III. SUMMARY OF TESTIMONY

Q. Please summarize Staff's revenue requirement analysis for Avista's electric operations.

A. Staff's revenue requirement analysis shows that Avista's electric operations, on a pro forma basis, are earning ~~6.71~~ 6.73 percent return on its invested rate base. Staff's recommended authorized return on investment is 8.25 percent. As a result, Staff's analysis supports an additional electric revenue requirement of $ ~~24,543,000~~ 24,204,000, an overall increase in test year revenues of ~~6.29~~ 6.20 percent.

Q. Please summarize Staff's revenue requirement analysis for Avista's natural gas operations.

A. Staff's revenue requirement analysis shows that Avista's natural gas operations, on a pro forma basis, are earning 8.02 percent return on its invested rate base. Staff's recommended authorized return on investment is 8.25 percent. As a result, Staff's analysis supports an additional gas revenue requirement of $ ~~634,000~~ 613,000, an overall increase in test year revenues of ~~0.30~~ 0.29 percent.

Q. What capital structure and cost of capital did you use in determining Avista's revenue requirements for both its electric and gas operations?

A. I applied the capital structure and the financing costs recommended by Staff witness David Parcell for the capital structure and debt and equity components (*See* Direct Testimony of David C. Parcell, Exhibit No. ___ T (DCP-1T)). The calculation of

Q. Has this Commission accepted Staff's proposed adjustment in past proceedings?

A. Yes. The Commission has approved this adjustment in numerous cases in the past. It has been a standard uncontested adjustment in PSE and Puget Sound Power & Light Company (PSE's predecessor Company) general rate cases over at least the last 25 years. *See, e.g.*, Cause No. U-82-38, Third Supplemental Order, p. 25 (item 19 in the table of uncontested adjustments to results of operations). As a more recent example, the Commission's determination of revenue requirement for PacifiCorp in its 2006 general rate case included an uncontested Customer Deposits Adjustment. *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company,* Dockets UE-061546 and UE-060817 (consolidated), Order 08, p. 59.

Q. What is the impact of Staff's adjustment for customer deposits?

A. The adjustment affects both electric and gas Washington jurisdictional results of operations. In the electric results of operations, the adjustment reduces the Washington electric rate base by $2,473,256 and the Washington electric net operating income by $6,752, for a net decrease in revenue requirement of approximately $~~334,000~~ 317,000. In the gas results of operations, the adjustment reduces the Washington gas rate base by $1.4 million and the Washington gas net operating income by $3,681, for a net decrease in revenue requirement of approximately $~~183,000~~ 173,000.

amounts shown on line 50 represents the adjusted production and rate base amounts for the test year.

The test year adjusted production amounts are then adjusted by the production factor (discussed above) providing the amount of expense to be embedded in rates, while still accounting for expected rate year load.

Q. Does your Production Property Adjustment take into account Mr. Buckley's recommendation that the rate year load factor be reduced by 3% from the Company's proposal?

A. Yes. The load factor for the 2010 Washington retail load shown on Exhibit ___(DPK-5) line 52 has been reduced from the Company's proposal by three percent. As discussed by Mr. Buckley, the reduction reduces Avista's expected load growth from a 5 percent growth to a more conservative 2 percent level.

Q. What is the impact of Staff's Production Property Adjustment?

A. The Production Property adjustment affects only the electric operations of Avista. Staff's proposed adjustment increases net operating income by $~~2,468,000~~ 2,464,000 while reducing rate base by $ 11,360,000. The combined effect reduces revenue requirement by $~~5,553,000~~ 5,469,000.

Q. Did you review the Company's proposed Production Property Adjustment?

A. Yes.

Q. What is the impact of Staff's adjustment?

A. Staff proposed adjustment increases net rate base by $21,252,000 and increases operating expenses by $921,000, reducing net operating income after taxes by $599,000. Including return on investment and increased expenses, the net effect of this adjustment increases revenue requirement by $~~4,103,000~~ 3,782,000, a reduction of revenue requirement of $~~3,771,000~~ 3,932,000 from the Company's proposed $~~7,874,000~~ 7,715,000 in additional revenues.

3. Capital Additions - Noxon — PF-8 (Electric)

Q. Please discuss the Company's adjustment for Noxon Generation 2010 (PF-8).

A. The Company proposed Noxon Generation pro forma adjustment reflects the pro forma addition to rate base of the Noxon Unit #3 upgrade. The unit is expected to be in service (used and useful) in April of 2010. The Company has included the cost of the asset as a pro forma plant addition to be included in rate base.

Q. What offsetting factors are included in the Company's proposed adjustments?

A. The pro forma adjustment recognizes both pro forma depreciation expense and property tax along with the rate base effect of accumulated depreciation and deferred taxes. However, since Noxon #3 has been included as additional generation within the Aurora dispatch model, all material additional offsetting factors have been captured in the power supply adjustment.

Q. Can budgeted post test-year plant additions be included in rate base?

A. It is rare that plant that is not complete and used and useful will be included in rate base. However, the Commission has allowed inclusion in rate base of plant that will be used and useful during the rate year. There must be a reasonable expectation that the plant will be complete and the costs are prudent. It is Staff's opinion that the plant will be completed as scheduled and that the Noxon #3 upgrade was prudent.

Q. Does Staff accept the Company adjustment for the Noxon #3 upgrade?

A. Yes, with modifications. The Company had included in its 2009 pro forma adjustment (PF-7) the Noxon #1 upgrade which was completed April 2009. Since both Noxon #1 and Noxon #3 are similar upgrade projects, both of which were included in the Aurora dispatch model, Staff did not include Noxon #1 project in PF-7 (which represented various unrelated projects). Instead, Staff has included both projects in PF-8. Staff also adjusted Noxon #3 for the fact that it will be used and useful for only nine months of the rate year. Therefore, the invested cost was weighted so that recovery will be equal to nine months consistent and matched to the benefits measured in the pro forma power cost adjustment.

Q. What is the impact of Staff's pro forma adjustment for the Noxon upgrade projects?

A. Staff's proposed adjustment increases net rate base by $14,592,000 and increases operating expenses by $667,000, or reduces net operating income after taxes by $ 434,000. Including return on investment and increased expenses, the net effect of this adjustment increases revenue requirement by $~~2,734,000~~ 2,633,000, a increase of revenue requirement of $~~1,731,000~~ 1,667,000 from the Company proposed $~~1,003,000~~ 935,000 due to the addition of Noxon #1.

G. Asset Management — PF-9 (Electric) PF-6 (Gas)

Q. Please discuss the Company's adjustment for Asset Management.

A. Avista's Asset Management program manages key assets of its transmission and distribution system. The Asset Management program uses a comprehensive "Asset Management Model" to evaluate assets and for the development of an asset management plan.[19] Using projections of a future costs, the Company's PF-9 (electric) increases Washington's electric operations test year expenses by $2.9 million decreasing net operating income by $1.9 million. Whereas, PF-6 (gas) increases Washington's gas operations test year expenses by $88,000, decreasing net operating income by $57,000.

Q. Does the Company's adjustment conform to the definition of a pro forma adjustment as set out in WAC 480-07-510(3)(iii)?

A. No. The adjustment does not represent an adjustment for known and measurable changes in the test year operations for either its electric or gas operations. Nor does the adjustment attempt to quantify the myriad of benefits that Mr. Scott Kinney describes in his testimony. For example, Mr. Kinney states that the Asset Management program

[19] Testimony of Scott J. Kinney, Exhibit No. ___ (SJK-1T), page 19, lines 10-19.

return on the Company's investment, creates incentives for excess contributions above what would normally be contributed.

Q. Does Staff accept the Company's proposed increase to pension expense embedded in the line item Employee Benefits, adjustment PF17 for electric and PF-9 for gas?

A. No. Based on newer and updated actuarial information, it appears that pension expense is greater than the original levels shown in the Company's exhibits.

Q. What is Staff's proposal for pension expense in this case?

A. Staff's review of the revised 2009 pension expense that was provided by the Company, shows an increase of $1.8 million.[29] After allocation, the Washington portion of the revised pension expense results in an increase in revenue requirement of $552,000 for electricity and an increase of $145,000 for natural gas over the amount requested by the Company in its filed case.

VIII. CONCLUSION

Q. Please summarize Staff's revenue requirement analysis for Avista's electric operations.

A. Staff's revenue requirement analysis shows that Avista's electric operations, on a pro forma basis, are earning ~~6.71~~ 6.73 percent return on its invested rate base. Staff's recommended authorized return on investment is 8.25 percent. As a result, Staff's

[29] Response to Public Counsel Data Request 432.

analysis supports an additional electric revenue requirement of $~~24,543,000~~ 24,204,000, an overall increase in test year revenues of ~~6.29~~ 6.20 percent.

Q. Please summarize Staff's revenue requirement analysis for Avista's natural gas operations.

A. Staff's revenue requirement analysis shows that Avista's natural gas operations, on a pro forma basis, are earning 8.02 percent return on its invested rate base. Staff's recommended authorized return on investment is 8.25 percent. Staff's analysis supports an additional gas revenue requirement of $~~634,000~~ 613,000, an overall increase in test year revenues of ~~0.30~~ 0.29 percent.

Q. Does this conclude your testimony?

A. Yes.