,400)			
Net Colstrip Costs Recorded as Regulatory Asset	~~$ 52,211~~	$ 58,511	36	~~$1,450~~	$1,625

As shown in Table No. 1 above, the Parties agree that the $114.2 million undepreciated Colstrip balance will be recovered as follows:

- $45.3 million through the annual depreciation expense of approximately $4.533 million (Washington share). As noted above, this is the current level of annual depreciation expense until December 31, 2027;

[3] The asset retirement obligations costs, as referred here, include decommissioning, remediation costs and cost of removal.

- $~~16.7~~ 10.4 million (WA share) of "temporary" tax credits, described further below; and

- $~~52.2~~ 58.5 million through the amortization of a Regulatory Asset (FERC Account No. 183.3)[4] over 36 years, resulting in approximately $~~1.5~~ 1.6 million per year (Washington share) of amortization expense.[5] As described further below, the amortization schedule of the Regulatory Asset over 36 years is structured to match the amortization schedule of protected Plant Excess Accumulated Deferred Federal Income Tax (ADFIT), so that the amortization of protected Plant Excess ADFIT covers the remaining depreciable balance.

Temporary Tax Credit - $~~16.7~~ 10.4 million

Q. Please describe the "temporary" tax credits used to offset the Colstrip depreciable balance.

A. As shown in Table No. 1 above, the Parties have agreed to offset the Colstrip Units 3 and 4 depreciable balance with "temporary" tax credits of approximately $~~16.7~~ 10.4 million. As explained in Avista's response to Bench Request No. 9 in Avista's current general rate case (Docket Nos. UE-170485 and UG-170486)[6], these "temporary" tax credits are a result of the Tax Cuts and Jobs Act (TCJA) signed into law on December 22, 2017, with most

[4] The Regulatory Asset, net of accumulated deferred federal income taxes, will be included in rate base and will earn Avista's rate of return. Total Colstrip accounts included as rate base associated with the plant and regulatory related assets/liabilities, 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.

[5] As noted in Attachment A to Appendix A of the Settlement, beginning October 1, 2018, Avista will include the $~~1.5~~ 1.6 million Colstrip amortization expense in customers' base rates. At the same time, the electric merger Rate Credit of $4.9 million will also go into effect reducing customer rates, thereby providing a net reduction to customers' rates of approximately $~~3.4~~ 3.3 million at that time. The incremental rate reduction on October 1, 2018 would be spread to customer schedules on a uniform percent of base revenue basis, and on an equal percentage to the volumetric blocks in each schedule (the Rate Credit would be spread in accordance with Commitment No. 19 "Rate Credit" for Schedule 25). Avista would effectuate this through a compliance filing of its base tariffs and electric Rate Schedule 73 (for the Rate Credit).

[6] The Company's pending general rate case includes Dockets UE-170485/UG-17086 and UE-171221/UG-171222 consolidated.

provisions going into effect on January 1, 2018. I have attached a copy of Avista's response to Bench Request No. 9 as Exh. EMA-2 to my testimony.

As also explained in response to Bench Request No. 9, the primary provision of the TCJA was a reduction in the federal corporate tax rate from 35% to 21%, reducing the current and deferred tax expense currently included in customers' rates. In addition, the TCJA also required accumulated deferred tax balances as of December 2017 to be revalued at the lower corporate rate (21%). The difference between the original balance recorded at 35% and the new balance recorded at 21%, resulted in excess ADFIT reserve balances (assets and liabilities). These excess ADFIT assets and liabilities were also categorized as "protected" and "unprotected."

"Protected" excess ADFIT (Plant Excess ADFIT) is generally defined as capital assets depreciated under Internal Revenue Code (IRC) section 167, and these timing differences are required to be recorded and then reversed (i.e. normalized) over the depreciable lives of the capital assets that created the ADFIT.

Unprotected Excess ADFIT makes up the remainder of the Company's Excess ADFIT, mainly representing non-plant related deferred assets/liabilities (Non-Plant Excess ADFIT), as well as plant-related tax basis adjustments (included by the Company within its "protected" balances.) The Non-Plant Excess ADFIT balances have no IRC requirement as to when they must be reversed.

Table No. 2 below, and the summary description that follows, summarizes the components of the $~~16.7~~ 10.4 million "temporary" tax credit used to offset the Colstrip depreciable balance:

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Table No. 2

Electric Temporary Tax Credit:	**(000s)**
Offset To Colstrip Depreciable Balance	
~~a.)~~ Non-Plant Excess ADFIT	$ (10,400)
~~b.) Deferral of Jan - Apr 2018 balances~~	~~$ (6,300)~~
~~Offset to Colstrip Depreciable Balance~~	~~**$ (16,700)**~~

~~a.)~~ Non-Plant Excess ADFIT - (described above) represents the "unprotected" non-plant related excess ADFIT at December 31, 2017, totaling approximately $10.4 million electric on a revenue requirement basis.

~~b.) Deferral of January – April 2018 balances – totaling of $6.3 million on a revenue requirement basis, represent both the deferral of the estimated reduction in the federal corporate tax rate from 35% to 21% of approximately $4.4 million[7], as well as the deferral of the monthly amortization of Plant Excess ADFIT of approximately $1.9 million, for the period January 1, 2018 through April 30, 2018. Table No. 3 below summarizes these components:~~

Table No. 3

Excess Deferred Federal Income Tax and Estimated Current/Deferred Tax Expense Deferred for the Period January - April 2018 (000s)	
	WA Electric
Excess ADFIT - Plant (Protected, monthly amortization)	$ 1,900
Current/Deferred Tax Expense (from 35% to 21%)	$ 4,400
Total Deferred Balance January - April 2018	**$ 6,300**

~~[7] At this time, the total deferral of the reduction in the federal corporate tax rate from 35% to 21% for the period of January – April 2018 is an estimate. Not all impacts of the TCJA on the utility are known at this time. For example, there may be additional interpretations and rulings from government agencies related to the law which may result in additional adjustments. The Company, therefore, believes it necessary to continue to track any appropriate differences through the TCJA deferral mechanism as a result of 1) differences between estimated amounts for the January – April 2018 and that approved by the Commission, and 2) unanticipated tax effects from changes in tax legislation. Ultimately, any difference up or down in the amount approved as the "temporary" tax credit, from the $6.3 million included in Table No. 2 above, would be recorded against the Colstrip Regulatory Asset.~~

Colstrip Regulatory Asset ($~~52.2~~ 58.5 million) / Offset by Protected Plant Excess ADFIT

Q. Please further explain the significance of the "Protected" Plant Excess ADFIT, and how it provides an offset to the $~~52.2~~ 58.5 million Colstrip Regulatory Asset.

A. As discussed in the Company's response to Bench Request No. 9, Avista has an electric plant excess ADFIT balance (Regulatory Liability) of approximately $208.3 million. In accordance with the TCJA's Average Rate Assumption Method (ARAM), the Company is required to reverse (i.e. normalize) these balances over the depreciable lives of the capital assets that created the ADFIT.

The Company estimates the ARAM for Avista results in an amortization period of approximately 36 years. The amortization of this balance over 36 years provides a tax benefit to customers (reduction in rates) of approximately $5.7 million annually.[8] The Company has proposed that this long-term tax benefit be included with the base rate change ultimately approved by this Commission, effective May 1, 2018, in Avista's current general rate case (Dockets UE-170485/UG-170486 and UE-171221/UG-171222 consolidated).

As it relates to the Colstrip Regulatory Asset, through the Settlement as noted in Table No. 1 above, the Parties have proposed that the Colstrip Regulatory Asset of $~~52.2~~ 58.5 million also be amortized over a 36 year period, resulting in an increased amortization expense of approximately $~~1.5~~ 1.6 million annually. Using consistent amortization periods, the increase in amortization expense October 1, 2018 of $~~1.5~~ 1.6 million, is entirely offset by the

[8] The annual excess Plant ADFIT amortization benefit will vary annually as the IRS ARAM is not calculated on a straight-line basis.

amortization of protected plant excess ADFIT of $5.7 million annually, over the 36 year period.

Q. Does the Settlement agreed to by the Parties impact recovery of future capital additions or additional asset retirement costs related to Colstrip Units 3 and 4 that occur beyond January 1, 2018?

A. No. As explained in Attachment A to Appendix A of the Settlement, nothing in the Settlement agreed to by the Parties precludes Avista from seeking recovery of costs that occur beyond January 1, 2018, that result from additional future asset retirement costs, or from routine future capital maintenance costs incurred in the normal course of business, not intended to extend operational life, based on a showing of prudency in future general rate cases.

Q. Does this conclude your pre-filed testimony?

A. Yes, it does.