Exh. EMA-7T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-220053

DOCKET NO. UG-220054

DOCKET NO. UE-210854

(consolidated)

REBUTTAL TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

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I. INTRODUCTION

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

A. My name is Elizabeth M. Andrews, and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the Regulatory Affairs Department as Senior Manager of Revenue Requirements.

Q. Have you previously provided testimony in this consolidated case?

A. Yes. My direct testimony and exhibits[1] in this proceeding generally covered accounting and financial data in support of the Company's need for the proposed electric and natural gas rate relief requested in the Company's filing. In that testimony, first I summarized the Company's revenue increase requests for the proposed Two-Year Rate Plan, effective December 21, 2022, and December 21, 2023. My direct testimony also provided the Company's proposed future reporting of "provisional" capital adjustments pro formed in this case, which include capital additions from January 2022 through December 2024, that are "subject to review and refund" per the Commission's Used and Useful Policy Statement.[2] In addition to discussing the Company's needed rate relief and capital reporting, I discussed the Company's proposal to return remaining deferred tax credit balances[3] to customers to mitigate, in part, the Company's requested increase

[1] See Exhs. EMA-1T through EMA-6.
[2] "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement"), issued January 31, 2020, in Docket No. U-190531.
[3] The as filed expected remaining Tax Credit balances for Washington electric and natural gas to return to customers was approximately $25.5 million and $12.5 million, respectively. The Company proposed to return these balances over a two-year amortization. These balances reflect the actual deferred tax credit balances as of December 31, 2020 for Washington electric and natural gas operations, adjusted for annual estimated incremental tax credit deferrals for 2021 – 2023, offset by annual estimated amortizations of the tax credit deferred balances per Order 08/05 in Dockets UE-200900 et. al.

effective December 2022, over a two-year period.[4] Next, my direct testimony generally described the Company's Wildfire Expense Balancing Account (WF Balancing Account) established in the Company's last GRC, Dockets UE-200900, et. al., and how that balancing account would operate over time. I also discuss the Company's request in this case to create a new balancing account, similar to that used for wildfire expenses, to track insurance expense, thereby protecting both customers and the Company with respect to significant costs expected during the Two-Year Rate Plan.

I also filed testimony[5] in this proceeding in support of the Full Multiparty Settlement Stipulation ("Settlement")[6], filed jointly by the Settling Parties[7] in these dockets (UE-220053, UG-220054, and UE-210854). The Settlement, if approved, resolves all issues in this proceeding, with the exception of matters affecting electric and natural gas revenue requirements, and such other issues as identified by Public Counsel. Lastly, I filed Supplemental Joint Testimony[8], filed jointly by the Settling Parties, in support of the Colstrip Tracker and Tariff Schedule 99.

Q. What is the scope of your rebuttal testimony?

A. My rebuttal testimony will provide Avista's response to the testimony of Public Counsel witnesses in regard to their opposition of the Settlement's proposed electric and natural

[4] The tax credits relate to deferred tax deductions for IDD #5, related to mixed services costs that are part of the capitalized book costs of utility property but can be capitalized to inventory and expensed for tax purposes as a cost of goods sold expenditure. The meter accounting method change allows Avista, for income tax purposes, to deduct meter costs instead of capitalizing them if the per unit cost is less than $200.
[5] Exh. JT-1T.
[6] Exh. JT-2.
[7] This Full Multiparty Settlement Stipulation is 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"), which does not join the Settlement Stipulation.
[8] See Exh. JT-3T.

gas revenue requirements over the Two-Year Rate Plan and the Insurance Expense Balancing Account, as well as specific adjustments impacting the revenue requirement.

Q. Would you please summarize your rebuttal testimony?

A. Yes. Below is a summary of the principal topics discussed in my rebuttal testimony:

- The Settlement as agreed to by the Settling Parties is the result of give and take by all Settling Parties, provides necessary rate relief to the Company to cover its necessary expenditures (capital and expenses) over the Two-Year Rate Plan, and results in an outcome that is fair, just and reasonable, and in the public interest.

- The Settling Parties have substantially reduced the agreed-upon electric and natural gas revenue requirement over the Two-Year Rate Plan from that as proposed by Avista in its direct filed case, by approximately $24 million (as filed of $83.1 million versus Settlement of $59.5 million).

- In stark contrast, Public Counsel has proposed a meager $5.1 million in total over the Two-Year Rate Plan, approximately $78 million below the Company's as filed request, and $54.4 million below that agreed to in the Settlement. Given the economic environment and inflationary increases experienced by Avista, Public Counsel's proposed revenues over the Two-Year Rate Plan are completely unreasonable, and do not stand up to this Commission's test of "fair, just and reasonable."

- Approval of Public Counsel's electric proposed Two-Year Rate Plan revenue requirement would result in ROE results of 6.5% in 2023 and 5.9% in 2024, or 290 – 350 basis points lower than current authorized of 9.4% for electric.

- Approval of Public Counsel's natural gas proposed Two-Year Rate Plan revenue requirement would result in ROE results of 7.6% in 2023 and 7.3% in 2024, or 180 to 210 basis points, lower than current authorized of 9.4%.

- Significant protections exist within the Settlement addressing concerns raised by Public Counsel. Those include:
  - An overall earnings test, protecting customers annually, should Avista actually have returns in excess of the authorized return.
  - Continuation of the Energy Recovery Mechanism (ERM) which tracks net power supply costs and benefits (including actual earned EIM benefits), protecting both customers and the Company.
  - Tracking of actual net rate base, ensuring capital investment included is prudently incurred and "used and useful" during the rate effective periods.
  - Specific expense balancing accounts, for wildfire expense and insurance

expense, ensuring customers pay no more and no less, than actual expenses incurred over the Two-Year Rate Plan.

- Each contested O&M and capital investment adjustment by Public Counsel is addressed and should be rejected as unreasonable.

- If the Company were to simply update its request for rate relief, to reflect current conditions, it would support a much higher revenue requirement from its originally filed case, reflecting known increases in cost of debt, IS/IT expenses, labor expenses, costs of investments, and overall increases in goods and services due to inflation, all driving costs higher in 2022, 2023 and 2024.

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

A. Yes. I am sponsoring Exh. EMA-8C and Exh. EMA-9. Exh. EMA-8C provides the confidential results as of June 2022 for the Company's pension and post-retirement medical costs. Exh. EMA-9 is Avista's response to Public Counsel DR 117, providing updated actual IS/IT expenses.

II. SUMMARY OF SETTLEMENT ELECTRIC AND NATURAL GAS REVENUE REQUIREMENT

Q. Please provide a brief overview of the Settlement Agreement impacting the electric and natural gas revenue requirement.

A. After extensive discussions, the Settling Parties agree that, effective with service on and after December 21, 2022, for Rate Year 1 ("RY1"), Avista's annual electric revenues would increase by $38.0 million above October 1, 2021 approved levels, representing a $14.9 million reduction from the Company's original request of $52.9 million. For Rate Year 2 ("RY2"), the Parties agree, that effective with service on and after December 21, 2023, Avista's annual electric revenues would increase by $12.5 million above RY1 levels, representing a $4.6 million reduction from the Company's original RY2 request of $17.1 million.

In addition, the Settling Parties, agree to an annual overall natural gas revenue increase of $7.5 million effective December 21, 2022, above October 1, 2021 approved levels; this is a $3.4 million reduction from Avista's original request of $10.9 million. For RY2, the Parties agree that effective with service on and after December 21, 2023, Avista's annual natural gas revenues would increase by $1.5 million above RY1 levels, representing a $0.7 million reduction from the Company's original RY2 request of $2.2 million.

The overall increase in base electric rates in RY1 would be 6.9 percent under the Settlement, prior to Schedule 78 Customer Tax Credit refund described below – i.e., down from Avista's original request to increase base electric rates by 9.6 percent. The Settling Parties agree that the electric Tax Customer Credit of $27.6 million will be returned to customers over a two-year period beginning December 21, 2022, through December 20, 2024, resulting in an overall billed rate increase of 4.3 percent for RY1. The incremental overall increase in base electric rates in RY2 would increase by 2.1 percent under the Settlement, down from Avista's original RY2 request to increase base electric rates by 2.8 percent.

For the overall natural gas increases, base rates for RY1 would increase overall by 6.5 percent with the Settlement, prior to Schedule 178 Customer Tax Credit refund described below – i.e., down from Avista's original request to increase base natural gas rates by 9.5 percent. The Settling Parties agree that the natural gas Tax Customer Credit of $12.5 million will be returned to customers over a two-year period beginning December 21, 2022, through December 20, 2024, resulting in an overall increase in billed rates of 0.7 percent. The incremental overall increase in base natural gas rates in RY2 would increase by 1.2 percent under the Settlement, down from

Avista's original RY2 request to increase base electric rates by 1.7 percent.

Further, with the exception of certain items specifically called out below (e.g., overall Rate of Return), the overall electric and natural gas revenue requirements over the Multi-Year Rate Plan (RY1 and RY2) are part of a "black box" settlement, reflecting the give-and-take on multiple issues. The Settling Parties have specifically agreed to an authorized Rate of Return of 7.03 percent.[9] Each of the Parties (with the exception of Public Counsel), ultimately agreed to concessions on matters which would not have been agreed to if each of the Parties were to proceed to evidentiary hearings.

The Settlement also addresses other items agreed to by the Settling Parties, including electric and natural gas rate spread and rate design, as well as certain miscellaneous agreed to items including, but not limited to, the development of a separate tracking mechanism and tariff Schedule 99 "Colstrip Tracker," for all Colstrip Unit 3 and 4 costs (exclusive of transmission investment and those costs included in the ERM) and the exclusion of all costs associated with the Colstrip Unit 3 and 4 Dry Ash Project from the agreed-upon revenue requirement, agreement on Wildfire and Insurance expense balancing accounts, Capital Project Review, Pro Forma Power Supply and ERM baseline, Performance Based Ratemaking metrics, specific Low Income Terms, as well as agreement regarding the amortization of certain deferrals, as further described in the Settlement (see Exh. JT-2). As such, the Settlement accomplishes a lot.

[9] The 7.03 percent also represents the agreed-upon "Allowance For Funds Used During Construction" (AFUDC) for electric and natural gas operations.

III. PUBLIC COUNSEL'S PROPOSED ELECTRIC AND NATURAL GAS REVENUE REQUIREMENT

Q. Please summarize Public Counsel's opposition to the Settlement electric and natural gas revenue requirements.

A. Representing Public Counsel, Witness Coppola argues the "rate increases contained within the Settlement are still excessive and unnecessary" and therefore he "recommend[s] that the Commission modify or reject the proposed Settlement and adopt Public Counsel's proposed revenue requirement."[10]/[11] Although Public Counsel acknowledges the Settlement revenue requirements agreed to over the Two-Year Rate Plan are the result of a "black box" and does not specifically identify cost and revenue items within Avista's rate case filing, Public Counsel proposed revenue requirement adjustments to the Settlement utilizing the Company's initial rate case filing.[12] As described by Witness Coppola, Public Counsel recommends an electric revenue requirement deficiency of only \$0.4 million in RY1 and \$2.8 million in RY2, and a natural gas revenue deficiency of \$1.7 million in RY1 and \$0.2 million in RY2.[13]

A. Summary of Public Counsel's Proposed Revenue Increases and Impact on Avista Returns

Q. Please provide a summary comparison of the Settlement's electric and natural gas revenue requirement amounts agreed to by the Parties over the Two-Year Rate Plan versus that proposed by Witness Coppola.

A. The Settlement revenue requirement amounts agreed to by the Settling Parties for

[10] Coppola Exh. SC-1CT, pp. 9, ll. 7-11.
[11] Public Counsel does, however, support the Customer Tax Credit of \$27.6 million for electric and \$12.5 million for natural gas, to be returned to customers over a two-year period beginning December 21, 2022, through December 20, 2024.
[12] Coppola Exh. SC-1CT, pp. 8:17 – 9:6.
[13] Coppola Exh. SC-1CT, pp. 10, ll. 9 - 14.

the Two-Year Rate Plan versus that proposed by Public Counsel Witness Coppola, and that proposed by Avista in its direct filed case, is shown in Table No. 1.

Table No. 1 – Revenue Requirement Summary – Comparison

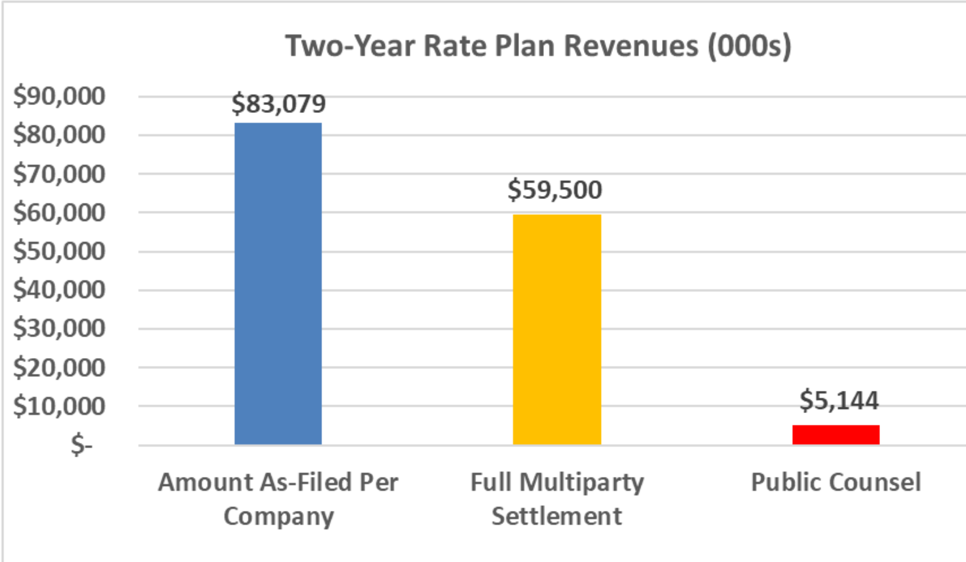
Summary of Two-Year Rate Plan Revenue Requirement (000s):
As-filed vs Settlement vs Public Counsel

	Electric		Natural Gas		Two-Year Total
	RY1	RY2	RY1	RY2	
Amount As-Filed Per Company[1]	**$ 52,852**	**$ 17,133**	**$ 10,922**	**$ 2,172**	**$ 83,079**
Full Multiparty Settlement[2]	$ 38,000	$ 12,500	$ 7,500	$ 1,500	$ 59,500
Public Counsel[3]	$ 382	$ 2,849	$ 1,676	$ 237	$ 5,144

[1]As-filed ROR 7.31% (Current Authorized 7.12%).
[2]Settlement ROR 7.03%.
[3]Public Counsel proposed ROR 6.46%.

As shown in Table No. 1, the Settling Parties have substantially reduced the agreed-upon electric and natural gas revenue requirement over the Two-Year Rate Plan from that as proposed by Avista in its direct filed case, by approximately $24 million (as filed of $83.1 million versus Settlement of $59.5 million). The revenue requirement amounts agreed to by the Parties over the Two-Year Rate Plan, provides necessary rate relief to the Company to cover its necessary expenditures (capital and expenses) over the two-year period 2023 and 2024. In stark contrast, Public Counsel has proposed a meager $5.1 million <u>in total</u> over this same two-year period, approximately $78 million below the Company's as filed request, and $54.4 million below that agreed to per the Settlement. Chart No. 1 below illustrates this variation.

<u>Chart No. 1 – Two-Year Rate Plan Revenues</u>



Noteworthy, and impacting the revenue requirement, as explained further below, is that the Settling Parties have agreed to a 7.03% Rate of Return ("ROR"). This compares to the Company's as-filed ROR of 7.31%, and is also lower than the Company's <u>current authorized</u> ROR of 7.12%. For its part, Public Counsel proposes a substantial reduction to the Company's filed and settled ROR (and its current ROR of 7.12%), proposing an ROR of 6.46%.

Q. If this Commission were to approve Public Counsel's proposed revenue requirement over the Two-Year Rate Plan, what would be the expected resulting returns for Avista's Washington jurisdiction in 2023 and 2024?

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

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

Resulting ROE of Proposed Revenue Positions of Public Counsel			
	ROE Electric	ROE Natural Gas	Current Authorized
Current Authorized			**9.4%[1]**
RY1	**6.50%**	**7.60%**	
RY2	**5.90%**	**7.30%**	

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

Similarly, as shown in Table No. 3 below, approval of the recommended revenue increases proposed by Public Counsel per Table No. 1 above, would result in significantly lower RORs 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%**	

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 to 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 to 7.03%. The 7.03% agreed to by the Settling Parties itself is a reduction from the current authorized ROR of 7.12%.

Q. Are Public Counsel's proposed electric and natural gas revenue requirements

over the Two-Year Rate Plan, or the resulting expected returns if approved, reasonable?

A. No, the returns are not reasonable. Irrespective of the specific adjustments that Public Counsel proposes, it is unrealistic for Public Counsel to argue their proposed revenue requirement increases allow Avista a reasonable opportunity to earn its allowed rate of return over the Two-Year Rate Plan.

As discussed further below, and by other Company witnesses Mr. Ehrbar and Dr. Forsyth, given the economic environment and inflationary increases experienced by Avista and across the country, as even recognized by Public Counsel's very own Witness Dahl, Public Counsel's proposed revenues over the Two-Year Rate Plan are completely unreasonable, and do not stand up to this Commission's test of "fair, just and reasonable." Certainly not a reasonable end result. Their proposed incremental new revenues would not cover the Company's existing unrecovered costs and regulatory lag, much less the incremental costs through the 2023 and 2024 rate-effective periods.

Public Counsel's proposed revenues and resulting levels of returns over the Two -Year Rate Plan would not provide the Company with a reasonable opportunity to earn its authorized rate of return. Further, it will continue to cause degradation of the Company's already existing substantial under-earning and regulatory lag results experienced to date[14]. This speaks to the severe impact on the Company's already existing significant regulatory lag, if rate year levels are not properly set – including the expected low returns, if rate relief is not approved and if this Commission were to approve the revenue requirement levels and ROR as proposed by Public

[14] The Company's current actual Washington electric and natural gas ROEs as of June 30, 2022 is 6.75% and 9.25%, respectively. These balances will continue to decline as expenditures related to capital investment and O&M/A&G expenses continue to increase through the 2023 and 2024 rate effective periods.

Counsel. This testimony, reiterates the importance going forward of setting the rate year revenue requirements at an appropriate level – i.e., "getting the first year right".[15]

B. Public Counsel's Primary Adjustments Impacting Its Proposed Revenues

Q. What are the primary adjustments proposed by Witness Coppola to produce its revenue requirements for Rate Year 1 and Rate Year 2 over the Two-Year Rate Plan?

A. As noted within Table No. 1 above, Public Counsel proposes significantly less electric and natural gas revenue requirements over the Two-Year Rate Plan than that proposed by the Settling Parties. There are four primary areas in which Public Counsel proposes to adjust Avista's as-filed case to produce their proposed revenue requirements over the Two-Year Rate Plan, as shown in Table No. 4 below.

Table No. 4 – Public Counsel Primary Adjustments[16]

	Public Counsel Proposed Revenue Requirement				
		Electric		Natural Gas	
	Public Counsel Proposed Adjustments:	**RY1**	**RY2**	**RY1**	**RY2**
	Amount As Filed Per Company	**$ 52,852**	**$ 17,133**	**$ 10,922**	**$ 2,172**
	Public Counsel Adjustments:				
1)	Cost of Capital - 6.46%	$ (23,024)	$ (898)	$ (5,794)	$ (227)
2)	Rate Base &	$ (7,242)	$ (8,662)	$ (1,425)	$ (774)
	O&M Offsets Reversal	$ 234	$ 170	$ 37	$ 11
3)	EIM Revenues	$ (12,065)			
4)	O&M Reductions	$ (10,373)	$ (4,894)	$ (2,064)	$ (945)
	Public Counsel Proposed Revenue Requirement	**$ 382**	**$ 2,849**	**$ 1,676**	**$ 237**

[15] As stated at Mr. Vermillion's testimony, at Exh. DPV-1T, pp. 20:16 - 21:3 "… it is extremely important that the Commission approve a revenue requirement that "gets the first year right".[15] If the Commission approved a multiyear rate plan with the first year revenue requirement lacking in terms of recovery of capital investment, expenses, even after inclusion of revenues expected in the first year of a rate plan, the utility would underearn in the first year. By its very nature that impact would carry over into every subsequent rate year. There is just no amount of prudent and reasonable cost cutting that would overcome the lag built into a subsequent year of the plan. As such, Avista is seeking to "get the first year right", and has therefore included the revenues, expenses and capital additions that will occur in RY1.

[16] Coppola Exh. SC-1CT, Table 1, pp. 11.

As noted by Witness Coppola, Public Counsel's adjustments to the Company's filed case include:

1. A lower ROR of 6.46% in contrast with the Company originally proposed ROR of 7.31% (and the Settlement's proposed 7.03%). This adjustment results in a reduction in revenue requirement in Rate Year 1 (RY1) of $23.0 million for electric and $5.8 million for the natural gas, and for Rate Year 2 (RY2) of $0.9 million for electric and $0.2 million for the natural gas.[17]

2. Reductions to electric and natural gas expected capital additions in each of the two rate years reduces the electric revenue requirement by $7.2 million in RY1 and $8.7 million in RY2, and reduces the natural gas revenue requirement by $1.4 million in RY1 and $0.8 million in RY2.[18 / 19] Netted within this category, are O&M expense offsets on capital investment, removed by Witness Coppola to match the removal of the investment.[20] The removal of these specific offsets to expense results in an increase to the electric revenue requirement by $0.2 million in both RY1 and RY2, and increases the natural gas revenue requirement by $37,000 in RY1 and $11,000 in RY2.[21]

3. Additional Public Counsel-projected financial benefits from the Company's participation in the Energy Imbalance Market ("EIM") would decrease the revenue requirement for RY1 by $12.1 million.[22]
4. Reductions to electric and natural gas O&M expenses, such as insurance costs, employee benefits and other miscellaneous expenses for both rate years RY1 and RY2, reduces the Company's electric revenue requirement in RY1 by $10.4 million and $4.9 million in RY2, and reduces the natural gas revenue requirement in RY1 by $2.1 million and $1.0 million in RY2.[23]

Q. Please discuss the Company's view of Public Counsel's proposed 6.46% ROR.

A. As discussed above, the Settlement supports a "black box" 7.03% ROR. As discussed further by Mr. Ehrbar, although the components of the agreed-upon rate of return were not explicitly agreed to, the proposed lower rate of return of 7.03% could be simply calculated including the same 48.5% equity layer and 9.4% ROE currently authorized, and a cost of debt of

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[17] Coppola Exh. SC-3.
[18] Coppola Exh. SC-40 and SC-41.
[19] Coppola adjustments to rate base, per Table 2 of Coppola Exh. SC-1CT, pp. 13 is discussed later in my testimony.
[20] Coppola Exh. SC-42.
[21] *Id.*
[22] Coppola Exh. SC-1CT, pp. 13:6-12.
[23] Coppola Exh. SC-44.

4.8%.[24] For Avista, accepting a ROR of 7.03% was part of the give-and-take by Avista to reach Settlement with the Settling Parties. Given the economic environment and inflationary issues, as well as increased interest rates as discussed by Mr. McKenzie in his testimony, absent the Settlement it would be completely reasonable for Avista to continue to support a much higher ROE and rate of return.

For its part, Public Counsel's proposed ROR of 6.46% is clearly unreasonable, reducing Public Counsel's proposed revenue requirement <u>an incremental $19.1 million</u> over the Two-Year Rate Plan, over and above the revenue requirement reduction included as a result of the Settlement ROR of 7.03%, as can be seen in Table No. 5 below.

<u>Table No. 5 – Revenue Requirement Impact of ROR</u>

Reduction to Revenue Requirement Due to ROR (000s)				
	Electric		**Natural Gas**	
Revenue Requirement Reduction:	**RY1**	**RY2**	**RY1**	**RY2**
Settlement ROR @ 7.03%	$ (8,324)	$ (324)	$ (2,095)	$ (83)
Public Counsel (PC) ROR @ 6.46%	$(23,024)	$ (898)	$ (5,794)	$ (227)
PC Incremental Reduction Above Settlement Reduction	$ 14,700	$ 574	$ 3,699	$ 144
Total Difference over Two-Year Rate Plan				$ 19,117

Beyond this, it is important to recognize, as discussed by Mr. Ehrbar in his direct and rebuttal testimonies,[25] protections in the form of "checks and balances" were embedded in the Senate Bill 5295 legislation process, to ensure there is a utility earnings test to protect customers

[24] 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.

[25] See Ehrbar direct testimony at Exh. PDE-1T and rebuttal testimony at Exh. PDE-2T.

(and notably, not an earnings floor), in which the Company would defer and refund to customers any amounts determined owed under the SB 5295 Earnings Test.[26]

Q. Specific to Public Counsel's proposed level of EIM benefits to be included in base power supply, what would you like to address?

A. As discussed in the Settlement, the Settling Parties agreed to the 2023 Pro Forma Power Supply expense, including the costs and revenues included in the ERM and ERM baseline, as filed by the Company.[27] The Settling Parties also agreed that Avista will not perform a 60-day power cost update prior to new rates going into effect for each year of the Two-Year Rate Plan (prior to RY1 or RY2), that the ERM Baseline as filed will remain in effect.[28] Embedded in the as filed ERM baseline and 2023 Pro Forma Power Supply expense, as discussed by Mr. Kinney, is an annual EIM benefit of $5.8 million.[29]

Public Counsel witness Earle, while supporting the 2023 Pro Forma Power Supply expense included in the case, proposes an incremental increase of approximately $12.1 million in EIM benefits above that agreed to per the Settling Parties. Mr. Kinney addresses in his rebuttal testimony Public Counsel's suggested level of EIM benefits, concluding expected EIM benefits are unknown at this time, and further it is unreasonable to extrapolate a single month of EIM benefits to project benefits across all seasons of the year. Acceptance of Witness Coppola's adjustment by this Commission, without otherwise performing a full 60-day update of all power supply net costs, would be inappropriate and understate the net power supply costs over the Two-

[26] RCW 80.28.425(6) ("SB 5295 Earnings Test"). Per the Settlement, the SB 5295 Earnings Test would be adopted, removing the Company's current earnings test under its Decoupling Mechanism, per Exh. JT-2, p. 18, paragraph 28 (e).
[27] Exh. JT-2, pp. 8, paragraph 15.
[28] ERM Baseline provided as Attachment C of Exh. JT-2.
[29] Kinney rebuttal, Exh. SJK-13T.

Year Rate Plan.[30]

For its part, Avista will bear the risk of fluctuations in net power supply costs of foregoing a power supply update before RY1 and RY2 rates go into effect. As discussed by Mr. Kinney, Avista will bear the risk of fluctuations, mainly due to current volatile market prices and changes in or additions of new contracts, for example. While this is risky for Avista, the nature of the ERM mechanism also provides protections to customers by way of the deadband and sharing bands. Should expenses or revenues be lower or higher than that filed originally in this case, such as those from participation in the EIM, they will be shared among customers and the Company based on the deadband and sharing bands.[31]

Q. Specific to Public Counsel's proposed net Rate Base and O&M Offset adjustments, what are your general views on such adjustments?

A. As discussed previously, the Settling Parties agreed to remove all Colstrip Unit 3 and 4 capital additions beyond test period levels, including the removal (and subsequent write-off) of the 2022 Colstrip Dry Ash Project from the revenue requirement,[32] as well as the Capital Project Review process as proposed by the Company.[33] As proposed by the Company, the Capital Project Review process (Provisional Capital Reporting) includes required reporting on all provisional capital investment included in the Company's case for capital investment from January 2022 through December 2024. This reporting provides a means for the review of actual capital

[30] *Id.*
[31] For example, as discussed by Mr. Kinney at Exh. SJK-13T, pp. 5, with the recent volatility in wholesale natural gas and power prices, the ERM has been in the 90/10 surcharge sharing position and is projected to end the year in this sharing band. That means Avista is projected to absorb the first $4 million of increased net power supply expense, and then absorb an additional $3 million of the next $6 million of increased net power supply expense, all before reaching the 90% customer, 10% Company sharing band.
[32] Exh. JT-2, pp. 6 – 7, paragraph 14.
[33] Exh. JT-2, pp. 10 – 11, paragraph 20. Public Counsel supports the Capital Projects Review component of the Settlement, per Dahl Exh. CJD-1T, pp. 7:12 – 8:1.

investments as a check of capital additions requested and approved in this case. This process allows for an audit of all capital investment annually that will validate the actual investment, and level of plant investment, ultimately that is used and useful during the rate-effective periods.

For its part, Public Counsel supports the Colstrip and Capital Project Review process components.[34] However, Witness Coppola includes a reduction to rate base related to 16 specific capital projects, impacting its proposed revenue requirements over the Two-Year Rate Plan. Table No. 6 below provides Public Counsel's revenue requirement impact of their rate base related adjustments (including the removal of related O&M expense offsets).

Table No. 6 – Public Counsel Proposed Reduction for Rate Base and O&M Offsets

Public Counsel Proposed Rate Base & O&M Offsets Adjustments :				
	Electric		Natural Gas	
	RY1	RY2	RY1	RY2
Rate Base &	$ (7,242)	$ (8,662)	$ (1,425)	$ (774)
O&M Offsets Reversal	$ 234	$ 170	$ 37	$ 11
Revenue Requirement Total Adjustment	**$ (7,008)**	**$ (8,492)**	**$ (1,388)**	**$ (763)**

Later in my testimony I will address Witness Coppola's specific capital investment adjustments, and explain why these adjustments are unfounded. Further, it is important to recognize this Commission can be assured that the Provisional Capital Review Process agreed to by the Settling Parties (and supported by Public Counsel) will provide protection for customers; all approved capital additions included during the Rate Plan, will be subject to review and refund, if applicable. This review process requires Avista to file annually its support of its prior year Capital investments, to validate that such plant is, in fact, in-service, is used and useful, at what cost (after any offsetting benefits), and prudently incurred. Refunds of provisional capital

[34] Dahl Exh. CJD-1T, pp. 25:17 – 26:24

additions will occur over the Two-Year Rate Plan of any overcollection from customers as a result of overall investments approved in this case by the Commission that are not used and useful. This will provide the Commission with assurance that the provisional capital included prior to the rate effective period (for 2022 capital) and during RY1 (2023 capital) and RY2 (2024 capital) is in service for customers during the rate-effective periods, or will be subject to refund, with interest.

Q. Finally, specific to Public Counsel's proposed O&M adjustment to insurance expense, what would you like to address?

A. As discussed previously, the Settling Parties agreed to update the Company's Wildfire Expense Balancing Account baseline, as well as establish a new Insurance Expense Balancing Account and baseline, reflecting in the revenue requirement the baseline expense levels of each, as proposed by Avista. For the new Insurance Expense Balancing Account, the Parties recognize that Avista would bear the burden of supporting such deferrals when seeking recovery in a future rate proceeding. The establishment of this balancing account is non-precedential, and its continuation may be challenged in a future proceeding.[35] Furthermore, the Wildfire Expense Balancing Account baseline would be increased to $5.1 million (Washington electric share)[36] and the Insurance Expense Balancing Account baselines would be set at $8,271,000 Washington electric and $1,746,000 Washington natural gas[37], over the Two-Year Rate Plan.

For its part, Public Counsel argues that, although the Company experienced significant increases in insurance costs during 2021 and 2022, Witness Coppola believes insurance costs will

[35] Exh. JT-2, p. 8, paragraph 16.
[36] Exh. JT-2, footnote 7, p. 8, and ss filed by Avista, and described at Andrews Exh, EMA-1T, starting at pp. 57, line 16 – pp. 59, line 17.
[37] Exh. JT-2, footnote 8, p. 8, and as described by Avista at Andrews Exh, EMA-1T, starting at pp. 64, line 23, and amounts updated per PC-DR-103C (included as Coppola Exh. SC-6C).

moderate in 2023 and 2024. Witness Coppola, therefore, accepts the Company's 2022 projections, but uses certain inflation factors to project 2023 and 2024. Witness Coppola also argues that an insurance expense balancing account is not necessary.[38]

As discussed in the Company's direct testimony (Exh. EMA-1T), and further discussed in my rebuttal testimony below in Section IV and separately addressed by Company witness Mr. Brandkamp (Exh. REB-1T), increases in overall insurance expense remains an ongoing matter of great concern for the Company, especially with regard to insurance increases as a result of wildfire risk. To the extent insurance costs experienced during the Rate Plan differ (given the recent volatility of such costs), customers are protected by the very nature of the Insurance Expense Balancing Account. Just as with the Wildfire Expense Balancing Account approved by the Commission in Docket UE-200900, et. al., the Insurance Expense Balancing Account will ensure that the actual insurance expense, varying up or down from that included per the established baseline, will be deferred, resulting in customers covering no more and no less than actual insurance expense paid by the Company.

Q. In summary, then, it appears that there are a number of protections for customers built into the Settlement. Is that the case?

A. Yes. There are significant protections in place for customers to address Public Counsel's concerns: (1) the overall earnings test, protecting customers annually for any over-earnings by Avista, (2) tracking of net power supply costs and benefits, including actual earned EIM benefits, through the ERM deadband and sharing bands within the power supply ERM mechanism, (3) tracking of actual net rate base, ensuring capital investment included in net rate

[38] Coppola Exh. SC-1CT, pp. 24:17 – 25:5.

base is prudently incurred and "used and useful" during the rate-effective periods, and finally (4) specific expense balancing accounts, such as the existing wildfire expense and new insurance expense balancing accounts, ensuring customers pay no more and no less, than actual wildfire and insurance expenses incurred over the Two-Year Rate Plan. These protections alone address areas of Public Counsel concern totaling $35.9 million and $13.3 million in RY1 and RY2, respectively, for electric, and totaling $6.8 million and $1.2 million in RY1 and RY2, respectively, for natural gas.[39]

Other issues raised by Public Counsel relate to specific O&M reductions, which are individually addressed below. Public Counsel specifically removes, as shown in Table No. 4 above, revenue requirement amounts for O&M expense of $10.4 million and $4.9 million in RY1 and RY2, respectively, for electric, and totaling $2.1 million and $1.0 million in RY1 and RY2, respectively, for natural gas.

Q. With regards to costs included for capital investment and O&M, do the amounts as filed by the Company (and considered in the Settlement electric and natural gas revenue requirement) include recent expectations of increased costs impacting 2022, or those in 2023 and 2024?

A. No, they do not. Beyond the discussion of costs included in the Company's filed case and adjusted to reflect the Settlement revenue requirement amounts over the Two-Year Rate Plan, certain costs have increased after the Company's original filing, and will be higher through the rate effective periods. As noted by Dr. Forsyth, in the first half of 2022 (through June), inflation

[39] Identified amounts are the result of Public Counsel's proposed incremental reductions to revenue requirement amounts by rate year and service from Table Nos. 5 and 6 above, plus incremental EIM benefits in RY1 and the separate decreases associated with insurance expense.

year-over-year associated with goods inputs (excluding food and energy), service inputs, and construction inputs averaged approximately 20%, 10%, and 13%, respectively. Further increases in inflation related to fuels, such as vehicle fuel costs, in 2021 and the first half of 2022 (through June), year-over-year for regular gasoline were 67% and 65%, respectively, and diesel price increases averaged 80% and 78%, respectively. Further increases in interest rates and market risk have occurred as discussed by Mr. McKenzie, and volatility in the power supply market, as discussed by Mr. Kinney.

The as-filed revenue requirement – filed in January of 2022, reflected costs known as of December 2021. These significant changes, therefore, have occurred since the Company's original filing. On rebuttal, Avista would have provided support for any updated information for these known changes, supporting an even higher amount of rate relief.

Through the Settlement, the Company and the Settling Parties have agreed to revenue requirement increases for the Two-Year Rate Plan. These levels, given the economic environment and known changes in costs, will require Avista to manage its costs over the Two-Year Rate Plan in order to achieve the authorized returns approved by this Commission – and it will be a challenge to do so. By no means will it be an easy task. As noted by Mr. Ehrbar at Exh. PDE-2T, with regard to why, then did Avista enter into the Settlement:

> Avista did what it believed was possible within the confines of this case, and the positions of the parties and the ligation risks involved. Avista weighed all of the issues raised by the Parties during settlement, did our own "calculus" to determine if we could work with the revenue requirements ultimately agreed to, all of the Settlement conditions (and the new costs of implementing such conditions that were not included in the original case), and determined that the combined package was equitable for all. Clearly Public Counsel's position on revenue requirement is not at all within the realm of reasonableness.

In summary, the revenue requirement and rate base levels supported in the Settlement by the Settling Parties were fully evaluated, are supported by various customer protections and meet the "fair, just and reasonable" test as required by this Commission, ensuring the end result is in the public interest.

<u>IV. REBUTTAL OF PUBLIC COUNSEL CONTESTED O&M ADJUSTMENTS</u>

Q. Please address the specific O&M reductions and O&M adjustments contested by Public Counsel.

A. Below, I address the specific adjustments to O&M as proposed by Witness Coppola, as follows:

a. Insurance - PF 3.12 (RY1), PF 5.05 (RY2)
b. Vegetation Management Expense
c. Customer Service Labor
d. Pension & OPEB – PF 3.09 (RY1), PF 5.03 (RY2)
e. Miscellaneous O&M – PF 3.14 (RY1), PF 5.07 (RY2)
f. Information Services / Information Technology Expense - PF 3.13 (RY1)
g. CETA Labor Expense - PF 3.16 (RY1)

The specific adjustments listed above, with the exception of items b.) Vegetation Management Expense and c.) Customer Service Labor, relate to Pro Forma Adjustments proposed by the Company in its direct filed case, details of which were described in my testimony at Exh. EMA-1T and included in the native revenue requirement models provided as Exh. EMA-2 (electric) and Exh. EMA-3 (natural gas).

<u>A. Insurance Expense - PF 3.12 (RY1) / PF 5.05 (RY2) (Electric and Natural Gas)</u>

Q. Please describe Witness Coppola's recommendations with regard to insurance expense.

A. Public Counsel argues that although "the Company experienced significant increases in insurance costs during 2021 and 2022" insurance costs will moderate in 2023 and 2024."[40] Witness Coppola, therefore, accepts the Company's 2022 expense levels, but uses certain inflation factors of 2.4% in 2023 and 2.3% in 2024 to project the insurance expense levels in each year. Furthermore, Witness Coppola argues that an insurance expense balancing account is not necessary.[41] Witness Coppola's adjustments result in revenue requirement reductions of approximately $2.2 million in RY1 and $1.8 million in RY2 for electric, and $42,000 for RY1 and $102,000 for RY2 for natural gas.[42]

Q. Does the Company believe Witness Coppola's adjustments based on use of inflation factors of 2.4% and 2.3% in 2023 and 2024, respectively, are reasonable?

A. No, it does not. As discussed below, and addressed further by Mr. Brandkamp, Witness Coppola's use of arbitrary inflation factors for 2023 and 2024 are not reasonable. Mr. Brandkamp will address Public Counsel's comments with regard to changes and causes in insurance expense over time, as well as communications with insurance brokers, which guide his expectations of insurance increases and expense levels in 2023 and 2024.[43] I will, however, address overall changes in insurance expense impacting the Company's request for rate relief over the Two-Year Rate Plan, as well as the need for the Insurance Expense Balancing Account.

Q. What information was provided to Witness Coppola?

A. The Company provided testimony (Exh. EMA-1T) and detailed responses to discovery regarding actual and expected increases in the various insurance premiums paid by Avista. As noted by Witness Coppola, in the Company's direct case and through discovery, it

[40] Coppola Exh. SC-1CT, p. 24:20–23.
[41] *Ibid*, pp. 24:17 – 25:5.
[42] *Ibid*, p. 24:12-14.
[43] See Brandkamp rebuttal testimony at Exh. REB-1T.

provided the calculations of its insurance expense for 2022, 2023 and 2024, as well as the actual premiums paid in 2021 and early 2022 that it used to estimate insurance costs for those future years.[44] Through discovery, the Company provided this information (2022 actual invoices), updating its estimated 2023 and 2024 expense levels. Witness Coppola has provided this updated evidence (Public Counsel data request 103C) as Exh. SC-6C.

Table No. 7 below provides a summary of the year-over-year change in overall insurance expense based on the updated actual 2022 invoices, making use of non-confidential information.

Table No. 7 – Insurance Expense 12/2020 through 12/2024[45]

Insurance Expense (000s)					
				PF RY1*	**PF RY2***
	Authorized Level	**Test Period Level**	**Invoiced Levels***	**Expected Levels**	**Expected Levels**
	12.31.2020	**09.30.2021**	**12.31.2022**	**12.31.2023**	**12.31.2024**
System Expense	$ 6,655	**$ 9,282**	$ 13,760	**$ 15,534**	**$ 17,171**
Growth in Expense		**39.5%**	**48.2%**	12.9%	10.5%
Percent Increase in Insurance 2022 versus Authorized			**106.8%**		
Percent Increase in Insurance 2023 Expected versus Authorized				**133.4%**	
Unrecovered Expense in 2022 (System)			$ 7,105		
Washington Share of Unrecovered Insurance in 2022			**$ 5,305**		
***These balances were updated Q'1 of 2022 with final invoices, revising the amounts slightly to reflect actual 2022 invoices.**					

As can be seen in Table No. 7 above,[46] actual system insurance expense levels have increased approximately 107% in 2022, versus current authorized levels, based on 2020 actual system expense approved in Docket UE-200900, et. al. The increase in 2022 is an approximate increase

[44] Coppola Exh. SC-1CT, p. 20:6-15. See also Andrews direct, Exh. EMA-1T at 74:1–19

[45] Table No. 7 reflects Table No. 11 included in Exh. EMA-1T, p. 66, updated to reflect actual 2022 invoices.

[46] Actual expenses as of 12ME 09.2021 and 12.2022 noted above, reflect all insurance pro formed in this case including general liability, D&O Liability, property, and "other" insurance including, worker's comp, cyber and Colstrip related insurance. In past general rate cases the Company had not pro formed the "other" insurance premiums because these types of insurance had not materially changed year over year, leaving test period amounts in those cases unchanged. That is no longer the case, especially with regards to cyber insurance, while currently was approximately $383,000 in the historical test period, it is expected to increase to approximately $890,000 in 2023, over a 132% premium increase.

of 48% above test period levels ending 09.30.2021. The Company then anticipates incremental system increases above 2022 actual expense of approximately 13% and 11% in 2023 and 2024, respectively.

Q. What conclusions does Witness Coppola make based on this information?

A. Witness Coppola states, at p. 19 of Exh. SC-1CT, that based on his review, "… it is apparent that the major increase in insurance costs began in 2021 for general liability coverage, following several deadly wildfires in California and some wildfires in the Company's Washington service area."[47] Witness Coppola further notes that, in the five years prior to 2021, from 2016 to 2020, general liability insurance costs kept to a relatively narrow range. In 2021, insurance costs for general liability doubled, and the Company had forecasted further increases of 51% in 2022.[48] Witness Coppola observes at p. 20:16 – 21:4 of Exh. SC-1CT:

> Based on my review of Avista's testimony and discovery responses, the two main drivers of the increase in insurance costs for the Company have been wildfires and recent incidents of corporate cyberattacks. <u>As insurance companies experience losses from those events and perceive a higher risk of future losses, they increase insurance premiums to compensate for current and future financial losses. The increases in premiums for general liability, property insurance, cyberattacks, and to some degree D&O insurance in 2021 and 2022 reflect those actual losses and perceived future risks of potential losses, **which are industry wide and not always company specific**</u>. (emphasis added)

Witness Coppola also theorizes that "as insurance companies get past their initial reaction to the apparent higher risk of insurance losses and are able to better assess real losses versus perceived losses for specific companies, insurance premiums will tend to moderate."[49] Beyond supposed moderating premiums, Witness Coppola argues costs will moderate due to a realization

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[47] Coppola Exh. SC-1CT, p. 19:5-8.
[48] *Ibid*, p. 19:8-12.
[49] Ibid, p. 21:5-8.

of benefits from the Company’s Wildfire Resiliency Plan, as well as the lack of insurance claims paid out to date and no losses from wildfires or significant issues form cyber-attacks to date.

Q. Do Witness Coppola’s generalizations around future insurance expense premiums hold any basis in fact?

A. No. Witness Coppola’s general observations do not outweigh the Company’s informed judgement surrounding its conservative estimates of increased costs of approximately 13% and 11% in 2023 and 2024. As discussed by Mr. Brandkamp, when determining its expected increases, the Company relied primarily on discussions with insurance brokers and their outlook about potential future increases in premiums. In short, Mr. Brandkamp is “in the market”; Mr. Coppola is not.

Q. Turning now to Witness Coppola’s assertion that the Commission approve increases in insurance expense based on Avista provided “projected inflation factors”,[50] are the inflation factors referenced by Witness Coppola appropriate to use in this case for determining certain expense levels in 2023 or 2024?

A. No, they are not. Witness Coppola suggests in various adjustments that it is appropriate to use the CPI inflation factors of 2.4% and 2.3% in 2023 and 2024, respectively, which were initially provided by Avista in April of 2022, in response to Public Counsel Data Request No. 121 (“PC DR 121”). As discussed by Dr. Forsyth within his rebuttal testimony (Exh. GDF-3T), he explained in response to PC DR 121 that the primary purposes of using those CPI inflation factors are for tracking specific customer-related items. Those percentages are not related to insurance costs, not related to utility costs, and are not representative of the inflation pressures

[50] Ibid, p. 22:19 – 23:14.

being borne by Avista. PC DR 121 in no way has any bearing on insurance risks borne by Avista, or expected insurance premiums imposed by insurance brokers on Avista's operations.

Q. Why is it important this Commission approve the Settlement, including the element agreeing to an Insurance Expense Balancing Account?

A. As noted previously, there is considerable uncertainty in levels of future insurance expense. The overall insurance expense included by the Parties in the Settlement are estimated expense amounts, and recent history has shown the increases in the last few years have been extraordinary (107% between 2020 and 2022). Furthermore, recent unrecovered insurance levels have been costly to the Company, as noted by the lost recovery of $5.3 million in expense for Washington alone in 2022 (see Table No. 7 above). This is notwithstanding our best efforts under the Wildfire Resiliency Plan and our efforts against cyber-security.

Avista has provided significant information in the record (see Andrews direct testimony Exh. EMA-1T, pp. 63-74, as well as Brandkamp rebuttal REB-1T) to support its findings and proposed level of insurance expense. However, even under our best efforts, insurance levels in 2023 and 2024 are unknown. For this reason, given the volatility and uncertainty, it is important for this Commission to provide protection <u>for both customers and the Company</u> by employing an Insurance Expense Balancing Account. This balancing account will ensure actual insurance expense, which will vary up or down from that included per the established baseline, will be deferred for later rebate or surcharge. This ensures that customers pay no more and no less than the actual insurance expense paid by the Company – taking the concern for estimates out of the equation. Importantly, the Commission will be able to review the actual expenses when the Company seeks to rebate or surcharge any deferred balance.

B. Vegetation Management Expense – Public Counsel Adjustment (Electric Only)

Q. Witness Coppola argues that in 2023, Avista will avoid at least 10% of on-going vegetation management expense as the Company shifts more of its risk-tree management efforts to the Wildfire Resiliency Plan. Witness Coppola calculates an adjustment by taking 10% of the average of vegetation management expense between 2021 ($5 million) and planned future levels ($5.7 million) or $5.350 million, thus removing $535,000 of vegetation management expense.[51] Do you agree?

A. No, I do not. This adjustment is unreasonable, and more importantly, unnecessary. As explained in my direct testimony at Exh, EMA-1T, page 60, footnote 43:

> Routine distribution and transmission maintenance is budgeted annually at approximately $8.9 million. This routine expense is separately tracked and accounted for from all Wildfire-related expenses. Any deferral of wildfire expense is tracked incrementally to the Wildfire Expense Balancing Account baseline, and will also ensure it is incremental to the routine maintenance expense included in base rates. (emphasis added)

As noted above, routine distribution and transmission maintenance beginning in 2022 is planned annually at approximately $8.9 million (or $5.7 million Washington's share) over the Two-Year Rate Plan. As shown in Avista's response to Public Counsel DR 259, included as Coppola Exh. SC-10, actual test period routine maintenance (12 months ending 09.30.2021) was $8.5 million system, with Washington's share at $5.6 million. Although the expected on-going maintenance for Washington is slightly higher at $5.7 million annually, the Company did not pro form additional incremental expense in its filed case.

With regard to wildfire-related expenses, the Company's as-filed case included expenses

[51] Coppola Exh. SC-1CT, p. 26:20 – 27:8.

totaling $7.9 million (excluding labor), or $5.1 million Washington share (Settlement Wildfire Expense baseline). Given the actual 12ME 09.30.2021 test period wildfire-related expense was $2.1 million, the Company therefore, pro formed an incremental $3.0 million of added wildfire-related expense in its as-filed case to reflect the total of $5.1 million.

As noted above, the Company separately tracks these two necessary programs,[52] and will take both programs into consideration prior to deferring any wildfire-related expenses, up or down, from the wildfire baseline agreed to within the Settlement of $5.1 million (and the routine actual test period expense of $5.6 million). Annually, to the extent there are any savings as suggested by Witness Coppola, including any overlap between the two programs, such savings would be reflected through the Wildfire Balancing Account tracking mechanism – making Witness Coppola's arbitrary adjustment unnecessary.

C. Customer Service Labor Expense - Public Counsel Adjustment (Electric and Natural Gas)

Q. Witness Coppola argues that customer service expense included in RY1 and RY2 does not reflect a decline in CSR workload and related expense,[53] and proposes overall CSR labor reductions of approximately $825,000 in RY1 and $361,000 in RY2 (system).[54]

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[52] As discussed by Mr. Howell in his direct testimony (Exh. DRH-1T, starting at page 19) Avista has had a robust vegetation management program in place for many years, consisting of a routine maintenance 5-year cycle-trimming and risk-tree inspection and mitigation plan, focused on about 1,500 miles (20% of the system) annually. In 2020 this existing program was separated into two programs based on the new Wildfire Resiliency Plan: Routine Maintenance (20% of the system) annually and Risk-Tree Identification and Mitigation ("Risk-Tree") – enhanced measures that will include 100% of the system, risk-tree identification, on an annual basis versus a five-year cycle, as well as transmission LiDAR and distribution satellite data collection in order to identify risk-trees and existing or potential vegetation issues. The Company believes both programs are necessary to meet its vegetation management and Wildfire Resiliency goals.
[53] Coppola Exh. SC-1CT, p. 28:14 -29:10 – 30:5.
[54] Specific adjustments to O&M expense applicable to the Washington jurisdiction are $394,024 in RY1 and $172,264 in RY2 for the electric, and $124,427 for RY1 and $54,399 for RY2 for natural gas. This results in a reduction in revenue requirement of $412,001 for RY1 and $180,124 for RY2 for electric, and $130,104 for RY1 and $56,881 for RY2 for natural gas. See Coppola Exh. SC-1CT, pp. 29:9 – 30:5.

Are these adjustments to CSR labor expense appropriate?

A. No, they are not. As discussed by Company witness Mr. Magalsky, while Mr. Coppola is correct that the number of live contacts with CSR's has declined from historic levels, this decline does not result in a reduction in labor expense. First, the significant decline in live contacts from 2019 to 2020 was primarily due to the COVID-19 pandemic and the Washington disconnection moratorium put in place in early March 2020. As a result of the disconnection moratorium, the Company stopped all collections processes, which historically has been a significant portion of the live contacts that CSRs receive. The Company has since seen an increase in 2022 live contacts compared to 2021, which aligns with the ending of the Washington disconnection moratorium in October 2021.

Second, even though live contacts to CSRs had declined in 2020 and 2021, CSR labor expense did not decline at a similar amount. As new COVID-19 protocols were required beginning in March 2020, our Customer Service workforce was required to move to a work-from-home environment. This introduced the need for our workforce to implement and manage new processes, different technology was required to work in a virtual environment while continuing to support our customers' contacts, CSRs were utilized to perform outreach to customers with COVID-19 related arrears, and the Company launched a "Compassion in Action" campaign, targeting customers that were behind on their bills.

Furthermore, as described by Mr. Magalsky, digital self-service transactions have "handled" the more routine or simple tasks customer requests. Those tasks generally are easier to handle, and traditionally comprised the shorter calls CSRs would handle. As more of the routine transactions have moved to self-service, we have seen that our remaining customers calls tend to be more complex, resulting in longer Average Handle Time ("AHT"). Mr. Magalsky provides additional examples of COVID-19 impacts on the CSR workforce, impacting hiring, increasing labor wages, increasing call volumes, ect., and ultimately, increasing our labor expenses. In summary, the impacts described above, highlight that just because live contacts with CSRs have declined, it does not mean that Customer Service labor costs will see the same rate of decline. Due to new and changing processes, additional customer outreach, longer AHT, and other factors, the Company does not expect its Customer Service labor costs to decline over time. Witness Coppola's reduction to CSR labor expense is unfounded and should be rejected.

D. Pension & OPEB Expense - PF 3.09 (RY1) / PF 5.03 (RY2) (Electric and Natural Gas)

Q. First, Witness Coppola argues that Avista "in direct testimony and in pro-forma adjustments, Andrews did not identify the basis for its forecasted pensions and OPEB costs, actuarial assumptions used to calculate those costs..."[55] Second, Public Counsel calculates its proposed adjustment to the Company's pension and OPEB (i.e. medical) expenses, utilizing Attachments D and E provided by Avista in response to Public Counsel DR 276, which Witness Coppola provides as Exh. SC-13. Would you please address these two issues raised by Witness Coppola?

A. Yes. First, I will address pension and medical information provided by the Company during its direct case. Second, with regards to the adjustment as proposed by Witness Coppola, I will address Witness Coppola's use of outdated information. Provided in response to Public Counsel DR 276 ("PC DR 276"), as requested, were results as of the period ending December 2020. These however are not current levels. Finally, in addition to addressing Witness

[55] Coppola Exh. SC-1CT, pp. 30:20 – 31:1.

Coppola's specific errors, I will also address the impact of the latest actuarial information available, using data as of June 2022.

Q. Please summarize your direct testimony with regards to pension and medical expenses, in order to set the stage for discussion.

A. In the Company's direct case, it included 2023 and 2024 Pro Forma Employee Benefit adjustments to reflect the expected electric and natural gas pension and medical expenses over the Two-Year Rate Plan, adjusted from test period 12ME 09.2021 actual expense. The Pro Forma Benefits adjustments were prepared based on preliminary information available at the time of filing (actuarial data as of June 2021), which provided that 2023 and 2024 pension costs were expected at $12.3 million, while medical costs for 2023 and 2024 was estimated at $9.3 million, totaling $43.2 million (capital and expense) over the Two-Year Rate Plan. Because the Company's general rate case was filed in January 2022, based on 12ME results as of September 30, 2021, with restating and pro forma adjustments finalized during mid-December, certain adjustments such as the Pro Forma Benefits adjustments would require an update during the process of the case. For pension and medical costs, an update would be necessary after calendar 2021 actual results and returns were available, and a year-end final actuarial report was available. They were provided to Public Counsel.

As explained in my direct testimony, annually the Company works with independent consultants in order to determine the appropriate level of expense for both the Retirement Plans (Willis Towers Watson) and the Medical Plans (Mercer). The retirement plans (pension cost) were described at Exh. EMA-1T, pp. 112:19 – 113:8, as follows:

> Estimates for Pension Plan expense is determined annually by Willis Towers Watson based on the expected return on assets, discount rates and asset value. The

> primary contributor to this decrease in expense is related to changes in asset value due to the actual return on assets for 2021 partially offset by changes in the discount rate and the expected long-term return on assets for 2022. Assumptions utilized in the calculation are presented to and approved by the Board of Directors annually. In addition, these calculations and assumptions are reviewed by the Company's outside accounting firm annually for reasonableness and comparability to other Companies. The Company has included in this case the most recent estimates provided by our actuary for 2023. <u>We anticipate updates for 2022 and 2023 to be available sometime in the first quarter of 2022, and the Company will adjust pension expense at that time to reflect the appropriate amount for the RY1 rate effective period beginning December 2022.</u> (emphasis in original)

An overview of medical costs was also provided at Exh. EMA-1T, pp. 114:4 – 115:11, as follows:

> Avista sponsors a self-funded medical plan that provides various levels of overage for medical, dental and vision as a portion of employee benefits. Annually, medical premiums[56] for the Company are estimated by an independent consultant, Mercer,[57] based on medical trend, which is a combination of utilization (the pattern of use or intensity of services used for a particular timeframe), and the estimated increase in the costs (such as medical services, office visits, medical equipment, etc.) to treat patients from one year to the next. The following factors are taken into consideration in the development of premiums:
>
> - Population Profile – the number and composition of participating employees (such as single person, family, age, etc.).
> - Estimated Medical and Prescription Costs – the increase in unit cost for a given medical service or treatments, the mix and intensity of differing types of service, and new treatments/therapy/technology.
> - Laws and Regulation – changes and associated costs, such as those required as part of the Affordable Care Act.
>
> Actual medical expense will vary from premium cost estimates based on variations in plan utilization and actual components in the medical trend. … As with the Pension Plan, estimates for the Post-Retirement Medical piece of the Medical adjustment are based on the expected return on assets, discount rates and asset value. In this case, the primary contributor to the increase in expense is related to an increase in cost trend assumptions. <u>We anticipate updates for 2022 to be available sometime in the first quarter of 2022, and the Company will adjust</u>

[56] In this context, "premium" is defined as total medical costs including both the Company and employee contribution.

[57] Mercer is currently the world's largest human resources consulting firm, with more than 20,500 employees, based in more than 40 countries.

expected medical expense, in this case, at that time.

Again, final information based on actual results as of December 31, 2021 needed to become available, so that the actuarial companies could provide updated actuarial information after year-end, restating the preliminary results provided by the Company. This information was received from the actuarial companies in the second quarter of 2022 based on estimated data available as of February 2022 using actual results as of December 31, 2021. The Company provided updated Pro Forma Benefit adjustments for 2023 and 2024 in April 2022 in response to Staff DR 71 and provided the updated adjustments and actuarial report information in response to PC DR 276. The updated results reflected in Staff DR 71 and PC DR 276, based on year-end information, supported 2023 and 2024 pension costs at $11.9 million and $11.2 million respectively, while medical costs for 2023 and 2024 were revised to $8.6 million and $8.5 million, totaling $40.2 million (capital and expense) over the Two-Year Rate Plan.

Q. Was there an error made by Witness Coppola when preparing the Pro Forma Benefit adjustment as proposed by Public Counsel?

A. Yes. As provided by Witness Coppola as Exh. SC-13, Public Counsel asked in PC data request No. 276 for pension and medical information for the years 2019 through 2024. In response, the Company provided PC DR 276 Attachments A-C, which included the requested information for 2019 forward, including actuarial information for pension and medical costs from 2020 - 2025, utilizing data as of December 2020 (PC DR 276 Attachments D and E),[58] and pension and medical costs from 2021 – 2026, utilizing data as December 2021 (PC DR 276 Attachments

[58] Coppola Exh. SC-13, pages 10 and 12.

B and C).[59]

Witness Coppola utilized PC DR 276 Attachments D and E as the updated information provided by Avista. This data reflected pension and medical cost estimates based on data as of December 2020, even though Witness Coppola was provided with more recent information in response to Staff DR 71 and PC 276[60]. This data, therefore, reflected outdated (and understated) pension and medical costs for the period 2023 and 2024 of $9.5 million and $8.3 million, respectively for pension costs, and $8.1 million and $8.0 million, respectively for medical costs, totaling $33.9 million (capital and expense) for the 2023 and 2024 period. This error – use of stale information - substantially understated the pension and medical costs as reported by the actuarial reports for 2023 and 2024, resulting in the adjustments as proposed by Witness Coppola. Use of December 2021 reports, rather than December 2020 reports, supports results of $40.2 million.

As a result of the error, Witness Coppola has included proposed revenue requirement reductions for pension expense of approximately $818,000 in RY1 and $350,000 in RY2, for electric and $249,000 in RY1 and $107,000 in RY2 for natural gas. This error, also impacts Witness Coppola's proposed revenue requirement adjustments related to medical expense, reflecting reductions in error of approximately $350,000 in RY1 and $29,000 in RY2, for electric and $107,000 in RY1 and $9,000 in RY2 for natural gas. Combined, these reductions to expense total $2.0 million over the Two-Year Rate Plan for Washington electric and natural gas revenue requirement balances.[61]

Q. Has the Company recently received more current information with regards to

[59] *Ibid*, pages 6 and 8.
[60] Avista's response to PC 276 appears in the record as Coppola Exh. SC-13.
[61] Coppola Exh. SC-1T, p. 32.

the latest estimates for pension and medical costs?

A. Yes. Included as Exh. EMA-8C are the most recent actuarial report expected costs for 2023 and 2024. Based on information as of June 2022. The results of these reports reflect pension and medical costs for the period 2023 and 2024, totaling $41.8 million (capital and expense). While it is clear in the update pension costs have increased, while medical costs have declined, the overall result over the Two-Year period of $41.8 million, is slightly higher than the December 2021 report totaling $40.2 million, and slightly lower than the preliminary as-filed results of $43.2 million.

Q. Do the changes in these costs over time, undermine the Settlement revenue requirements agreed to by the Parties?

A. No, they do not. Each of these balances, whether the as-filed or more current information is used, are not materially different, result in reasonable levels provided by a third-party, and the adjustments as applied in the case are consistent with prior general rate cases before this Commission. For Public Counsel's part, however, the use of outdated data, results in adjustments to the Company's pension and medical costs which should be ignored.

E. Miscellaneous O&M - PF 3.14 (RY1) / PF 5.07 (RY2) (Electric and Natural Gas)

Q. Witness Coppola proposes reductions to the Company's Miscellaneous O&M Adjustments arguing that the two-year historical averages from 2018 to 2020 of 7.05% for electric and 7.29% for natural gas is far too brief a period and subject to expense fluctuations from year to year.[62] Is this generalization true?

A. No, it is not. First, the annual data for the period 2018 to 2020 used by Avista

[62] *Ibid*, pp. 33:14 – 34:14.

represented "Adjusted Operating Expenses" for Washington electric and natural gas O&M and A&G normalized expenses, based on annual Commission Basis Report ("CBR") adjusted results, reflecting normalized expenses such as the six-year average of injuries and damages in each year.[63] Furthermore, the accounting change related to employee benefit costs is also irrelevant to the comparison of expenses year-over-year. The accounting change was a FERC requirement effective January 1, 2020 and required Avista to charge all employee benefit expenses directly to A&G FERC Account No. 926 – Employee Pension and Benefits. In contrast, prior to January 1, 2020, all labor loadings, including pension and payroll taxes, followed the labor and were expensed in the same account. This means, labor charged to O&M, would incur all loadings associated with that labor in the same account. Similarly, labor charged to FERC Account 920 (A&G), would incur all loadings associated with that labor as a charge to 920. Beginning on January 1, 2020, this changed, but since the balances utilized by Avista between 2018 and 2020 reflect all A&G and O&M expenses (which include 920 and 926 referring back to the example above), this accounting change noted by Witness Coppola is irrelevant to the changes in expense over time, or the resulting escalation rate used by the Company.[64] The use of historical averages from 2018 to 2020 of actual CBR Washington electric and natural gas utility adjusted operating results, applied to a limited subset of O&M expenses, is more relevant to Avista's actual operations going forward, and as discussed below, given the current inflationary environment is, if anything, conservative.

Q. Witness Coppola also suggests that, rather than utilizing the escalation rates

[63] Annual "Adjusted Operating Expenses" for each period can be seen at Forsyth Exh. GDF-2, pages 3 (electric) and 5 (natural gas). Also noted on these pages, are highlighted balances that reflect the impacted of the accounting change, as noted "Highlight items are reclassed items per FERC. Benefits ordered to be charged to A&G per FERC effective 1/1/2020. Reclassed Payroll Taxes for consistency year to year."
[64] *Id*.

as proposed by Avista, the "forecasted inflation rates of 4.2% for 2021, 3.7% for 2022 and 2.3% for 2024" are more appropriate.[65] Do you agree?

A. No. I do not. First these "forecasted inflationary rates", as discussed by Witness Coppola and provided in Exh. SC-9, are not appropriate to represent increases for Avista's operations and not the best measure of O&M inflation pressures. As discussed by Dr. Forsyth within his rebuttal testimony, Exh. GDF-3T, Witness Coppola's reliance on Consumer Price Index ("CPI") as an indicator of these cost pressures is misplaced. The Consumer Price Index ("CPI") is specific to retail prices paid by U.S. urban households; that is, it reflects prices associated with retail business-to-household transactions in urban areas.[66] In comparison, when Avista purchases inputs to run its operations, these purchases largely reflect business-to-business transactions relative to our position in the production process that moves goods and services to "final demand" goods and services. In the current regulatory model, it is input inflation (i.e., price changes of inputs purchased by the Company), and not consumer inflation, that will affect the Company's costs and ultimately flow into general rate requests. Dr. Forsyth shows in the first half of 2022 (through June), year-over-year inflation associated with goods inputs (excluding food and energy), service inputs, and construction inputs averaged approximately 20%, 10%, and 13%, respectively. Finally, Dr. Forsyth discusses that the inflation pressures currently being experienced by the Company will not return to pre-2021 levels quickly, taking as long as 23 to 40 months.[67]

These inflationary pressures are significantly above the approximate 7% O&M growth adjustment requested by the Company and suggests that the Company should expect significant

[65] Coppola Exh. SC-1T, pp. 34:18 – 35:2.
[66] The BLS provides an overview of the CPI at https://www.bls.gov/cpi/overview.htm.
[67] Dr. Forsyth, Exh. GDF-3T, pp. 7:12 – 9:18.

upward pressure on O&M expenditures to continue for a period of time. This means Avista will likely have to manage above-average inflation pressures for the next 2 to 3 years – well beyond the Two-Year Rate Plan approved in this rate case - affecting the Company's O&M costs and presenting real challenges to the Company, even under the terms of the Settlement.

For its part, Public Counsel's proposal to remove $5.52 million in RY1 and $2.95 million in RY2 for electric, and $1.3 million in RY1 and $0.7 million in RY2 for natural gas,[68] is arbitrary, unfounded and would result in significant under recovery of expenses and earnings over the Two-Year Rate Plan. No amount of cost cutting at these levels, under this level of inflationary pressure, could be "managed" to allow Avista to earn its authorized rate of return approved by this Commission.

F. Information Services /Information Technology (IS/IT) Expense - PF 3.13 (RY1) (Electric and Natural Gas)

Q. Witness Coppola argues that the incremental IS/IT expense included by the Company in RY1, resulting in an increase of 11% above test period levels is excessive, arguing that software licenses and software subscription costs are a function of installed new information and technology systems, and should generally increase on pace with new IS/IT technology capital spending for the installation of new systems.[69] Is this a reasonable assumption?

A. No. Witness Coppola has provided no support for this arbitrary assumption that incremental IS/IT capital investment alone is tied to the annual increases in IS/IT expense, or that Public Counsel's proposed 6% increase above test period levels for IS/IT capital investment alone

[68] Coppola Exh. SC-1T, p. 36, Table 7.
[69] Coppola Exh. SC-1T, pp. 37:7 – 38:4.

is reasonable. Witness Coppola simply suggests that since IS/IT specific capital investment declined by 16% between 2021 and 2022, then increases by 6% only as a result of the ADMS /OMS system investment, otherwise IS/IT investment would remain flat to 2023, that a 6% increase is a reasonable escalation to use on existing IS/IT expense levels.[70] It would appear, Witness Coppola would like this Commission to assume, absent the ADMS/OMS system investment, Avista would experience no increase in expense between 2021 and 2023. This is simply not reasonable, or true. Avista's use of actual, not estimated expenses, prove this assumption to be untrue.

Furthermore, it is clear Witness Coppola decides to ignore the expert testimony of Company witness Mr. Kensok (Exh. JMK-1T), that explains increases in IS/IT expenses are primarily driven by increasing trends of software vendors changing how they license and deliver software solutions (which is outside of Company control), and by capital investment across all areas of the Company - including non-IS/IT investments, such as those for Energy Delivery, Energy Resources, Customer Facing, Human Resource, Finance, et., not just capital investment specific to IS/IT investment. As described by Mr. Kensok, in general, for any investment the Company makes that is enabled, supported, or secured by technology and requires ongoing licensing, maintenance and support, those expenses will be centralized in IS/IT O&M expense. The expense impact of annual and multi-year operating agreements surrounding capital investment reflects most of the overall incremental increase and are primarily driven by the digital transformation of the utility. Keeping pace with emerging technologies and taking advantage of the opportunities digital technologies provide, drive the need for the Company to convert analog

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[70] *Ibid*, pp. 37:19-23.

information into digital form and to incorporate digital technologies into business processes and interactions with our customers and within the utility itself. Further, it is also important to recognize, that while IS/IT expense is increasing annually due to new capital investment, it is also increasing annually due to existing software products and services, licensing, and maintenance fees, whose contractual agreements may be increasing due to inflationary pressures over time, incrementally increasing IS/IT expense.

Q. How did the Company determine IS/IT expense to pro form into its as filed case (i.e., did Avista simply use an escalator above test period levels and calculate an increase for 2023 and 2024)?

A. No, it did not. As explained in both my testimony (Exh. EMA-1T) and Mr. Kensok (Exh. JMK-1T), when pro forming the Company's non-labor IS/IT expenses, the Company was conservative, including incremental expenses for known and measurable items only that will be in place during the rate effective period beginning in December 2022. The Company did not add additional incremental expenses for RY2 (2024) or escalate expenses further in RY1 or RY2 for expected increases beyond the 2023 contractual arrangements. In this regard, the Company focused solely on known increases beyond the test period, in annual and multiyear agreements for products and services, licensing, and maintenance fees for a range of centralized information services, necessary to support the Company's cyber and general security, emergency operations readiness, electric and natural gas facilities and operations support, and customer services. The Company also included incremental labor expense for new employee requirements, driven by compliance of cyber security and application patching requirements dictated by the Department of Homeland Security's (DHS) Transportation Security Administration (TSA), to be hired in 2022 prior to RY1. The Company's as-filed Pro Forma IS/IT Adjustment, therefore, resulted in an incremental increase in system IS/IT expense of $2.6 million, or $1.26 million for Washington electric and $371,000 for Washington natural gas.

Q. Is the Company now aware of increases in known costs beyond the expense levels included in the Company's direct filed case?

A. Yes, costs are now known to be higher than originally filed. As provided to all parties in response to Public Counsel DR 117 and 117 Supplemental ("PC DR 117 and 117S") in April and May 2022, respectively, if the Company were to update its costs today, known non-labor contractual expenses, and updated new employee requirements for TSA Security Directive No. 2 requirements, would result in an incremental increase in system IS/IT of approximately $766,000, an increase to Washington electric of $356,000 and $123,000 for Washington natural gas. PC DR 117 and 117S have been provided as Exh. EMA-9.

In contrast, Witness Coppola suggests a <u>reduction</u> in RY1 of approximately $759,000 for electric and $240,000 for natural gas.[71] Witness Coppola's recommendation is based solely on an arbitrary escalation, versus actual known and measurable expense information, and therefore should be rejected. The Company's IS/IT expense is reasonable, and in fact understated, attesting to the reasonableness of the Settlement.

<u>G. CETA Labor Expense (Andrews, Exhibit EMA-2, PF Adj. 3.06)</u>

Q. What has Witness Coppola proposed with regards to the CETA Labor Expense adjustment proposed by the Company?

A. Witness Coppola proposes the Commission approve only one new position, rather

[71] *Ibid*, pp. 38:10-12.

than the three positions pro formed by the Company, resulting in a reduction in electric revenue requirement of approximately $249,000.[72]

Q. Have the three positions Avista pro formed into its as filed case attributed to the Clean Energy Transformation Act (CETA) been filled?

A. Yes, they have.

Q. What were the dates when the new employees started the positions?

A. Avista's Customer Engagement Manager started in November 2021, the CETA Analyst within Avista's Power Supply Operations started in January 2022, and the new Distribution Planning Engineer started in June 2022.

Q. Witness Coppola concludes that the three new positions attributed to CETA are "not necessary and that one new position at most would be sufficient", and further states "that the addition of three new employees is excessive and not necessary".[73] Are these positions, in fact, necessary?

A. Yes. Witness Coppola fails to take into account the magnitude of the job requirements of these new positions, as described in Company witness Mr. Bonfield's direct testimony,[74] and assumes that because Avista has a Clean Energy Implementation Plan (CEIP) due every four years, that these positions are not needed on a regular basis and that a single employee could perform the myriad of differing responsibilities required by very different skillsets. Mr. Coppola's conclusion regarding the necessity of these positions is far from reality. It is true that the Company has a CEIP due every four years. However, the outreach, stakeholder engagement,

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[72] *Ibid*, pp. 40:18 – 41:4.
[73] Public Counsel Exhibit SC-1T at p. 40.
[74] Avista Exhibit SJB-1T starting at p. 37.

planning, and analysis that goes into a CEIP is an ongoing effort due to the requirements adopted by the Commission and found in WAC 480-100, Section VIII – Planning.

In addition to the CEIP, the Company must file an Integrated Resource Plan (IRP) every four years, an IRP update two years after filing the IRP, a biennial CEIP update two years after filing the CEIP, annual clean energy progress reports, and clean energy compliance reports every four years. These are just a handful of the many requirements as a result of CETA, which require ongoing customer and stakeholder outreach and engagement throughout the CEIP implementation period. That is what the Customer Engagement Manager is responsible for.

Further, in Avista's final approved CEIP, the Commission approved of 38 conditions that will require a significant amount of new work.[75] Avista highlighted the need for even more resources in addition to the three positions included in this case within it CEIP petition for deferred accounting, which the Commission approved on July 28, 2022.[76] Public Counsel participated in the development of Avista's CEIP and conditions, as well as numerous Commission proceedings related to requirements that utilities must comply with regarding CETA. It is quite surprising for Public Counsel to now claim that the work required to comply with CETA can be done by existing employees and anything more than a single employee to perform many tasks related to CETA compliance is excessive and not necessary. CETA is truly a transformational law and the compliance requirements associated with this new law require a tremendous amount of new work, which the three positions described above represent only a fraction of what is needed now and in the future.

[75] Docket UE-210628, Order 01, issued on June 23, 2022.
[76] Docket UE-220350, Order 01.

Summary

Q. In summary, do Witness Coppola's expense adjustments individually or taken as a whole undermine the Settlement agreement, agreed to by the Parties?

A. No, they do not undermine the Settlement. First, I provided information as to why the proposed adjustments are not reasonable – whether there is a Settlement or not. If the Company were to file rebuttal in a fully litigated case, the Company would be able to support a much higher revenue requirement from its original filed case. The Company has increases in cost of debt, increases in IS/IT expenses, increases in labor expenses, increases in costs of investments, and overall increases in goods and services due to inflation, all driving costs higher in 2022, 2023 and 2024.

V. PUBLIC COUNSEL CONTESTED ADJUSTMENTS TO CAPITAL INVESTEMENT AND RELATED O&M OFFSETS

Q. Before discussing the specific contested capital adjustments by Public Counsel, please briefly discuss recent Commission Policy, as well as approved legislation, that guides the Commission with regard to approval of pro forma capital investment.

A. Current guidance from the Commission's January 31, 2020 "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement")[77], as well as the Engrossed Substitute Senate Bill 5295 (SB 5295), signed into law in May of 2021 (and effective in July 2021)[78], are in place which guide the Commission with regard to used and useful pro forma capital investment. Furthermore, the Commission itself stated it is tasked with determining an appropriate balance between the needs of the public to have safe and reliable

[77] Docket No. U-190531.
[78] On May 3, 2021, Governor Inslee signed into law Engrossed Substitute Senate Bill 5295.

electric and natural gas services at reasonable rates, and the financial ability of the utility to provide such services on an ongoing basis.[79]

Specifically, SB 5295 solidified the Commission's authority (codified primarily in RCW 80.28.425), with regard to protections for the utility, through recovery of a utility's capital investment, the valuation of property investment, determination of expenses and revenues – and the ability to approve multi-year rate plans, as well as protections for customers, through earnings tests and low income bill assistance.

With regards to the Commission's <u>Policy Statement</u>, the Commission at para. 6, p. 3, stated:

> … In its 2019 session, the legislature clarified the Commission's ratemaking authority by enacting E2SSB 5116, which provides, in relevant part, that:
>
> (2) The commission has power upon complaint or upon its own motion <u>to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state *by or during the rate effective period*</u> and shall exercise such power whenever it deems such valuation or determination necessary or proper under any of the provisions of this title. …
> (3) The commission may provide changes to rates under this section for <u>*up to forty-eight months after the rate effective date using any standard, formula, method, or theory of valuation*</u> reasonably calculated to arrive at fair, just, reasonable, and sufficient rates. <u>*The commission must establish an appropriate process to identify, review, and approve* public service company property that becomes used and useful for service in this state after the rate effective date.</u> (footnotes omitted) (emphasis in original)

Q. What specific guidance did the Commission's January 31, 2020 Policy Statement provide with regards to current applicable principles and standards for setting

[79] The governing statutes require the Commission to determine results that establish "fair, just, reasonable and sufficient" rates (RCW.80.28.010), which mean: "rates that are <u>fair</u> to customers and to the Company's owners; <u>just</u> in the sense of being based solely on the record developed in a rate proceeding; <u>reasonable in light of the range of possible outcomes supported by the evidence</u>; and <u>sufficient</u> to meet the needs of the Company to cover its expenses and attract necessary capital on reasonable terms." (emphasis added) (Avista 2016 general rate case, Dockets UE-160228/UG-160229, Order 06, para. 79)

rates and approving used and useful property?

A. The Commission's Policy Statement provided the current applicable principles and standards for setting rates, as noted below:

> ..the Commission's longstanding ratemaking practice is to set rates using a modified historical test year with post-test-year rate-base adjustments using the known and measurable standard, the matching principle, and the used and useful standard, all while exercising considerable discretion under each of these standards in the context of individual cases. We intend to continue following these practices and standards as we implement the change to how and when we evaluate property as used and useful. It continues to be necessary within the context of a GRC to first develop a modified historical test year (*i.e.*, pro forma study) upon which requests to include property in rates will be considered. …[80] (para. 21, p. 8)
>
> The Commission's longstanding interpretation of the property valuation provision of RCW 80.04.250 is that property or plant additions must be used and useful to serve Washington customers to be included in rates. (emphasis added) (footnotes omitted) (para. 26, pp. 9 - 10)
>
> With the changes to RCW 80.04.250(3), we find that the requirements for pro forma adjustments discussed above hold true for requests for rate-effective period property, although they cannot be reviewed completely prior to rates going into effect. Accordingly, we must replace the traditional prospective review with a retrospective review for rate-effective period property requests. (emphasis added) (para. 27, p. 10)

Q. Within the Commission's Policy Statement, did it also provide guidance as to how to include investments, and a retrospective review process, for proposed investments included by a utility?

A. Yes, it did. Within the Commission's Policy Statement, it outlined its process for

[80] As described at Policy Statement page 8, para. 22-24: WAC 480-07-510(3)(c)(ii), defines the pro forma adjustments, remains unchanged, applicable, and relevant. This rule defines the known and measurable standard and the offsetting factors standard, both of which are elements of the matching principle, and both of which are necessary to ensure that costs and offsetting benefits are accounted for during the period in which they occur. The known and measurable standard continues to require that an event that causes a change to revenue, expenses, or rate base must be "known" to have occurred during or after the historical 12-months of actual results of operations. It must also be demonstrated (*i.e.*, known) that the effect of the event will be in place during the rate year. The actual amount of the change must also be "measurable."

including investment and review of proposed investments that become used and useful after the rate effective date, as follows[81]:

- Identification of investments - the Commission defined three broad types of investments they would consider for inclusion in rates: 1) specific - clearly defined, identifiable or discrete; 2) programmatic - made according to a schedule, plan or method; and 3) projected: i.e., the use of a k-factor, an attrition adjustment, or a growth analysis.

- Provisional Adjustments - Rate-period investment must be separately identified from traditional pro forma rate-base adjustments, through the use of a "provisional" pro forma adjustments, and then must state whether they are seeking recovery through base rates or a separate tariff schedule.

- Offsetting Factors - Companies must include the estimated or projected costs (including all offsetting factors and duplicative recovery considerations) and a description of the investment, as well as other existing documentation, for a project that will be subject to review and audit during a future period.

- In-Service Dates - Companies must provide the expected in-service date that will occur during the rate effective period.

Q. Has the Company met the guidance provided by the Commission with regards to inclusion of capital investment within its Two-Year Rate Plan?

A. Yes it has. As previously discussed in my direct testimony (Exh. EMA-1T):

- First, the Company categorized its pro formed property in this case to reflect the identified categories: 1) specific, identifiable and distinct; 2) programmatic (on-going programs or scheduled investments), and 3) short-lived assets.[82] The Company created a 4th category – reflecting projects that are mainly "programmatic," and required to meet regulatory and other mandatory obligations, titled: 4) Mandatory and Compliance.
- Second, the Company separately identified its pro formed capital investments it included in its Two-Year Rate Plan as pro formed "provisional" adjustments, for the period January 2022 through December 2024. The Company included this capital investment in its Two-Year Rate Plan, and requested they be approved as a part of

[81] See Used and Useful Policy Statement, Docket No. U-190531, para. 11, p. 5 and para. 34, page 11.
[82] The Commission discussed their consideration of Short-Lived assets in Order 08 of the most recently concluded Puget Sound Energy (PSE) general rate case, Dockets UE-190529 and UG-190530.

base rates in this proceeding. (See below, Company proposal for Provisional Capital Reporting, and the process for review and refund, if any.)

- Finally, through capital witness testimonies and exhibits, the Company included information on all Business Cases included in the Company's case, including expected costs, by in-service date[83], description of the investment, and necessary existing documentation to support these projects, and designated the "provisional," as noted above, as subject to review and audit during a future period. Furthermore, the Company included significant "offsetting factors," totaling $64.8 million for electric and $17.9 million for natural gas, over the Two-Year Rate plan. In doing so, the Company ensured that over the Two-Year Rate Plan, in each RY1 and RY2, the Company is "matching" revenues, expenses and rate base, by rate year.

Q. Has the Company met the guidance with regards to retrospective review of "Provisional" capital investment included by the Company in its Two-Year Rate Plan?

A. Yes, it has. As discussed within my direct testimony at Exh. EMA-1T, the Company included its proposal for Provisional Capital Reporting, and the process for review and refund, if any. The Company's proposed reporting would establish an appropriate process to identify, review, and approve Company property that becomes used and useful for service over the Two-Year Rate Plan for all provisional capital additions during the period January 1, 2022 through December 31, 2024.

Q. Does the Settlement take into consideration the Policy Statement guidance, with regards to the inclusion of used and useful capital investment and a retrospective review of Provisional capital investment?

A. Yes, it does. As previously discussed, the Settling Parties agreed to the Capital

[83] All Washington share of directly assigned or allocated transfer-to-plant data (actual or expected) is provided by Business Case, by witness, by month (the in-service "used and useful" date) within Mr. Baldwin Bonney testimony and exhibits pro formed in the Company's case. Testimony and exhibits in support of the capital Business Cases are provided by capital witnesses, Mr. Thackston regarding production assets, including Colstrip assets; Ms. Rosentrater regarding transmission, distribution and general assets; Mr. Kensok regarding the costs associated with Avista's IS/IT projects and short-lived assets; Mr. Magalsky regarding the Customer At Center projects; Mr. Kinney regarding EIM assets; and Mr. Howell regarding Wildfire assets.

Project Review process as proposed by the Company, which would require review of all Company property that becomes used and useful for service over the Two-Year Rate Plan, specifically provisional capital additions during the period January 1, 2022 through December 31, 2024.[84] This reporting provides a means for the review of actual capital investments as a check against the provisional level requested and approved in this case, and allows for an auditing process that would help validate the level of plant investment ultimately that is used and useful during the rate effective periods, and approved by the Commission.

Through this review, the Company would be required to refund any overcollection from customers of overall investments not used and useful, as approved by the Commission, and included in customer rates during the Two-Year Rate Plan.

Q. Turning now to Public Counsel's adjustments to capital investment, please summarize Witness Coppola's proposed changes to the Company's provisional capital additions (2022-2024) included in this case for RY1 and RY2.

A. Witness Coppola focused on certain capital investment included by the Company in years 2022 through 2024, identifying 16 business cases in which Witness Coppola adjusts the level of capital investment from that included by the Company in its as filed case.[85] Table No. 8 below summarizes Witness Coppola's proposed adjustments to provisional capital additions by

[84] As noted in footnote 12 of the Settlement, Exh. JT-2: "For purposes of the Capital Projects Review and comparison of provisional capital additions in Rate Year 1 (2022 and 2023) and Rate Year 2 (2024), capital additions and overall Rate Base are as filed, excluding the Colstrip Dry Ash investment. Rate Year 1 overall rate base (net plant after ADFIT) balances reflect amounts as shown in Exh. EMA-1T, Table No. 4 of $1,987,156,000 (less Dry Ash of approximately $3.1 million) for Washington electric, and $510,148,000 for Washington natural gas. Rate Year 2 overall rate base (net plant after ADFIT) balances reflect amounts as shown in Exh. EMA-1T, Table No. 4 of $2,067,662,000 (less Dry Ash of approximately $2.1 million) for Washington electric, and $532,346,000 for Washington natural gas.

[85] Exh. SC-1CT, p. 42-43, ll. 19-1, and Exh. SC-24.

rate year and by service on a Washington basis.[86]

Table No. 8: Public Counsel Adjustments to Provisional Gross Capital Additions

Public Counsel's Proposed Adjustments to Provisional Gross Washington Capital Additions ($ in thousands)				
	Rate Year 1		Rate Year 2	Total
	2022	2023	2024	
Electric	$ (14,133)	$ (60,919)	$ (54,127)	$ (129,179)
Natural Gas	$ (5,370)	$ (5,796)	$ (3,228)	$ (14,394)
Total	**$ (19,504)**	**$ (66,715)**	**$ (57,354)**	**$ (143,573)**

The corresponding impact to net rate base and revenue requirement, as calculated by Witness Coppola[87], are provided in Table No. 9.

Table No. 9 - Public Counsel Adjustments to Net Rate Base & Revenue Requirement

Public Counsel's Proposed Adjustments to Net Rate Base and Revenue Requirement for Provisional Capital Additions ($ in thousands)							
	Electric				Natural Gas		
	Rate Year 1	Rate Year 2	Total		Rate Year 1	Rate Year 2	Total
Net Rate Base	$ (38,482)	$ (48,447)	$ (86,929)		$ (6,896)	$ (3,207)	$ (10,103)
Revenue Requirement	$ (7,242)	$ (8,662)	$ (15,904)		$ (1,425)	$ (774)	$ (2,199)

Q. As shown in Table No. 9 above, Witness Coppola removes over the Two-Year Rate Plan a total of $86.9 million rate base and $15.9 million revenue requirement for Washington electric, and a total of $10.1 million rate base and $2.2 million revenue requirement for Washington natural gas. Are these adjustments reasonable?

A. No, they are not. Witness Coppola's proposed adjustments to Washington electric

[86] Rate Year 1 includes expected gross transfers-to-plant for the period January 1, 2022 through December 31, 2023, while Rate Year 2 includes expected gross transfers-to-plant for the period of January 1, 2024 through December 31, 2024.
[87] Exh. SC-40 and Exh. SC-41.

and natural gas rate base and revenue requirements related to the provisional capital additions included by the Company for the periods 2022 through 2024, are not reasonable for the many reasons as described below. To respond to Witness Coppola's testimony, Avista will address Witness Coppola's concerns with regards to information provided by the Company to support its provisional capital investment. The Company will also respond to Witness Coppola's "default setting" or arbitrary averaging methodology utilized to escalate RY1 and RY2 investment beyond test period or 2022 actual investment levels. Specifically, as discussed later in my testimony, Witness Coppola uses a calculated historical average increased by inflation approach for 12 of the 16 identified business cases to determine the level of capital investment proposed by Public Counsel in this case.

The majority of Witness Coppola's 16 investment adjustments are specifically addressed later in my testimony, or where appropriate by Mr. Magalsky or Mr. Howell, accounting for more than 92% of all capital addition adjustments proposed by Public Counsel, and are sufficient to make the case for rejecting his adjustments.

Q. What specific Business Cases identified by Witness Coppola are addressed by other Company witnesses within their direct testimonies?

A. Mr. Magalsky responds to the proposed capital addition adjustment related to the Electric Transportation, Customer Experience Platform Program and Customer Transactional Systems Business Cases[88]. Additionally, Company witness Mr. Howell discusses the Wildfire Resiliency Plan Business Case[89].

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[88] Exh. KEM-2T.
[89] Exh. DRH-5T.

Q. Prior to speaking to specific investment adjustments, would you explain why Witness Coppola's capital adjustments to the various investments are based on a faulty premise?

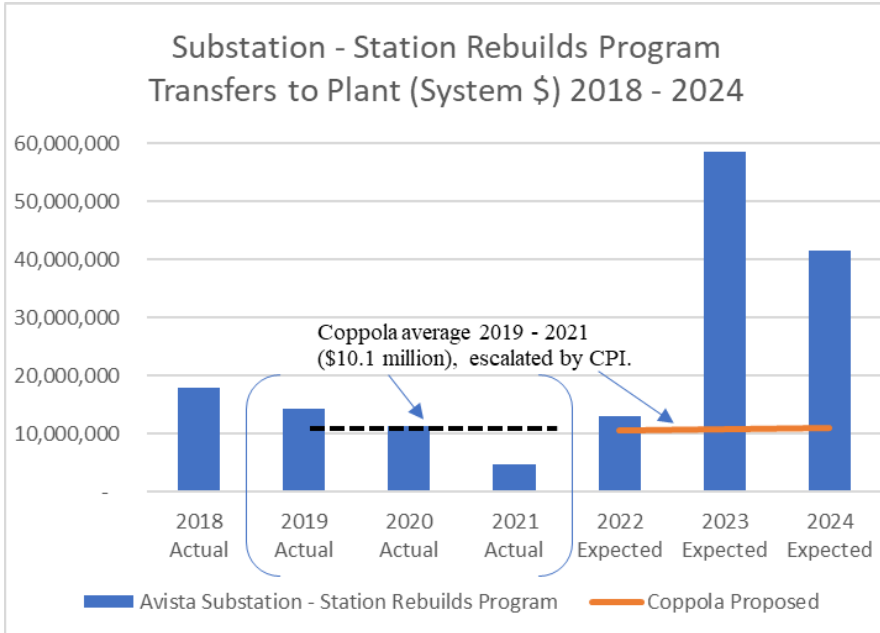
A. Yes. Witness Coppola seemingly chooses a "default setting" for adjusting various capital expenditures. That is employing the use of a three-year average level of historical spending, and then simply using a CPI escalator[90] to arrive at amounts for rate years 2023 and 2024. Witness Coppola contends that there is insufficient capital investment information, as discussed above, to do otherwise.

This methodology is simply wrong. Aside from technical errors in his approach (using CPI, instead of PPI – a better measure for utility goods and services[91]), the underlying conceptual shortcomings of this approach are noteworthy. First of all, the use of "averaging" expenditures has occasionally been used to arrive at a representative rate year level over time where there is considerable variability in the "ups" and "downs" each year.[92] But these are typically for variable expense items – not distinct capital projects.

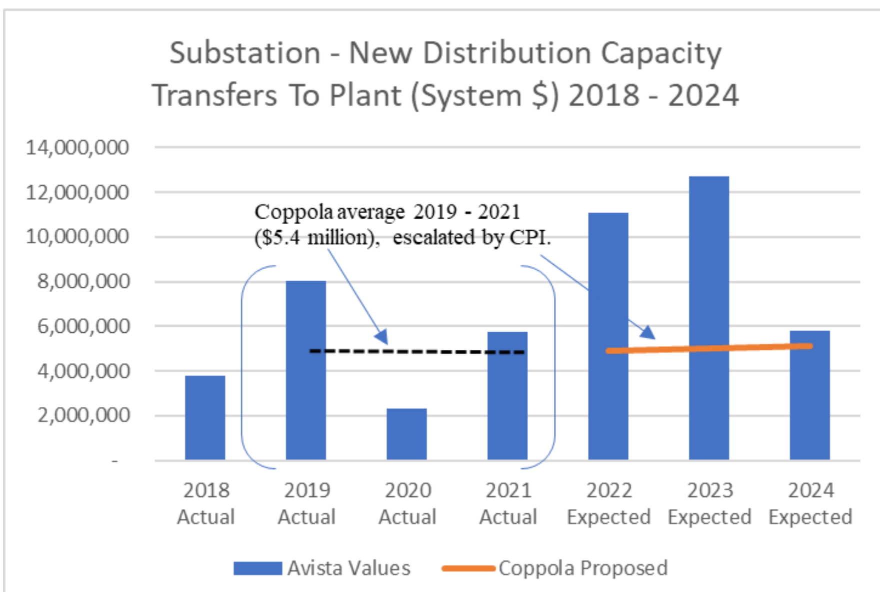
Witness Coppola applies this averaging approach, even though there are substantial increases in the level of spending for the period 2022 through 2024 – sometimes dramatically so. Below, by way of example, Illustration Nos. 1 and 2 show why this historical "averaging" approach makes no sense for the Business Cases addressed by Witness Coppola, especially those with substantial increases, and variability, in spending levels year over year.

[90] Witness Coppola's capital investment adjustment methodology used the CPI inflation rates of 3.7% for 2022, 2.4% for 2023, and 2.4% for 2024, see Exhs. SC-26, SC-30, SC-31, SC-32, SC33, SC-34, SC-35, SC-36, SC-37, & SC-38.
[91] As discussed previously and supported by Dr. Forsyth within his rebuttal testimony at Exh. GDF-3T.
[92] A good example is the 6-year average used for injuries and damages for Avista which uses an average to normalize these amounts over a period of years.

<u>Illustration No. 1 – Substation Rebuilds Program System (Transfers to Plant)</u>



<u>Illustration No. 2 – Substation New Distribution Capacity System (Transfers to Plant)</u>



As can be seen from Illustration Nos. 1 and 2 above, the actual and planned transfers to plant for the periods (2018 – 2024) vary up and down over the actual (2018 - 2021) and planned

(2022 – 2024) periods. Company's capital additions, in no way, reflect Witness Coppola's supposed "average" values for 2022 through 2024 are reasonable. Witness Coppola's proposed level of additions based on this average, escalated by CPI would dramatically understate the work Avista is already doing and reduce cost recovery for Avista.

Moreover, Witness Coppola's premise assumes the absence of any support for any level of capital spending in the 2022 – 2024 time periods. As referenced in each of the capital-specific pages summarized in Table No. 10 below, there is a specific level of anticipated spending – and transfers-to-plant – over time, based on Business Cases and other documentation. Seemingly, instead of making use of the information already provided in this case and through discovery, Witness Coppola chose the convenient path of simply resorting to a "default" position, without any attempt to follow up on Business Cases of particular concern.

This chart is an excerpt from the Substation Rebuild Business Case included as Exh. HLR-2, pages 175-181 providing actual spend data at that time from 2017 – 2019, with expected and future spends through 2025. (Annual spend may vary from the transfer to plant or in-service date reported by the Company in this filed case.) The spend noted in Illustration No. 1 is due, in part, to necessary substation upgrades required to serve customers, and employing a trending of prior spend, escalated by CPI, would dramatically understate the work Avista is already doing and reduce cost recovery for Avista.

Q. Witness Coppola states "the Company did not provide sufficient information to support its proposed increase in spending on several reoccurring programmatic projects and for large discrete projects".[93] Does the Company agree?

[93] Exh. SC-1CT, p.45, ll. 11-13.

A. No. The Company provided information on pro forma and provisional capital additions throughout direct testimony of its original filing, within exhibits containing business cases supporting the capital investment, as well as answering data requests during the discovery process. The following is a list of exhibits included with the Company's original filing that pertain to pro forma capital additions as shown in Table No. 10 below:

Table No. 10 Testimony & Exhibits in Support of 2021-2024 Capital Additions

Testimony & Exhibits in Support of 2021-2024 Capital Additions		
Exhibit No.	**Exhibit Description**	**Page Numbers**
Exh. JRT-1T	Mr. Thackston's Testimony	Pages 7-77
Exh. JRT-4	2021-2024 Non-Colstrip Generation Business Cases	Pages 1-282
Confidential Exh. JRT-5C	Reduction in scope of Colstrip's 2021 Budget	Pages 1-11
Confidential Exh. JRT-7C	Colstrip Business Case	Pages 1-4
Confidential Exh. JRT-8C	Documentation Capital Projects at Colstrip, including Transfer-to-Plant Data	Pages 1-3
Exh. HLR-1T	Ms. Rosentrater's Testimony	Pages 18-112
Exh. HLR-2	2021-2024 Transmission, Distribution, and General Assets Business Cases	Pages 1-433
Exh. HLR-3	Avista's Priority Aldyl-A Protocol Report	Pages 1-35
Exh. HLR-4	Study of Aldyl-A Mainline Pipe Leaks - 2018 Update	Pages 1-23
Exh. HLR-5	Flowcharts of Comprehensive Planning Efforts	Pages 1-2
Exh. JMK-1T	Mr. Kensok's Testimony	Pages 1-46
Exh. JMK-2	2021-2024 IS/IT and Short-Lived Assets Business Cases	Pages 1-277
Exh. KEM-1T	Mr. Magalsky's Testimony	Pages 1-43
Exh. KEM-2	Customer at the Center Business Cases	Pages 1-39
Exh. SJK-1T	Mr. Kinney's Testimony	Pages 2-9
Exh. SJK-2	Energy Imbalance Market (EIM) Business Cases	Pages 1-24
Exh. DRH-1T	Mr. Howell's Testimony	Pages 1-48
Exh. DRH-2	Wildfire Resiliency Plan 2022	Pages 1-32
Exh. DRH-3	Wildfire Resiliency 2021 Year End Report	Pages 1-27
Exh. DRH-4	Wildfire Resiliency Business Case	Pages 1-11
Exhibit SC-20	Avista's Response to Public Counsel's Data Request No. 91 and 256 on capital project or program selection criteria	Pages 1-6
Exhibit SC-21	Avista's Response to Public Counsel's Data Request No. 208 with Attachment A, Data Request Nos. 210–211, and Data Request No. 212, with Attachments A–D on detail support of capital additions	Pages 1-21
Exhibit SC-23	Avista's Response to Public Counsel's Data Request No. 227 on ADMS/OMS	Pages 1-2
Exhibit SC-25	Avista's Response to Public Counsel's Data Request No. 204 with Attachment A on Gas Non-Revenue Program	Pages 1-5
Exhibit SC-27	Avista's Response to Public Counsel's Data Request No. 241 with Attachment A, and Data Request No. 245 with Attachment A on EV capital additions	Pages 1-10
Exhibit SC-29	Avista's Revised Response to Public Counsel's Data Request No. 234 Revised with Attachment A, and Data Request No. 252 with Attachment A on customer service IT projects	Pages 1-8

In addition, it should be noted that the Company has responded to over 100 data requests to date pertaining to capital additions during the discovery process, 82 of which were from Public Counsel. As Witness Coppola mentions, the Company responded to Public Counsel's Data Request Nos. 208, 210, 211, and 212, included by Witness Coppola as Exh. SC-21.[94] The Company's response to these data requests included references to testimony and exhibits for supporting documentation, as well as transfers-to-plant on a system basis by Business Case as contained in Exh. JBB-3 for the period of 2018-2024 (actuals for 2018-2021, expected for 2022-2024). As shown on page 1 of Exh. SC-21, the Company responded to the data request, providing the requested transactional data to allow Public Counsel to perform their calculation of variances on the 134 Business Cases included by the Company. During the process of the case, Public Counsel requested specific follow-up clarification on only the following Business Cases: Wildfire Resiliency Plan and Outage Management System & Advanced Distribution Management System (OMS & ADMS).

Finally, it is important to refer back to my earlier discussion with regard to the approved legislation SB 5295 and the specific guidance provided by this Commission within its Used and Useful Policy Statement. Specifically, the Commission provided its guidance on including "provisional" capital investment in a utilities request for recovery, the requirement for a retrospective review process of all provisional investment, allowing this "provisional" investment to be subject to review and refund, and ensuring all approved investment is indeed used and useful, and prudent. As described above, Avista has met the Commissions guidance and requirements for inclusion and recovery of its provisional capital investment included in its filed case, including the

[94] Exh. SC-1CT, p. 44, ll. 26-27.

Provisional Capital Review Process as agreed to by the Settling Parties to the Settlement, ensuring all Parties and this Commission will be able to review in the future all rate base approved by the Commission in this proceeding.

Q. Would you please provide examples detailing data provided in the case and why, if applicable, a three-year average is not advisable for the specific provisional capital additions?

A. Yes. Provided in this response is information on seven (7) specific Business Cases included in Witness Coppola's testimony.[95] The 7 Business Cases addressed account for 92% of the proposed adjustment by witness Coppola for capital additions.

<u>1. Outage Management Systems & Advanced Distribution Management Systems</u>

Specific to the Outage Management Systems & Advanced Distribution Management Systems ("OMS & ADMS"), Public Counsel contends that the cost of assets that will transfer-to-plant are unknown rough estimates, and that none of the expected systems will be operational within either 2023 or 2024.[96] However, as discussed in DR-PC-227, subpart (b) (Exh. SC-23) the expected additions were determined both by discussion with other utilities, vendors, as well as Avista's experience with projects of similar scope and scale.

Additionally, Witness Coppola is skeptical of the scheduled deployment of the software solution, concluding that the system will not likely be in service during the rate-effective period.[97] However, it is a common practice to have software roll outs in phases as new functionality is developed. As each phase is completed and implemented, differing functions will become available. There is no logical rationale to treat this software project differently, especially with the ability to review and refund Washington customers for

[95] SC-1T, p. 46-89
[96] SC-1T, p.48
[97] *Ibid.*

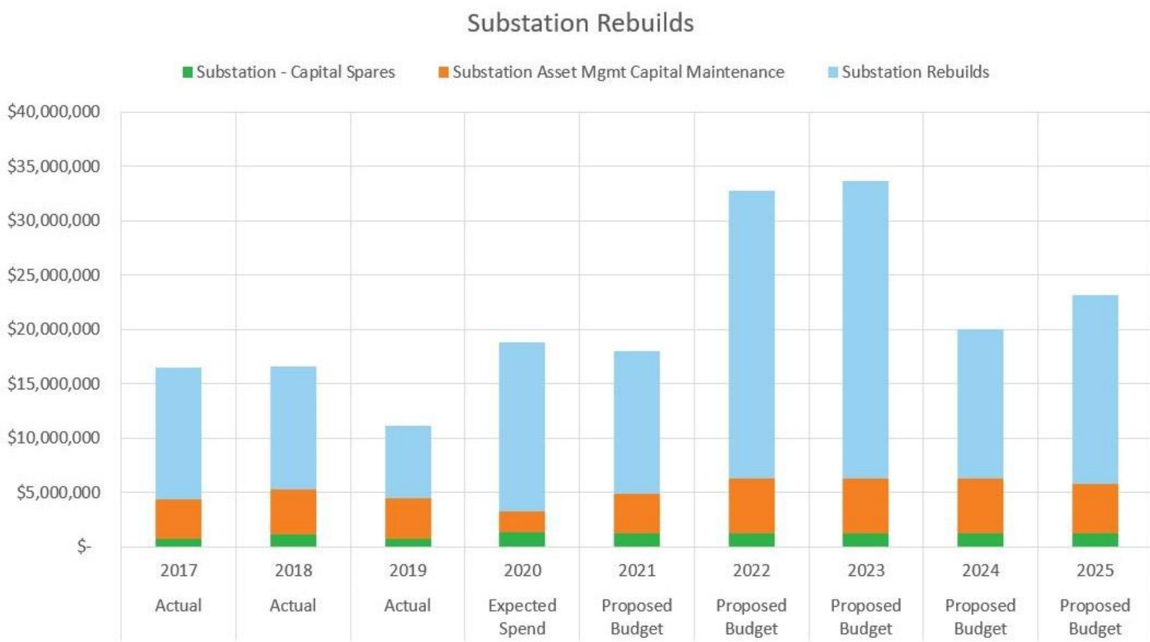
capital additions that are not used and useful during the rate effective period.[98]

2. Substation – Station Rebuilds Program

Public Counsel Witness Coppola has suggested a three-year average should be used to determine the pro formed level of additions. However, this methodology is not appropriate for work performed for this business case. There are two components to the work performed in this business case as described in Company witness Ms. Rosentrater's testimony,[99] as well as the Business Case.[100] The Substation – Station Rebuild Program includes replacing and upgrading major substation apparatus and equipment or the rebuilding of significant portions of stations as needed. The business case suggests replacing station apparatuses and equipment as needed due to asset condition and consider broader station rebuilds when the majority of assets in the impacted area of a station have been determined to have reached their end of life. There are significant fluctuations in capital additions between 2019-2024 due to these activities. Below, Illustration No. 3 was extracted from the associated Business Case, showing the wide range of capital budgeting needs from 2017 through 2025. Note that Illustration No. 3 charts the planned spending, which is a precursor for the total transfer-to-plant amounts (shown in Illustration No. 1 above) pro formed in this rate case, (i.e. annual spend will vary from annual transfers to plant pro formed.

[98] As discussed in Avista's response to DR-PC-227 (Exh. SC-23), Avista is currently in the process of developing a Request for Proposal (RFP) for this project, which will be sent out for bid in Q3 of 2022. The RFP responses will be evaluated in order to select the software and implementor for the project. The Company is targeting software and implementation vendor selections to be complete and work starting in Q4 of 2022.
[99] Exh. HLR-1T p. 55-57
[100] Exh. HLR-2 p. 175-181

Illustration No. 3 – Annual Capital Spend for Substation Rebuilds



As shown in PC-DR-208 Attachment A (Exh, SC-21), capital additions that transferred-to-plant amounted to $14 million in 2019, $11 million in 2020 and $5 million in 2021, which was primarily replacement of station apparatus and equipment as needed. However, the provisional capital amounts of $14 million in 2022, $58 million in 2023 and $41 million in 2024, are plant additions (transfers-to-plant) including the completion of broader station rebuilds, where a majority of the assets are being replaced. For example, in 2023 our Sunset substation rebuild along with a minor rebuild at our Davenport substation will go into service (resulting in a spike in spend in 2022), followed by our Metro substation in 2024 (resulting in a spike in spend in 2023), producing a spike in capital plant additions in these years. Therefore, to meet the needs of this capital investment work, the use of a simple historic average, even with an escalation year-over-year as witness Coppola suggests, is not appropriate.

3. Substation – New Distribution Station Capacity Program

Substation – New Distribution Station Capacity Program is another example of how Avista uses knowledge and experience beyond merely using historical plant additions to determine the most appropriate funding and transfer to plant levels for system reliability and meeting customer expectations. As stated in the Business Case[101], this program adds new distribution substations to the system in order to serve new and growing load, as well as for increased system reliability and operational flexibility. As presented in Illustration No. 4 below, a chart from the Business Case submitted in Exh. HLR-2, there are inconsistent investment needs year-to-year due to the nature of this work. The spikes and valleys in funding demonstrate the capital investment of large, multi-year construction projects that will be completed in some years, with little transfers in others. As discussed in the Business Case, transfers to plant will occur when the substations are completed and energized. Illustration No. 4 below charts the <u>planned spending</u>, whereas Illustration No. 2 above, illustrates the total transfer-to-plant.

<u>Illustration No. 4 - New Distribution Capacity Program Investment Spend By Year</u>

The consistent increase for 2022-2025 includes multi-year projects being constructed, and upon completion placed into service. For example, as the data provided in Public Counsel Data Request No. 208 (Exh. SC-21) shows, there were various fluctuations in actual capital additions from $3.8 million in 2019 to $8.0 million in 2020, followed by a reduction to $2.3 million in 2021. This demonstrates that some smaller

[101] HLR-2 p. 168-174

components in the specific project (Dalton Substation construction project) were completed, placed into service and able to serve customers in 2019, with the majority of this project being completed and benefiting customers in 2020. Similarly, the Company anticipates the Flint Road Substation completing construction and being placed into service in 2023 to meet growing capacity demand. This need for additional capacity will continue and may require increased levels of capital additions for additional substation builds, or could just as likely include periods of construction without large transfers to plant. As the timing and cost of substation energizing is not a combination of individually small and consistent work, but of significant engineering and constructions scheduling, it would be inappropriate to smooth additions to a three-year average.

4. Distribution System Enhancements

The Distribution System Enhancements Business Case[102] includes work to solve performance and capacity issues driven by system wide electric load growth, as well as address power quality mitigation, reliability improvements, operational flexibility, system protection improvements, and safety enhancements. This includes capital investment to mitigate peak load events. This work helps to ensure the Company's distribution system is robust and can provide service during high peak events.

The need for such work, and the increased effort to provide the capital investment, was discussed in Ms. Rosentrater's testimony[103] in regard to the June 28, 2021 to July 1, 2021 heat dome event where a number of Avista's distribution feeders were at or over their rated capacity. As pointed out by Witness Coppola, this Business Case has increased capital additions in the pro formed periods.[104] Where Witness Coppola is using a historical average with inflation, the actual transfers-to-plant show a defined increase from $4.9 million in 2019 and $3.7 million in 2020, to $6.1 million beginning in 2021, and consistently staying at a higher level with expected capital additions of $7.0 million in 2023 and 2024.[105] This

[102] Exh. HLR-2, p. 39-47
[103] Exh. HLR-1T, p. 14-17
[104] Exh. SC-1T, p. 57-60
[105] Exh. SC-21, p. 4.

level of capital additions is necessary to mitigate future peak load issues in a changing environment.

Witness Coppola's average uses two periods prior to this increase and using those periods to predict future funding, especially with the recent heat event indicating areas where additional capital investment is wise, would be inappropriate.

5. Gas Facilities Replacement Program (GFRP) Aldyl-A Pipe Replacement

The Gas Facilities Replacement Program Aldyl-A Pipe Replacement is necessary work to stay compliant with regulatory mandates in place for risk mitigation. An Asset Management study[106] defines the work to be completed and the cadence of completion. Though Witness Coppola notes that recent additions have not kept pace with the initial expectations, Public Counsel did not take into consideration the provided explanation that was included within the original filing[107]. There were several events outside Avista's control that were specifically addressed as being the cause of system work delays. These included the COVID-19 pandemic, a nearly two-month NPL union employees strike affecting Oregon completion goals, and Oregon Wildfires.

In addition, Witness Coppola calculated a total annual cost from $13.9 million to $14.4 million for Washington jurisdiction during the 2022-2024 time-period using the following tables (Table Nos. 11 and 12) from the Business Case[108]:

Table No. 11 – Planned Main Replacement by Jurisdiction

MULTI-YEAR PERFORMANCE BY STATE & YEAR 2022 - 2026				
	WASHINGTON	OREGON	IDAHO	GFRP Program
YEAR	PLANNED MAIN	PLANNED MAIN	PLANNED MAIN	PLANNED MAIN
2022	18.44	8.88	6.73	34.04
2023	18.90	8.65	8.24	35.79
2024	18.56	8.50	7.05	34.11
2025	20.03	8.50	7.33	35.86
2026	20.76	8.50	6.55	35.81
TOTAL	96.7	43.0	20.9	175.6

[106] Exh. HLR-3.
[107] Exh. HLR-2 page 330.
[108] Exh. HLR-2, p. 332 (i.e., annual Washington mains (Table No. 11) multiplied by estimated cost (Table No. 12)).

Table No. 12 – Estimated Cost per Mile by Jurisdiction

EST. COST/MILE BY STATE & YEAR 2022 - 2026			
	WASHINGTON	OREGON	IDAHO
YEAR	EST. COST	EST. COST	EST. COST
2022	$ 771,571.27	$ 829,661.19	$ 735,825.63
2023	$ 764,441.12	$ 875,964.48	$ 756,260.01
2024	$ 746,115.63	$ 781,718.87	$ 806,454.59
2025	$ 768,058.96	$ 843,003.69	$ 778,309.12
2026	$ 776,313.96	$ 869,830.05	$ 833,579.10
AVERAGE	**$ 765,300.19**	**$ 840,035.66**	**$ 782,085.69**

While this is a correct calculation for the Washington jurisdiction additions, witness Coppola then compares the roughly $14 million of Washington annual additions and states this is well short of the expected range of $24 million to $28 million annual additions as estimated by Avista within the Company's rate case[109]. This comparison, however, is faulty, as witness Coppola is comparing Washington additions (roughly $14 million annually) to system additions (Washington, Idaho and Oregon) as discussed by Ms. Rosentrater within her direct testimony. Furthermore, the total system additions included in this case for the 2022 - 2024 time period amount to $43.3 million on a system basis, consistent with the $43.3 million calculated from the tables in Ms. Rosentrater's testimony. Given the explanations provided in the business case, an historic average would not be appropriate, nor would using a faulty comparison of Washington additions to the planned system totals.

6. Wildfire Resiliency Plan

As discussed by Mr. Howell[110], capital investments for our Wildfire Resiliency Plan should not be escalated, even by using the expected 2022 capital additions as a base amount. As discussed by Mr. Howell in his direct testimony[111], the ten-year Wildfire Resiliency Plan indicates a ramp up in capital investment to ensure safe and reliable delivery of energy to Washington customers until levelling out to a consistent amount in

[109] Exh. SC-1T, p. 70
[110] Exh. DRH-5T p. 5.
[111] Exh. DRH-1T p 13.

2025. In addressing Witness Coppola's concerns, Mr. Howell reiterates that Avista's wildfire capital program began in late 2020 and is expected to complete in 2029. In order to upgrade facilities in high fire threat areas and to protect critical infrastructure from the impact of wildfires, Avista is ramping up design, materials, and labor resources in the 2021-2023 timeframe with more levelized spending in the 2024-2029 period.[112] There are multiple areas of the Company's electric network that will require capital investment under this program, and it will require greater investment than merely increasing a single year's spending level by an inappropriate inflationary rate.

7. Energy Delivery Modernization & Efficiency

Although Witness Coppola correctly stated that the additions for the Energy Delivery Modernization & Operation Efficiency showed no additions for the period of 2018 through 2020, it was noted in Mr. Kensok's testimony that the Energy Delivery Operational Efficiency & Shared Services Business Case was merged with Energy Delivery Modernization and Operational Efficiency Business Case[113]. Though the combined total of actual capital additions from these Business Cases amounted to $2.8 million of the expected $5.8 million that was transferred to plant in 2021, over $2.5 million capital additions transferred during the first two months of 2022.

As with many of the capital additions cited by Witness Coppola, this work is not a consistent year over year total. The historical capital additions for these merged Business Cases range from $2.0 million to $5.2 million, and due to the planning that is used within the Company's Business Case and budget process that was described in detail by Mr. Ehrbar in his direct testimony (see Exh. PDE-1T), using an overly simplistic historical average and only providing an inflation adjustment does not in and of itself predict likely additions.

[112] Exh. DRH-5T, p. 5.
[113] Exh. JMK-2 p 1

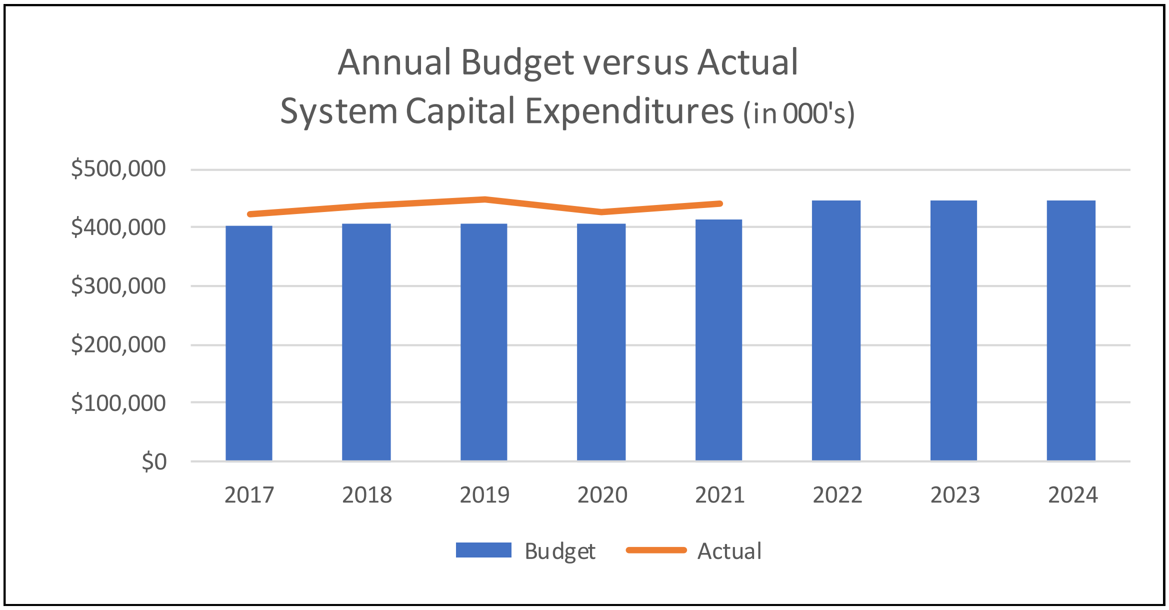
Q. Even if all capital adjustments proposed by Witness Coppola were determined to be appropriate, do you agree with the calculation of the electric and natural gas revenue requirement adjustments as proposed?

A. In short, no. Even if one was to assume the capital additions should be adjusted at the levels Witness Coppola suggests, the timing of the expected additions plays a large part in determining the impacts on revenue requirement (i.e. timing impacts AMA balances during each rate year). This timing affects actual calculations on rate base and ADFIT balances, of which Witness Coppola failed to consider. Ratably allocating the annual adjustments to the anticipated timing of the assets becoming used and useful, the adjustment to revenue requirement Public Counsel presents, resulted in <u>overstating</u> Witness Coppola's revenue requirement <u>reductions</u> for Washington electric operations by $2.6 million in RY1, and $2.3 million in RY2. Though the same problems exist in the calculation performed for Washington natural gas operations, the differences were immaterial, amounting to less than $100,000 of overstated reductions to revenue requirement per rate year.

Q. Does the Company generally spend at least as much as it budgets for on capital expenditures over time?

A. Yes. Our annual actual expenditures generally meet or exceed the levels budgeted for as we meet the needs of our customers. This suggests a high likelihood that the amounts meant for capital additions in 2022 through 2024 will be spent as shown in Illustration No. 5 below.

<u>Illustration No. 5 – Annual Budget Versus Actual System Capital Expenditures</u>



Furthermore, Table No. 13 below, shows the amount and percentage of actual expenditures versus that planned by the Company annually.

<u>Table No. 13 – System Capital Expenditures Actual versus Budget</u>

Annual System Capital Expenditures - Budget versus Actual (000s) and Actual % Spend Over/Under Budget			
Year	Budget	Actual	Over/(Under) % of Budget
2017	$ 405,073	$ 424,279	4.74%
2018	$ 405,456	$ 436,617	7.69%
2019	$ 405,252	$ 449,928	11.02%
2020	$ 408,219	$ 428,311	4.92%
2021	$ 414,416	$ 440,170	6.21%
2022	$ 446,253		
2023	$ 445,000		
2024	$ 445,000		

Q. Finally, are there protections in place for customers if the Company's level of capital investment approved by the Commission are not met by the Company?

A. Yes. As previously discussed in my testimony, the annual Provisional Capital Reporting requirements agreed to in the Settlement will provide the opportunity for all parties and this Commission to review all capital investment levels approved by the Commission in this proceeding. To the extent customer rates approved by the Commission are overstated due to the capital investment approved by the Commission in RY1 (2022 and 2023) and RY2 (2024), compared to the actual level of capital investment for those periods, the Company would be required to refund to customers those over collections.

Q. Does this conclude your testimony?

A. Yes, it does.