BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. U-170970

TESTIMONY IN SUPPORT OF SETTLEMENT STIPULATION OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

Revised May 7, 2018

I. INTRODUCTION

Q. Will you please state your name, business address, and position with Avista Corporation?

A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as Senior Manager of Revenue Requirements in the Regulatory Affairs Department. My business address is 1411 East Mission Avenue, Spokane, Washington.

Q. Would you please describe your education and business experience?

A. I am a 1990 graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. That same year, I passed the November Certified Public Accountant exam, earning my CPA License in August 1991[1]. I worked for Lemaster & Daniels, CPAs from 1990 to 1993, before joining the Company in August 1993. I served in various positions within the sections of the Finance Department, including General Ledger Accountant and Systems Support Analyst until 2000. In 2000, I was hired into the State and Federal Regulations Department as a Regulatory Analyst until my promotion to Manager of Revenue Requirements in early 2007, and later promoted to Senior Manager of Revenue Requirements.

Q. Have you previously provided testimony in this proceeding?

A. No, I have not.

Q. Please provide an overview of your testimony.

A. I will provide an overview of Commitment 76 as agreed to by the Parties, related to the acceleration of depreciation on Colstrip Units 3 and 4, which assumes a remaining "useful life" of those units through December 31, 2027, for depreciation purposes

[1] Currently I keep a CPA-Inactive status with regards to my CPA license.

only. These units are presently on a depreciation schedule of 2034 and 2036, respectively. In addition, I will explain certain tax benefits, which provide an offset to all increased costs associated with the acceleration of depreciation on the current Colstrip Unit 3 and 4 assets.

Q. Are you sponsoring exhibits with your direct testimony?

A. Yes, I am sponsoring Exh. EMA-2, which is Avista's Response to Bench Request No. 9 (attachments excluded) in its pending general rate case (Dockets UE-170485/UG-170486 and UE-171221/UG-171222 consolidated).

II. DESCRIPTION OF COMMITMENT NO. 76 – COLSTRIP

Q. Please describe the current ownership and depreciation schedule of Colstrip Units 3 and 4.

A. Avista owns a 15% share of two coal-fired generation facilities located in Colstrip, Montana, known as Colstrip Units 3 and 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 and 4 of approximately $4.533 million annually (Washington share), with assumed remaining useful lives of these units through December 31, 2034 and December 31, 2036, respectively.[2]

Q. What agreement related to the depreciable life of Colstrip Units 3 and 4 has been established through Commitment No. 76?

A. As described in Attachment A to Appendix A of the Settlement, the Parties agree to a depreciation schedule for Colstrip Units 3 and 4 that accelerates the remaining

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

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:

Table No. 2

Electric Temporary Tax Credit: Offset To Colstrip Depreciable Balance		**(000s)**
~~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.~~

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

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 <u>entirely offset</u> 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.