

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, D/B/A  
AVISTA UTILITIES,

Respondent.

DOCKETS UE-240006 &  
UG-240007

**CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS  
ON BEHALF OF  
ALLIANCE OF WESTERN ENERGY CONSUMERS**

**August 16, 2024**

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Bradley G. Mullins, and my business address is Tietotie 2, Suite 208,  
4 Oulunsalo, Finland FI-90460.

5 **Q. ARE YOU THE SAME WITNESS THAT CAUSED TO BE FILED RESPONSE**  
6 **TESTIMONY IN THIS DOCKET?**

7 A. Yes. On July 3, 2024, I caused to be filed in this docket Reply Testimony on behalf of  
8 the Alliance of Western Energy Consumers (“AWEC”), including discussion of revenue  
9 requirement and other related policy issues in this general rate case filing of Avista  
10 Utilities (“Avista”).

11 **Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?**

12 A. I respond to Staff witness Wilson regarding the reasonableness of modifying the  
13 Commission’s longstanding approach to power cost adjustment mechanisms and Staff’s  
14 recommend changes to Avista’s Energy Recovery Mechanism (“ERM”).<sup>1</sup> I also address  
15 Staff witness Willson’s recommendations to include Climate Commitment Act  
16 Allowance (“CCA”) costs in operational plant dispatch decisions.<sup>2</sup> I respond to Staff  
17 witness Erdahl regarding the administration of the multi-year rate plan process (including  
18 the provisional capital review process),<sup>3</sup> the power cost update for Colstrip,<sup>4</sup> the inclusion

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1 Wilson, Exh. JDW-1TCr at 32-37.

2 *Id.* at 31-32.

3 Erdahl, Exh. BAE-1T at 6-11.

4 *Id.* at 15.

1 of CCA Allowance costs in modeled plant dispatch,<sup>5</sup> and the Insurance Balancing  
2 Account.<sup>6</sup>

3 **Q. PLEASE SUMMARIZE YOUR RESPONSE.**

4 A. Summaries of my responses to the above issues are detailed as follows:

- 5 • *Changes to the ERM* – I continue to recommend that the Commission make no  
6 changes to the ERM because the ERM is functioning as the Commission  
7 intended and no party has presented evidence of extraordinary circumstances to  
8 warrant deviation from the Commission’s recently affirmed, longstanding  
9 approach to power cost adjustment mechanisms.
- 10 • *Inclusion of CCA Costs in Dispatch Decisions* – I recommend the Commission  
11 not require Avista to include CCA costs in its NPSE modeling or operational  
12 dispatch in this proceeding and reserve judgment regarding the prudence of  
13 Avista’s operational dispatch practices for future proceedings.
- 14 • *Multi-Year Rate Plan* – I discuss AWEC’s non-opposition to Staff’s  
15 recommendation to reject the multi-year rate plan.
- 16 • *Provisional Capital Review* – I discuss AWEC’s opposition to the creation of a  
17 separate tariff for provisional capital in this docket given uncertainty in how  
18 those tariff charges will be designed.
- 19 • *Colstrip Power Cost Update* – I support Staff’s recommendation for a Net  
20 Power Supply Expense (“NPSE”) update to consider the removal of Colstrip  
21 Units 3 and 4 from rates, subject to the timing and other recommendations made  
22 with respect to that update in my Reply Testimony.
- 23 • *Insurance Balancing Account* – I continue to recommend the Commission  
24 reject the insurance balancing account as being unnecessary single-issue  
25 ratemaking.

26 **II. ENERGY RECOVERY MECHANISM**

27 **Q. WHAT WAS YOUR RECOMMENDATION FOR THE ENERGY RECOVERY**  
28 **MECHANISM (“ERM”)?**

29 A. I recommended that the Commission reject Avista’s proposal because 1) the ERM is  
30 functioning as the Commission intended; 2) the arguments put forth by Avista in support

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<sup>5</sup> *Id.* at 20-25.

<sup>6</sup> *Id.* at 29-33.

1 of its proposal are irrelevant and unconvincing; and 3) because the Commission recently  
2 rejected similar arguments put forth by PacifiCorp in its 2023 general rate case.<sup>7</sup>

3 **Q. WHAT DOES STAFF RECOMMEND?**

4 A. Staff recommends modifying the ERM to a symmetric 90/10 sharing ratio and “reducing  
5 the deadband from \$4 million to \$3 million.”<sup>8</sup>

6 **Q. WHAT REASONING DOES STAFF PROVIDE IN SUPPORT OF ITS**  
7 **RECOMMENDATION?**

8 A. Staff acknowledges that its proposed modifications are inconsistent with the  
9 Commission’s recent decision and guidance in PacifiCorp’s 2023 General Rate Case.  
10 Notwithstanding, the Staff supported its proposal for a 90/10 sharing ratio based on a  
11 conclusory sentence that stated “[t]his sharing ratio equitably shares risk between  
12 customers and Avista, while continuing to provide the Company with a reasonable  
13 incentive to manage or control power costs.”<sup>9</sup> This conclusion, however, is at odds with  
14 the one reached in the PacifiCorp case, and Staff provides no evidence to support its  
15 conclusion to the contrary. Staff further argues that a reduction to the deadband is  
16 reasonable because “Avista’s proposed NPE is much smaller than that of PacifiCorp, so it  
17 is inequitable to expose Avista to a relatively larger deadband risk.”<sup>10</sup> This, however,  
18 does not consider the rapid growth and higher volatility experienced and noted by the  
19 Commission with respect to PacifiCorp’s power costs.

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7 Mullins, Exh. BGM-1T at 59:10-13.

8 Wilson, Exh. JDW-1TCr at 37:2-8.

9 *Id.* at 37:4-6.

10 *Id.* at 37:9-12.

1 **Q. DOES STAFF’S REASONING JUSTIFY A CHANGE IN THE ERM?**

2 A. No. First, modification of the sharing ratio is unnecessary. Contrary to Staff’s  
3 conclusion, the current sharing ratios do equitably share risk between customers and  
4 Avista, and Staff has presented no evidence to the contrary. Second, Staff’s reasoning  
5 regarding its deadband recommendation misapplies the Commission’s order in the 2023  
6 PacifiCorp case, as well as the structure of the deadbands altogether. For context, when  
7 PacifiCorp’s \$4 million deadband was approved in 2014, it was 3.45% of PacifiCorp’s  
8 Washington net power costs and Avista’s \$4 million deadband was 3.70% of its  
9 Washington net power costs, an immaterial difference.<sup>11</sup> Staff reasons that because the  
10 Commission retained PacifiCorp’s \$4 million deadband in the 2023 rate case, which is  
11 approximately now 2% of its Washington net power costs, it is reasonable to lower  
12 Avista’s deadband so that the Company is not exposed to a larger deadband risk relative  
13 the PacifiCorp. I disagree.

14 As AWEC understands the Commission’s order in PacifiCorp’s rate case,  
15 however, Staff’s reasoning gets the issue exactly backwards. In the PacifiCorp order, the  
16 Commission noted that PacifiCorp’s deadband was initially established at 3.45% of the  
17 utility’s NPC, but that as PacifiCorp’s NPC had increased over the years, the deadband  
18 percentage had decreased.<sup>12</sup> The Commission then noted that it was:

19 [S]atisfied with the deadband, sharing band and amortization percentages  
20 established in UE-140762, and recognize that some adjustment must be  
21 made in order for the PCAM to continu[e] operating as intended.  
22 Therefore, the deadband and sharing bands shall remain unchanged, but

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<sup>11</sup> Docket No. UE-140762, et al., Order 09 at 20, Table 1 (May 26, 2015).

<sup>12</sup> Docket Nos. UE-230172 & UE-210852, Order 08/06 ¶ 392 (Mar. 19, 2024).

1 we encourage the parties to discuss when adjustments should be made to  
2 address the reduction in overall benefits.<sup>13</sup>

3 As AWEC understands the decision in the PacifiCorp case, then, the Commission's  
4 recommendation to the parties to consider adjustments to the PCAM was not to reduce  
5 Avista's deadbands to align them with the NPC percentages that currently exist for  
6 PacifiCorp; it was instead to consider whether PacifiCorp's deadband and other PCAM  
7 components should be *increased* to account for the growth in that utility's NPC.

8 By contrast, Avista's forecast power costs are at a similar level to when  
9 PacifiCorp's PCAM was first established (\$112 million in the current case compared to  
10 \$108 million when PacifiCorp's PCAM was established).<sup>14</sup> Thus, the Commission's  
11 PacifiCorp order supports maintaining the ERM structure as is.

12 **Q. DOES STAFF MISINTERPRET OTHER ASPECTS OF THE PACIFICORP**  
13 **ORDER?**

14 A. Yes. Staff notes that it is "unconvinced that the current sharing/deadband schedules  
15 provide [Avista] material incentives that affect its current resource decisions."<sup>15</sup> Staff's  
16 skepticism appears to be founded on what to believes to be ambiguities in the  
17 Commission's PacifiCorp order. Specifically, Staff quotes the Commission's decision,  
18 stating "[i]n its decision, the Commission stated that, without the strong PCAM structure,  
19 PacifiCorp would 'no longer ha[ve] an economic stake in a major resource decision.'"<sup>16</sup>  
20 According to Staff, the Commission could have meant this in two ways, either that "the

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13 *Id.* ¶ 392 (internal citations omitted).

14 Kalich, Exh. CGK-1T at 23 (Table 9); Docket No. UE-140762, et al., Order 09 at 20, Table 1.

15 Wilson, Exh. JDW-1TC at 35:19-21.

16 *Id.* at 34:18-20.

1 PCAM forces PacifiCorp to bear some responsibility for past resource planning  
2 decisions,” or that “it sees the PCAM as forcing PacifiCorp to bear some responsibility  
3 for current operational decisions.”<sup>17</sup> Staff presents these as mutually exclusive  
4 interpretations, though they needn’t be. Review of the Commission decision makes clear  
5 that Staff’s binary interpretation is misplaced. The statement reads in full:

6 Without the guardrails of deadbands and sharing bands, the utility  
7 no longer has an economic stake in a major resource decision. As a  
8 result, the utility is more likely to ignore fossil fuel price volatility  
9 because it knows, regardless of price fluctuations, that it will be  
10 made whole by ratepayers. This approach creates a circumstance  
11 that one witness termed a ‘moral hazard’ where one party is  
12 willing to engage in risky behavior or not act in good faith because  
13 it knows the other party, in this case the ratepayer, will bear the  
14 economic consequences.<sup>18</sup>

15  
16 This language is a generalization, and the distinction Staff makes between planning and  
17 operations is irrelevant because decisions about both are impactful on the economic  
18 consequences and the risks Commission was addressing. Review of the Commission’s  
19 full decision makes it clear that the Commission’s intent was to ensure PacifiCorp had  
20 proper incentives to make prudent decisions, both planning and operationally, because it  
21 would know that it would bear some economic consequences with respect to those  
22 decisions. The fact that “only 373 MW of 1227 MW of nameplate capacity additions are  
23 natural gas,”<sup>19</sup> does not change this assessment. Risks and economic consequences are  
24 present with all types of resources, including wind and hydro resources. Taken in

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17 *Id.* at 35:1-2; 10-11.

18 Docket Nos. UE-230172 and UE-210852, Order 08/06 ¶ 390 (Mar. 19, 2024) (internal citations omitted).

19 Wilson, Exh. JDW-1TC at 35:21-36:1.

1 context, the Commission’s decision in the PacifiCorp general rate case does not support  
2 modification to the ERM.

3 **Q. DO YOU SUPPORT STAFF’S RECOMMENDATION?**

4 A. No. Staff misconstrues the Commission’s recent decision in the PacifiCorp case and does  
5 not provide any independent basis for modifying the ERM.

6 **III. CCA DISPATCH COSTS**

7 **Q. WHAT RECOMMENDATION HAS STAFF MADE WITH RESPECT TO CCA**  
8 **DISPATCH COSTS.**

9 A. Staff recommends that Avista be directed “to include CCA allowance costs in dispatch of  
10 its thermal generation plants, whether to serve customer load or to sell electricity into the  
11 wholesale market,”<sup>20</sup> and then offset the allowance costs associated only with its retail  
12 load with no-cost allowances in the same manner as PacifiCorp does in its NPSE  
13 forecast.<sup>21</sup> Staff also recommends that “Avista should sell and buy allowances in a  
14 prudent manner to minimize NP[S]E,”<sup>22</sup> which Staff notes will also require new risk  
15 management policies and practices. The timeline for implementation of these two  
16 requirements is not clear. Finally, Staff recommends that the Commission review the  
17 prudence of Avista’s CCA implementation decisions as part of the Company’s power  
18 cost true-up proceedings, which for Avista, is in the Energy Recovery Mechanism  
19 (“ERM”).<sup>23</sup> Staff also raised concerns related to Avista’s operational dispatch practices

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20 Wilson, Exh. JDW-1TCr at 31:19-21.

21 *Id.* at 31:21-22.

22 *Id.* at 32:1-2.

23 *Id.* at 32:9-16.



1 and expresses concerns about the growing surplus balance of free allowances,<sup>24</sup> but does  
2 not appear to have specific recommendations related to these concerns. Finally, Staff  
3 also raised concerns about Avista’s decision not to include allowance costs in dispatch as  
4 creating equity concerns “where those thermal units are located in or near vulnerable  
5 populations or highly impacted communities.”<sup>25</sup>

6 **Q. IS THERE OTHER RELEVANT INFORMATION THAT IMPACTS THE ISSUE**  
7 **OF CCA COSTS IN DISPATCH IN THIS CASE?**

8 A. Yes. On August 13, 2024, the Commission issued its Policy Statement Addressing the  
9 Issues and Impacts of the Climate Commitment Act in Docket U-230161. Given the late  
10 date of this policy guidance that addresses, among other things, carbon costs in real-time  
11 dispatch operations and cost recovery, AWEC was not able to address the Commission’s  
12 guidance while responding to Staff on these issues. Nevertheless, AWEC has concerns  
13 with Staff’s apparent interpretation of the CCA and the Commission’s role in its  
14 implementation, which are briefly discussed below but will be addressed more  
15 substantively in briefing. AWEC will also address legal and policy issues and concerns  
16 with the policy guidance in briefing.

17 **Q. IS THERE A LEGITIMATE BUSINESS JUSTIFICATION FOR AVISTA TO**  
18 **CONSIDER CCA ALLOWANCE COSTS IN ITS DISPATCH DECISIONS?**

19 A. Staff concluding that “[t]he CCA requires Avista to include the relevant carbon  
20 allowance price and emissions allowance obligation in all unit dispatch and power  
21 purchase decisions.”<sup>26</sup> It is unclear from Staff’s testimony, however, where it interprets

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24 *Id.* at 18:22-19:6.

25 Erdahl, Exh. BAE-1T at 22:8-10.

26 Wilson, Exh. JDW-1CTr at 24:19-21.

1 this obligation to appear within the CCA or Ecology’s rules administering the CCA.  
2 Initially, AWEC assumed that Staff was making its recommendation because it believes  
3 there is a business reason for including CCA costs in dispatch decisions. However, after  
4 the Commission’s Policy Statement in Docket U-230161, AWEC understands that there  
5 is likely also a policy/legal interpretation driver as well. My testimony will focus on  
6 responding to the business aspect of Staff’s recommendation. To that end, as a general  
7 principle, I don’t think the Commission should be making business decisions on the  
8 Company’s behalf. Avista explained in discovery its reasoning for excluding CCA  
9 allowance costs in its business decision operations. In making its recommendation, Staff  
10 relies on the premise that if CCA allowance costs were included in plant dispatch  
11 decisions, Avista will be able to monetize “freed-up” emission allowances as a result.<sup>27</sup>  
12 In essence, Staff is suggesting that Avista is making an imprudent business decision  
13 because it is not modifying its plant dispatch in order to monetize its supply of free  
14 allowances. Including CCA allowance costs in the dispatch price for a resource implies  
15 that there is a marginal cost associated with those allowances embedded in a resource’s  
16 dispatch. It assumes that a reduction in the resource’s output will either 1) free-up  
17 allowances already purchased that can be monetized in the market, or 2) allow the utility  
18 to avoid purchasing additional allowances in the market. Yet, because of the allowance  
19 true-up process Staff identified in testimony, it is not clear whether either of these  
20 alternatives are possible. If Avista were to reduce its dispatch of its thermal generators to  
21 save on CCA allowance costs, that may result in the allocation of fewer free allowances

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<sup>27</sup> *Id.* at 24:7-10.

1 negating the economic justification for reducing the generation in the first place. Staff is  
2 correct, however, that there is uncertainty regarding the true-up process. Staff does have  
3 some expectations about that process, which apparently is different than Avista's. I do  
4 not have any information that would support one expectation or another. Ultimately,  
5 however, my view is that the decision for how to respond to the uncertainty in the rule is  
6 best made by Avista, not the Commission. Correspondingly, it is appropriate for Avista  
7 to take on the risk of a prudence disallowance if it is not appropriately considering CCA  
8 allowance costs in dispatch (both for operations and forecast NPSE) or incorrectly  
9 interpreting guidance or regulations from Department of Ecology ("Ecology").  
10 Therefore, I recommend the Commission not adopt a prescriptive approach as advocated  
11 by Staff in this case to manage Staff's concerns.

12 **Q. TO THE EXTENT THAT AVISTA IS ABLE TO MONETIZE ALLOWANCES,**  
13 **DOES THAT IMPACT ALL CUSTOMERS EQUALLY?**

14 A. While the method of distributing of revenues from monetized allowances has not yet  
15 been determined, my understanding is that the use the proceeds from all no-cost  
16 allowances consigned to auction must be provided for the benefit of ratepayers, with the  
17 first priority being mitigating rate impacts to low-income electric customers.<sup>28</sup>  
18 Accordingly, if it is ultimately possible to monetize allowances, it is possible that some  
19 customers may benefit more from the additional revenues, relative to others. This means  
20 that a decision to modify plant dispatch for CCA costs may result in higher costs for  
21 some customers, and lower costs for others. It is not yet known what form this

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<sup>28</sup> RCW 70A.65.120(4).

1 distribution of allowance proceeds might take, but it is important to note that, even if it is  
2 possible to monetize free allowances, the impacts of including CCA costs in plant  
3 dispatch may produce different impacts for differing customer classes.

4 **Q. DOES AWEC AGREE WITH STAFF FOR THE COMMISSION TO PERFORM**  
5 **A PRUDENCE REVIEW FOR CCA COSTS?<sup>29</sup>**

6 A. Yes. Just as with any cost, Avista is responsible for prudently managing CCA costs and  
7 its implementation of the CCA. If Avista does in fact face CCA costs in excess of \$30  
8 million in a “bad case,”<sup>30</sup> Avista will have to demonstrate that its decisions leading to that  
9 outcome were prudent based on the information that it had at the time the decision was  
10 made. If Avista’s dispatch practices are not “optimally designed” to manage CCA cost  
11 risk,<sup>31</sup> again, the Commission has the authority to determine that the Company’s actions  
12 were imprudent and to levy an appropriate remedy at that time based on the record in the  
13 relevant proceeding. However, AWEC does have concerns about the Commission  
14 committing at this time to undertake a prudence review on an annual basis as part of  
15 Avista’s ERM. Staff acknowledges that many elements of programmatic design and  
16 implementation are still to be determined by Ecology. Additionally, the CCA has four-  
17 year compliance periods. It is not clear what the benefits of annual prudence reviews  
18 would be if performed within compliance periods. AWEC is also concerned that  
19 committing to annual prudence reviews now may create different compliance incentives  
20 that ultimately put upward pressure on rates because the Company is managing to

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29 *See id.* at 24:5-12.

30 *Id.* at 27:9-28:3.

31 *Id.* at 28:5-29:13.

1 Commission expectations about market participation instead of taking a holistic look at  
2 compliance over a four-year period.

3 **Q. IS IT GOOD REGULATORY POLICY FOR A COMMISSION TO DICTATE**  
4 **HOW A UTILITY OPERATES ITS SYSTEM?**

5 A. No. As a general principle, it is not good regulatory policy for a Commission to micro-  
6 manage the business decisions of a public utility. It is also not appropriate for the  
7 Commission to put itself in the position of enforcing compliance with the CCA, to the  
8 extent that there is an issue. Under statute, that is the job of Ecology.<sup>32</sup> The Commission  
9 is better suited to focus on CCA costs and the utility's recovery of those costs.

10 **Q. IS THE IMPACT OF STAFF'S PROPOSAL ON AVISTA'S FORECAST NPSE**  
11 **KNOWN AT THIS TIME?**

12 A. No. Staff did not quantify an adjustment related to its proposal that Avista include CCA  
13 allowance costs in the dispatch of its thermal generation plants in all circumstances.  
14 While there would be an offset for the allowance costs for retail customer load in  
15 recognition of no cost allowances available to cover that obligation, there is no estimate  
16 of the NPSE impacts associated with applying the cost of allowances to wholesale sales  
17 and/or balancing purchases.

18 **Q. WHAT ARE YOUR RECOMMENDATIONS RELATED TO STAFF'S**  
19 **PROPOSALS ON THE INCLUSION OF CCA COSTS IN DISPATCH**  
20 **DECISIONS?**

21 A. I recommend that the Commission not direct Avista to alter its modeling of CCA costs in  
22 the NPSE baseline in this case. Staff's recommendation is based on the premise that  
23 altering the modeling to include CCA costs will result in economic benefits from the

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<sup>32</sup> See RCW §§ 70A.15.3150, and 70A.15.3170.

1 monetization of free allowances. Those offsetting benefits, however, are not otherwise  
2 being reflected in this case. Avista’s ability to realize them is also uncertain as a result of  
3 the potential true-up process and the status of Ecology’s rule making. In contrast, setting  
4 the NPSE baseline in the manner recommended by Avista will encourage it to make  
5 prudent decisions, because any savings Avista is able to achieve will further reduce its  
6 costs. Using Avista’s treatment will not insulate it from a prudence review of its costs in  
7 a future proceeding but will likely avoid increased NPSE forecasts as Staff recommended  
8 in PSE’s pending general rate case without compelling support for doing so in this case.<sup>33</sup>  
9 I also recommend that the Commission not commit to the process and venue for a  
10 prudence review of Avista’s CCA costs at this time. More consideration of the benefits  
11 and risks of doing so in an annual ERM given a four-year compliance period are  
12 necessary. Finally, I recommend that the Commission not impose any obligations on  
13 Avista with regards to the way that it operates its system and with regard to participation  
14 in the carbon allowance market at this time.

#### 15 IV. MULTI-YEAR RATE PLAN

16 **Q. WHAT HAS STAFF RECOMMENDED WITH RESPECT TO THE MULTI-**  
17 **YEAR RATE PLAN?**

18 A. Staff witness Erdahl recommends the Commission reject Avista’s proposed two-year  
19 multi-year rate plan.<sup>34</sup> Staff offers two reasonings for its position. First, Staff cites RCW  
20 80.28.425(9) alleging that such statute “requires the Commission to align, to the extent  
21 practical, the timing of approval of a multiyear rate plan of an electrical company with its

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<sup>33</sup> Dockets UE-240004/UG-240005, Wilson, Exh. JDW-1T at 5:19-6:2.

<sup>34</sup> Erdahl, Exh. BAE-1T at 6:22.

1 Clean Energy Implementation Plan (CEIP) filed pursuant to RCW 19.405.060.”<sup>35</sup>

2 Because Avista will be filing its next four-year CEIP on October 1, 2025, Staff believes  
3 that rejecting the multi-year rate plan, will “allow Avista to develop its next rate case  
4 alongside its CEIP, which Avista should be finalizing as it prepares the rate case.”<sup>36</sup>

5 Second, Staff has found it burdensome that Avista and Puget Sound Energy (“Puget”)  
6 have been filing multi-year rate cases at the same time and at the same cadence.

7 Accordingly, it recommends rejecting Avista’s multi-year rate plan (but not Puget’s) in  
8 order to stagger future multi-year rate filings between the two utilities.<sup>37</sup>

9 **Q. DOES AWEC OPPOSE STAFF’S RECOMMENDATION?**

10 A. No. In general, the revenue requirement increase in RY2 is being driven almost entirely  
11 by the removal of Colstrip from NPSE. The cost of removing Colstrip from NPSE will  
12 be something that the Commission will need to address regardless of whether it decides  
13 to approve a multi-year rate plan or not. Therefore, AWEC does not oppose Staff’s  
14 recommendation. However, AWEC also does not object to a two-year rate plan, as  
15 Avista has requested, albeit with all of the adjustments and caveats included in my  
16 Response Testimony.

17 **Q. DOES ALIGNMENT OF THE MULTI-YEAR RATE CASE FILING WITH A**  
18 **UTILITY’S CEIP PROVIDE PRACTICAL BENEFITS?**

19 A. AWEC does not believe that there are any practical reasons to align the multi-year rate  
20 plan with the filing of the next CEIP. Staff did not provide any concrete examples to

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<sup>35</sup> *Id.* at 7:3-5.

<sup>36</sup> *Id.* at 7:8-9.

<sup>37</sup> *Id.* at 7:10-8:2.

1 demonstrate why it is desirable that the two proceedings to be aligned. Certainly, if there  
2 were a strong reason to do so, it would be necessary to coordinate all the multi-year rate  
3 case filings with the utilities CEIP or CEIP update filings, which Staff does not appear to  
4 be proposing.

5 **Q. IS AWEC ALSO CONCERNED ABOUT THE WORKLOAD ASSOCIATED**  
6 **WITH MULTI-YEAR RATE PLANS?**

7 A. Yes. AWEC appreciates Staff's concerns regarding the workload of simultaneously  
8 litigating two multi-year rate cases at the same time. Notwithstanding, it is inevitable that  
9 there will be overlapping cases in Washington given the number of investor-owned  
10 utilities. Staggering the Avista and Puget filings, for example, will result in Avista and  
11 PacifiCorp cases being litigated simultaneously and would therefore negate potential  
12 reductions in workload for parties. AWEC is concerned, however, that the multi-year  
13 rate plan processes, in of themselves, have not reduced the regulatory burden as  
14 promised, and in fact have compounded it. AWEC believes that the concerns with the  
15 regulatory burdens involved in multi-year rate plans are best addressed by avoiding  
16 complex capital review processes and other post-rate case processes, as specified in my  
17 Response Testimony.

18 **V. PROVISIONAL CAPITAL**

19 **Q. WHAT HAS STAFF PROPOSED FOR PROVISIONAL CAPITAL?**

20 A. Staff noted that Avista modeled its plant additions as pro-forma adjustments, and  
21 accordingly, proposed that all capital be considered "provisional plant," and subject to



1 refund.<sup>38</sup> Staff also recommends that Commission require Avista to establish separate  
2 tariffs for provisional plant,<sup>39</sup> and a longer provisional capital review time of 6-months.<sup>40</sup>

3 **Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION FOR ALL PLANT TO**  
4 **BE CONSIDERED PROVISIONAL?**

5 A. AWEC is not necessarily concerned with how the plant is labeled, i.e. provisional versus  
6 pro-forma, so long as any plant included in rates that is not used and useful by the rate-  
7 effective date is removed or refunded, or if the project is placed in service with a capital  
8 cost of less than the amount forecast in rates. In my Response Testimony, I  
9 recommended the Commission only approve capital that is demonstrated to be used and  
10 useful as of the rate effective date. Under my proposal, there would be no need for a  
11 distinction between pro forma and provisional capital. I also recommended that if a  
12 provisional capital review process were to be necessary, that it be performed on a project-  
13 by-project basis for all projects exceeding \$1,000,000, with a portfolio review for all  
14 other projects.

15 **Q. DOES AWEC SUPPORT THE USE OF A SEPARATE TRACKER TARIFF FOR**  
16 **PRO-FORMA PLANT?**

17 A. Not in this proceeding. Foremost, the allocation and design of such a tariff may have  
18 major implications for differing customer classes, depending on the way that it is  
19 developed. Since Staff did not make a specific recommendation about how such a tariff  
20 would be designed, AWEC is not comfortable with a blanket requirement for such a  
21 tariff, without having the ability to respond to the way that it is ultimately implemented.

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<sup>38</sup> *Id.* at 9:9-13.

<sup>39</sup> *Id.* at 10:12-21.

<sup>40</sup> *Id.* at 11:1-12.

1 Consideration of the treatment of the Schedule 25i Special Contract in the design of the  
2 tariff would be an important consideration for AWEC.

3 **Q. IF A SEPARATE TARIFF IS TO BE APPLIED, HOW SHOULD IT APPLY TO**  
4 **SCHEDULE 25I?**

5 A. The Schedule 25i customer receives a discount on base rates relative to Schedule 25. The  
6 provisional capital that Staff proposes to include in a separate schedule is a part of base  
7 rate revenue requirement. However, under the special contract, the Schedule 25i  
8 customer is responsible for paying the same tariff riders that apply to Schedule 25 as if it  
9 were a Schedule 25 customer. Accordingly, including the provisional capital costs in a  
10 separate schedule would undermine the discount this customer receives by moving a  
11 component of base rates into a tariff rider. That customer received this discount in  
12 consideration of its commitment not to develop an on-site natural gas-fired generation  
13 facility. Accordingly, Staff's proposal would undercut the benefit of the bargain this  
14 customer received, which the Commission found to be in the public interest given that it  
15 prevented development of new fossil fuel-fired generation in the state. Accordingly, for  
16 the proposed provisional capital tariff, it would be necessary to use a discounted rate for  
17 Schedule 25i. Since it is not clear how this would be done in Staff's proposal, AWEC is  
18 not supportive of a separate tariff for provisional capital at this time.

19 **Q. DOES AWEC SUPPORT A LONGER REVIEW TIME?**

20 A. Under AWEC's proposal, there would be no need for an after-the-fact review process. If  
21 a review is required, however, AWEC supports Staff's recommendation of a longer  
22 review period.

1 **VI. COLSTRIP UPDATE**

2 **Q. HOW DOES STAFF RECOMMEND HANDLING THE REMOVAL OF**  
3 **COLSTRIP FROM RATES PURSUANT TO CETA?**

4 A. Staff recommends that a power cost update occur with a rate effective date of December  
5 31, 2025.

6 **Q. IS THAT CONSISTENT WITH YOUR RECOMMENDATION?**

7 A. Yes, although my recommendation was more comprehensive in terms of the timing and  
8 parameters involved in the update. Specifically, I recommended that the NPSE update be  
9 performed in August 2025, with a refresh on November 1, 2025. I also recommended  
10 that the update be limited in scope to include only updated price curves, new contracts,  
11 and new resources. No new modeling adjustments or techniques would be permitted in  
12 the update.

13 **Q. WERE THERE SPECIFIC COST ITEMS THAT YOU ALSO RECOMMENDED**  
14 **BE REMOVED FROM THE UPDATE?**

15 A. Yes. I recommended that all wheeling costs associated with Colstrip be removed in the  
16 update, and that an adjustment for Colstrip related transmission assets also be made  
17 beginning on December 31, 2025. With these adjustments, and the corresponding  
18 schedule and modeling parameters identified above, AWEC would support Staff's  
19 recommendation regarding the Colstrip update.

20 **Q. DO YOUR RECOMMENDATIONS REGARDING A POWER COST UPDATE**  
21 **CHANGE IF THE COMMISSION ACCEPTS STAFF'S RECOMMENDATION**  
22 **TO LIMIT THIS CASE TO A SINGLE YEAR?**

23 A. Potentially. In this circumstance, then in the off chance that Avista does not file another  
24 rate case next year, my recommendations would be the same as those above and in my

1 Response Testimony. If, however, Avista does file another rate case, then its full NPSE  
2 will be subject to review once again. If the rate effective date of the new rate case is on  
3 or before December 31, 2025, then the costs and benefits associated with removing  
4 Colstrip can be addressed within that case. If, however, the rate effective date falls after  
5 December 31, 2025, then a process for removing Colstrip from rates by December 31,  
6 2025, would need to be determined. In this scenario, I recommend that Avista propose a  
7 process in its filing for addressing the Colstrip removal, and that the parties finalize an  
8 agreed-upon process at the prehearing conference for that case (or the Commission  
9 determines a process in the absence of agreement).

## 10 VII. INSURANCE BALANCING ACCOUNT

11 **Q. WHAT HAS STAFF PROPOSED FOR THE INSURANCE BALANCING**  
12 **ACCOUNT?’**

13 A. Staff supports continuation of Avista’s existing insurance balancing account, which was  
14 created in the last rate case through a settlement agreement. Staff’s primary rationale for  
15 supporting the balancing account is that it believes that Avista’s insurance costs are  
16 “extraordinary and volatile”.<sup>41</sup>

17 **Q. DO YOU AGREE?**

18 A. I do not agree with Staff’s recommendation to continue the insurance balancing account.  
19 This account was created through the give-and-take process of settlement, but in the  
20 absence of settlement insurance costs do not warrant a special ratemaking mechanism.  
21 These costs are traditionally included in base rates as they are a normal component of the

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<sup>41</sup> Erdahl, Exh. BAE-1T at 30:10-11.

1 cost of providing utility service. Creating special recovery mechanisms for these types of  
2 costs increases rate volatility and could result in a windfall for Avista.

3 **Q. HOW DOES THE INSURANCE BALANCING ACCOUNT CREATE RATE**  
4 **VOLATILITY?**

5 A. Under the current and proposed balancing account, insurance costs are updated annually  
6 on November 1<sup>st</sup>. Thus, this results in an additional rate change for customers outside of  
7 changes that occur in rate cases. This creates more volatility and unpredictability for  
8 customers in Avista's rates.

9 **Q. HOW DOES THE INSURANCE BALANCING ACCOUNT POTENTIALLY**  
10 **RESULT IN A WINDFALL FOR AVISTA?**

11 A. The balancing account is not subject to an earnings test. Thus, if Avista is earning at or  
12 above its rate of return but also experiences a material increase to its insurance costs, it  
13 will be allowed to recover those costs despite the fact that such cost recovery is not  
14 necessary to ensure healthy earnings for the utility.

15 **Q. IF AVISTA DOES EXPERIENCE EXTRAORDINARY AND EXCESSIVE**  
16 **INSURANCE COST INCREASES DURING THE RATE YEAR, IS IT WITHOUT**  
17 **ANY RECOURSE?**

18 A. No. If the insurance balancing account is rejected and excessive insurance costs are  
19 experienced, Avista can always file a deferral to track and recover these expenses. Such  
20 a deferral would then be subject to review, likely in a subsequent rate case. This would  
21 mean both that any incremental recovery under the deferral would occur at the same time  
22 that new rates go into effect – thus eliminating rate volatility concerns – and can be  
23 subject to an earnings test – thus ensuring Avista does not receive a windfall from this  
24 recovery.

1 Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

2 A. Yes.