

**ON BEHALF OF AVISTA CORPORATION**

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**ON BEHALF OF HYDRO ONE LIMITED**

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UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE JOINT )  
APPLICATION OF HYDRO ONE LIMITED ) CASE NO. AVU-E-17-09  
(ACTING THROUGH ITS INDIRECT ) CASE NO. AVU-G-17-05  
SUBSIDIARY, OLYMPUS EQUITY LLC) )  
AND )  
AVISTA CORPORATION ) EXHIBIT NO. 7  
FOR AN ORDER AUTHORIZING PROPOSED )  
TRANSACTION ) PATRICK D. EHRBAR

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

Avista Utilities  
Utility Allocator for CD AA (7)  
Four Factor Allocation for Electric & All Gas  
For the Twelve Months Ended December 31, 2016

	Total	Electric	Gas North	Oregon	Notes
<b>Direct Non-Labor</b>					
O&M (Accts 500-894)	\$72,715,941	\$61,020,528	\$7,373,519	\$4,321,894	(1, 2)
A&G - ED & GD (Accts 901-935)	43,334,872	29,783,317	9,075,029	4,476,526	(2)
A&G - CD (Accts 901-935)	4,567,936	3,141,860	1,426,076	-	(2)
<b>Adjustments</b>					
<b>Adjustments</b>					
Total	\$120,618,749	\$93,945,705	\$17,874,624	\$8,798,420	
Percentage	100.000%	77.887%	14.819%	7.294%	
<b>Direct Labor</b>					
O&M (Accts 500-894)	\$74,847,276	\$55,802,150	\$13,705,913	\$5,339,213	
A&G - ED & GD (Accts 901-935)	5,876,743	3,640,911	291,467	1,944,365	
A&G - CD (Accts 901-935)	11,494,963	7,690,233	3,804,730	-	
Total	\$92,218,982	\$67,133,294	\$17,802,110	\$7,283,578	
Percentage	100.000%	72.798%	19.304%	7.898%	
<b>Year End Customers at 12/31/16</b>					
Washington	406,454	247,777	158,677		
Idaho	210,653	129,508	81,145		
Oregon	100,472			100,472	
Total	717,579	377,285	239,822	100,472	
			(5,562.00)		
Percentage	100.000%	52.577%	33.421%	14.002%	
<b>Net Direct Plant (Ending Balance at 12/31/16)</b>					
Amount	\$3,243,965,315	\$2,531,901,896	\$461,825,314	\$250,238,105	
Percentage	100.000%	78.050%	14.236%	7.714%	
<b>Four Factor</b>					
Total	400.000%	281.312%	81.780%	36.908%	
<b>Average</b>	<b>100.000%</b>	<b>70.328%</b>	<b>20.445%</b>	<b>9.227%</b>	

(1) Excludes Resource Costs: Electric - 501, 547, 555, 557, 565 & Gas 804, 805, 808, 811

(2) Excludes Labor

Avista Utilities  
 Factor No. 4 - Allocation for Electric  
 For the Twelve Months Ended December 31, 2016

	Total Electric	Washington	Idaho	Notes
<b>Direct Non-Labor</b>				
O&M (Accts 500-894)	\$19,878,625	\$13,041,456	\$6,837,169	(1, 2)
A&G - ED & GD (Accts 901-935)	25,456,934	18,532,681	6,924,253	(2)
A&G - CD (Accts 901-935)	1,706,431	1,240,806	465,625	(2)
Net	<u>\$47,041,990</u>	<u>\$32,814,943</u>	<u>\$14,227,047</u>	
Percentage	100.000%	69.757%	30.243%	
<b>Direct Labor</b>				
O&M (Accts 500-894)	\$13,100,158	\$8,869,997	\$4,230,161	
A&G - ED & GD (Accts 901-935)	674,582	436,117	238,465	
A&G - CD (Accts 901-935)	5,657,439	4,543,331	1,114,108	
Net	<u>\$19,432,179</u>	<u>\$13,849,445</u>	<u>\$5,582,734</u>	
Percentage	100.000%	71.271%	28.729%	
<b>Year End Customers at 12/31/16</b>				
Amount	377,285	247,777	129,508	
Percentage	100.000%	65.674%	34.326%	
<b>Net Direct Plant (Ending Balance at 12/31/16)</b>				
Amount	\$1,072,965,542	\$712,213,744	\$360,751,798	
Total	<u>\$1,072,965,542</u>	<u>\$712,213,744</u>	<u>\$360,751,798</u>	
Percentage	100.000%	66.378%	33.622%	
<b>Four Factor</b>				
Total	400.000%	273.080%	126.920%	
<b>Average</b>	<b>100.000%</b>	<b>68.270%</b>	<b>31.730%</b>	

(1) Excludes Resource Costs: Accounts 501, 547, 555 & 557  
 (2) Excludes Labor

Avista Utilities  
 Factor No. 4 - Allocation for Gas North  
 For the Twelve Months Ended December 31, 2016

	Total Gas North	Washington	Idaho	Notes
Direct Non-Labor				
O&M (Accts 500-894)	\$5,323,361	\$3,454,659	\$1,868,702	(1, 2)
A&G - ED & GD (Accts 901-935)	8,599,184	7,310,016	1,289,168	(2)
A&G - CD (Accts 901-935)	817,261	624,408	192,853	(2)
Net	<u>\$14,739,806</u>	<u>\$11,389,083</u>	<u>\$3,350,723</u>	
Percentage	100.000%	77.268%	22.732%	
Direct Labor				
O&M (Accts 500-894)	\$9,086,688	\$6,100,791	\$2,985,897	
A&G - ED & GD (Accts 901-935)	225,934	183,994	41,940	
A&G - CD (Accts 901-935)	3,013,024	2,445,792	567,232	
Net	<u>\$12,325,646</u>	<u>\$8,730,577</u>	<u>\$3,595,069</u>	
Percentage	100.000%	70.833%	29.167%	
Year End Customers at 12/31/16	239,822	158,677	81,145	
Percentage	100.000%	66.164%	33.836%	
Net Direct Plant (Ending Balance at 12/31/16)	\$428,218,603	\$286,411,181	\$141,807,422	
Net Direct Plant After Adjustments	<u>\$428,218,603</u>	<u>\$286,411,181</u>	<u>\$141,807,422</u>	
Percentage	100.000%	66.884%	33.116%	
Four Factor				
Total	<u>400.000%</u>	<u>281.149%</u>	<u>118.851%</u>	
<b>Average</b>	<b>100.000%</b>	<b>70.287%</b>	<b>29.713%</b>	

- (1) Excludes Resource Costs: Accounts 804, 805, 808, 811  
 (2) Excludes Labor

**Derivation of Rate Credit Applicable to Services and Jurisdictions**

**Rate Credit** **\$2,650,000**

WA, OR, ID Operations

1. Spread based on Factor 7 - Allocation of Common Costs for all Services and Jurisdictions

**Factor 7**

Electric Operations	70.328%	\$1,863,692
Natural Gas Operations (WA & ID)	20.445%	\$541,793
Natural Gas Operations (Oregon)	9.227%	\$244,515
<b>Total</b>	<b>100.000%</b>	<b>\$2,650,000</b>

**Electric Operations (Electric Factor 4)**

Washington Electric	68.270%	\$1,272,343
Idaho Electric	31.730%	\$591,349
<b>Total</b>	<b>100.000%</b>	<b>\$1,863,692</b>

**Natural Gas Operations (WA & ID) (Gas Factor 4)**

Washington Natural Gas	70.287%	\$380,810
Idaho Natural Gas	29.713%	\$160,983
<b>Total</b>	<b>100.000%</b>	<b>\$541,793</b>

<b>Total</b>	
WA Electric	\$1,272,343
ID Electric	\$591,349
WA Natural Gas	\$380,810
ID Natural Gas	\$160,983
OR Natural Gas	\$244,515
<b>Total</b>	<b>\$2,650,000</b>

**Rate Credit - Rate Spread/Rate Design**

**ID Electric**

Source	TOTAL	RESIDENTIAL SCHEDULE 1	GENERAL SVC. SCH. 11,12	LG. GEN. SVC. SCH. 21,22	EX LG GEN SVC SCHEDULE 25	EX LG GEN SVC SCHEDULE 25P	PUMPING SCH. 30, 31, 32	ST & AREA LTG SCH. 41-49
Forecast	3,079,623,759	1,192,472,882	375,508,560	647,430,142	389,075,662	406,527,016	58,819,633	9,789,864
AVU-E-17-01	\$ 246,584,000	\$ 108,991,000	\$ 37,312,000	\$ 52,071,000	\$ 19,946,000	\$ 19,145,000	\$ 5,494,000	\$ 3,625,000
Percentage of Current Base Volumetric Revenue	98.53%	44.20%	15.13%	21.12%	8.09%	7.76%	2.23%	1.47%
Revenue Requirement	\$ (591,349)							
Revenue Spread Based on Current Allocation	\$ (591,349)	\$ (261,378)	\$ (89,480)	\$ (124,875)	\$ (47,834)	\$ (45,913)	\$ (13,176)	\$ (8,693)
Proposed Rates	\$ (0.00022)	\$ (0.00024)	\$ (0.00024)	\$ (0.00019)	\$ (0.00012)	\$ (0.00011)	\$ (0.00022)	\$ (0.00089)
Present Billed Revenue	\$ 249,059,000	\$ 109,872,000	\$ 37,893,000	\$ 52,721,000	\$ 20,068,000	\$ 19,229,000	\$ 5,570,000	\$ 3,706,000
Proposed Billed Revenue	\$ 248,467,651	\$ 109,610,622	\$ 37,803,520	\$ 52,596,125	\$ 20,020,166	\$ 19,183,087	\$ 5,556,824	\$ 3,697,307
Overall Billed Percentage Increase <Decrease>	(0.24%)	(0.24%)	(0.24%)	(0.24%)	(0.24%)	(0.24%)	(0.24%)	(0.23%)

**ID Natural Gas**

Source	TOTAL	GEN SERVICE SCHEDULE 101	LRG GEN SVC SCH. 111&112	INTERRUPTIBLE SCH. 131&132	TRANSPORT SCHEDULE 146	TRANSPORT SCHEDULE 148
Forecast	129,113,838	58,623,984	23,895,273	0	3,032,052	43,562,529
AVU-G-17-01	\$ 39,475,000	\$ 32,291,000	\$ 6,782,000	\$ -	\$ 402,000	\$ -
Percentage of Current Base Volumetric Revenue	100.00%	81.80%	17.18%	0.00%	1.02%	0.00%
Revenue Requirement	\$ (160,983)					
Revenue Spread Based on Current Allocation	\$ (160,983)	\$ (131,686)	\$ (27,658)	\$ -	\$ (1,639)	\$ -
Proposed Rates	\$ (0.00225)	\$ (0.00116)	\$ (0.00116)	\$ (0.00116)	\$ (0.00054)	\$ -
Present Billed Revenue	\$ 61,257,000	\$ 47,993,000	\$ 12,776,000	\$ -	\$ 385,000	\$ 103,000
Proposed Billed Revenue	\$ 61,096,017	\$ 47,861,314	\$ 12,748,342	\$ -	\$ 383,361	\$ 103,000
Overall Billed Percentage Increase <Decrease>	-0.26%	-0.27%	-0.22%	#DIV/0!	-0.43%	0.00%

AVISTA CORPORATION  
d/b/a Avista Utilities

SCHEDULE 73

MERGER RATE CREDIT - IDAHO

APPLICABLE:

To Customers in the State of Idaho where the Company has electric service available. This Merger Rate Credit shall be applicable to all retail customers for charges for electric energy sold and to the flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service.

This rate credit is designed to reflect benefits attributable to the merger between Hydro One and Avista.

MONTHLY RATE:

The energy charges of the individual rate schedules are to be decreased by the following amounts:

Schedules 1	0.022¢ per kWh
Schedules 11 & 12	0.024¢ per kWh
Schedules 21 & 22	0.019¢ per kWh
Schedules 25	0.012¢ per kWh
Schedules 25P	0.011¢ per kWh
Schedules 31 & 32	0.022¢ per kWh
Schedules 41 – 48	0.089¢ per kWh

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TERM:

The Merger Rate Credit will be in effect for a ten-year period as provided for in the Joint Application filed in Case No. AVU-E-17-\_\_\_, but is subject to change upon Commission approval.

SPECIAL TERMS AND CONDITIONS:

Service under this schedule is subject to the Rules and Regulations contained in this tariff.

The above Rate is subject to increases as set forth in Tax Adjustment Schedule 58.

Issued TBD Effective (Upon Commission Approval)

Issued by Avista Utilities  
By

Kelly O. Norwood, Vice-President, State & Federal Regulation

AVISTA CORPORATION  
d/b/a Avista Utilities

SCHEDULE 173

MERGER RATE CREDIT - IDAHO

APPLICABLE:

To Customers in the State of Idaho where the Company has natural gas service available. This Merger Rate Credit shall be applicable to all retail customers taking service under Schedules 101, 111, 112, 131, 132, and 146.

This rate credit is designed to reflect benefits attributable to the merger between Hydro One and Avista.

MONTHLY RATE:

The energy charges of the individual rate schedules are to be decreased by the following amounts:

Schedule 101 & 102	\$0.00225 per Therm
Schedule 111 & 112	\$0.00116 per Therm
Schedule 131 & 132	\$0.00116 per Therm
Schedule 146	\$0.00054 per Therm

TERM:

The Merger Rate Credit will be in effect for a ten-year period as provided for in the Joint Application filed in Case No. AVU-G-17-\_\_\_, but is subject to change upon Commission approval.

SPECIAL TERMS AND CONDITIONS:

Service under this schedule is subject to the Rules and Regulations contained in this tariff.

The above Rate is subject to increases as set forth in Tax Adjustment Schedule 158.

Issued TBD

Effective (Upon Commission Approval)

Issued by Avista Utilities  
By

Kelly O. Norwood, Vice-President, State & Federal Regulation

Date: September 7, 2017

To: All Employees

From: Kelly Norwood *KN*

Subject: Protocol for Direct Assignment of Costs Associated with Hydro One's Acquisition of Avista Corp.

**Accounting for Costs Related to Hydro One Prior to Closing**

Prior to the date of closing of the Hydro One's acquisition of Avista Corp, presently anticipated to be in the second half of 2018, all costs associated with due diligence and other activities will continue to be recorded below the line to a non-utility account (FERC Account No. 426500). The following table summarizes the accounting for such expenses:

FERC Acct	Service	Jurisdiction	FERC Acct Description	Project Number	Project Description	Debit
426500	ZZ	ZZ	Miscellaneous Income Deduction	77705316	Hydro One Avista Acquisition	XXXX

**Direct Assignment of Costs to Hydro One Post-Closing**

Following the date of closing, to the extent Avista employees dedicate time and incur costs supporting the operation of Hydro One, those costs would be separately tracked and directly assigned to Hydro One.<sup>1/2</sup>

In the future, if opportunities arise for the consolidation of certain Avista and Hydro One utility functions, where the utilities have an opportunity to benefit from specialized expertise or to achieve efficiencies, the following situations may arise whereby Administrative Services may be provided between and among the Company and its Utilities, a) the Companies may directly assign or allocate any corporate or administrative costs, common costs, or costs incurred for the benefit of the Utility or Utilities, to a Utility or the Utilities, b) the Companies may procure any

<sup>1</sup> Time and costs incurred include, but are not limited to activities for the following: a) services by the Board of Directors, and executive, management, professional, technical and clerical employees; b) financial and accounting services, corporate governance and compliance services, legal services, audit services, information and technology services, treasury services, investor relations services, governmental and regulatory services, human resources services, communications services, payroll processing services, employee benefits participation, procurement and fleet management, tax and related services, contract negotiation and administration services, insurance and risk management services, environmental services and engineering and technical services; c) the use of office facilities, including but not limited to office space, furniture, equipment, machinery, supplies, computers and computer software, communications equipment, insurance policies and other personal property; d) the use of automobiles, airplanes, other vehicles and equipment;

<sup>2</sup> Likewise, if Hydro One employees were to provide support for Avista's utility operations, such costs would be directly assigned to Avista. The Company expects such assignment of costs, both to Hydro One and from Hydro One, to be relatively small since Avista will continue to operate as a standalone utility.

Exhibit No. 7

Case Nos. AVU-E-17-\_\_\_ & AVU-G-17-\_\_\_

P.Ehrbar, Avista

Schedule 3, Page 1 of 2

corporate or administrative services from a Utility or the Utilities for the Company's benefit, or c) the Companies may procure any corporate or administrative services from each other or agree to directly assign or allocate common costs to each other.<sup>3</sup>

With regard to the accounting process for assigning and billing corporate or administrative costs, these employee costs would be charged to suspense accounts (Deferred Debit Account No. 186), loaded for benefits, and would then be established as a receivable (FERC Account No. 146) when billed to Hydro One. If other resources are expended during the course of this work, such as travel or consulting services, these costs are also charged to suspense accounts and billed to Hydro One. All corporate services provided, and costs incurred, would be direct billed to Hydro One at cost and no margin or profit shall be included and no assets allocated, provided that any amount billed to Hydro One shall be adjusted to the extent necessary to comply with any U.S. federal or Canadian transfer pricing or similar tax law. Avista will use the same methodology for direct assignment of costs to the proposed Hydro One subsidiary operations, as we currently do for existing subsidiary operations.

A summary of the accounting for post-closing costs directly assigned to Hydro One is provided below.

**Hydro One Transactions**

**To record transaction when employee charges time or incurs costs related to Hydro One:**

FERC				Project			
Acct	Service	Jurisdiction	FERC Acct Description	Number	Project Description	Debit	Credit
186XXX	ZZ	ZZ	Miscellaneous Deferred Debits	777XXXX	Sub Billing - Hydro One	XXXX	

**To record transaction to establish a receivable from Hydro One:**

FERC				Project			
Acct	Service	Jurisdiction	FERC Acct Description	Number	Project Description	Debit	Credit
146XXX	ZZ	ZZ	Accouts Receivable Assoc Company - Hydro One	777XXXX	Sub Billing - Hydro One	XXXX	
186XXX	ZZ	ZZ	Miscellaneous Deferred Debits	777XXXX	Sub Billing - Hydro One		XXXX

**To record transaction of a payment made to Avista Corp from Hydro One:**

FERC				Project			
Acct	Service	Jurisdiction	FERC Acct Description	Number	Project Description	Debit	Credit
131XXX	ZZ	ZZ	Cash			XXXX	
146XXX	ZZ	ZZ	Accouts Receivable Assoc Company - Hydro One	777XXXX	Sub Billing - Hydro One		XXXX

For questions regarding direct assignment of costs associated with Hydro One or any other subsidiary costs, please contact Jeanne Pluth, Manager of Regulatory Accounting 495-2204, or Jennifer Smith, Senior State and Federal Regulatory Analyst at 495-2098.

<sup>3</sup> The Company would file proposals with the Commission as required.