

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)	DOCKETS UE-120436 and UG-120437 (<i>Consolidated</i>)
)	
Complainant,)	DOCKETS UE-110876 and UG-110877 (<i>Consolidated</i>)
)	
v.)	
)	POST-HEARING BRIEF OF AVISTA CORPORATION
AVISTA CORPORATION d/b/a AVISTA UTILITIES,)	
)	REDACTED
Respondent.)	

I. The Settlement Rates in 2014 are Supported by the Record

1. The evidence of record demonstrates a need for rate increases in excess of the cumulative amounts included in the Settlement for 2013 and 2014.¹ First, the combined revenue increases for both 2013 and 2014 in the Settlement Agreement of \$34.35 million² represent approximately 64% of the Company's justified need for rate relief in these Dockets of \$53.3 million for 2013 standing alone, after reflecting corrections and updated information provided to the parties.³ (See Illustration No. 1 in Exh. KON-7T, at p. 8) This is prior to consideration of

¹ It should be emphasized that the proposed Settlement was a "package" addressing more than just the 2014 rates; rather, it addressed the interests of the various constituencies throughout the two-year 2013 and 2014 rate-effective period. For its part, the Company made several concessions to arrive at a settlement "package": e.g., eliminated the Colstrip/CSII thermal maintenance deferral mechanism; reduced cost of capital by \$12.2 million dollars; and accepted "other black box" adjustments of \$12.5 million. (See Exhibit KON-7T, p.21, ll. 17-21; Tr. p. 290, ll. 1-4.)

² 2013 = \$13.65 million electric and \$5.3 million natural gas. 2014 = \$14.0 million electric and \$1.4 million natural gas.

³ In its Third Supplemental Order in Docket No. U-991832, this Commission approved a rate plan for PacifiCorp that provided for implementation of new rates over a three year period (3% on January 1, 2001; 3% on January 1, 2002; and 1% on January 1, 2003), in part to address "rate shock." (Id. at p. 12, ¶ 33). In its Order, the Commission reasoned that:

...The cumulative effect on customers under the settlement is a rate increase that is approximately one-half what PacifiCorp requested in its filing ... The cumulative increase in rates at the third year under the settlement, results in the customers experiencing less of an increase as of January 1, 2003, than what PacifiCorp proposed in its filing to implement as of November 1, 2000. (Id., at p. 19, ¶ 50) (Emphasis added)

the need for any additional revenue increases in 2014.

2. Beyond that, Avista also provided further information demonstrating the need for additional rate relief for 2014. The information showed that net plant investment and non-fuel O&M will continue to increase at a much faster pace than kWh sales and therm sales for 2014 and beyond, which will require additional rate increases for 2014 and future years.⁴ In its original filing, Avista submitted a comprehensive Attrition Study, sponsored by Dr. Mark Lowry (see Exhibit MNL-1T). This study was developed independently from the traditional pro forma ratemaking adjustments, and was based on the historical trends of operations and maintenance (O&M) costs, and net plant investment, as compared to the growth in retail revenue. (It should also be remembered that Public Counsel has, itself, submitted no evidence, by way of an attrition study or otherwise, that the Company will not experience attrition in 2013 and 2014.)

3. Ms. Andrews also provided a separate analysis (Exhibit EMA-1T, pp. 35-37), through the use of adjustments which presented an independent “cross-check” on the reasonableness of Dr. Lowry’s overall attrition-adjusted revenue requirement. Ms. Andrews started with the unadjusted results of operations for 2011 and prepared specific restating and pro forma adjustments to reflect 2012 and 2013 planned capital expenditures. The end result of the two separate, independent methodologies provides a confirmation that the revenue requirement under either method is reasonable and supportable, and well above the settlement rate increases for both 2013 and 2014.

4. As explained by Mr. Norwood, with regard to 2014, a simple extension of the trend analysis in the Attrition Study to 2014 from 2013 would show a need for an incremental electric

⁴ See the pre-filed direct testimony of Kelly Norwood (Exhibit KON-1T beginning on page 3, including Illustration No. 1).

revenue increase of approximately \$14.5 million for 2014.⁵ (Exhibit KON-7T, p. 10) The incremental natural gas revenue need from 2013 to 2014 would be \$4.2 million.(Id.) As explained below, there is evidentiary support for using this same trend of revenues, expenses and ratebase for purposes of 2014. Indeed, Staff Witness Elgin testified that he believed there is strong evidence that these prior trends will continue. (Tr. p. 281, ll. 24-25, & p. 282, ll. 1-2)

5. Experience demonstrates that Avista will actually spend the budgeted capital expenditures. Commissioner Jones inquired at the time of hearing about Company Witness DeFelice's portrayal of actual, as well as planned capital expenditures in the 2013 through 2014 time period. (Tr. p. 279, ll. 7-20) He referred to Mr. DeFelice's Exhibit No. DBD-2, a bar chart showing levels of planned capital expenditures (by category) in 2013 and 2014 of \$252 million and \$258 million, respectively, which will result in rate base well in excess of the 2011 test period levels.⁶ Mr. DeFelice also calculated the five year average of the planned-versus-actual expenditures from 2007-2011, and observed that 99.8% of planned capital expenditures actually occur. (Exh DBD-1T, p. 7, ll. 3-4). Simply put, Avista's history of actual capital expenditures almost exactly mirrors its planned expenditures.

6. The financial forecast information provided by the Company in Bench Request Nos. 7C and 8C also supports the revenue increases in the Settlement Agreement for 2013 and 2014. The table below summarizes the August 21, 2012 forecast information, contained in Bench Exhibit 8C, of expenses and capital investment for the period 2012-2014:

⁵ The trend analysis for 2013 shows an electric revenue need of \$29 million, even using the cost of capital in the Settlement. This \$29 million represents the incremental revenue need for the two-year period from 2011 to 2013. If we apply this same trend of revenues, expenses and rate base for one additional period, from 2013 to 2014, the incremental electric revenue need for 2014 is \$14.5 million. (Exhibit Kon-7T, p. 10)

⁶ Mr. Norwood testified that the Company has no plans to further scale back these necessary construction expenditures. (Tr. p. 256, ll. 23-24)

7. Bench Request 7C contains similar information from the earlier February 29, 2012 forecast, while Bench Request 8C contains the updated forecast in August 21, 2012 (shown above), as further revised on August 28, 2012. These most recent forecasts show an even greater erosion in margin recovery for both 2013 and 2014 than the earlier February 29, 2012 forecast.⁷

8. In the August 21 forecast, updated utility operating expenses increased approximately \$14 million in 2013 and \$12 million in 2014 over the earlier February forecast, due, in part, to items such as pension expense, post-retirement medical costs, and power plant O&M costs. (Exhibit 8C, Att. F, p. 13 vs Exhibit 8C, Att. E, p. 13) The revised retail load forecast also reflects a reduction in retail revenue in 2013 and 2014 as compared to the prior February 2012 forecast, due primarily to an expectation that the recovery in the economy will not occur as quickly as we had previously expected. (Id.) Therefore, since the Company filed its general rate case, expenses for 2013 and 2014 increased significantly, while sales for 2013 and 2014 decreased significantly.⁸ (Id.)

9. Moreover, the \$14 million planned reduction in expense through initiatives like the voluntary severance program will not reduce O&M/A&G costs below the level in 2011 or 2012, but it will serve to slow the growth in expenses, as explained by Mr. Norwood at Exh. KON-7T,

⁷ Accordingly, the trends in net plant investment, non-fuel O&M and sales through 2015, first shown in Mr. Morris' Illustration No. 3 in his direct testimony (Exh SLM-1T, p. 10) based on the earlier February 2012 forecast, have worsened, in terms of cost recovery, in the more recent August 2012 forecasts.

⁸ This level of increase in expenses for 2013 and 2014, and the expected lower growth in revenues for 2013 and 2014 were not reflected in the Company's original rate case filing in April 2012.

p. 20. He demonstrated that if the Settlement is approved by the Commission, even with an additional \$14 million of planned cost reductions, Avista will have the opportunity to earn only an 8.45% ROE — still well below the agreed-upon ROE of 9.8%.⁹ (Exhibit Kon-7T, p. 21)

II. Conclusion

10. If the Commission remains concerned that the Company may earn more than the agreed-upon 9.8% return on equity (ROE) in the Settlement in 2013 or 2014, the Company would agree to condition the Settlement on an after-the-fact earnings test, and would agree to refund to customers any earnings in excess of the 9.8% ROE for each of the years 2013 and 2014. This should further allay any remaining concerns that the base rate relief in 2013 and 2014, together with any additional cost-cutting, may allow the Company to exceed its authorized return.

11. The proposed settlement will lead to fair, just, reasonable and sufficient rates. As the Supreme Court explained in the Hope Natural Gas case, the requirement that rates be “fair, just and reasonable” does not define a method by which rates are to be calculated; instead, the fixing of fair, just and reasonable rates involves a balancing of investor and consumer interests. Simply put, the “end result” must be reasonable — and it is under the terms of the Settlement.¹⁰

Respectfully submitted this 7th day of December, 2012



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⁹ Other information in the record also supports the need for the revenue increases in the Settlement Agreement. In Mr. Norwood’s direct testimony (Exhibit KON-1T), beginning on page 7, he discussed the persistent revenue short-fall the Company has experienced for the past five years. (See Illustration #4, at p. 9 of Exh KON-7T) Based on the most recent ROEs authorized by the Commission, which would range from 9.8% to 10.2%, the Company is experiencing a short-fall in its earned ROE of at least 200 basis points. This annual revenue shortfall of 200 basis points of ROE for Avista’s Washington utility operations is approximately \$21 million. (See KON-7T p. 14, ll. 4-7) Accordingly, the Company needs a revenue increase of \$21 million to address the revenue short-fall that is already occurring, prior to considering the incremental revenue increases that are needed for 2013 and 2014.

¹⁰ Fed. Power Comm’n v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944)