BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION DBA AVISTA UTILITIES FOR AUTHORITY TO REVISE ITS ELECTRIC AND NATURAL GAS DEPRECIATION RATES	**CASE NOS. AVU-E-18-03 AVU-G-18-02** **ORDER NO. 34276**

On February 23, 2018, Avista Corporation dba Avista Utilities ("Avista" or the "Company") filed an Application requesting the Commission approve changes to the Company's depreciation rates for electric and natural gas property. The Application asked the Commission to determine and approve proper and adequate rates for depreciation of the Company's property used in providing retail electric and natural gas service, according to *Idaho Code* § 61-525. *Id.* at 2.

The Commission now has before it the Motion for Approval of Stipulation and Settlement (the "Motion") in which all parties recommend the Commission approve their Stipulation and Settlement (the "Stipulation") to resolve the issues in this case. Having reviewed the record, the Commission finds it reasonable to grant the Motion and approve the Stipulation in the public interest, as further described below.

BACKGROUND

For financial and ratemaking purposes, Avista periodically studies the appropriate depreciation rates for each plant account, by functional group. *See* Application at 2-4. The Company's most recent depreciation study was included as Attachment C to the Company's Application. *Id.* at 3. According to the Company, the study showed that "the Idaho share of annual depreciation expense recorded to O&M and A&G expense on the Company's books should be increased by approximately $1,275,324 for electric plant and decreased by approximately $487,632 for natural gas plant, based on the average service life rates of plant in service as of December 31, 2016." *See* Comments of Avista at 1-2. The Commission last approved the Company's depreciation rates in Idaho in January and April of 2013. *See* Application at 2; Order No. 32769. Avista initially asked for an effective date of January l, 2019. Application at 2.

After receiving the Application, the Commission issued a Notice of Application and set an intervention deadline of April 23, 2018. Order No. 34014. Clearwater Paper, Idaho Conservation League ("ICL"), Idaho Forest Group, and the Sierra Club intervened as parties. Order Nos. 34016, 34049. The parties agreed on, and the Commission approved, a procedural schedule. Order Nos. 34116, 34133. The Commission also approved the Company's request to change its proposed effective date to April 1, 2019. *Id.*

The parties held settlement meetings on December 11, 2018, and January 22, 2019. On February 15, 2019, Avista filed a Stipulation signed by all parties, and a corresponding Motion that recommended the Commission approve the Stipulation in the public interest. The Commission issued a Notice of Settlement Stipulation setting deadlines for interested persons to comment on the Stipulation. *See* Order No. 34243. The Company, Commission Staff, the ICL and Sierra Club commented in support of the Stipulation. *See generally* Comments of Avista in Support of Stipulation; Comments of the Commission Staff in Support of the Settlement Stipulation; and ICL and Sierra Club Comments. No one opposed it. The Stipulation and supporting comments are summarized below.

THE STIPULATION

In the Stipulation, the parties agree the settlement is a "fair, just and reasonable compromise of all the issues," is in the public interest, and would reasonably resolve "the multiple issues identified in this case." Stipulation at 1. The Stipulation included the agreed-upon depreciation rates as Stipulation Attachments A and C. Attachment A represents the parties' agreements on affected plant accounts, depreciation rates, and the allocated Idaho expense impact. Attachment C represents the agreed-upon depreciation rates for Colstrip Units 3 and 4. The Stipulation states that the Commission's approval of the Stipulation by April 1, 2019, would allow the Company to simultaneously implement "new depreciation rates for accounting purposes for common plant in all three jurisdictions in which Avista serves: Idaho, Washington, and Oregon." This will simplify future accounting records, charges and audits of deprecation expenses in these jurisdictions. *Id.* at 3.

The Stipulation states that the Company's future rate case would reflect depreciation/amortization expense for its Idaho electric assets increasing by about $679,000, and depreciation/amortization expense for its Idaho natural gas assets decreasing by about $488,000. Comments of Avista at 10. As detailed in Table 1 to the Stipulation, these agreed-upon changes would effectively increase the Company's annual depreciation expense for its electric and natural gas system by about $191,000. *Id.* at 9. The Company would absorb the Idaho depreciation expense changes until customer base rates change, provided the Company has filed its next general rate case before the effective date of its 2019 Purchased Gas Adjustment. *Id.*

The Stipulation further details that the Company would: (1) change its book depreciation rates effective April 1, 2019; (2) change the end-of-life for Colstrip Units 3 and 4 to December 31, 2027, (for depreciation purposes); (3) create a Colstrip Regulatory Asset to be amortized over the plant's 34.75-year ARAM period, resulting in an annual Idaho amortization expense of $780,090; (4) starting April 1, 2019, use Tariff Schedule 74 to return to customers $5.766 million in temporary tax benefits the Company received under the Tax Cuts and Jobs Act ("TCJA") from January 1, 2018 – May 1, 2018; and (5) use vintage year accounting for Federal Energy Regulatory Commission ("FERC") Account No. 397 - Communications Equipment. *See* Stipulation at 5-8; and Staff Comments in Support at 7-8.

THE COMMENTS

Avista, Staff, ICL and Sierra Club commented to support the Stipulation. The comments are summarized below.

A. Avista Comments.

Avista summarized the Stipulation and how the TCJA affected accumulated Deferred Federal Income Tax. Avista Comments at 7-9. Generally, Avista concluded that the Stipulation is in the public interest because the Stipulation balances "the interests of Avista and its customers on depreciation rates and depreciation expense. . . ." Avista Comments at 9. Avista noted that the parties agreed to the Stipulation after they conducted informal and formal discovery, and a review of the Company's filings and audits of the books and records. *Id.* Further, while Avista would implement new electric and natural gas depreciation rates beginning April 1, 2019, customer rates would not change unless the Commission approved such a change in the Company's next general rate case. The Stipulation also takes advantage of temporary tax credits associated with the TCJA as an offset, "representing a unique opportunity to resolve the intergenerational inequities of accelerating the depreciation of these units to 2027 from 2034 and 2036, respectively." *Id.* at 10.

B. Staff Comments.

Staff also summarized the agreed-upon rates and adjustments. *See* Staff Comments at 2-7. Staff concurred with the stipulated depreciation rates and adjustments and recommended the Commission approve the Stipulation as just, fair, reasonable, and in the public interest. *Id.* at 1.

C. Joint Comments – ICL and Sierra Club.

The ICL and Sierra Club filed joint comments to support the Stipulation. Their interest centered mainly on the Colstrip plant, and they characterized the Stipulation as "an elegant solution that balances the need to address Colstrip's uncertain future with possible electric rate impacts to Idahoans." ICL and Sierra Comments at 1.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over Avista, an electric and gas utility, and the Application in this matter under Title 61, Idaho Code, and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.* We are empowered to ascertain and determine the proper and adequate rates of depreciation under *Idaho Code* § 61-525. Each utility under the Commission's jurisdiction must conform its depreciation accounts to the rates ascertained and determined by the Commission. The Commission may change the depreciation rates from time-to-time as it finds necessary.

The Commission considers settlement stipulations under Procedural Rules 271-277. IDAPA 31.01.01.271-277. When a settlement is presented to the Commission, the Commission will prescribe appropriate procedures for considering the settlement given its nature. IDAPA 31.01.01.274. A settlement's proponents must show the settlement is reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. IDAPA 31.01.01.275. The Commission is not bound by the settlement but "will independently . . . determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy." IDAPA 31.01.01.276.

Here, we have reviewed the record, including the Company's initial Application and attachments, the Stipulation, and the supporting comments filed by Avista, Staff, and ICL and Sierra Club. We note all parties signed and support the Stipulation, and that no one opposes it. Further, the parties represent that the Stipulation reasonably resolves the case, and that it is in the public interest for the Commission to approve it. We agree.

In particular we find the Stipulation is reasonable and in the public interest because it would require the Company to use about $6.4 million in Idaho electric temporary tax benefits to offset costs associated with the accelerated depreciation of Colstrip Units 3 and 4. Using the tax benefits to offset accelerated depreciation costs would help stabilize customer rates without harming the Company's cash flow. The offset also would allow customers to recover, over one year, the remaining $5.766 million deferral of temporary tax benefits that the Company enjoyed when its annual revenue requirement decreased due to its lower federal tax rate. We further emphasize the reasonableness of the parties' agreement to decrease the remaining useful life for Colstrip Units 3 and 4 to December 31, 2027, since the actual useful life of those units is uncertain.

Based upon the record before us, and to aid "in securing a just, speedy and economical determination of the issues presented to the Commission," we find it reasonable and appropriate to approve the depreciation rates reflected in the Stipulation and accept the Stipulation in the public interest. IDAPA 31.01.01.273-.276.

ORDER

IT IS HEREBY ORDERED that the parties' Motion is granted, and the associated Stipulation is approved. The Commission adopts the revised depreciation accrual rates contained in the Stipulation and its attachments.

IT IS FURTHER ORDERED that the depreciation accrual rates approved by this Order shall become effective April 1, 2019.

IT IS FURTHER ORDERED that starting April 1, 2019, the Company will use Tariff Schedule 74 to return to customers $5.766 million in temporary tax benefits the Company received under the TCJA from January 1 – May 1, 2018, according to the Stipulation.

IT IS FURTHER ORDERED the Company will use vintage year accounting for FERC Account No. 397 – Communications Equipment, according to the Stipulation.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 19th day of March 2019.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Commission Secretary

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