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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 NO. AVU-E-18-03 AVU-G-18-02** **COMMENTS OF THE COMMISSION STAFF IN SUPPORT OF STIPULATION AND SETTLEMENT**

The Staff of the Idaho Public Utilities Commission submits the following comments in the above captioned matter.

BACKGROUND

On February 23, 2018, Avista Corporation dba Avista Utilities ("Avista" or the "Company") filed an Application requesting that the Commission approve changes to the Company's depreciation rates for electric and natural gas property. Avista included a request for an effective date of January 1, 2019. The Company last changed its Idaho book depreciation rates in January and April 2013. Order No. 32769.

The Commission subsequently 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 also agreed on, and the Commission approved, a procedural schedule. Order

Nos. 34116, 34133. In addition, the Commission approved the Company's request to change its proposed effective date for new depreciation rates from January 1, 2019, to April 1, 2019. *Id.*

On February 15, 2019, Avista filed a Stipulation and Settlement (the "Stipulation") signed by the Company, the Staff of the Idaho Public Utilities Commission, and intervenors Clearwater Paper Corporation, Idaho Forest Group, LLC, Sierra Club, and the Idaho Conservation League.

If approved, the Stipulation would increase the annual system depreciation expense by about $191,000. The Company will absorb the increased depreciation expense 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. Specific electric and gas depreciation expense changes include: (1) a proposed electric depreciation expense reduction of $101,656 annually, before reflecting depreciation rates for the Colstrip generating plant; (2) proposed revisions to Colstrip Units 3 and 4 to reflect an earlier 2027 depreciable date, which would increase the annual overall electric depreciation and amortization expense to $667,434; and (3) proposed depreciation rates for natural gas operations resulting in an annual overall decrease in depreciation expense of approximately $487,780.

STAFF COMMENTS

Staff reviewed the Company's Application and the accompanying Depreciation Study prepared by Gannett Fleming Valuation and Rate Consultants, LLC. During the review, Staff analyzed the depreciation rates, service lives, remaining lives, and net salvage values for all plant asset accounts. Based on Staff's review and negotiations with the signing parties, Staff believes that the Stipulation represents a fair, just, reasonable compromise of all issues raised by the Parties in the case, and in the public interest.

The Stipulation allows: (1) the Company to change its book depreciation rates effective April 1, 2019, (2) an end-of-life for Colstrip Units 3 and 4 of December 31, 2027, for depreciation purposes; (3) the return of approximately $12 million of temporary tax benefits established in Case No. GNR-U-18-01 to customers; and (4) the Company to use vintage year accounting for Federal Energy Regulatory Commission (FERC) Account No. 397 – Communications Equipment. Each of these components of the Stipulation are discussed in greater detail below.

The table below summarizes the impact of the Stipulation on the Company's depreciation expense before and after reflecting the stipulated depreciation expense and recovery of Colstrip.

Table 1: Summary of Impact on Depreciation Expense with and without Colstrip

Line		Electric	Gas
1	Depreciation Study Net Impact Per Filings	$ 978,934	$ (542,802)
2	Inadvertant Reduction Included in Petition in Error	296,390	55,170
3	Revised Depreciation Study Net Impact	**1,275,324**	**(487,632)**
4	Remove Colstrip	(735,171)	-
5	Net Impact Excluding Colstrip	**540,153**	**(487,632)**
6	Agreed Upon Changes		
7	Common-Transportation	(979)	(148)
8	Common-Transmission	(126,304)	-
9	ID Electric Distribution	(514,526)	-
10	Total Idaho Adjustments	**(641,809)**	**(148)**
11	Agreed Upon Depreciation Impact **Excluding** Colstrip	**(101,656)**	**(487,780)**
12	Proposed Colstrip Amortization	780,090	
13	Agreed Upon Impact **Including** Colstrip	**$ 678,434**	**$ (487,780)**

Excluding Colstrip, the stipulated change in depreciation rates results in a reduction to the annual Idaho Electric depreciation expense of $101,656 and a reduction to annual Idaho Natural Gas depreciation expense of $487,780 as reflected on line 11 in the table above. These amounts include adjustments to the Company's original proposal that reduce Idaho Electric depreciation expense by $641,809 and Idaho Natural Gas depreciation expense by $148.

Common – Transportation

The signing parties agreed to accept the changes included in the Company's depreciation settlement agreement in Oregon. This change reflects an increase in the net salvage value of the Company's transportation assets, including trucks and fleet vehicles. Because transportation assets are common assets to all jurisdictions due to the Company's pooling of depreciation expense, these changes were also proposed in Washington and Idaho. The impact to Idaho Electric and Natural Gas depreciation expense is a decrease of $979 and $148, respectively.

Common – Transmission

The signing parties agreed to accept Staff's proposed change to the survivor curve for FERC Account No. 356 – Overhead Conductors and Devices. The Company's depreciation study recommended a survivor curve of 65-R3 which results in a depreciation rate of 2.14%. The agreed-upon survivor curve of 70-R3 extends the remaining depreciable life of the assets in this account by 5 years and results in a depreciation rate of 1.9%, reducing Idaho Electric depreciation expense by $126,304 from the Company's original filing.

Idaho Electric Distribution

The signing parties agreed to two adjustments to Idaho Electric Distribution depreciation rates which, in total, reduce depreciation expense by $514,526. The first adjustment changes the survivor curve on FERC Account No. 365 – Overhead Conductors and Devices from 60-R3 to 65-R3.5, which changes the depreciation rate from 2.82% to 2.45%. The overall impact of extending the depreciable life of these assets by five years is a reduction to Idaho Electric depreciation expense of $223,358.

The second adjustment changes the net salvage value of FERC Account No. 367 – Underground Conductors and Devices from a negative 30% to a negative 20%. Staff believes that a negative 20% net salvage value more closely aligns with historical trends the Company has experienced with the assets booked in this account. The effect of this change is a reduction in the depreciation rate from 3.44% to 2.99% which reduces Idaho Electric depreciation expense by $291,168.

Vintage Year Accounting

FERC Accounting Release 15 (AR-15) allows utilities to use vintage year accounting for general plant assets, including FERC Account Nos. 391 through 399, with conditions. Vintage year accounting eliminates the unitization and record keeping requirements associated with individual items of property and allows companies to record only the total cost of plant additions for the year as a vintage group for each asset. The Company has been using vintage year accounting for all general plant accounts except FERC Account No. 397 – Communication Equipment. The signing parties agree that vintage year accounting is appropriate for FERC Account No. 397, and that the Company will retire fully depreciated vintages of communications equipment with the implementation of new depreciation rates, and will use vintage year accounting going forward for all of its general plant accounts.

Colstrip Generation Facilities Units 3 and 4

Avista owns a 15% interest in two coal-fired generation facilities located in Colstrip, Montana, known as Colstrip Units 3 and 4, which have a combined capacity of approximately 1,480 MW. These two facilities were placed in service in 1984 and 1986, respectively. The depreciation study includes depreciation rates for Colstrip Units 3 and 4 assuming remaining useful lives through December 31, 2034, and December 31, 2036, respectively, with annual depreciation expense of approximately $735,000. The signing parties agree to establish a depreciable end-of-life of December 31, 2027, for Colstrip Units 3 and 4.

Although decommissioning dates have not been established for these two facilities, there was concern among the parties that these facilities would no longer be operational by the time they were fully depreciated from the Company's books. Colstrip Units 1 and 2 may cease operations by 2022, and the other owners of Units 3 and 4 have either accelerated their depreciable lives,[1] or have open dockets with their respective Commissions seeking approval to do so.[2]

In Order No. 34070 approving the Settlement Stipulation in Case No. GNR-U-18-01, the Commission's Investigation into the Impact of Federal Tax Code Revisions on Utility Costs and Ratemaking, the Commission authorized the use of the approximately $12 million in Idaho electric temporary tax credits to "offset costs associated with accelerated depreciation of Colstrip Units 3 and 4, or other purposes as the Commission may approve in the Company's pending depreciation case." *Id.* Subsequent to that Order, in a Settlement Stipulation filed in Case Nos. AVU-E-17-09 and AVU-G-17-05, Avista agreed to support a December 31, 2027, end-of-life for depreciation purposes for Colstrip Units 3 and 4 (Commitment No. 69). Although that Stipulation was ultimately rejected by the Commission for other reasons, Staff cannot ignore the

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[1] In Puget Sound Energy's most recent general rate case, UE-170033 and UG-170034, the Washington Utilities and Transportation Commission approved a settlement that established and end-of-life date of December 31, 2027, for Colstrip Units 3 and 4.

[2] On September 11, 2018, Rocky Mountain Power, a division of PacifiCorp, submitted an Application in Idaho, Case No. PAC-E-18-08, to change depreciation rates in Idaho. The Company concurrently filed depreciation cases in all of its jurisdictions. The Application, along with the accompanying depreciation study, propose an end-of-life of December 31, 2027, for Colstrip Units 3 and 4.

regulatory pressures indicating that Colstrip Units 3 and 4 are unlikely to be operational through their originally planned end-of-life in 2034 and 2036, respectively.

Additionally, on October 9, 2018, Westmoreland Coal Company (Westmoreland) filed for voluntary Chapter 11 protection in U.S. Bankruptcy Court. Westmoreland owns the Rosebud Coal Mine, which is the exclusive coal provider for the Colstrip generation plant because of its proximity to generation facility. The uncertainty around the coal supply for Colstrip creates additional concerns regarding the viability of the plant. If coal costs increase for any reason, it is unlikely that operation of Colstrip Units 3 and 4 will be economical.

Staff expects that additional economic analysis of the continued operation of Colstrip Units 3 and 4 will be presented in a future Avista Integrated Resource Plan, and that analysis will drive the actual decommissioning date of Units 3 and 4. However, Staff believes that for current depreciation purposes, a December 31, 2027 end-of-life is reasonable.

Recovery of Colstrip Units 3 and 4

The signing parties agree that the Idaho share of the depreciable balance of Colstrip Units 3 and 4 is approximately $55.18 million. This amount includes the current unrecovered plant balance, as well as the estimated asset retirement obligations previously not included in rates. Recovery of the $55.18 million will be recovered through the current level of depreciation expense, approximately $2.475 million annually, through December 31, 2027. The remaining undepreciated balance will then be offset by $6.4 million of the temporary tax credits associated with non-protected, non-plant Excess Accumulated Deferred Federal Income Tax (ADFIT) credits established in Order No. 34070. Effective April 1, 2019, the Company will create a regulatory asset of the remaining unrecovered $27.1 million to be amortized over 34.75 years, which is consistent with the Average Rate Assumption Method used to return the protected Excess Deferred Federal Income Taxes associated with the Colstrip generation plant to customers. The resulting annual amortization expense to recover the regulatory asset is $780,090, as calculated in Table 2 below.

Table 2: Calculation of Colstrip Regulatory Asset and Amortization Expense

Summary of Colstrip Costs (ID Share)			
	Total Amount	Amortization Period (Years)	Annual Amount
Net Book Value of Colstrip Units 3 & 4, including transmission assets, at December 31, 2017	$ 34,841,436		
Estimated asset retirement obligations	20,333,919		
Undepreciated Balance	55,175,355		
Future depreciation expense recovered April 1, 2019 - December 31, 2027	(21,658,238)		
Temporary Tax Credits	(6,409,000)		
Net Colstrip Costs Recorded as Regulatory Asset	$ 27,108,117	34.75	$ 780,090
Effect of agreed upon changes to depreciation expense (excluding Colstrip)			$ (134,666)
Overall net increase to depreciation/amortization expense (Company will absorb)			$ 645,424

*Includes accumulated depreciation through March 31, 2019 on Colstrip plant balances at December 31, 2017.

By offsetting the Colstrip Regulatory Asset amortization expense with the decrease in Idaho Electric depreciation expense, the net impact to the Company's combined depreciation/amortization expense is an increase of $645,424. The Company will absorb this increase until its next general rate case.

Remaining Temporary Tax Credits

There is $5.766 million remaining of the approximately $12 million deferral of temporary tax credits from the decrease in annual revenue requirement associated with the reduction in the federal income tax rate from 35% to 21% for January 1, 2018 through May 31, 2018. The signing parties agree that this amount will be returned to customers in a separate Tariff Schedule 74 over a one-year period beginning April 1, 2019. This Tariff Schedule credit, along with the non-protected ADFIT credits, will return all remaining temporary tax credits due to customers from the Tax Cuts and Jobs Act (TCJA) of 2017.

STAFF RECOMMENDATION

Staff recommends the Commission approve the Settlement Stipulation as just, fair, reasonable, and in the public interest. Specifically, Staff recommends the Commission:

1. Approve the depreciation rates reflected in the Stipulation. The net impact to the annual Idaho depreciation expense based on 2016 plant values, before Colstrip changes, is a decrease of $101,656 for Electric and a decrease of $487,780 for Natural Gas;

2. For depreciation purposes, establish a December 31, 2027 remaining life for Colstrip Units 3 and 4;

3. Allow the Company to create a Colstrip Regulatory Asset amortized over the ARAM period associated with the plant (34.75 years), resulting in an annual Idaho amortization expense of $780,090;

4. Return to customers $5.766 million in temporary tax benefits associated with the deferred benefits of the TCJA for the period of January 1, 2018 – May 1, 2018 through Tariff Schedule 74 beginning on April 1, 2019; and

5. Authorize the Company to use vintage year accounting for FERC Account No. 397 – Communication Equipment.

Respectfully submitted this 1st day of March 2019.

Sean Costello
Deputy Attorney General

Technical Staff: Donn English

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1ST DAY OF MARCH 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF IN SUPPORT OF STIPULATION AND SETTLEMENT,** IN CASE NOS. AVU-E-18-03/AVU-G-18-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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