

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-220053

DOCKET NO. UG-220054

DOCKET NO. UE-210854

(consolidated)

REBUTTAL TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19

Q. Please state your name, business address and present position with Avista Corporation?

A. My name is Patrick D. Ehrbar, and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the Regulatory Affairs Department as the Director of Regulatory Affairs.

Q. Have you filed direct testimony in this proceeding?

A. Yes. I filed direct testimony in this case addressing the Company’s capital planning process, the performance metrics that Avista originally-proposed for inclusion in this Two-Year Rate Plan, and the new Earnings Test that was included in the Senate Bill 5295 legislation, and how that impacts the Company’s electric and natural gas Decoupling Mechanisms. In addition, I am also one of the sponsors of the Joint Testimony (Exh. JT-1T) in support of the Full Multiparty Settlement Stipulation (Exh. JT-2) filed with the Commission on July 8, 2022.¹ Finally, I am also one of the sponsors of the Supplemental Joint Testimony (Exh. JT-3T) related to the Colstrip Tracker and Schedule 99 filed with the Commission on July 29, 2022.

Q. What is the scope of your rebuttal testimony in this proceeding?

A. My rebuttal testimony will provide the Company’s response to the testimony of Public Counsel in opposition to the Settlement. In doing so, I wish to emphasize the

¹ The Full Multiparty Settlement Stipulation was entered into by Avista Corporation (“Avista” or the “Company”), the Staff of the Washington Utilities and Transportation Commission (“Staff”), Alliance of Western Energy Consumers (“AWEC”), NW Energy Coalition (“NWEC”), The Energy Project (“TEP”), Sierra Club, Walmart, and Small Business Utility Advocates (“SBUA”), jointly referred to herein as the “Settling Parties.” These parties represent all parties to the case with the exception of the Public Counsel Unit of the Washington Attorney General’s Office (“Public Counsel”), who did not join the Settlement Stipulation.

1 following points.

- 2 • Public Counsel’s position on revenue requirement² is simply not credible in light
3 of what the new Multiyear Rate Plan legislation was designed to accomplish; that
4 is to minimize the frequency of rate cases while providing a reasonable
5 opportunity for Avista to earn a fair return over the duration of the Rate Plan.
6
- 7 • Even the Settlement level of agreed-upon revenue requirement may prove to be
8 woefully inadequate, given higher inflation and interest rate increases that have
9 occurred since the filing of this case.
- 10
- 11 • The Settling Parties represent every constituency of Avista’s customer base:
12 residential, commercial, industrial, low-income, vulnerable populations, and
13 renewable and conservation interests. Public Counsel does not represent an
14 interest that is not already represented among the Settling Parties.
- 15
- 16 • The Settlement is comprehensive in scope and includes the addition of 92
17 different performance metrics.
- 18
- 19 • For its part, Avista made a host of concessions that would have not been agreed
20 to in litigation, including but not limited to:
- 21
- 22 ▪ A reduction of \$24 million in total revenue requirement over the Two-
23 Year Rate Plan from that proposed by Avista in its direct filed case
24 (as-filed of \$83.1 million versus Settlement of \$59.5 million).
25
- 26 ▪ A write-off of \$4 million of investment in the Colstrip Dry Ash Project
27 which was a required project under the Consent Agreement with the
28 Montana Department of Environmental Quality.
29
- 30 ▪ Assumption of the risk on power supply costs during the Rate Plan by
31 foregoing a power supply update before Year 1 and Year 2 rates go
32 into effect.
33
- 34 ▪ Agreement on Natural Gas Transition Issues, including the reduction
35 and ultimate elimination of new customer line extension allowances,
36 representing a substantial concession for Avista.
37
- 38 ▪ Substitution of 92 new performance metrics in lieu of the Company’s
39 proposal.
40

² See Exh. SC-1CT, Table 1, p. 11.

1 Accordingly, the concessions of Avista were significant and comprehensive, and from the
2 perspective of other parties, may or may not have been achieved through litigation.

3 **Q. Would you please provide a brief summary of the rebuttal testimony of**
4 **the other witnesses representing Avista in this proceeding?**

5 A. Yes. The following additional witnesses are presenting rebuttal testimony on
6 behalf of Avista:

7 Ms. Elizabeth Andrews, Senior Manager of Revenue Requirements, demonstrates
8 that the revenue requirement supported by Public Counsel provides woefully inadequate
9 returns for Avista, in light of the evidence provided in this case. Public Counsel has proposed
10 a meager \$5.1 million in total over the Two-Year Rate Plan, approximately \$78 million below
11 the Company's as filed request, and \$54.4 million below that agreed to per the Settlement.
12 Ms. Andrews rebuts Public Counsel Witness Coppola's O&M and capital adjustments, as
13 well as the proposed insurance balancing accounts.

14 Mr. Adrien McKenzie, President of Financial Concepts and Applications, Inc.
15 confirms that the 9.4% ROE implied in the Settlement is even more understated under current
16 capital market conditions and demonstrates that Public Counsel Witness Garrett's ROE
17 recommendation of 8.75% falls below any reasonable definition of a fair and reasonable level
18 for the Company's utility operations. Mr. McKenzie demonstrates that:

- 19 • Witness Garrett's estimate of the "actual" cost of equity of 7.9% is not
20 credible on its face. This result is extreme and falls far below the lowest
21 ROE awarded by any state regulatory commission in modern history.
22
- 23 • The ROE recommendation of Witness Garrett falls far below accepted
24 benchmarks.
25
- 26 • Witness Garrett's conclusions and ROE recommendation are inconsistent
27 with current capital market conditions. He states that accelerating inflation

1 and more restrictive monetary policies support the view that the cost of
2 equity is higher now than in 2021 or earlier in 2022. Further, substantially
3 higher current and projected interest rates indicate that investors' forward-
4 looking required return on equity for electric utility stocks has increased.
5

- 6 • The analyses of AG are undermined by methodological flaws, including (1)
7 Witness Garrett's DCF analysis significantly understates the Company's
8 ROE because his growth rate selection is marred by a mistaken belief that
9 expectations of utility investors are limited to growth in GDP, and (2) His
10 CAPM analysis is wrongly based on historic and survey data that lead to
11 nonsensical results.
12

13 Dr. Grant Forsyth, Chief Economist, will testify that, irrespective of Witness Dahl's
14 testimony that corporate profits are to blame for inflation, such testimony is simply irrelevant
15 in the context of Avista's general rate case and the regulation of prices by this Commission.
16 Dr. Forsyth will then shed light as to why the use of the Consumer Price Index by Witness
17 Coppola is misplaced. More importantly, he demonstrates that inflationary expectations have
18 changed since the filing of the case and are likely to continue through the duration of the Rate
19 Plan.

20 Mr. Scott Kinney, Director of Energy Resources, will address the testimony of Public
21 Counsel witness Earle and will demonstrate that the Company's treatment of EIM benefits
22 as provided in the Settlement is based on best known estimates, and the Commission should
23 accept the Settlement's treatment of the Company's power supply costs, recognizing the
24 increased risk to the Company of foregoing a true up of power supply costs during the Rate
25 Plan.

26 Mr. David Howell, Director of Electric Operations and Asset Maintenance, responds
27 to the testimony of Public Counsel Witness Tam who proposes additional metrics, provides
28 suggestions for our current Wildfire Plan, and questions our wildfire-related expenditures. In

1 addition, Mr. Howell responds to the testimony of Public Counsel Witness Coppola who
 2 proposes a reduction to the Wildfire Resiliency capital investment in 2023 and 2024 proposed
 3 by the Company.

4 Mr. Kelly Magalsky, Director of Products, Services, and Customer Technology, will
 5 address the testimony of Public Counsel Witness Coppola as it relates to Avista’s Customer
 6 Service labor expense and investments in Transportation Electrification, Customer
 7 Transactional Systems, and the Customer Experience Platform.

8 Mr. Robert Brandkamp, Senior Risk Program Manager, responds to the testimony of
 9 Public Counsel Witness Coppola who proposes a substantial reduction in insurance costs for
 10 the Two-Year Rate Plan, and demonstrates that the costs Avista included in our filed case are
 11 not only appropriate, but they are also perhaps understated, or conservative given further
 12 changes occurring in the insurance markets.

13 For my part, I will also discuss performance metrics to the extent addressed by
 14 Witness Crane. I will finally address how the Settlement agreement also reflects “equitable”
 15 considerations, beyond otherwise being fair, just, reasonable and sufficient, from Avista’s
 16 standpoint, given the substantial give-and-take between the Settling Parties.

17 **Q. Are you sponsoring any exhibits that accompany your testimony?**

18 A. No, I am not. A table of contents for my testimony is as follows:

19	<u>Description</u>	<u>Page</u>
20	I. Introduction	1
21	II. Revenue Requirement & Settlement Issues	6
22	III. Performance Metrics	20
23	IV. Equity Impacts of the Settlement	21

II. REVENUE REQUIREMENT & SETTLEMENT ISSUES

1 **Q.** **To begin with, would you place Public Counsel’s proposed revenue**
 2 **requirement in some sort of context?**
 3

4 A. Yes. As discussed in more detail by Ms. Andrews, Public Counsel is
 5 proposing an electric revenue requirement of \$0.4 million (Year 1) and \$2.8 million (Year
 6 2). For natural gas, Public Counsel is proposing a Year 1 increase of \$1.7 million, and for
 7 Year 2 \$0.2 million.³ The total revenue increase supported by Public Counsel is only \$5.1
 8 million, as compared to the Company’s original request of \$83.1 million, and the settlement
 9 revenue requirement of \$59.5 million. In their view, the combined \$5.1 million would
 10 presumably suffice to meet the Company’s needs over the Two-Year Rate Plan. Table No.
 11 1 below provides a revenue requirement summary:

12 **Table No. 1 – Revenue Requirement Summary – Comparison**

<u>Summary of Two-Year Rate Plan Revenue Requirement (000s):</u>					
As-filed vs Settlement vs Public Counsel					
	Electric		Natural Gas		Two-Year Total
	RY1	RY2	RY1	RY2	
Amount As-Filed Per Company¹	\$ 52,852	\$ 17,133	\$ 10,922	\$ 2,172	\$ 83,079
Full Multiparty Settlement²	<u>\$ 38,000</u>	<u>\$ 12,500</u>	<u>\$ 7,500</u>	<u>\$ 1,500</u>	<u>\$ 59,500</u>
Public Counsel³	<u>\$ 382</u>	<u>\$ 2,849</u>	<u>\$ 1,676</u>	<u>\$ 237</u>	<u>\$ 5,144</u>
¹ As-filed ROR 7.31% (Current Authorized 7.12%).					
² Settlement ROR 7.03%.					
³ Public Counsel proposed ROR 6.46%.					

13
 14
 15
 16
 17
 18
 19 In the end, Public Counsel supports a total revenue increase that is only 8.6% of that
 20 supported by the Settling Parties. Based on the evidence in the case and support from the
 21 Settling Parties, such a low level of increase is simply not supported nor credible.

³ Exh. SC-1CT, p. 10, ll. 11-15.

1 **Q. If this Commission were to approve Public Counsel’s proposed revenue**
 2 **requirement over the Two-Year Rate Plan, what would be the expected resulting return**
 3 **on equity (ROE) and rate of return (ROR) for Avista’s Washington jurisdiction in 2023**
 4 **and 2024?**

5 A. As shown in Table No. 2 below, approval of the recommended revenue
 6 increases proposed by Public Counsel as shown in Table No. 1 above, would result in a return
 7 on equity (ROE) of 6.5% in 2023 and 5.9% in 2024, or 290 – 350 basis points lower than
 8 current authorized of 9.4% for electric. For natural gas, the result would be an ROE of 7.6%
 9 in 2023 and 7.3% in 2024, or 180 to 210 basis points, lower than current authorized of 9.4%.

10 **Table No. 2 – Resulting ROE of Public Counsel Proposed Revenue Requirement**

Resulting <u>ROE</u> of			
Proposed Revenue Positions of Public Counsel			
	ROE	ROE	Current
	Electric	Natural Gas	Authorized
Current Authorized			9.4%¹
RY1	6.50%	7.60%	
RY2	5.90%	7.30%	

¹ROR of 7.03% was specified within Settlement. Cost of Capital components, however, including ROE were not specified.

17
 18 Similarly, as shown in Table No. 3 below, approval of the recommended revenue
 19 increases proposed by Public Counsel per Table No. 1 above, would result in significantly
 20 lower ROR in 2023 and 2024, than the agreed-to ROR of 7.03% per the Settlement, as follows:

Table No. 3 - Resulting ROR of Public Counsel Proposed Revenue Requirement

Resulting ROR of Proposed Revenue Positions of Public Counsel			
	ROR Electric	ROR Natural Gas	Settlement
Settlement			7.03%
RY1	5.64%	6.18%	
RY2	5.35%	6.03%	
¹ ROR of 7.03% was specified within Settlement. Cost of Capital components, however, including ROE were not specified.			

As shown in Table No. 3, if the Commission were to approve Public Counsel's proposed revenue requirement over the Two-Year Rate Plan, this would result in an ROR of 5.64% in 2023 and 5.35% in 2024, versus the Settlement agreed-upon ROR of 7.03%. For natural gas, the result would be an ROR of 6.18% in 2023 and 6.03% in 2024, versus the Settlement agreed-upon ROR of 7.03%. The 7.03% agreed-to by the Settling Parties, in and of itself, is a reduction from the current authorized ROR of 7.12%.

Q. Witness Dahl on p. 9 of Exh CJD-1T expresses general concerns about inflationary pressures affecting consumers. Does Avista share similar concerns?

A. Absolutely we do. In short, no one is immune from the inflationary pressures in the general economy. We absolutely care about the cost of our service borne by our customers, but we also have a responsibility to seek recovery of prudently-incurred costs from customers and remain financially healthy and attract capital on reasonable terms.

To mitigate the overall increase, Avista originally proposed, and the Settling Parties agreed, that the Residual Tax Customer Credit of approximately \$27.6 million (electric) and \$12.5 million (natural gas) would be returned to customers through separate Tariff Schedules 78 (electric) and 178 (natural gas) over a two-year amortization period beginning December

1 21, 2022 through December 20, 2024.⁴ That benefit will serve to mitigate the billed increase
 2 for customers. Even Public Counsel recognizes the need to use those benefits as an offset.⁵

3 **Q. What are the most current year-over-year increases Avista’s residential**
 4 **customers have experienced?**

5 A. The increase for a residential electric customer using 932 kWhs per month has
 6 been relatively modest, at 2.7% over the past year. For natural gas, however, given the recent
 7 rise in wholesale natural gas costs which led Avista to file a recent out-of-cycle Purchase Gas
 8 Cost adjustment (subsequently approved by the Commission), a residential natural gas
 9 customer using 67 therms has seen a 23.2% annualized increase in the last year.

10 **Table No. 4 – Residential Bill Increases**

	<u>8/1/2021</u>	<u>8/1/2022</u>	<u>\$ Change</u>	<u>% Change</u>
Residential Electric	\$82.85	\$85.07	\$2.22	2.7%
Residential Natural Gas	\$58.96	\$72.66	\$13.70	23.2%

11
 12
 13
 14 Importantly, though, the increase in natural gas can be attributed almost entirely to higher
 15 wholesale natural gas costs, which are not at issue in this general rate case, and from which
 16 Avista earns no profit (what we pay customers pay).

17 **Q. Would you please address Witness Dahl’s unsupported assertion that**
 18 **Avista is earning “excessive”⁶ or “substantial”⁷ profits”?**

19 A. Yes, and Dr. Forsyth addresses this issue as well. Provided below in two

⁴ As discussed by Ms. Andrews in Exh. EMA-1T, at page 52 - 55, these additional tax credits are in addition to the tax credits being returned to customers over the two-year period October 1, 2021 through September 2023 per Order 08/05 in Dockets UE-900200 et. al.

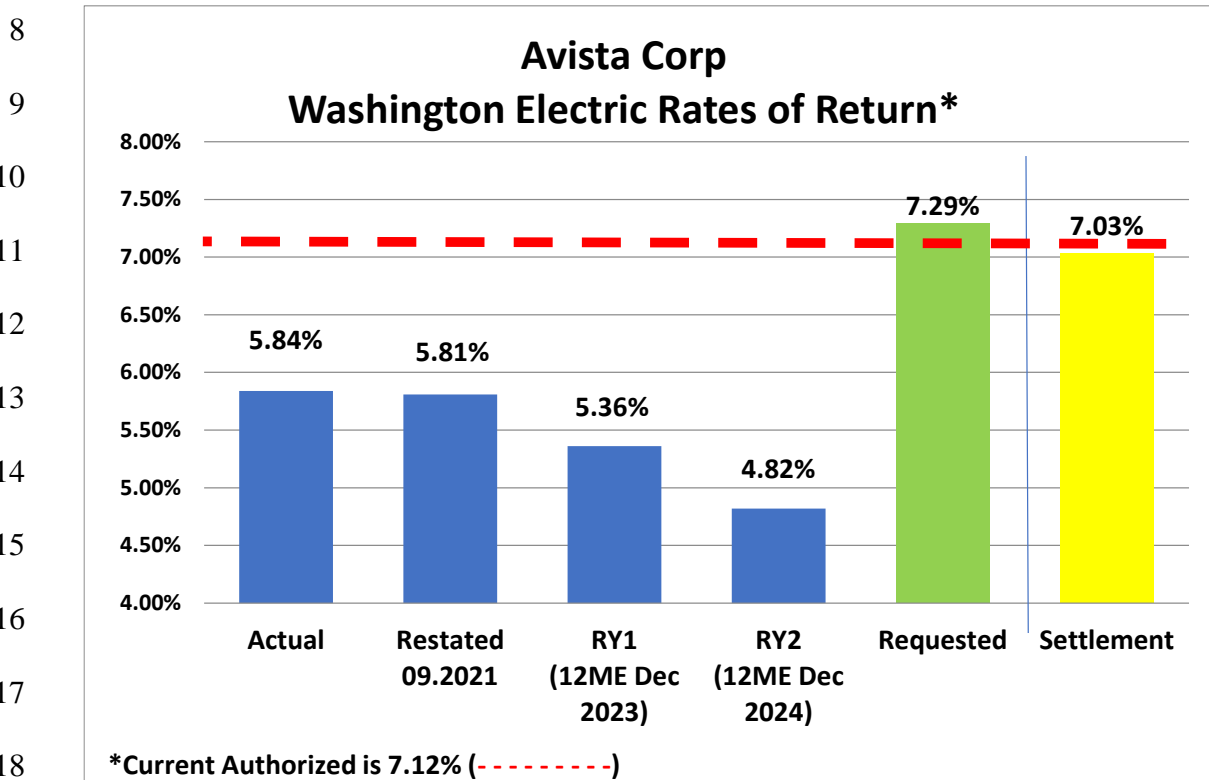
⁵ Exh. SC-1CT, p. 14, ll. 9-11.

⁶ Exh. CJD-1T, p. 14, ln. 17.

⁷ Id., p. 15, ll. 1-2.

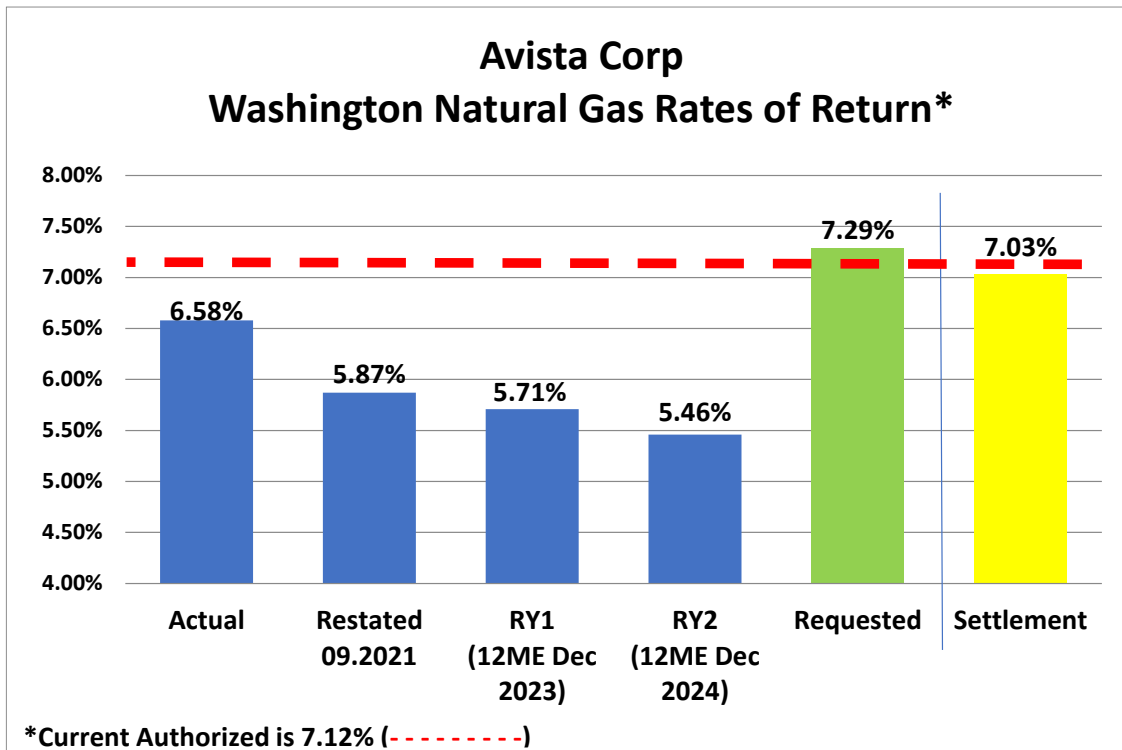
1 illustrations are six different rates of return.⁸ They are (1) the actual rate of return earned by
 2 the Company during the 09.30.2021 test period, (2) the Restated 09.30.2021 results for the
 3 historical test period, (3) the adjusted rate of return for Rate Year 1 (effective December
 4 2022) and (4) for Rate Year 2 (effective December 2023), (5) the originally-requested ROR
 5 at 7.29%, and (6) the agreed-upon ROR of 7.03%). The returns for Washington operations
 6 are provided below in Illustration No. 1 (electric) and No. 2 (natural gas):

7 **Illustration No. 1: Two-Year Rate Plan - Electric Rates of Return**



⁸ Illustration Nos. 1 and 2 were pulled from Ms. Andrews testimony, Exh. EMA-1T, and simply updated with a sixth column showing the Settlement rate of return.

Illustration No. 2: Two-Year Rate Plan - Natural Gas Rates of Return



As shown in Illustrations No. 1 and No. 2 above, after taking into account all standard Commission Basis adjustments, as well as additional normalizing, pro forma and provisional adjustments, the pro forma electric and natural gas rates of return for the Company’s Washington jurisdictional operations over the Two-Year Rate Plan are 5.36% and 5.71%, respectively for RY1; and 4.82% and 5.46%, respectively for RY2. These return levels over the Two-Year Rate Plan are well below the Company’s originally-requested rate of return of 7.29%, and Settlement rate of return of 7.03%.

In the end, clearly Avista has been substantially under-earning in the State of Washington and would continue to significantly under-recover its costs, absent necessary rate relief. Nowhere does this demonstrate or suggest that Avista is earning excessive profits; in fact, the Company is nowhere near even earning the authorized return set by the Commission.

1 Clearly, Witness Dahl’s assertion that “the regulatory compact essentially guarantees that
2 well-managed utilities will earn a substantial profit” is incorrect.⁹

3 **Q. Do you believe that the framers of the Multi-year Rate Plan Legislation**
4 **intended this kind of result?**

5 A. No, I certainly do not. In exchange for lessening the frequency of rate filings,
6 a process was laid out for the affected utilities to layout a “roadmap” for rate relief over the
7 period of the proposed Rate Plan. Checks and balances were built into the process to
8 ultimately assure that only used and useful and prudently-incurred costs were recovered.
9 And, if all else failed, there was an earnings test to protect customers (and notably, not an
10 earnings floor). To make this new regulatory regime work, all participants must do their part,
11 and the Settling Parties have done just that.

12 **Q. As it relates to customer protections built in the Stipulation, would you**
13 **please describe those?**

14 A. Yes. Of course, I just mentioned the earnings test that was embedded in
15 Senate Bill 5295 and to which I testified in my Direct Testimony, Exh. PDE-1T. In addition,
16 there are three other built-in protections. First, as mentioned earlier, the Settling Parties
17 agreed that Avista would not have the opportunity to update its power supply baseline costs
18 beyond those included in the original filing (more on that is discussed by Mr. Kinney). While
19 this is risky for Avista, the nature of the Energy Recovery Mechanism also provides
20 protections to customers by way of the deadband and sharing bands. Should costs and benefits
21 be lower than that filed originally in this case, depending on where the deferred balance
22 resides, most of those benefits will flow to customers, especially in the 90% customer, 10%

⁹ Ibid.

1 Company sharing band.

2 Second, as Ms. Andrews testifies to, there is protection for customers in terms of
3 capital additions during the Rate Plan, and the filings Avista must make to prove they are
4 used and useful. It otherwise would have to refund to customers any revenue not justified.
5 Finally, in our last case, the Commission approved a balancing account for wildfire expenses,
6 and in this case the Settling Parties support a similar mechanism for insurance expenses.
7 These balancing accounts ensure that customers pay no more, and no less, than the actual,
8 prudently-incurred costs, all of which the parties in this case and the Commission would have
9 the opportunity to review.

10 **Q. Since the filing of the Company's case in January 2022, what new**
11 **pressures have come to bear?**

12 A. As testified to by Dr. Forsyth, inflation has greatly increased, and which cuts
13 across the board, affecting all goods and services and even the labor the Company employs.
14 Dr. Forsyth states "that Stage 2 producer inflation has been higher than consumer
15 inflation...year-over-year inflation associated with goods inputs (excluding food and
16 energy), service inputs, and construction inputs averaged approximately 20%, 10%, and 13%,
17 respectively."¹⁰ What was already a challenge to control costs before, has now become even
18 more challenging. And this inflationary pressure will likely persist through the Two-Year
19 Rate Plan. None of this was built into this filing.

20 Likewise, interest rates have risen dramatically over the past several months and may
21 continue to do so over time as the Federal Reserve attempts to rein in inflation. So far this
22 year, there have been four increases in the Federal Funds Rate, with the most recent being 75

¹⁰ Exh. GDF-3T, p. 6, ln. 21 - p. 7, ln. 5.

1 basis points, bringing the current Federal Funds Discount rate to 2.5% on July 27, 2022, as
2 compared to 0.5% prior to March 15, 2022.¹¹ This will affect not only the cost of borrowing
3 for Avista, but the cost of all goods purchased by the Company.

4 In addition, attracting and retaining qualified employees in the COVID-era has been
5 challenging, which has put substantial pressure on wages (which was not included nor
6 foreseen when the Company's original case was developed in late 2021). Add on top of that,
7 the tremendous increase in the oil markets has led to a substantial increase in diesel fuel costs
8 for our fleet operations. Finally, however defined, a "recession" is either here or at our
9 doorstep. All of this makes for an extremely challenging environment in which to craft a
10 Rate Plan.

11 **Q. With that said, would you comment on Public Counsel's position in light**
12 **of this "perfect storm" of adverse circumstances?**

13 A. It is perhaps unfortunate that we are in the process of implementing rate plans
14 spanning several years during such tumultuous times. Our collective task would have been
15 easier if our initial implementation of rate plans has occurred during a steady state
16 environment more like we experienced prior to 2020. But that is not the case. Public
17 Counsel's position makes the implementation of a successful rate plan almost impossible.

18 **Q. Given all of this turbulence since the filing of its case, did the Company**
19 **ask for enough rate relief?**

20 A. No, it did not.

21 **Q. Why then did Avista enter into this Settlement?**

22 A. Avista did what it believed was possible within the confines of this case, and

¹¹ https://en.wikipedia.org/wiki/History_of_Federal_Open_Market_Committee_actions

1 the positions of the parties and the litigation risks involved. Avista weighed all of the issues
2 raised by the Parties during settlement, did our own “calculus” to determine if we could work
3 with the revenue requirements ultimately agreed-to, all of the Settlement conditions (the new
4 costs of implementing such conditions that were not included in the original case), and
5 determined that the combined package was reasonable and equitable for all. We hope the
6 Commission agrees. Clearly Public Counsel’s position on revenue requirement does not
7 accomplish the objectives of a rate plan.

8 **Q. Did Public Counsel have an opportunity to fully participate throughout**
9 **the settlement process?**

10 A. Absolutely. From our perspective, they were an active participant. What of
11 course we don’t know is what issues they may have championed that actually found their
12 way into the Settlement, given the issues proposed by individual parties are not “color coded”
13 back to the party that might have proposed it.

14 **Q. Do you believe all parties in the settlement process were well-informed?**

15 A. Yes. The discovery process performed by Staff, Public Counsel, and the other
16 parties was extensive, and covered virtually every issue addressed in the Settlement. In short,
17 the validity of nearly every item now contested by Public Counsel was the subject of
18 discovery (as demonstrated by their many exhibits comprised of selected Avista discovery
19 responses). Public Counsel was not somehow frozen out of the negotiations.

20 **Q. How many data requests were asked during the process of this case, and**
21 **what were the general topics audited?**

22 A. In total the Parties asked 655 data requests over 40 topic areas. The topics
23 included those listed in Table No. 5 below:

1 **Table No. 5 – Discovery Topics**

2	1	Allocation Factors	21	Income Tax ADIT & EDIT
	2	AMI	22	Insurance
3	3	Capital Additions	23	Investor Supplied Working Capital (ISWC)
	4	Capital O&M	24	IS/IT Expense Pro-Forma
4	5	Capital O&M Offsets	25	Labor
	6	CETA	26	Low Income
	7	Colstrip	27	Low Income and CETA Labor
5	8	Conservation	28	Miscellaneous
	9	Cost Allocation – Gas	29	Performance Based Ratemaking
6	10	Cost of Capital	30	Performance Metrics
	11	Cost of Service, Rate Spread, Rate Design - Electric	31	Power Supply
	12	Cost of Service, Rate Spread, Rate Design - Gas	32	Property Tax
7	13	Distribution System Planning	33	Regulatory Assets/Liabilities
	14	Energy Imbalance Market (EIM)	34	Revenue - Normalization, Operating
8	15	Escalation Rates	35	Test Year Audit
	16	Escalation Studies	36	Transmission Expense and Revenue
	17	Executive Compensation	37	Transportation Electrification
9	18	General Revenue Requirement	38	Uncollectible Expense
	19	Incentive Pay	39	Western Resource Adequacy Program (WRAP)
10	20	Income Tax	40	Wildfire Plan

11 **Q. You previously noted that every constituency was represented by parties**
 12 **to the Settlement, even without Public Counsel. Would you please elaborate?**

13 A. Yes. There is always some overlap in the representation of customer groups
 14 and interests in general rate proceedings, and that is to be expected. The good news is that
 15 there is no customer group or interest represented by Public Counsel that is not already
 16 represented in some fashion among the parties to the Settlement.

17 Commission Staff, of course, represents the broad array of customer interests,
 18 including residential and small commercial customers. The Energy Project represents low-
 19 income customers and vulnerable populations. NWECA represents interest in clean and
 20 affordable energy resources, and services that meets the needs of low-income customers.
 21 Likewise, Sierra Club represents environmental interests, and how those interests intersect
 22 with its membership base. Finally, AWEC, Small Business Utility Advocates, and Walmart,
 23 represent a broad array of business interests. This broad mix of participants should give the

1 Commission comfort that this all-inclusive settlement represents the comprehensive needs of
 2 Avista’s customers base. Even Public Counsel, for its part, in the testimony of Witness Dahl
 3 details **fifteen (15)** provisions it believes are in the public interest, as highlighted below.¹²

- 4 1. Low-income rate assistance (Exh. CJD-1T)
- 5 2. Low-income renewable energy projects (Exh. CJD-1T)
- 6 3. Changes to low-income conservation programs (Exh. CJD-1T)
- 7 4. Distributional equity analysis (Exh. CJD-1T)
- 8 5. Colstrip cost recovery (Exh. CJD-1T)
- 9 6. Electric rate design (Exh. CJD-1T)
- 10 7. Natural gas rate spread and rate design (Exh. CJD-1T)
- 11 8. Climate Commitment Act terms (Exh. CJD-1T)
- 12 9. Small Business Energy Efficiency terms (Exh. CJD-1T)
- 13 10. Natural Gas Transition terms (Exh. CJD-1T)
- 14 11. Capital Projects Review (Exh. CJD-1T)
- 15 12. Transportation Electrification terms (Exh. CJD-1T)
- 16 13. Performance metrics (Exh. ACC-1T)
- 17 14. Adopting Avista’s filed Energy Recovery Mechanism (ERM) baseline (Exh.
 18 RLE-1T)
- 19 15. Eliminating the 60-day ERM baseline update (Exh. RLE-1T)

20
 21 **Q. Does Public Counsel otherwise challenge whether the Settlement**
 22 **sufficiently addresses “equitable” considerations?**

23 A. No, it does not. As will be discussed below, several features of the Settlement
 24 were incorporated at the behest of the other parties to assure that matters of “equity” were
 25 front and center. For example, the Parties agreed that Avista would add equity considerations
 26 into business cases, provide an agreed-upon distributional equity analysis, and incorporate
 27 numerous performance metrics touching on equitable considerations.

28 **Q. Returning now to particular revenue requirement items contested by**
 29 **Public Counsel, would you speak to the wildfire and insurance issues?**

30 A. Yes. Earlier I addressed the substantial financial headwinds caused by

¹² Exh. CJD-1T, p. 7, ln. 14 – p. 8, ln. 8.

1 inflation and interest rate increases, as well as recessionary pressures. Other operational
2 pressures on Avista have not abated. Notably, wildfire mitigation remains an ongoing matter
3 of great concern. This issue, and the need for capital investment to meet these risks was
4 extensively discussed in the Company's last case. Indeed, questions of strategy and spending
5 on wildfire prevention were the subject of extensive debate and ultimate resolution. Of
6 course, Public Counsel or any party is free to continue to pursue matters in subsequent cases.
7 As the testimony of Mr. Howell has demonstrated in his direct and rebuttal, Avista continues
8 to be at the forefront of wildfire planning and execution, with spending occurring where and
9 when needed. Public Counsel's concerns are misplaced.

10 Likewise, with insurance, which largely reflects wildfire risk, Mr. Brandkamp
11 describes the process and the market environment in which insurance is procured. The
12 suppositions of Public Counsel in that regard have no basis in fact and are not well-informed.
13 Moreover, the Settlement provides for an insurance tracking or balancing account that will
14 assure that Avista does not over-recover its costs.

15 **Q. Would you briefly summarize and catalog the concessions made by Avista**
16 **in order to arrive at a Settlement?**

17 A. Yes, and they are many. Public Counsel appears not to give sufficient
18 credence to what was accomplished through the give-and-take of settlement negotiations;
19 instead Public Counsel wants to "layer on" even more demands. Here, context is all-
20 important, in order to appreciate what has been accomplished by this Settlement. The
21 Settlement resulted in many concessions on the part of Avista, as compared with its litigation
22 position. These can be briefly summarized as follows:

23 1. Reduction in Revenue Requirement – as discussed earlier, Avista agreed to a

1 substantial reduction in revenues over the Two-Year Rate Plan – approximately
2 \$42 million of fully supported and substantiated prudent costs.

- 3
- 4 2. Cost of Capital – the Company’s currently authorized cost of capital is 7.12%
5 based on a 48.5% equity layer and 9.4% ROE. While the components of the
6 agreed-upon rate of return were not explicitly agreed to, the proposed lower rate
7 of return of 7.03% could be simply calculated including the same 48.5% equity
8 layer, a 9.4% ROE, and a cost of debt of 4.8%¹³. Avista, on rebuttal and absent
9 settlement, would have continued to support a much higher ROE and rate of
10 return, based on expert evidence (and rational detailed by Mr. McKenzie in his
11 rebuttal testimony).
- 12
- 13 3. Elimination of Increases in the Basic Charge.
- 14
- 15 4. Removal of the Dry Ash Disposal Project at Colstrip, a \$4 million immediate
16 write-off to Avista which it has already taken in June 2022 actual financial
17 results.
- 18
- 19 5. Avista will not perform a 60-day power cost update prior to Rate Year 1 (much
20 less Rate Year 2), thereby causing Avista to bear the risk of fluctuations in
21 wholesale electric and natural gas markets (and which have been even more
22 volatile in the past 12 months).
- 23
- 24 6. Avista will not use its filed escalation study in the next multi-year rate plan.
- 25
- 26 7. Avista will make compliance filings demonstrating how Board and management
27 have incorporated equity into decision-making.
- 28
- 29 8. Business cases will demonstrate how equitable outcomes will be achieved.
- 30
- 31 9. A Distributional Equity Analysis will be developed.
- 32
- 33 10. Natural gas transition issues were addressed, including the reduction and
34 ultimate elimination of natural gas line extension allowances, non-pipeline
35 alternatives will be studied, and a decarbonization plan included in the 2023
36 natural gas IRP.
- 37
- 38 11. Rejection of Avista’s proposed performance metrics.
- 39

¹³ On May 18, 2022, Avista in a supplemental response to AWEC Data Request 053 provided all parties with an updated cost of debt based on the most recent debt issuance conducted since the filing of the original case. In addition, in footnote 8 of Exh. JT-1T, the Joint Parties stated that while various formulations could be used to arrive at this Rate of Return, and no Settling Party has agreed upon any precise formulation of the components, a 7.03 percent Rate of Return could be derived using Avista’s currently-authorized Return on Equity of 9.4 percent, 48.5 percent equity layer, 51.5 percent debt layer, and a 4.8 percent cost of debt that was updated during the case. This would produce a result within the zone of reasonableness.

IV. EQUITY IMPACTS OF THE SETTLEMENT

Q. Do you believe that equity has been thoroughly taken into account in the Settlement Stipulation?

A. Yes, for reasons I have previously mentioned and which bears repeating here. The Settlement incorporates equity considerations in a whole host of areas:

1. Fair and Reasonable Revenue Requirement – Affordability has been balanced with a reduced revenue requirement and tax customer credit offsets.
2. Customer Safeguards
3. Equitable Rate Spread
4. Business Planning Processes
5. Distributional Equity Analysis
6. Performance Based Ratemaking
7. Low-Income Program Modifications regarding implementation of the Company’s proposed bill discount program.
8. Development of a renewable project for the direct benefit of low-income customers.
9. Increased levels of low-income weatherization.

Q. Does Commission Staff explicitly state that the Settlement is equitable?

A. Yes. As stated in Exh. JT-1T, p. 44, “[w]hile Staff believes equity is very broad and incorporates multiple dimensions, the Settlement is in the public interest because it addresses the equitable distribution of benefits and Avista agreed to further incorporate equity into the Company’s decision-making processes going forward”.¹⁵

Q. Does The Energy Project also believe that the Settlement is equitable?

A. Yes. The Energy Project Witness Cebulko states “there are multiple provisions in the Settlement specifically designed to assist low-income customers and vulnerable populations, and otherwise promote equity”.¹⁶

¹⁵ Exh. JT-1T, p. 44, ll.18-21.

¹⁶ Exh. BTC-1T, p. 11, ll.10-12

1 **Q. Accordingly, do the proposed performance metrics promote equity?**

2 A. Yes, I believe they do, and I believe the Settling Parties do as well.

3 Importantly, Public Counsel also believes they promote equity, as Witness Crane states in

4 her testimony supporting the adoption of the metrics.¹⁷

5 **Q. Does this conclude your rebuttal testimony?**

6 A. Yes it does.

¹⁷ Exh. ACC-1T, p. 20, ln. 1.