BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-240006

DOCKET UG-240007

(Consolidated)

REBUTTAL TESTIMONY OF

KAYLENE J. SCHULTZ

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 Kaylene J. Schultz. I am employed by Avista Corporation as Manager of Regulatory Affairs in the Regulatory Affairs Department. My business address is 1411 East Mission, Spokane, Washington.

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 electric and natural gas Two-Year Rate Plan and the need for the proposed increases in base rates effective December 21, 2024 (Rate Year 1 or RY1) and December 21, 2025 (Rate Year 2 or RY2). In that testimony, I explained pro formed operating results, including expense and rate base adjustments made to actual operating results and rate base. Included with the restating, pro forma and provisional adjustments were certain adjustments sponsored by other witnesses, from which I incorporated the Washington-share of those adjustments in the Company's direct case.

Q. What is the scope of your rebuttal testimony?

A. My testimony is provided to support the Company's electric and natural gas Two-Year Rate Plan revenue requirement positions on rebuttal, and to respond to certain testimonies of Staff and other parties in this proceeding.[2] My rebuttal testimony explains that the Company's

[1] See Schultz, Exhs. KJS-1T through KJS-4.

[2] I will refer to each of the non-Company Parties in these Dockets as follows: the Staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Unit of the Washington Office of Attorney General (Public Counsel or PC), the Alliance of Western Energy Consumers (AWEC), the NW Energy Coalition (NWEC), Sierra Club, The Energy Project (TEP), and Walmart. My testimony discusses specific concerns or adjustment to the Company's filed case raised by Staff, Public Counsel and AWEC, collectively known as the "Parties".

request for rate relief for both electric and natural gas have been adjusted downward to reflect actual information coming available during the process of this case, as well as certain adjustments included by Avista that address issues raised by Staff and/or other intervening Parties. I also emphasize that the driver of the Company's need for rate relief is related to recovery of capital additions in RY1, whereas, the main driver of the incremental rate relief requested in RY2 relates to increased power supply costs due to the removal of Colstrip.

Next, I will provide an explanation of the adjustments included in the electric and natural gas rebuttal revenue requirements per the Company's revised study results, after reflecting corrections and updates that have been identified through the process of this case, as well as discuss each contested adjustment by each party.

Q. Would you please summarize your rebuttal testimony?

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

- On rebuttal, the Company is requesting electric base rate relief in RY1 of $42.892 million effective December 21, 2024, or 7.3% (6.7% on a billed basis). In RY2, the incremental rate relief requested is $69.264 million effective December 21, 2025, or 10.9% (6.5% on a billed basis).

- On rebuttal, the Company is requesting natural gas base rate relief in RY1 of $16.802 million effective December 21, 2024, or 13.2% (5.8% on a billed basis). In RY2, the incremental rate relief requested is $4.017 million effective December 21, 2025, or 2.8% (1.3% on a billed basis).

- Staff, Public Counsel and AWEC's proposed revenue requirement for electric would result in earned equity returns (ROEs) in RY1 of 8.1%, 7.7% and 6.3%, respectively. Similarly, in RY2 their proposed revenue requirements would result in ROEs of 3.7%, 8.2% and 6.0%, respectively. These results reflect a reduction of between 130 to 310 basis points for RY1 and 120 to 570 basis points for RY2 below that currently authorized ROE of 9.4%, and would not provide the Company with a reasonable opportunity to earn its authorized rate of return.

- Staff, Public Counsel and AWEC's proposed revenue requirement for natural gas would result in earned equity returns (ROEs) in RY1 of 9.0%, 8.6% and 7.0%, respectively. Similarly, in RY2 their proposed revenue requirements would result in ROEs of 8.0%, 8.7% and 6.7%, respectively. These results reflect a reduction of between 40 to 240 basis points for RY1 and 70 to 270 basis points for RY2 below that currently authorized (9.4%) and would not provide the Company with a reasonable opportunity to earn its authorized rate of return.

- The Company is requesting this Commission approve subject to refund, proposed net plant after ADFIT, on a provisional basis, for Washington electric totaling $2,189,067,000 for RY1 and $2,281,707,000 for RY2. For Washington natural gas, the Company requests this Commission approve net plant after ADFIT balances of $558,255,000 for RY1 and $575,335,000 for RY2.

- Finally, I summarize the updates to all Avista adjustments included by the Company on rebuttal, reflecting updates and corrections provided to all Parties through discovery, as well as additional adjustments based on concerns raised by the Parties. Supporting information for each adjustment included on rebuttal in the Company's Electric and Natural Gas Revenue Requirement models are available within the native models provided as Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas), per each individual adjustment tab.

In addition to the specific main points summarized above, with regards to specific adjustments as proposed by the Parties, my testimony will show that the recommendations of Staff, Public Counsel and AWEC, do not lead to reasonable results.

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

A. Yes. I am sponsoring Exh. KJS-6 through Exh. KJS-11, which were prepared by me. Exh. KJS-6, page 1 provides the listing of Uncontested Adjustments, while page 2 provides the listing of Avista Updated and Contested Adjustments. Pages 3 (electric) and 4 (natural gas), provides a reconciliation of revenue requirement positions of the Parties, as well as Avista on rebuttal, compared to the Company's direct case. Exh. KJS-7 (Electric) and Exh. KJS-8 (Natural Gas) present the results of the Company's Electric and Natural Gas Rebuttal Revenue Requirement Studies, effective December 21, 2024 (RY1) and December 21, 2025 (RY2). Exh. KJS-9 and Confidential Exh. KJS-10C provides copies of certain discovery responses which support the electric and natural gas adjustments included in the Company's revenue requirement models on rebuttal. Finally, Exh. KJS-11 provides the individual Board of Director non-utility surveys.

II. SUMMARY OF RY1 AND RY2 REBUTTAL ELECTRIC AND NATURAL GAS REVENUE REQUIREMENTS

A. Summary of RY1 and RY2 Revenue Requirements – Direct versus Rebuttal

Q. Have you prepared a summary table that shows the Company's revenue requirement need for its electric and natural gas services proposed on rebuttal, compared to the Company's originally filed case for the Two-Year Rate Plan?

A. Yes. In Avista's rebuttal filing, it has updated its RY1 and RY2 electric and natural gas revenue requirement calculations based on current information, and in response to testimonies of the Parties. For this update, Avista started with its filed revenue requirement models and incorporated adjustments for known corrections and updates during the pendency of this case – mainly updating for Power Supply net expenses and actual 2023 data. Company Witness Mr. Kalich discusses the Company's revision downward of its proposed Pro Forma Power Supply Adjustments in RY1 and RY2, to update for more current information, as well as in response to Party testimony and the recent Commission Order 07, in this case, regarding the Company's Power Supply Forecast Adjustment.[3] Furthermore, in response to testimonies, the Company also included additional adjustments in RY1 to reflect a reduction to investor relations expense, reflecting a 90/10 customer/shareholder sharing, and in RY1 and RY2 to reflect an increased level of revenue associated with Rent from Electric property (Joint Use) relative to the Company's direct case. The

[3] Order 07, Docket UE-240006, et.al., Commission Order Denying Staff's Motion for Partial Summary Determination.

summary of those adjustments results in the levels of revenue requirement and rate base proposed on rebuttal for RY1 and RY2 is shown in Table No. 1 (Washington electric) and Table No. 2 (Washington natural gas) below.

Table No. 1 – Summary of WA Electric Revenue Requirement – As-Filed versus Rebuttal

Summary of WA Electric Revenue Requirement - As-Filed versus Rebuttal (000s)				
	Rate Year 1		Rate Year 2	
	Revenue Requirement	Rate Base	Revenue Requirement [4]	Rate Base
As-Filed Revenue Requirement	**$ 77,067**	**$ 2,309,817**	**$ 78,130**	**$ 2,400,061**
Updates on Rebuttal:				
(Update on Rebuttal RY1)				$ 3,999
Net Power Supply [1]	$ (35,639)		$ (5,321)	
Capital and Related Expense [2]	$ 1,262	$ 3,999	$ 78	$ (596)
Net Other Revenue & Expense [3]	$ 202		$ (3,624)	
Rebuttal Revenue Requirement	**$ 42,892**	**$ 2,313,816**	**$ 69,264**	**$ 2,403,463**
% Increase Base	7.3%		10.9%	
Colstrip Tariff Schedule 99 Offset			**$ (24,419)**	
Bill Impact			**$ 44,845**	
% Increase Billed	6.7%		6.5%	

[1]Net Power Supply reflects updates to power supply revenues and expenses as discussed by Mr. Kalich, including the Company's updated forecast adjustment error (see Exh. CGK-7T).

[2]Capital and Related Expense amount mainly reflects updates to pro forma capital adjustments, to include actual transfers-to-plant through February 2024 and updated expected transfers-to-plant through December 2024, and flow through impact to provisional capital adjustments in 2025 & 2026, available after the filing of the Company's electric and natural gas filed cases.

[3] Net Other Revenue & Expense includes changes to other revenue, labor, benefits, property tax, & other O&M expenses.

[4] Of the $69.3 million revenue requirement increase in RY2, $54.2 million is associated with the removal of Colstrip, with the remaining $15.1 million related to capital investment and non-power supply expense. As noted in the table above, Colstrip Tariff Schedule 99 Offset will expire, reducing customer bills by approximately $24.4 million or 3.6% (amount and % at this time).

Table No. 2 – Summary of WA Natural Gas Revenue Requirement – As-Filed versus Rebuttal

Summary of WA Natural Gas Revenue Requirement - As-Filed versus Rebuttal (000s)				
	Rate Year 1		Rate Year 2	
	Revenue Requirement	Rate Base	Revenue Requirement	Rate Base
As-Filed Revenue Requirement	**$ 17,293**	**$ 586,084**	**$ 4,564**	**$ 602,325**
Updates on Rebuttal:				
(Update on Rebuttal RY1)				$ 4,924
Capital and Related Expense [1]	$ 887	$ 4,924	$ (18)	$ (9)
Net Other Revenue & Expense [2]	$ (1,377)		$ (529)	
Rebuttal Revenue Requirement	**$ 16,802**	**$ 591,008**	**$ 4,017**	**$ 607,240**
% Increase Base	13.2%		2.8%	
% Increase Billed	5.8%		1.3%	

[1]Capital and Related Expense amount mainly reflects updates to pro forma capital adjustments, to include actual transfers-to-plant through February 2024 and updated expected transfers-to-plant through December 2024, and flow through impact to provisional capital adjustments in 2025 & 2026, available after the filing of the Company's electric and natural gas filed cases.

[2] Net Other Revenue & Expense includes changes to other revenue, labor, benefits, property tax, & other O&M expenses.

Details regarding the "Updates on Rebuttal" in Table Nos. 1 and 2 above are discussed further in Section IV. "Uncontested Adjustments and Updates to Company Case" and provided in Exh. KJS-6, pages 3 - 4.

Q. How does the Company's revenue requirement need proposed on direct and rebuttal compare to that proposed by Staff and the other intervening Parties over the Two-Year Rate Plan?

A. Included below in Table No. 3 (RY1) and Table No. 4 (RY2) are summaries of the revenue requirement positions by Staff, Public Counsel, and AWEC by rate year. As noted in Table Nos. 3 and 4, the Company identified corrections and/or updates to both Staff and AWEC's positions for RY1, and AWEC's position for RY2.[4] A reconciliation between the proposed revenue

[4] Staff did not support a multi-year rate plan, and as such, was silent regarding RY2 revenue requirement increases.

requirement and the corrected/updated revenue requirement is provided, for Staff, in Table No. 5 and for AWEC, in Table No. 6 below.

Table No. 3 – Summary of RY1 Proposed Revenue Requirement Positions (000s)

Summary of Rate Year 1 Proposed Revenue Requirement Positions (000s)				
	Electric		Natural Gas	
Avista As-filed	$	77,067	$	17,293
Avista Rebuttal	$	42,892	$	16,802
Staff - Corrected/Updated[2]	$	16,614	$	12,373
Public Counsel	$	2,391	$	10,121
AWEC - Corrected[1/2]	$	(14,474)	$	4,796

[1]AWEC Witness Mullins proposed revenue requirement for electric RY2 and natural gas RY1 include the separate Tariff Schedules 78 (electric) and 178 (natural gas) Customer Tax Credit Amortizations as proposed by Mullins (Mullins, Exh. BGM-1T at 2, Table 1), because if approved, would negatively impact Avista's billed revenue, versus a cash flow only impact of these Tariffs today.

[2]See correction/update descriptions in Table Nos. 5 and 6 below.

Table No. 4 – Summary of RY2 Proposed Revenue Requirement Positions (000s)

Summary of Rate Year 2 Proposed Revenue Requirement Positions (000s)				
	Electric		Natural Gas	
Avista As-filed	$	78,130	$	4,564
Avista Rebuttal	$	69,264	$	4,017
Staff[1]	$	-	$	-
Public Counsel	$	74,981	$	4,092
AWEC - Corrected[2]	$	64,504	$	2,922

[1]Staff opposed a MYRP.

[2]See correction descriptions in Table No. 6 below.

Table No. 5 – Staff Correction of Error / Contract Update

Staff Correction of Error / Contract Update[1]				
	Electric		Natural Gas	
Staff Witness Hillstead - Error/Update[2]	**RY1**		**RY1**	
Proposed Revenue Requirement	$	8,290	$	11,297
a.) Miscellaneous O&M Expense (error)	$	6,386	$	490
b.) Union Labor Contract Ratification (update)	$	1,938	$	586
Corrected/Updated Revenue Requirement	**$**	**16,614**	**$**	**12,373**

[1]Staff did not support RY2 of the Multi-Year Rate Plan.

[2]Staff error a.) relates to the exclusion of Miscellaneous O&M Adjustment in its entirety, although Staff supported inclusion of actual Miscellaneous O&M updated through December 2023, as discussed by Ms. Andrews (Exh. EMA-6T). Staff update b.) relates to Staff support of union labor 2024-2025 approved increases if contract ratified, as discussed by Ms. Schultz (Exh. KJS-5T).

Table No. 6 – AWEC Correction of Errors

AWEC - Correction of Errors								
	Electric				Natural Gas			
AWEC Witness Mullins - Errors[2]	**RY1**		**RY2[1]**		**RY1[1]**		**RY2**	
Proposed Revenue Requirement	$	(18,880)	$	63,383	$	3,706	$	2,826
a.) Cost of Capital	$	899	$	30				
b.) Power Supply - P/T Ratio	$	758	$	232				
c.) Capital - ADFIT			$	859			$	96
d.) Remove 06.2023 ADFIT - Customer Tax Credit	$	2,749			$	1,090		
Corrected Revenue Requirement	**$**	**(14,474)**	**$**	**64,504**	**$**	**4,796**	**$**	**2,922**

[1] AWEC Witness Mullins proposed revenue requirement for electric RY2 and natural gas RY1 include the separate Tariff Schedules 78 (electric) and 178 (natural gas) Customer Tax Credit Amortizations as proposed by Mullins (Mullins, Exh. BGM-1T at 2, Table 1), because if approved, would negatively impact Avista's billed revenue, versus a cash flow only impact of these Tariffs today.

[2]If this Commission were to approve Witness Mullins proposals as filed, the following errors exist relating to: a.) use of 9.20% ROE in Mullins electric Exh. BGM-2 in RY1 and RY2, as discussed in my (Schultz) testimony below; b.) use of incorrect Production/Transmission (P/T) ratio for removal of Washington share of Power Supply Forecast Error adjustment in RY1, and Colstrip transmission assets and Colstrip wheeling expenses in RY2, c.) failure to update Provisional Capital Adjustments ADFIT from 2026 AMA to 2025 EOP in RY2, and d.) failure to remove 12ME 06.2023 AMA test period ADFIT Customer Tax Credit liability balances in RY1, as a result of Mullins' proposal to flow through customer tax credit deductions; as discussed by Ms. Andrews at Exh. EMA-6T (b.) - d.)).

B. Avista and Staff/Intervening Parties Proposed Revenue Requirements by Adjustment

Q. Please provide a reconciliation of Avista's revenue requirement on rebuttal, as well as that proposed by Staff, Public Counsel, and AWEC per their responsive testimonies.

A. As noted within Table Nos. 3 (RY1) and 4 (RY2) above, Staff, Public Counsel, and AWEC propose significantly less electric and natural gas revenue requirements than that proposed by Avista. The differences on an adjustment basis between Avista and the Parties are shown below in Table No. 7 (electric) and Table No. 8 (natural gas), native versions of these tables have also been provided within Exh. KJS-6:[5]

[5] These tables represent what was provided by the Parties in their direct filings, and do not include the corrections/updates as discussed in Table Nos. 3-6 above.

Table No. 7 – WA Electric Reconciliation of Avista Rebuttal vs Parties Revenue Requirement

		RECONCILIATION TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT (000s)								
	Washington Electric		Avista Rebuttal		UTC Staff [1]		Public Counsel [2]		AWEC [3]	
			Revenue Requirement	Rate Base	Revenue Requirement	Rate Base	Revenue Requirement	Rate Base	Revenue Requirement	Rate Base
	Adj.	Adjustments:	(10.4% ROE) [6]		(9.5% ROE)		(8.85% ROE)		(9.25% ROE [5])	
		Amount As Filed Per Company - Rate Year 1	**$ 77,067**	**$ 2,309,817**	**$ 77,067**	**$ 2,309,817**	**$ 77,067**	**$ 2,309,817**	**$ 77,067**	**$ 2,309,817**
1	COC	Adjust Cost of Capital [4]			(13,199)		(23,022)		(17,804)	
2	1.01	Deferred FIT Rate Base	234	2,493						
3	1.03	Working Capital							(2,485)	(28,814)
4	1.04	Remove Colstrip	130	1,386						
5	2.06	FIT/DFIT/ ITC Expense							(5,828)	
6	2.12	Misc. Restating Non-Util / Non- Recurring Expenses	(2)						(421)	
7	3.00P	Pro Forma Power Supply	(35,639)		(42,184)		(44,458)		(47,469)	
8	3.05	Pro Forma Labor Non-Exec	84		(1,854)					
9	3.06	Pro Forma Labor Exec	52				(63)			
10	3.07	Pro Forma Employee Benefits	175						(1,285)	
11	3.08	Pro Forma Incentives			(1,222)					
12	3.11	Pro Forma Property Tax	(569)						(570)	
13	3.12	Pro Forma Insurance Expense					(237)			
14	3.14	Pro Forma Misc O&M Exp	143		(9,508)		(5,624)		(9,319)	
15	3.15	Pro Forma Capital Additions to 12.31.2023 EOP	(2,249)	(24,278)						
16	3.16	Pro Forma Depreciation Expense	9							
17	3.17	Pro Forma Capital Additions to 12.31.2024 EOP	2,304	24,629						
18	3.20	Pro Forma BOD Fees Expense					(819)		(819)	
19	3.23	Pro Forma PPA Interest			(810)					
20	4.01	Provisional Capital Additions to 12.31.2025 AMA	834	(231)					(7,742)	(25,761)
21	4.02	2024-2025 Capital Adds O&M & Revenue Offsets	984							
22	PC (Exh. MEG-3, Sch. 3.7)	Investor Relations Expense	(40)				(201)			
23	PC (Exh. MEG-3, Sch. 3.8)	Association Dues					(252)			
24	AWEC 4.03	Rent From Electric Property	(626)						(2,205)	
25		Total Adjustments	$ (34,175)	$ 3,999	$ (68,777)	$ -	$ (74,676)	$ -	$ (95,947)	$ (54,575)
26										
27		**RY1 Adjusted Amounts**	**$ 42,892**	**$ 2,313,816**	**$ 8,290**	**$ 2,309,817**	**$ 2,391**	**$ 2,309,817**	**$ (18,880)**	**$ 2,255,242**
28										
29		**Incremental Amount As Filed Per Company - Rate Year 2**	**$ 78,130**	**$ 90,244**			**$ 78,129**	**$ 90,244**	**$ 78,130**	**$ 90,244**
30	COC	Adjust Cost of Capital [4]					$ (899)		$ (696)	
31	5.00P	Pro Forma Power Supply - Remove Colstrip	(5,321)						(4,165)	
32	5.02	Pro Forma Labor Non-Exec	(568)						-	
33	5.03	Pro Forma Employee Benefits	(315)						(318)	
34	5.04	Pro Forma Property Tax	(42)						(42)	
35	5.06	Pro Forma Misc O&M Exp	(2,095)				(2,249)		(2,368)	
36	5.07	Provisional Capital Adds to 12.31.2026 AMA	78	(596)					777	(9,039)
37	5.08	2026 Capital Adds O&M & Revenue Offsets	(406)						-	
38	AWEC 5.13	Rent From Electric Property	(198)						(286)	
39	AWEC 5.14	Colstrip Transmission Assets							(1,915)	(6,608)
40		Total Adjustments	$ (8,866)	$ (596)			$ (3,148)	$ -	$ (9,013)	$ (15,647)
41										
42		**RY2 Adjusted Amounts**	**$ 69,264**	**$ 2,403,463**			**$ 74,981**	**$ 2,400,061**	**$ 69,117**	**$ 2,329,839**
43										
44	AWEC-CTC	Customer Tax Credit Amortization							(5,734)	
45										
46		**RY2 Adjusted Amounts with Amortization**	**$ 69,264**	**$ 2,403,463**	**$ -**	**$ -**	**$ 74,981**	**$ 2,400,061**	**$ 63,383**	**$ 2,329,839**
		NOTES TO TABLE								
		[1] Per K. Hillstead, Exh. KMH-1T at 9-10 and Exh. KMH-2 at 1.								
		[2] Per M. Garrett, Exh. MEG-3 at 2.								
		[3] Per B. Mullins, Exh. BGM-3 at 1-3.								
		[4] Differences based solely on cost of capital proposed by the party is consolidated with line 1. Includes debt interest.								
		[5] AWEC Witness Kaufman proposes 9.25%, however, AWEC Witness Mullins uses 9.2% in their electric revenue requirement calculation.								
		[6] Capital structure 48.5% Common Equity / 51.5% Total Debt, and Total Cost of Debt 4.99% uncontested.								
		Other parties to the proceeding, NW Energy Coalition (NWEC), The Energy Project (TEP), Sierra Club, and Walmart, did not provide revenue requirement adjustments.								

Table No. 8 – WA Natural Gas Reconciliation of Avista Rebuttal vs Parties Revenue Requirement

		RECONCILIATION TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT (000s)								
	Washington Natural Gas		**Avista Rebuttal**		**UTC Staff [1]**		**Public Counsel [2]**		**AWEC [3]**	
			Revenue Requirement	**Rate Base**	**Revenue Requirement**	**Rate Base**	**Revenue Requirement**	**Rate Base**	**Revenue Requirement**	**Rate Base**
	Adj.	**Adjustments:**	**(10.4% ROE) [5]**		**(9.5% ROE)**		**(8.85% ROE)**		**(9.25% ROE)**	
		Amount As Filed Per Company - Rate Year 1	**$ 17,293**	**$ 586,084**	**$ 17,293**	**$ 586,084**	**$ 17,293**	**$ 586,084**	**$ 17,293**	**$ 586,084**
1	COC	Adjust Cost of Capital [4]			(3,348)		(5,840)		(4,283)	
2	1.01	Deferred FIT Rate Base	74	789						
3	1.03	Working Capital							(311)	(3,592)
4	2.06	FIT/DFIT/ ITC Expense							(1,226)	
5	2.12	Misc. Restating Non-Util / Non- Recurring Expenses	(1)						(27)	
6	3.05	Pro Forma Labor Non-Exec	39		(547)					
7	3.06	Pro Forma Labor Exec	17				(20)			
8	3.07	Pro Forma Employee Benefits	56						(407)	
9	3.08	Pro Forma Incentives			(387)					
10	3.11	Pro Forma Property Tax	(85)						(85)	
11	3.12	Pro Forma Insurance Expense					(75)			
12	3.14	Pro Forma Misc O&M Exp	(1,480)		(1,714)		(778)		(1,715)	
13	3.15	Pro Forma Capital Additions to 12.31.2023 EOP	(14)	(364)						
14	3.16	Pro Forma Depreciation Expense	2							
15	3.17	Pro Forma Capital Additions to 12.31.2024 EOP	880	4,824						
16	3.20	Pro Forma BOD Fees Expense					(259)		(259)	
17	4.01	Provisional Capital Additions to 12.31.2025 AMA	(56)	(325)					(2,555)	(3,204)
18	4.02	2024-2025 Capital Adds O&M & Revenue Offsets	89							
19	PC (Exh. MEG-4, Sch. 4.7)	Investor Relations Expense	(12)				(60)			
20	PC (Exh. MEG-4, Sch. 4.8)	Association Dues					(140)			
21		Total Adjustments	$ (492)	$ 4,924	$ (5,996)	$ -	$ (7,172)	$ -	$ (10,868)	$ (6,796)
22										
23		**RY1 Adjusted Amounts**	**$ 16,802**	**$ 591,008**	**$ 11,297**	**$ 586,084**	**$ 10,121**	**$ 586,084**	**$ 6,424**	**$ 579,288**
24										
25	AWEC-CTC	Customer Tax Credit Amortization							(2,718)	
26										
27		**RY1 Adjusted Amounts with Amortization**	**$ 16,802**	**$ 591,008**	**$ 11,297**	**$ 586,084**	**$ 10,121**	**$ 586,084**	**$ 3,706**	**$ 579,288**
28										
29		**Incremental Amount As Filed Per Company - Rate Year 2**	**$ 4,564**	**$ 16,241**			**$ 4,565**	**$ 16,241**	**$ 4,565**	**$ 16,241**
30	COC	Adjust Cost of Capital [4]					$ (162)		$ (119)	
31	5.02	Pro Forma Labor Non-Exec	(154)							
32	5.03	Pro Forma Employee Benefits	(100)						(101)	
33	5.04	Pro Forma Property Tax	(1)						(1)	
34	5.06	Pro Forma Misc O&M Exp	(323)				(311)		(341)	
35	5.07	Provisional Capital Adds to 12.31.2026 AMA	(18)	(9)					(1,177)	5,856
36	5.08	2026 Capital Adds O&M & Revenue Offsets	49							
37		Total Adjustments	$ (547)	$ (9)			$ (473)	$ -	$ (1,739)	$ 5,856
38										
39		**RY2 Adjusted Amounts**	**$ 4,017**	**$ 607,240**	**$ -**	**$ -**	**$ 4,092**	**$ 602,325**	**$ 2,826**	**$ 601,384**
		NOTES TO TABLE								
		[1] Per K. Hillstead, Exh. KMH-1T at 21-22 and Exh. KMH-8 at 1.								
		[2] Per M. Garrett, Exh. MEG-4 at 2.								
		[3] Per B. Mullins, Exh. BGM-4 at 1-3.								
		[4] Differences based solely on cost of capital proposed by the party is consolidated with line 1. Includes debt interest.								
		[5] Capital structure 48.5% Common Equity / 51.5% Total Debt, and Total Cost of Debt 4.99% uncontested.								
		Other parties to the proceeding, NW Energy Coalition (NWEC), The Energy Project (TEP), Sierra Club, and Walmart, did not provide revenue requirement adjustments.								

The adjustments as proposed by Avista are described in Section IV. “Uncontested Adjustments and Updates to Company Case” below, as well as contested items are discussed in Section V. “Contested Adjustments”.

Q. What would be the combined Washington return on equity (ROE) for Avista using Staff's and the other Parties' proposed revenue requirements as depicted in Table Nos. 7 and 8 above?

A. As shown in Table Nos. 9 (RY1) and 10 (RY2) below, approval of any of the recommended revenue increases proposed by Staff, Public Counsel, or AWEC in Table Nos. 7 (Washington electric) and 8 (Washington natural gas) above, would result in a return on equity (ROE) in RY1 of over 130 to 310 basis points for electric and 40 to 240 basis points for natural gas, under that currently authorized (9.4%).

Table No. 9 – Resulting ROE of Proposed Revenue Positions of Parties (RY1-2025)

Resulting ROE of Proposed Revenue Positions of Parties (RY1-2025)			
	ROE Electric	**ROE Natural Gas**	**Current Authorized**
			9.4%
Staff	**8.1%**	**9.0%**	
Public Counsel	**7.7%**	**8.6%**	
AWEC[1]	**6.3%**	**7.0%**	

[1]AWEC RY1 natural gas ROE calculation includes Witness Mullins Separate Tariff Schedule "Customer Tax Credit" amortization. This Schedule does have an impact on net income, as AWEC proposes to return more dollars than owed customers.

For RY2, the results are even worse, given Staff did not support a second rate year. As a result, electric results would be 120 to 570 basis points lower than the present authorized 9.4%, and 70 to 270 basis points lower for natural gas.

Table No. 10 – Resulting ROE of Proposed Revenue Positions of Parties (RY2-2026)

Resulting ROE of Proposed Revenue Positions of Parties (RY2-2026)			
	ROE Electric	ROE Natural Gas	Current Authorized
			9.4%
Staff [2]	3.7%	8.0%	
Public Counsel	8.2%	8.7%	
AWEC[1]	6.0%	6.7%	

[1]AWEC RY2 electric ROE calculation includes Witness Mullins Separate Tariff Schedule "Customer Tax Credit" amortization. This Schedule does have an impact on net income, as AWEC proposes to return more dollars than owed customers.
[2] Staff did not propose a RY2. This is the effect of no rate relief in RY2.

III. MAIN DRIVERS OF AVISTA'S NEED FOR RATE RELIEF

Q. As noted within the Company's direct case, net plant investment is one of the main drivers for the need for rate relief in this case. Please elaborate.

A. As discussed in my direct testimony and supported by multiple Avista witnesses' direct and rebuttal testimonies,[6] the increase in net plant investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest) from that currently authorized is a main driver of the need for rate relief in this case. The incremental twelve-months ended (12ME) 06.2023 test period, pro forma and provisional capital additions above existing

[6] In the Company's direct case, Ms. Benjamin's testimony (Exh. TCB-1T) and related exhibits support Washington's share of directly assigned or allocated transfer-to-plant data (actual or expected) pro formed in the Company's case by Business Case, by witness, by month (the in-service "used and useful" date). Testimony and exhibits in support of the capital Business Cases are provided by capital witnesses: Mr. Alexander regarding production assets (Exh. AGA-1T); Mr. DiLuciano regarding transmission, distribution and general assets (Exh. JDD-1T); Mr. Manuel regarding the costs associated with Avista's IS/IT projects and short-lived assets (Exh. WOM-1T); Ms. Hydzik regarding transportation electrification and customer technology projects (Exh. NLH-1T); and Mr. Howell regarding Wildfire Resiliency Plan assets (Exh. DRH-1T).

rates, contribute significantly to the incremental Washington electric and natural gas revenue requirements over the Two-Year Rate Plan.

The Company has included total Washington electric and natural gas pro forma and provisional capital additions planned to transfer-to-plant between July 1, 2023 through December 31, 2025 for RY1, and January 1, 2026 through December 31, 2026 for RY2. On rebuttal, and as discussed later in my testimony, the Company included actual capital additions for the period July 1, 2023 through February 29, 2024 and expected capital additions for the period March 1, 2024 through December 31, 2024.[7] Capital additions in 2024[8], as well as capital additions for the period January 1, 2025 through December 31, 2026 are included as "provisional" and subject to further review through the Company's proposed annual Provisional Capital Reporting process. In the Company's direct testimony, Company Witness Benjamin (Exh. TCB-1T) speaks to the Provisional Capital Reporting process, while Company Witness Andrews rebuttal testimony (Exh. EMA-6T) addresses Staff and AWEC testimonies regarding provisional capital investment and the Provisional Capital Reporting process. Additionally, Company Witness DiLuciano addresses the testimony of Staff Witness Atitsogbe regarding distribution system capital investment.

[7] As discussed by Ms. Andrews, for 2023 and 2024, a level of capital investment through 2024 was approved by the Commission in Dockets UE-220053, et. al., contingent upon the provisional capital review filings in March 2024 for 2023 capital investments and in March 2025 for 2024 capital investments. On March 29, 2024, the Company submitted it's 2023 Provisional Capital Report. The Company received final Commission confirmation on July 31, 2024, that its 2023 Provisional Capital Report for its 2023 investment complies with Order 10/04. Commission acknowledgement confirmed that the 2023 provisional capital investment is prudent, and no longer subject to review and refund. The Company's 2024 Provisional Capital Report will be filed on or before March 31, 2025, and will be subject to review and refund until Commission acknowledgement in 2025.

[8] As discussed by Ms. Andrews (Exh. EMA-6T), the Company recognizes the level of 2024 capital investment approved by the Commission in Docket UE-220053, et.al., is still subject to review and refund until the Commission approves as prudent after the 2024 Provisional Capital Report review in 2025, therefore, 2024 investment is still "provisional" capital investment in this case, versus "pro forma" investment as labeled by Avista on direct.

Q. Please provide updated net plant after accumulated deferred federal income taxes (ADFIT) balances over the Two-Year Rate Plan based on the Company's rebuttal position.

A. After taking into consideration gross plant additions[9] (including retirements), net of accumulated depreciation (A/D) and ADFIT, the "Net Plant after ADFIT" balances over the Two-Year Rate Plan for Washington electric and natural gas for RY1 and RY2, updated for the Company's position on rebuttal, are shown in Table No. 11 below. Table No. 11 is similar to Table No. 4 in my direct testimony[10], only updated for the Company's position on rebuttal, which is discussed later in my testimony.

Table No. 11 – Two-Year Rate Plan Net Plant After ADFIT Balances for RY1 & RY2

Two Year Rate Plan - Rebuttal Net Plant After ADFIT Balances (000s)					
Service	Actual 06.2023 Test Period[3]	RY 1 Adjustments	2025 RY1 Balances	RY 2 Adjustments	2026 RY2 Balances
WA Electric[1]	$ 1,948,790	$ 240,277	$ 2,189,067	$ 92,640	$ 2,281,707
WA Natural Gas[2]	$ 497,887	$ 60,368	$ 558,255	$ 17,080	$ 575,335

[1] See Electric Exh. KJS-7, page 1, row 46, column *h* "12.2024 Proposed Total" for RY1 balances, and Exh. KJS-7, page 2, row 46, column *g* "12.2025 Proposed Total" for RY2 balances.

[2] See Natural Gas Exh. KJS-8, page 1, row 42, column *h* "12.2024 Proposed Total" for RY1 balances, and Exh. KJS-8, page 2, row 42, column *g* "12.2025 Proposed Total" for RY2 balances.

[3] Excludes Colstrip Net Plant After ADFIT, as Colstrip balances are reflected in separate Tariff Schedule 99.

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[9] As filed gross plant additions by witness over the Two-Year Rate Plan were provided in my direct testimony (Schultz, Exh. KJS-1T at 20:3-10 and 21:1-8).

[10] Schultz, Exh. KJS-1T at 23:13-20.

Q. Please provide a reconciliation of the total offsetting factors included by the Company on rebuttal, by year, as required by the Commission in Order 08/05, in Dockets UE-200900, et. al.[11]

A. Consistent with Table Nos. 6 and 7 of Ms. Andrews direct testimony[12], Table Nos. 12 and 13 below provide a reconciliation of the total Washington electric and natural gas offsetting factors[13], updated only for the Company's rebuttal position which includes updated revenue associated with new growth capital.

<u>Table No. 12 – Washington Electric Total Offsetting Factors</u>

Total Two-Year (RY1 & RY2) Incremental Offsets - Washington Electric (Revenue Requirement Values) REBUTTAL						
Electric (000s)	**2023/2024**	**2025**	**2023-2025 RY1**	**2026 RY2**	**Two-Year (RY1 & RY2) Totals**	**Electric Adjustments**
1) **Direct O&M Offsets & Other Revenue**	**$ (5,428)**	**$ (3,428)**	**$ (8,855)**	**$ (4,773)**	**$ (13,628)**	
a) Direct O&M Offsets[1]	$ (1,892)	$ (1,247)	$ (3,139)	$ (1,202)	$ (4,341)	3.04, 4.02, 5.01, 5.08
b) Other Revenue (Growth)	$ (3,536)	$ (2,181)	$ (5,716)	$ (3,571)	$ (9,287)	4.02, 5.08
2) **Depreciation Expense (Retirements)**	**$ (10,009)**	**$ (7,587)**	**$ (17,597)**	**$ (7,461)**	**$ (25,058)**	3.15, 3.17, 4.01, 5.07
3) **Revenue Requirement of A/D and ADFIT[2]**	**$ (16,618)**	**$ (4,923)**	**$ (21,541)**	**$ (8,285)**	**$ (29,826)**	
Total Revenue Requirement Impact	**$ (32,055)**	**$ (15,938)**	**$ (47,993)**	**$ (20,519)**	**$ (68,512)**	
[1]Direct O&M Offsets include new investment O&M offsets, 2% efficiency O&M adjustment and AMI O&M offset.						
[2]Revenue requirement based on reduction to A/D and ADFIT on existing (06.2023) plant as follows:	$ (176,862)	$ (52,393)	$ (229,255)	$ (88,177)	$ (317,432)	3.15, 3.17, 4.01, 5.07

[11] In response to Commission Order 08/05 in Dockets UE-200900, et. al., para. 202, with regard to offsetting factors, in which it stated "Avista must demonstrate all offsetting factors, direct and indirect, hard and soft, material and immaterial." As shown in Exh. EMA-3 on direct, and updated on rebuttal, the Company considered all off-setting factors - direct and indirect, hard and soft, material and immaterial, when evaluating the effects of all capital Business Cases included by the Company.

[12] See Andrews Exh. EMA-1T, Table Nos. 6 (electric) and 7 (natural gas), at page 44, Washington electric and natural gas Total Offsetting Factors included by the Company in direct.

[13] As discussed by Ms. Andrews at Exh. EMA-1T, at 42 – 47, Offsetting Factors included by the Company reflect total O&M offsets, other revenue, retirements (reduced depreciation expense), and reduced net plant after ADFIT for the change in A/D and ADFIT on existing plant at 06.2023, adjusted to AMA 2025 for RY1 and AMA 2025 for RY2. <u>1) Direct O&M expense and "Other Revenue" reductions</u> are included in Pro Forma "Capital O&M Offsets & Revenues" Adjustments (4.02) for RY1 and (5.08) for RY2, reflecting a) direct O&M savings for certain capital Business Cases, b) an incremental "2% O&M efficiency" adjustment, reducing O&M expense, for all remaining capital Business Cases (not required for regulatory purposes), and c) offsetting revenue associated with the Growth Capital Business Case. Direct O&M and "2% efficiency O&M" offsets and revenues are shown in detail in Exh. EMA-3. <u>2) Retirements</u> – Include reductions to electric and natural gas depreciation expense to reflect capital retirements through 2025 (RY1) and 2026 (RY2). <u>3) Reduction to Net Plant after ADFIT</u> – Includes reductions to Net Plant after ADFIT for the change in A/D and ADFIT on existing plant at 06.2023, adjusted to AMA 2025 for RY1 and AMA 2026 for RY2.

As noted in Table No. 12, the row “Total Revenue Requirement Impact” of offsetting factors, combining all adjustments (Lines 1-3), results in an overall reduction to the Company’s Washington electric revenue requirement of $48.0 million for RY1, $20.5 million for RY2, for a Two-Year Total of $68.5 million.

Table No. 13 – Washington Natural Gas Total Offsetting Factors

Total Two-Year (RY1 & RY2) Incremental Offsets - Washington Natural Gas (Revenue Requirement Values) REBUTTAL						
Natural Gas (000s)	**2023/2024**	**2025**	**2023-2025 RY1**	**2026 RY2**	**Two-Year (RY1 & RY2) Totals**	**Natural Gas Adjustments**
1) **Direct O&M Offsets & Other Revenue**	**$ (848)**	**$ (429)**	**$ (1,277)**	**$ (313)**	**$ (1,590)**	
a) Direct O&M Offsets	$ (631)	$ (385)	$ (1,016)	$ (321)	$ (1,337)	3.04, 4.02, 5.01, 5.08
b) Other Revenue (Growth)	$ (217)	$ (44)	$ (261)	$ 8	$ (253)	4.02, 5.08
2) **Depreciation Expense (Retirements)**	**$ (1,473)**	**$ (999)**	**$ (2,472)**	**$ (874)**	**$ (3,346)**	3.15, 3.17, 4.01, 5.07
3) **Revenue Requirement of A/D and ADFIT[1]**	**$ (4,112)**	**$ (1,192)**	**$ (5,304)**	**$ (1,949)**	**$ (7,254)**	
4) **Total Revenue Requirement Impact**	**$ (6,433)**	**$ (2,620)**	**$ (9,053)**	**$ (3,136)**	**$ (12,190)**	
[1]Direct O&M Offsets include new investment O&M offsets, 2% efficiency O&M adjustment and AMI O&M offset.						
[2]Revenue requirement based on reduction to A/D and ADFIT on existing (06.2023) plant as follows:	$ (43,776)	$ (12,689)	$ (56,465)	$ (20,752)	$ (77,217)	3.15, 3.17, 4.01, 5.07

As noted in Table No. 13, the row “Total Revenue Requirement Impact” of offsetting factors, combining all adjustments (Lines 1-3), results in an overall reduction to the Company’s Washington natural gas revenue requirement of $9.1 million for RY1, $3.1 million for RY2, for a Two-Year Total of $12.2 million.

Q. Besides capital investment, what other primary factors are driving the Company’s requested electric and natural gas revenue increases?

A. As discussed in my direct testimony, for RY1 and RY2, electric net power supply expenses also impact significantly the incremental changes in electric revenue requirements over the Two-Year Rate Plan. Other changes impacting the Company’s revenue requirement requests relate to regulatory amortizations of existing deferred Regulatory Assets or Liabilities, and increases in distribution, operation and maintenance (O&M), and administrative and general

(A&G) expenses for both electric and natural gas operations, compared to current authorized levels.

Q. Would you please identify the main changes in expenses impacting the Company's rebuttal request?

A. Yes. As stated in my direct testimony, the Company has experienced increases in expense, mainly associated with changes in regulatory amortization expense, labor and benefits, Wildfire Resiliency Plan expense, and the significant increases in insurance premiums, mainly due to the impact nationally of wildfires. This remains the same for the Company's position on rebuttal. Other net increases in expenses, such as incremental increases in other O&M expenses to operate Washington's utility operations through 2025, not reflected by those items noted above and prior to offsetting factors included, increased expense on rebuttal by approximately $9.0 million[14] for electric and $223,000 for natural gas. For RY2, incremental increases in O&M/A&G, net of offsets, above RY1 levels, total $6.0 million for electric and $1.0 million for natural gas, mainly due to increases in labor and benefits, property tax, escalated O&M expense and CS2 major maintenance (electric only).

The net change in existing regulatory amortizations compared to current authorized, and new amortizations (i.e. deferrals associated with Wildfire Resiliency, COVID 19, and Washington regulatory fees, etc., totaling $4.6 million electric and $0.3 million natural gas in expense) was a total net increase in expense of approximately $14.6 million for electric and net reduction of $0.9 million for natural gas.

[14] Includes actual O&M increases through 12ME 12.2023 for electric of $5.9 million and a reduction to natural gas expense through 12ME 12.2023 of $468,000, versus the 12ME 06.2023 test period.

Finally, on rebuttal and as discussed by Mr. Kalich, Washington electric net power supply expense decreased in RY1, on a revenue requirement basis, approximately $13.7 million, above prior authorized net power supply costs. In addition, net offsetting transmission Washington electric revenues, on a revenue requirement basis, increased approximately $3.4 million, above prior authorized transmission revenue levels, resulting in an overall net decrease to the Company's electric RY1 revenue requirement of $17.1 million.

In addition, for RY2, Washington electric net power supply expense increased, resulting in an increase in the Company's revenue requirement in RY2 by approximately $54.2 million[15], above RY1 levels, to reflect the mandated removal of Colstrip costs, offset by costs included in Colstrip Tariff Schedule 99 of $24.4 million (currently) that will also be removed, beginning January 1, 2026 as shown in Table No. 14 below, and discussed by Mr. Kalich. This results in a net bill increase to customers of $44.8 million.

Table No. 14 – Breakdown of Washington Electric RY2 Revenue Requirement

Breakdown of Washington Electric RY2 Revenue Requirement ($000s)		
Net Expense/Capital Investment Increase	$	15,073
Colstrip Power Supply Increase	$	54,191
Subtotal - Base Rate Increase	$	69,264
Schedule 99 Colstrip Tracker Reduction	$	(24,419)
Overall Bill Impact	**$**	**44,845**

[15] Offsetting this increase will be approximately $24.4 million Washington share, currently, in lower depreciation and fixed O&M costs, as discussed by Ms. Andrews (Andrews, Exh. EMA-6T at 76-80).

IV. UNCONTESTED ADJUSTMENTS AND UPDATES TO COMPANY CASE

Q. Before discussing the updates to the Company's case, are there some adjustments that are uncontested by all Parties?

A. Yes. Provided as page 1 of Exh. KJS-6, is a listing of 32 electric and 24 natural gas RY1 adjustments filed by the Company and uncontested by all Parties. Of the listing of RY1 adjustments uncontested by the Parties, there are three adjustments, common to both electric and natural gas, that are uncontested, but for the impact of various cost of capital proposals as noted in Exh. KJS-6. As for RY2, there were six electric and two natural gas adjustments filed by the Company and uncontested by AWEC and Public Counsel. Staff, for its part, opposed RY2, otherwise, RY1 adjustments consistent in RY2, with the exception of Pro Forma Power Supply, Pro Forma Miscellaneous O&M, Pro Forma PPA Interest, and union labor (until ratified) were uncontested in RY1.

Q. Please explain the updates by Avista on rebuttal to update its as filed revenue requirement.

A. Table No. 15 below provides a listing of updated electric and natural gas restating, pro forma and provisional adjustments over the Two-Year Rate Plan proposed by Avista to adjust its direct case, producing Avista's revised revenue requirements on rebuttal.[16] Table No. 15 also reflects the Parties position, where noted, for each adjustment listed.

[16] See also Schultz, Exh. KJS-6 at 2.

Table No. 15 – Electric and Natural Gas Updates by Avista on Rebuttal

Exh. KJS-5T Item	Electric and Natural Gas Updates By Avista on Rebuttal (Reflected only by Parties as noted)					
	Adjustment # Electric	**Adjustment # Natural Gas**	**Adjustment Name**	**DR Update [1]**	**Exhibit Reference [2]**	**Party Contesting**
a)	1.01	1.01	Deferred FIT Rate Base	AWEC-DR-005	Exh. KJS-9, pp. 1-2	
b)	1.04		Remove Colstrip	NWEC-DR-005 Supplemental	Exh. KJS-9, pp. 3-5	
c)	2.12	2.12	Misc. Restating Non-Util / Non-Recurring Expenses	AWEC-DR-040	Exh. KJS-9, pp. 6	AWEC
d)	3.00P / 5.00P		Pro Forma Power Supply	Staff-DR-117	Exh. KJS-9, pp. 7-8; Kalich, Exh. CGK-7T / Kinney, Exh. SJK-17T / Andrews, Exh. EMA-6T	Staff / PC / AWEC
e)	3.05 / 5.02	3.05 / 5.02	Pro Forma Labor Non-Exec	Staff-DR-044 Supplemental 3	Exh. KJS-9, pp. 9-12	Staff
f)	3.06	3.06	Pro Forma Labor Exec	Staff-DR-041C	Exh. KJS-10C, pp. 1-4	PC
g)	3.07 / 5.03	3.07 / 5.03	Pro Forma Employee Benefits	AWEC-DR-004 Supplemental/AWEC-DR-004C	Exh. KJS-9, pp. 13-14; Exh. KJS-10C, pp. 5-6	AWEC
h)	3.11 / 5.04	3.11 / 5.04	Pro Forma Property Tax	PC-DR-295	Exh. KJS-9, pp. 15-16	AWEC
i)	3.14 / 5.06	3.14 / 5.06	Pro Forma Misc. O&M Exp	PC-DR-297	Staff, Hillstead, Exh. KMH-7 / Andrews, Exh. EMA-6T	Staff / PC / AWEC
j)	3.15 3.16 3.17 4.01	3.15 3.16 3.17 4.01	Pro Forma Capital Additions to 12.31.2023 EOP Pro Forma Depreciation Expense Pro Forma Capital Additions to 12.31.2024 EOP Provisional Capital Additions to 12.31.2025 AMA	Staff-DR-098 Supplemental	Exh. KJS-9, pp. 17-19 Exh. KJS-9, pp. 17-19; Andrews, Exh. EMA-6T	 AWEC
k)	4.02 / 5.08	4.02 / 5.08	2024-2025 Capital Adds O&M & Revenue Offsets	AWEC-DR-046	Exh. KJS-9, pp. 20-22	
l)	PC (Exh. MEG-3, Sch. 3.7)	PC (Exh. MEG-4, Sch. 4.7)	Investor Relations Expense	*N/A*	PC, M. Garrett, Exh. MEG-3 / Exh. MEG-4	PC
m)	AWEC 4.03 / AWEC 5.13		Rent From Electric Property	*N/A*	Andrews, Exh. EMA-6T	AWEC
j)	5.07	5.07	Provisional Capital Adds to 12.31.2026 AMA	Staff-DR-098 Supplemental	Andrews, Exh. EMA-6T	AWEC

[1] Updated during process of case through discovery. See Exh. KJS-9 & Confidential Exh. KJS-10C for copies of discovery response covers and certain detail data. See Exh. KJS-7 (electric) & Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models" for individual tabs showing adjustment detail.
[2] Exhibit Reference for Schultz exhibits (Exh. KJS-5T, Exh. KJS-9, and Confidential Exh. KJS-10C) unless otherwise noted.

Q. Before you begin with an explanation of the following adjustments, are there any general statements regarding these updates you would like to make?

A. Yes. The following adjustments were made as "updates" or "corrections" that were recognized by Avista based on continued review of its <u>actual</u> capital and expenses during the process of the case. In each case, Avista's revenue requirement is based on restating and pro forma adjustments to/from its actual historical test period (i.e., twelve-months ending June 30, 2023 in this proceeding), reflecting the best information it has at the time of the preparation of the Company's direct case. During the process of the case, the Company provides <u>updates</u> to its capital and expenses, as necessary, to reflect actual information that becomes available to it through final review of information and through the discovery process.

This case is no exception. During this case, Avista learned of actual costs and expenditures available to it through December 31, 2023.[17] Through responses to discovery, Avista provided this updated information to the Parties, and reflected these actual amounts, both capital and expense, within the Company's rebuttal electric and natural gas revenue requirements, as discussed in this testimony. The Company's final proposed revenue requirements in this proceeding on rebuttal, is meant to be reflective of updated and corrected expenses and capital in effect during the Two-Year Rate Plan effective beginning December 21, 2024 (RY1) and December 21, 2025 (RY2).

Q. Please now explain each electric and natural gas update or correction to the Company's filed case shown in Table No. 15 above.

A. The following adjustments, as shown in Table No. 15 above, reflect all known updates available to Avista during the process of this case – i.e., those identified in the Company's direct filing, as well as all other items known to Avista, including updating for actual 2023 data, at the time of finalizing the Company's rebuttal revenue requirement. A reconciliation of Avista "As Filed" to its "Rebuttal" revenue requirements, showing the change to revenue requirement and rate base for each adjustment over the Two-Year Rate Plan described below is available at Exh. KJS-6, pages 3 (electric) and 4 (natural gas). The revised rebuttal revenue requirement models reflecting each adjustment are provided as Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas), including individual adjustment supporting tabs within the "native long models". In addition,

[17] The Company updated the capital additions model that includes actual transfers-to-plant through February 29, 2024 and updated expected transfers-to-plant through December 31, 2024 in Staff-DR-098 Supplemental.

referenced discovery documents supporting certain adjustments are available at Exh. KJS-9, with confidential referenced discovery documents supporting certain adjustments available at Confidential Exh. KJS-10C. Finally, additional detail supporting each restating, pro forma and provisional adjustment, proposed by the Company on direct and rebuttal are available within my supporting workpapers provided to all Parties.

a) 1.01 – Deferred FIT Rate Base (Electric and Natural Gas)

Restating – correction: As described in Data Request AWEC 005[18] provided on March 11, 2024, upon further review of Adjustment 1.01 – Accumulated Deferred Federal Income Taxes (ADFIT), it was determined that the ADFIT-Plant – AFUDC Equity balance shown within the Adjustment 1.01 – ADFIT workpapers, previously provided to all Parties, should be excluded for both Electric and Natural Gas. In 2018, the Company began using flow-through accounting for the AFUDC Equity deferred income tax impact. Please reference Dockets UE-190074 and UG-190075, Order 01 approving deferred accounting treatment on this change. ADFIT on AFUDC Equity should have remained in rate base until such time as the deferred funds were fully returned to customers, which occurred by October 2022 for both Electric and Natural Gas. After that time, under flow through accounting, ADFIT on AFUDC Equity should no longer be included in rate base. The effect of this correction results in a reduction to ADFIT with a corresponding increase to rate base of $2.493 million for Washington Electric and $789,000 for Washington Natural Gas, increasing overall revenue requirement in this case for Washington electric by $234,000 and for Washington natural gas by $74,000. For supporting detail, see Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-1.01 DFIT" and "G-1.01 DFIT".

No Party contested this as filed adjustment within their respective responsive testimonies.

b) 1.04 Remove Colstrip (Electric)

Restating – correction: As described in Data Request NWEC 005 Supplemental[19] provided on May 7, 2024, during the review of Colstrip related discovery requests, it came to the Company's attention, when removing Colstrip net plant balances from the Company's test period in this case (12ME 06.2023), through Restating Adjustment 1.04 Remove Colstrip, it had inadvertently removed the end-of-period (EOP) ADFIT credit balance of $1.68 million, rather than the average-monthly-average (AMA) ADFIT credit balance of $3.07 million. This correction within the Company's case decreases ADFIT by

[18] Schultz, Exh. KJS-9 at 1-2.
[19] *Ibid.* at 3-5.

$1.386 million, increasing rate base by $1.386 million and NOI by $7,000, resulting in an increase to electric revenue requirement in RY1 (2026) by $130,000. For supporting detail, see Exh. KJS-7 native Electric Revenue Requirement "long model," adjustment tab "E-1.04 Rmv Colstrip".

No Party contested this as filed adjustment within their respective responsive testimonies.

c) <u>2.12 Miscellaneous Restating Non-Utility/Non-Recurring Expenses (Electric and Natural Gas)</u>

<u>Restating – correction</u>: As described in Data Request AWEC 040[20] provided on March 26, 2024, after further review of a specific invoice referenced in the data request, this transaction should have been recorded as non-utility. The Company removed this transaction in Miscellaneous Restating Adjustment 2.12 reducing Washington expense (and revenue requirement) by $2,000 for electric and $1,000 for natural gas. For supporting detail, see Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-2.12 Misc" and "G-2.12 Misc".

AWEC contested certain expenses included in Adjustment 2.12 – Misc. Restating Non-Utility/Non-Recurring Expenses[21] as discussed later in my testimony, but did not make note of the Company's correction described above within their responsive testimony. In addition, no other Party otherwise contested this as filed adjustment within their respective responsive testimonies.

d) <u>3.00P / 5.00P Pro Forma Power Supply Revenue & Expenses (Electric)</u>

<u>Pro Forma – correction to As Filed Revenues and Update to Power Supply Expenses</u>: As described in Data Request Staff 117[22] provided on March 28, 2024, and as noted in my direct testimony at Exh. KJS-1T, page 51, footnote 37, after completion of the Company's electric revenue requirement, a correction to pro forma Adj. 3.00P – Pro Forma Power Supply was found and not reflected in the Company's filed revenue requirement, increasing Washington electric revenues by approximately $1.077 million and decreasing revenue requirement by approximately $1.131 million.

During discovery while working with Staff, and as further described in Data Request Staff 117, it was determined transmission revenue (included in pro forma Adj. 3.00T - Pro Forma Transmission Revenues) was inadvertently included (duplicated) in pro forma Adj. 3.00P – Pro Forma Power Supply, in error. The Company updated the Power Supply Adjustment workpapers reflecting the removal of transmission revenue that was

[20] *Ibid.* at 6.
[21] Mullins, Exh. BGM-1T at 33:14-20 and 34:1-15.
[22] Schultz, Exh. KJS-9 at 7-8.

inadvertently included, decreasing Washington electric revenues by $3.245 million and increasing revenue requirement by $3.406 million.

As discussed by Mr. Kalich (Exh. CGK-7T), on rebuttal the Company has also updated Pro Forma Power Supply Adjustments 3.00P (RY1) & 5.00P (RY2) to reflect more current information to natural gas and electric market prices, non-natural gas fuel prices, incremental short-term contracts for natural gas and electricity, power and transmission contracts affecting RY1, and additional corrections or updates as found during discovery. Mr. Kalich also includes an update to the Company's Forecast Error Adjustment, to reflect concerns raised by Parties and per Commission Order 07[23]. In total, these changes result in an overall reduction to revenue requirement of $35.6 million on rebuttal, versus that filed on direct. For RY1, the net impact of this adjustment on rebuttal compared to 12ME 06.2023 test period reduces the Company's revenue requirement by $13.7 million.

For RY2, Pro Forma Power Supply Adjustments 5.00P, as further discussed by Mr. Kalich, is also revised to reflect the re-run of Adj. 3.00P – Pro Forma Power Supply (as described above for RY1), to remove the updated Colstrip power supply net expense (per PF 3.00P) on rebuttal, required to be removed in RY2, on or before January 1, 2026 per law. The impact of this update to RY2, versus that as filed is a reduction to revenue requirement in RY2 of $5.321 million. The impact of this updated adjustment (5.00P) in RY2, versus the RY1 proposed revenue requirement on rebuttal, is an incremental increase of $54.2 million above RY1 levels. For supporting detail, see Exh. KJS-7 native Electric Revenue Requirement "long model," adjustment tab "E-2.19,3.00P,5.00P Auth & PF PS".

Staff, Public Counsel, and AWEC contested Adjustment 3.00P – Pro Forma Power Supply (RY1) as discussed further by Mr. Kalich.[24] AWEC contested 5.00P - Pro Forma Power Supply (RY2), with regards to Colstrip transmission costs, as discussed by Company Witnesses Mr. Kinney and Ms. Andrews. Only Staff incorporated the two corrections (Footnote 37 in Exh. KJS-1T and Transmission Revenues) described above in their responsive testimony.

e) 3.05 / 5.02 Pro Forma Labor Non-Exec (Electric & Natural Gas)

Updated to reflect approved non-union and union labor percentage increases: As described in Data Request Staff 044 Supplemental[25] provided on May 24, 2024, the Company updated electric and natural gas Pro Forma Non-Exec Labor Adjustments (PF 3.05 and PF 5.02) to reflect the Board of Director approved non-union labor percentage increases. On August 5, 2024 Avista updated its response, Staff 044 Supplemental 3[26], to reflect the contractual Union wage increases for 2024 – 2025 based on the recently ratified

[23] Order 07, Docket UE-240006, et.al., Commission Order Denying Staff's Motion for Partial Summary Determination.
[24] Kalich, Exh. CGK-7T at 5:10 – 7:23.
[25] Schultz, Exh. KJS-9 at 10.
[26] *Ibid.* at 9-12.

contract on July 31, 2024. Table No. 16 below summarizes the results of the non-union and union salary increases over the Two-Year Rate Plan versus that as filed:

Table No. 16 – Incremental Change in PF Labor Non-Exec Expense from As Filed to Rebuttal

Incremental Change in Expense From As-Filed to Rebuttal:				
	WA Electric		WA Natural Gas	
	2025 RY1	2026 RY2	2025 RY1	2026 RY2
Non-Union	$ (337,641)	$ (426,548)	$ (89,097)	$ (112,558)
Union	$ 417,515	$ (114,420)	$ 126,240	$ (34,596)
Total	**$ 79,874**	**$ (540,968)**	**$ 37,143**	**$ (147,154)**

As shown in Staff-DR-044 Supplemental 3[27] (and the table above), for Washington electric, the overall impact (non-union and union) of this update results in an increase to expense of $80,000 in RY1, and an incremental reduction of $541,000 in RY2 above RY1 levels from that as filed. The overall impact of this update increases the Company's proposed Washington electric revenue requirement by $84,000 in RY1 and decreases it by $568,000 in RY2, from as filed.

For Washington natural gas, the overall impact (non-union and union) of this update results in an increase to expense of $37,000 in RY1, and an incremental reduction of $147,000 in RY2 above RY1 levels from that as filed. The overall impact of this update increases the Company's proposed Washington natural gas revenue requirement by $39,000 in RY1 and decreases it by $154,000 in RY2 from as filed.

The contractual Union wage increases for 2024 – 2025 were approved on July 31, 2024, too late for Staff or other Parties to recognize this update within their responsive testimonies. Staff for its part, contested Adjustment 3.05 – Pro Forma Labor Non-Exec, however, Staff Witness Hillstead's testimony stated Staff would support including 2024 and 2025 union wage increases in the revenue requirement on rebuttal should those increases become known, as discussed later in my testimony.[28] Updating Staff's revenue requirements for the labor increases associated with the Union ratification, would result in an increase in Staff's proposed overall revenue requirement in RY1 of $1.938 million for Washington electric and $586,000 for Washington natural gas.[29] No other Party otherwise contested these as filed adjustments within their respective responsive testimonies.

For Washington electric, the overall increase in revenue requirement on rebuttal of Pro Forma Labor Non-Exec 3.05 (RY1) and 5.02 (RY2) from test period levels is an increase of $7.0 million in RY1, and an incremental increase of $2.2 million in RY2, above RY1 levels. For Washington natural gas, the overall increase in revenue requirement on rebuttal of Pro Forma Labor Non-Exec 3.05 (RY1) and 5.02 (RY2) from test period levels is an

[27] *Ibid.*
[28] Hillstead, Exh. KMH-1T at 12:15-17.
[29] The associated increase in expense related to the Union ratification for 2024 and 2025 is approximately $1.846 million for Washington electric and $558,000 for Washington natural gas, as shown in Table No. 22 below.

increase of $2.0 million in RY1, and an incremental increase of $617,000 in RY2, above RY1 levels. For supporting detail, see Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-3.05,5.02 PF NE Labor" and "G-3.05,5.02 PF NE Labor".

f) 3.06 Pro Forma Labor Exec (Electric and Natural Gas)

Update to reflect revised utility allocated executive labor expense and Board of Director approved labor increases: As noted in response to Confidential Data Request Staff 041C[30] provided on February 29, 2024, test period labor expense of all officers for the 12ME 06.2023 historical test period was updated to remove retired officers, reflect the utility/non-utility percentage of approximately 96%/4%, to reflect the review of officer utility/non-utility percentage allocations based on revised (current) responsibilities (i.e., based on executive officer promotions and change in individual executive responsibilities), versus that as filed.[31] In addition, the executive labor expenses in this update reflects the Board of Director approved March 1, 2024 labor increases.[32]

For Washington electric, the overall impact of these updates results in a net increase to executive labor expense in RY1 versus as filed of $50,000, increasing revenue requirement by $52,000. For Washington natural gas, the overall impact of these updates results in a net increase to executive labor expense in RY1 versus as filed of $16,000, increasing revenue requirement by $17,000.

The overall increase in revenue requirement <u>on rebuttal</u> of Pro Forma Labor Exec Labor Adjustment 3.06 in RY1 above <u>test period levels</u> is $115,000 for <u>electric</u>, and $37,000 for <u>natural gas</u>. For supporting detail, see Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-3.06 PF Exec Labor" and "G-3.06 PF Exec Labor".

Public Counsel contested Adjustment 3.06 – Pro Forma Labor Executive, as discussed later in my testimony. No other Party otherwise contested the as filed adjustment within their respective responsive testimonies.

g) 3.07 / 5.03 Pro Forma Employee Benefits (Electric and Natural Gas)

Actual update, to reflect actual December 31, 2023 expense: As noted in response to Data Request AWEC 004 Supplemental[33] provided on March 26, 2024, the Company updated its electric and natural gas Pro Forma Employee Benefit Adjustments (PF 3.06 and

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[30] Schultz, Confidential Exh. KJS-10C at 1-4.
[31] The revised percentages versus that as filed by officer can be seen in Schultz, Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models", adjustment tabs "E-3.06 PF Exec Labor" and "G-3.06 PF Exec Labor".
[32] Schultz, Confidential Exh. KJS-10C at 7-11 (Staff-DR-045C).
[33] Schultz, Exh. KJS-9 at 13-14.

PF 5.03) to reflect updated retirement plan (Pension FAS 87/Pension FAS 81 NS) expense and retiree medical (FAS 106/FAS 106 NS) expense based on actual year end 2023 pension and medical benefits expenses, as well as pro forma health insurance and 401(k) expense based on more current information.[34] Per the Company's direct case, the Company stated it would provide an estimate of expected pension and medical costs for 2024 through 2026 provided from our actuary sometime in the first quarter of 2024, after year-end results were available, adjusting pension expense at that time to reflect RY1 levels.[35] Table No. 17 below summarizes the change in benefit expense from the Company's as filed case compared to its rebuttal position.

Table No. 17 – PF Employee Benefits Expense – As Filed versus Rebuttal

Pro Forma Employee Benefits Expense - As-Filed vs. Rebuttal (Adjs. PF 3.07 & PF 5.03)						
	As-Filed		**Rebuttal**		**Variance**	
	RY1 2025	**RY2 2026**	**RY1 2025**	**RY2 2026**	**RY1 2025**	**RY2 2026**
WA Electric	$ 131,936	$ 463,696	$ 299,016	$ 164,105	$ 167,080	$ (299,591)
WA Natural Gas	$ 41,764	$ 146,782	$ 94,653	$ 51,947	$ 52,889	$ (94,835)
Total	**$ 173,700**	**$ 610,478**	**$ 393,669**	**$ 216,052**	**$ 219,969**	**$ (394,426)**

As portrayed in Table No. 17 above, these updates, for RY1 Pro Forma Adjustment 3.07, result in an increase to expense of $167,000 for Washington electric and $53,000 for Washington natural gas, and results in an increase in revenue requirement by $175,000 for Washington electric and $56,000 for Washington natural gas from that as filed versus rebuttal. For RY2, Pro Forma Adjustment 5.03, these updates result in a reduction to expense of approximately $300,000 for Washington electric and $95,000 for Washington natural gas, decreasing revenue requirement by $315,000 for Washington electric and $100,000 for Washington natural gas, from as filed versus rebuttal.

For electric, the overall decrease in revenue requirement on rebuttal of Pro Forma Benefits Adjustment 3.07 in RY1 from test period levels is a reduction to $5.5 million, and an increase in revenue requirement of $172,000 in RY2 (5.03) above RY1 levels. For natural gas, the overall decrease in revenue requirement on rebuttal of Pro Forma Benefits Adjustment 3.07 in RY1 from test period levels is a reduction to $1.7 million, and an

[34] Schultz, Confidential Exh. KJS-10C at 5-6 (AWEC-DR-004C).
[35] Schultz, Exh. KJS-1T at 60:16-19.

increase in revenue requirement of $55,000 in RY2 (5.03) above RY1 levels.[36] For supporting detail, see Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-3.07,5.03 Benefits" and "G-3.07,5.03 Benefits".

AWEC contested Adjustments 3.07 and 5.03 – Pro Forma Employee Benefits, as discussed later in my testimony. No other Party otherwise contested the as filed adjustments within their respective responsive testimonies.

h) 3.11 / 5.04 Pro Forma Property Tax (Electric and Natural Gas)

Actual update, to reflect revised Washington property tax assessments based on actual levy rates: In the Company's direct case, it provided an estimate of expected property tax levels over the Two-Year Rate Plan based on property values as of December 31, 2022, taxed at existing rates, and stated Avista would update with more current estimates during the process of the case.[37] As described in the response to Data Request PC 295[38] provided on May 24, 2024, the Company updated its Pro Forma Property Tax Adjustments 3.11 and 5.04 to reflect updated property tax information, including actual levy rates Avista received in March-April 2024.

After reflecting updated Washington property tax information, RY1 Pro Forma Adjustment 3.11 results in a decrease to expense of $543,000 for Washington electric and $81,000 for Washington natural gas, decreasing revenue requirement by $569,000 for Washington electric and $85,000 for Washington natural gas on rebuttal versus as filed. For RY2, Pro Forma Adjustment 5.04, this update results in a reduction to expense of $40,000 for Washington electric and $600 for Washington natural gas, decreasing revenue requirement by $42,000 for Washington electric and $1,000 for Washington natural gas on rebuttal versus as filed.

For electric, the overall decrease in revenue requirement on rebuttal of Pro Forma Property Tax Adjustment 3.11 in RY1 from test period levels is a reduction to $763,000, and an increase in revenue requirement of $742,000 in RY2 (5.04) above RY1 levels. For natural gas, the overall increase in revenue requirement on rebuttal of Pro Forma Property Tax Adjustment 3.11 in RY1 from test period levels is an increase of $908,000, and an increase

[36] As described in my direct testimony (Schultz, Exh. KJS-1T at 64:13-15), in addition to the pro forma change in benefits, the Company also eliminated the pension retirement regulatory deferral amount recorded to FERC Account 926 of $5.6 million for Washington electric and $1.7 million for Washington natural gas. Netting against the adjustment in PF 3.07 Pension, the Company also eliminates the deferred pension retirement regulatory liability (credit) amount recorded to FERC Account 407 of $5.6 million for Washington electric and $1.7 million for Washington natural gas in Adjustment 3.02 – Pro Forma Def. Debits and Credits and Regulatory Amortizations, resulting in a net impact overall of $0. See Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models", adjustment tabs "E-3.07,5.03 Benefits" and "G-3.07,5.03 Benefits", for detail support of the Pro Forma Benefit Adjustments 3.07 (RY1) and 5.03 (RY2).
[37] Schultz, Exh. KJS-1T at 70:5-8.
[38] Schultz, Exh. KJS-9 at 15-16.

in revenue requirement of $30,000 in RY2 (5.04) above RY1 levels. For supporting detail, see Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-2.02,3.11,5.04 Prop Tax" and "G-2.02,3.11,5.04 Prop Tax".

AWEC Witness Mullins[39] accepts the property tax adjustments as described above and in PC-DR-295. No other Party otherwise contested the as filed adjustments within their respective responsive testimonies.

i) <u>3.14 / 5.06 Pro Forma Miscellaneous O&M Expense (Electric and Natural Gas)</u>

<u>Actual update, to reflect actual miscellaneous O&M expense through December 31, 2023 and revised 2025-2026 levels:</u> As discussed by Ms. Andrews[40], Pro Forma Miscellaneous O&M Expense Adjustments 3.14 and 5.06 are updated to include the actual changes in this subset of O&M and A&G expenses as of 12ME 12.2023 levels versus 12ME 06.2023 test period levels, as provided in PC-DR-297 (Exh. KMH-7), as these balances are clearly known and measurable. In addition, the Company has revised its annual inflationary rate to 2.5% annually beyond December 2023 through 2026, as proposed by Public Counsel Witness M. Garrett.[41]

The effect of these updates, for RY1 Pro Forma Adjustment 3.14, results in an increase to expense of $136,000 for Washington electric and a decrease to expense of $1.411 million for Washington natural gas, increasing revenue requirement by $143,000 for Washington electric and decreasing revenue requirement by $1.480 million for Washington natural gas, on rebuttal versus as filed. For RY2, Pro Forma Adjustment 5.06, this update results in a reduction to expense of $1.995 million for Washington electric and $308,000 for Washington natural gas, decreasing revenue requirement by $2.095 million for Washington electric and $323,000 for Washington natural gas versus as filed.

<u>For electric</u>, the overall increase in revenue requirement <u>on rebuttal</u> of Pro Forma Miscellaneous O&M Adjustment 3.14 in RY1 from <u>test period levels</u> is an increase to $9.5 million, and an increase in revenue requirement of $1.6 million in RY2 (5.06) above RY1 levels. <u>For natural gas</u>, the overall increase in revenue requirement <u>on rebuttal</u> of Pro Forma Miscellaneous O&M Adjustment 3.14 in RY1 from <u>test period levels</u> is an increase of $235,000, and an increase in revenue requirement of $363,000 in RY2 (5.06) above RY1 levels. For supporting detail, see Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-3.14,5.06 PF Misc O&M" and "G-3.14,5.06 PF Misc O&M".

As explained by Ms. Andrews, Staff is supportive of revising Adjustment 3.14 to include the actual change in O&M and A&G expenses through 12ME 12.2023 levels with no

[39] Mullins, Exh. BGM-1T at 33:1-13.
[40] Andrews, Exh. EMA-6T, at 43:6 – 44:19.
[41] M. Garrett, Exh. MEG-1T at 12:1-4.

further escalation, while both AWEC and Public Counsel propose escalation factors of 2.3% (AWEC)[42] and 2.5% (Public Counsel).[43]

j) <u>3.15 – 3.17, 4.01 / 5.07 Pro Forma and Provisional Capital Additions (Electric and Natural Gas)</u>

<u>Actual update, to reflect actual transfers-to-plant through February 2024 and updated expected transfers-to-plant through December 2024:</u> As described in Data Request Staff 098 Supplemental[44] provided on May 31, 2024, the Company updated its Pro Forma Capital Additions Adjustments 3.15 – 3.17, to reflect actual transfers-to-plant through February 2024 and updated expected transfers-to-plant through December 2024, and flow through impact to Provisional Capital Additions Adjustments 4.02 and 5.07 in 2025 and 2026, available after the filing of the Company's electric and natural gas filed cases.

Table Nos. 18 and 19 below summarize the Washington electric and natural gas "As Filed" versus the "Updated" balances per Staff-DR-098 Supplemental[45], including the change in revenue requirement, rate base, and expense on an individual adjustment basis for each Pro Forma Adjustment 3.15 – 3.17 and each Provisional Adjustment 4.01 and 5.07, and in total by rate year.

<u>Table No. 18 – Washington Electric Capital Additions Adjustments As Filed versus Updated</u>

Washington Electric	Capital Additions Adjustments						
in '000s	**Adj. 2.15 06.30.2023**	**Adj. 3.15 2023 EOP**	**Adj. 3.16 Dep Study**	**Adj. 3.17 2024 EOP**	**Adj. 4.01 2025 AMA**	**Total Rate Year 1**	**Adj. 5.07 2026 AMA (Inc RY2)**
Net Rev. Req. Impact							
As-Filed	$ 5,067	$ 12,238	$ (788)	$ 11,477	$ 7,941	$ 35,936	$ 12,724
Per Staff-DR-098 Supplemental	$ 5,067	$ 9,990	$ (779)	$ 13,781	$ 8,775	$ 36,834	$ 12,802
Updated Rev. Req. Impact	**$ -**	**$ (2,249)**	**$ 9**	**$ 2,304**	**$ 834**	**$ 898**	**$ 78**
Impact on Net Rate Base							
As-Filed	$ 53,930	$ 83,421	$ -	$ 70,224	$ 25,761	$ 233,336	$ 93,236
Per Staff-DR-098 Supplemental	$ 53,930	$ 59,143	$ -	$ 94,853	$ 25,530	$ 233,456	$ 92,640
Updated Net Rate Base Impact	**$ -**	**$ (24,278)**	**$ -**	**$ 24,629**	**$ (231)**	**$ 120**	**$ (596)**
Impact In Expense							
As-Filed	$ -	$ 4,191	$ (750)	$ 4,647	$ 5,258	$ 13,346	$ 3,775
Per Staff-DR-098 Supplemental	$ -	$ 4,222	$ (742)	$ 4,637	$ 6,073	$ 14,190	$ 3,903
Updated Expense Impact	**$ -**	**$ 31**	**$ 8**	**$ (10)**	**$ 815**	**$ 844**	**$ 128**

As represented in Table No. 18 above, for <u>Washington electric</u> RY1, in total on rebuttal from that <u>as filed</u>, depreciation expense increased $844,000 and rate base including ADFIT

[42] Mullins, Exh. BGM-1T at 19:17-20.
[43] M. Garrett, Exh. MEG-1T at 12:1-4.
[44] Schultz, Exh. KJS-9 at 17-19.
[45] *Ibid.*

increased by $120,000, increasing the Company's overall revenue requirement in RY1 by $898,000. For RY2, on rebuttal from that as filed, depreciation expense increased $128,000 and rate base including ADFIT decreased $596,000 above RY1 levels, resulting in an overall incremental increase in revenue requirement of $78,000, related to these changes.

Table No. 19 - Washington Natural Gas Capital Additions Adjustments As Filed versus Updated

Washington Natural Gas	Capital Additions Adjustments						
in '000s	**Adj. 2.15 06.30.2023**	**Adj. 3.15 2023 EOP**	**Adj. 3.16 Dep Study**	**Adj. 3.17 2024 EOP**	**Adj. 4.01 2025 AMA**	**Total Rate Year 1**	**Adj. 5.07 2026 AMA (Inc RY2)**
Net Rev. Req. Impact							
As-Filed	$ 1,166	$ 3,164	$ (949)	$ 3,987	$ 2,579	$ 9,947	$ 3,432
Per Staff-DR-098 Supplemental	$ 1,166	$ 3,150	$ (947)	$ 4,867	$ 2,523	$ 10,760	$ 3,415
Updated Rev. Req. Impact	**$ -**	**$ (14)**	**$ 2**	**$ 881**	**$ (56)**	**$ 813**	**$ (18)**
Impact on Net Rate Base							
As-Filed	$ 12,408	$ 19,488	$ -	$ 20,568	$ 3,204	$ 55,669	$ 17,089
Per Staff-DR-098 Supplemental	$ 12,408	$ 19,124	$ -	$ 25,392	$ 2,879	$ 59,804	$ 17,080
Updated Net Rate Base Impact	**$ -**	**$ (364)**	**$ -**	**$ 4,824**	**$ (325)**	**$ 4,135**	**$ (9)**
Impact In Expense							
As-Filed	$ -	$ 1,270	$ (904)	$ 1,957	$ 2,170	$ 4,493	$ 1,740
Per Staff-DR-098 Supplemental	$ -	$ 1,289	$ (902)	$ 2,364	$ 2,146	$ 4,897	$ 1,724
Updated Expense Impact	**$ -**	**$ 19**	**$ 2**	**$ 407**	**$ (24)**	**$ 404**	**$ (16)**

As represented in Table No. 19 above, for Washington natural gas RY1, in total on rebuttal from that as filed, depreciation expense increased $404,000 and rate base including ADFIT increased by $4.135 million, increasing the Company's overall revenue requirement in RY1 by $813,000. For RY2, on rebuttal from that as filed, depreciation expense decreased $16,000 and rate base including ADFIT decreased $9,000 above RY1 levels, resulting in an overall incremental decrease in revenue requirement of $18,000, related to these changes.

As shown in Table Nos. 18 and 19 above, the changes (reductions in 2023) reflect, in part, reduced 2023 net plant additions which had planned to transfer-to-plant by December 2023, and were delayed to 2024.

See supporting detail in adjustment tabs, "E-2.15,3.15-3.17,4.01,5.07 CAP" and "G-2.15,3.15-3.17,4.01,5.07 CAP," of native Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) Electric and Natural Gas Revenue Requirement "long models" for revenue requirement increases in RY1 (2.15, 3.15, 3.16, 3.17 and 4.01) above test period levels, and increases in RY2 (5.07) above RY1 levels.

AWEC contested Provisional Capital Additions Adjustments 4.01 and 5.07, as discussed further by Ms. Andrews[46]. No other Party otherwise contested the as filed electric and natural gas Pro Forma and Provisional Capital Addition (Adjustments 3.15 – 3.17, 4.01 and 5.07) within their respective responsive testimonies, with the exception of the impact of cost of capital on these adjustments.

k) <u>4.02 / 5.08 2024-2025 Capital Additions O&M and Revenue Offsets (Electric and Natural Gas)</u>

<u>Update New Revenue Growth Capital Offsets reflecting Avista's most recent load forecast:</u> As described in Data Request AWEC 046[47] provided on May 3, 2024, the Company updated its Pro Forma 2024-2025 Capital Additions O&M and Revenue Offsets Adjustments 4.02 and 5.08 to reflect Avista's most recent load forecast update completed in March 2024, which is used in the calculation to determine offsetting revenue associated with the New Revenue – Growth Capital Business Case.

The effect of updating offsetting revenue associated with the New Revenue – Growth Capital Business Case, <u>for RY1</u> Pro Forma Adjustment 4.02, results in a decrease in revenues of $937,000 for Washington electric and $85,000 for Washington natural gas from the as filed revenues, increasing revenue requirement by $984,000 for Washington electric and by $89,000 for Washington natural gas on rebuttal from that <u>as filed</u>. <u>For RY2</u>, Pro Forma Adjustment 5.08, this update results in an increase in revenues of $388,000 for Washington electric and a reduction in revenues of $46,000 for Washington natural gas, decreasing revenue requirement by $406,000 for Washington electric and increasing revenue requirement by $49,000 for Washington natural gas on rebuttal from that <u>as filed</u>.

<u>For electric</u>, the overall decrease in revenue requirement <u>on rebuttal</u> of Pro Forma 2024-2025 Capital Additions O&M and Revenue Offsets 4.02 in RY1 from <u>test period levels</u> is a decrease to $6.7 million, and an incremental decrease in revenue requirement of $4.4 million in RY2 (5.07 - 2026 Offsets) below RY1 levels. <u>For natural gas</u>, the overall decrease in revenue requirement <u>on rebuttal</u> of Pro Forma 2024-2025 Capital Additions O&M and Revenue Offsets 4.02 in RY1 from <u>test period levels</u> is a decrease of $564,000, and an incremental decrease in revenue requirement of $202,000 in RY2 (5.07 – 2026 offsets) below RY1 levels. For supporting detail, see Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-4.02,5.08 PV Offsets" and "G-4.02,5.08 PV Offsets".

No Party contested the as filed adjustments within their respective responsive testimonies.

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[46] Andrews, Exh. EMA-6T, at 16:22-28:12.
[47] Schultz, Exh. KJS-9 at 20-22.

l) PC (Exh. MEG-3, Sch. 3.7) Investor Relations Expense (Electric and Natural Gas)

Reflect 90% customer, 10% Company sharing of investor relations expense: Upon review of the arguments set forth by Witness M. Garrett[48] (discussed later in my testimony), and in concert with Avista's rationale for a reasonable level of sharing for Board of Directors and D&O Insurance charged to utility customers versus shareholders, on rebuttal the Company is proposing a 90% customer, 10% Company (90/10) sharing of 12ME 06.2023 test period investor relations expense.

This proposed 90/10 sharing of investor relations expense (Adjustment PC (Exh. MEG-3, Sch. 3.7)) reduces test period expense in RY1 by $38,000 for Washington electric and by $11,000 for Washington natural gas. The associated reduction in revenue requirement is $40,000 for Washington electric and $12,000 for Washington natural gas. See supporting detail of new adjustment (PC Exh. MEG-3 Sch. 3.7) in adjustment tabs, "E-PC Adj. Investor Relations" and "G-PC Adj. Investor Relations" of native Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas), i.e., "long model".

As discussed later in my testimony, Public Counsel contested the level of investor relations expense included in this case. No other Party otherwise contested investor relations expense within their respective responsive testimonies.

m) AWEC 4.03 / AWEC 5.13 Rent from Electric Property (Electric)

Increase level of revenue associated with Rent from Electric Property (Joint Use Revenue): As discussed by Ms. Andrews,[49] on rebuttal the Company has increased other revenue to reflect incremental joint use revenues (rent from electric property) from other utilities which place their utilities on our poles. During 2023, Avista conducted an audit for the purpose of inventorying the joint use on every pole in our distribution system. This audit was not completed in time to include this outcome within Avista's direct filing. After review of Avista's 12ME 06.2023 test period other joint use revenue, the Company included this revision on rebuttal to reflect the appropriate rent from electric property over the Two-Year Rate Plan. See Ms. Andrews testimony for detailed information, as well as Avista's opposition to Witness Mullins proposed adjustment.[50]

The effect of these adjustments increases other electric revenue by $600,000 in RY1 and $200,000 in RY2. See supporting detail for new Pro Forma Adjustment AWEC 4.03 and 5.13 Rent From Electric Property in the "E-AWEC 4.03,5.13 Rent Fr E Prop" adjustment tab of native Exh. KJS-7, Electric Revenue Requirement "long model".

[48] M. Garrett, Exh. MEG-1T at 34:13 – 36:12.
[49] Andrews, Exh. EMA-6T, at 53:5 – 56:10.
[50] Mullins, Exh. BGM-1T at 22:10 – 26: Table 6.

V. CONTESTED ADJUSTMENTS

Q. As shown in Table No. 15 above, there were several electric and natural gas adjustments updated by the Company and contested by one or more of the Parties. For those adjustments which you sponsor, would you please discuss Avista's opposition to the adjustments as proposed by the party?

A. The descriptions that follow explain the individual adjustments in Table No. 15 by item (see "Exh. KJS-5T Item" letter), which I sponsor, that was contested by one or more of the Parties.[51]

c) 2.12 Miscellaneous Restating Non-Utility/Non-Recurring Expenses (Electric and Natural Gas)

Q. AWEC Witness Mullins proposes to remove certain "non-recurring" legal and wildfire litigation costs.[52] Does the Company agree with the rationale used for exclusion?

A. No, in fact the rationale is spurious at best. First, as it relates to patents, the justification for removal is based on a brief overview of the past development of subsidiaries by Avista. Any costs associated with non-utility/subsidiary activities would not be charged to utility operations; legal costs associated with past or future patents would not be charged to customers. Second, Avista Utilities will always have a level of patent costs as we develop new programs or systems for customers. Avista develops new ideas, programs, and systems that deserve protection, and the Company should be encouraged to seek such protection. The total level of patent costs <u>on a system basis</u> for the test year (12ME 06.2023) was less than $28,000. While the adjustment for

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[51] For certain adjustments noted in Table No. 15, please see the following witnesses who sponsor these adjustments: Witness Kalich, Exh. CGK-7T, supporting Pro Forma Power Supply 3.00P / 5.00P; and Andrews Exh. EMA-6T, supporting adjustments Pro Forma Misc. O&M Expense 3.14 / 5.06, Provisional Capital Additions 4.01 / 5.07, and Rent From Other Property AWEC 4.03 / 5.13.

[52] Mullins, Exh. BGM-1T at 33:14-20 and 34:1-15.

Washington electric and natural gas is immaterial, the rationale for why such legal costs should be removed is flawed.

Q. What kind of patents did Avista seek during the 12ME 06.2023 test year?

A. Patent legal expenses included in this case are related to:

1. Avista's Digital Exchange Platform, which provides a cost-effective digital platform to facilitate the secure, efficient and documented sharing of utility-related data and collaboration among utility industry users to advance innovation in the energy industry around efficiency, sustainability and affordability. The funds advanced here paid for counsel's preparation of the patent application for this invention.

2. Representation in connection with the real time optimization of Avista's hydro generation facilities.

3. Representation in connection with the pursuit of patent protection for an invention designed to facilitate load disaggregation and thereby enhance electric operations in both Idaho and Washington.

4. Representation in connection with the pursuit of patent protection for an invention designed to enhance outage management and electric operations in both Idaho and Washington.

Q. Would it be true to think that legal expenses by their very nature are "non-recurring"[53]?

A. While each distinct legal issue or lawsuit presents its own sort of issues, there is an ongoing representative level of overall legal expense incurred to protect the interest of the Company's customers. However, Accordingly, there are general categories of legal expenses that are recurring and continuing in nature. One of the best examples of the continuing nature of certain categories of litigation is wildfire litigation (the category that Witness Mullins claims to be non-recurring). As one can see by simply perusing the Company's last SEC Form 10-K, Note 22, there

[53] *Ibid* at 34:4.

is a detailed listing of litigation including Boyds Fire, Road 11 Fire, Labor Day 2020 Windstorm (Babb Road Fire), and Orofino Fire.[54/55] This is litigation that began in the test year (or even prior) and may or may not be resolved during the Two-Year Rate Plan.

Q. Should customers be responsible for such legal expenses?

A. Yes, these costs are appropriate to include in customer rates. Annually, in the normal course of business, the Company becomes involved in various claims, controversies, disputes and other contingent matters, including the wildfire litigation items noted above. Some of these claims, controversies, disputes and other contingent matters involve litigation or other contested proceedings. For all such matters, as appropriate, the Company will vigorously protect and defend its interests and pursue its rights, all of which benefits customers. Of course, no assurance can be given as to the ultimate outcome of any matter because litigation and other contested proceedings are subject to numerous uncertainties. For matters affecting Avista Utilities' operations, it is appropriate for the Company to recover the costs incurred to protect the utility and its customers.

Q. Has the Company analyzed the level of legal expenses incurred over multiple years?

A. Yes, we have, as shown in Table No. 20 below.

Table No. 20 – 4 Year Average of Legal Expenses (System)

2020	2021	2022	2023	Grand Total
$1,658,101	$2,296,268	$2,503,905	$3,171,710	$9,629,984
	4-Year Average (System)			**$2,407,496**
	Test Year Level included in Case (System)			**$2,359,370**

[54] https://investor.avistacorp.com/static-files/0718ce45-bf2c-4818-9a46-8ac480b41fcd, Note 22 pp. 122-126.
[55] Provided to the Parties in response to Staff-DR-006.

As displayed in Table No. 20 above, the average level of expense over the last four years on a <u>system</u> basis for Avista is $2.407 million, as compared to the <u>system</u> level included in this case of $2.359 million. The level of legal expenses included in this case is also lower than the level actually experienced in 2023 (at $3.2 million). As such, the Company has been conservative and understated legal expenses in this case.

Q. In the end, is the level of legal expenditures included in this case prudent?

A. Yes, Avista believes these costs are prudent, and AWEC's removal from the final revenue requirement should be rejected as being unsupported and unfounded. Furthermore, no other party contested Avista's legal expenses included in its case.

e) <u>3.05 / 5.02 Pro Forma Labor Non-Exec (Electric and Natural Gas)</u>

Q. What does Staff Witness Hillstead propose regarding Pro Forma Non-Executive Labor adjustments (PF 3.05 & PF 5.02)?[56]

A. <u>First</u>, Staff accepts the Company's <u>updated</u> "Non-Union" portion of the Pro Forma Non-Executive Labor adjustments through RY1, reflecting the annualized portion of 2023 and actual approved wage increases for 2024 and 2025[57], which is an overall increase from the 12ME 06.2023 test year expense of $4.051 million for Washington electric and $1.069 million for Washington natural gas (see Table No. 21 below). The update for RY1, adopted by Staff, results in a reduction to expense of approximately $338,000 for Washington electric and $89,000 for Washington natural gas for the Non-Union portion of pro-formed labor from as filed, as shown in

[56] Hillstead, Exh, KMH-1T at 11:1-18 & 12:1-17.
[57] *Ibid.* at 12:1-8.

Table No. 21 below.[58] Staff did not support a multi-year rate plan, and as such, was silent regarding RY2 labor increases.[59]

Table No. 21 - PF 3.05 & PF 5.02 Non-Executive Labor Expense – As-Filed vs. Rebuttal

Pro Forma Non-Executive Labor Expense - As-Filed vs. Rebuttal (Adjs. PF 3.05 & PF 5.02)						
	As-Filed		Rebuttal		Variance	
	RY1	RY2	RY1	RY2	RY1	RY2
WA Electric	2025	2026	2025	2026	2025	2026
Non-Union	$ 4,388,861	$ 1,665,675	$ 4,051,220	$ 1,239,127	$ (337,641)	$ (426,548)
Union	$ 2,205,827	$ 976,636	$ 2,623,341	$ 862,216	$ 417,515	$ (114,420)
Total	**$ 6,594,688**	**$ 2,642,311**	**$ 6,674,561**	**$ 2,101,343**	**$ 79,874**	**$ (540,968)**
WA Natural Gas						
Non-Union	$ 1,158,134	$ 439,539	$ 1,069,037	$ 326,981	$ (89,097)	$ (112,558)
Union	$ 666,956	$ 295,297	$ 793,197	$ 260,701	$ 126,240	$ (34,596)
Total	**$ 1,825,091**	**$ 734,836**	**$ 1,862,234**	**$ 587,682**	**$ 37,143**	**$ (147,154)**

Second, Staff accepts the annualized portion of 2023 Union pro forma non-executive labor (similar to non-union described above), but proposed to remove pro-formed Union labor increases for 2024 and 2025 due to ongoing contract negotiations between the Company and the Union (IBEW Local 77).[60] However, Staff asserted they "would support including the 2024 and 2025 union wage increases in the revenue requirement on rebuttal should those increases become known".[61] As discussed below, Avista and the Union came to an agreement and the contract was ratified on July 31, 2024.

[58] The Company provided, in Staff-DR-044 Supplemental 3 (Schultz, Exh. KJS-9 at 9-12), revised non-union labor increases based on Compensation Committee of the Board of Directors (Board) approvals per meetings held in February 2024. Board meeting minutes were also provided by the Company in Confidential Staff-DR-045C (2024 labor) and Staff-DR-046C Supplemental (2025 labor), and included with Schultz, Confidential Exh. KJS-10C, pages 7-15. Detailed information by adjustment are provided to all parties within Schultz workpapers, and supporting PF Labor Adjustment 3.05 and 5.02 are included in the individual adjustment tabs, "E-3.05,5.02 PF NE Labor" and "G-3.05,5.02 PF NE Labor," of native Exh. KJS-7 (electric) and KJS-8 (natural gas) Electric and Natural Gas Revenue Requirement "long models".

[59] In alignment with Staff's opposition of a multi-year rate plan presented in Erdahl, Exh. BAE-1T at 6:16-22 through 8:1-2, Witness Hillstead has only presented a recommended revenue requirement for RY1 (Hillstead, Exh. KMH-1T at 8:1-4).

[60] Hillstead, Exh. KMH-1T at 12:9-15.

[61] *Ibid.* at 12:15-17.

Q. You previously mentioned the Local 77 Union contract was ratified on July 31, 2024. Please explain the wage increase terms of this agreement.

A. The Company and Local 77 bargaining unit came to agreement (a copy of the Letter of Agreement is provided as Exh. KJS-9, page 11) on a 5% merit increase for 2024 which will be retroactively paid, effective March 2024 and a 5% increase effective March of 2025, as reflected in Staff-DR-044 Supplemental 3.[62/63]

Q. What was the percentage increase that the Company included in its direct case for the Union increase?

A. The Company estimated a 4% merit increase for both 2024 and 2025, versus the 5% actually ratified.

Q. Based on this new information, what has the Company included in its revenue requirement for Union labor in RY1?

A. As shown above in Table No. 21, the Company for RY1 has included approximately $2.623 million (electric) and $793,000 (natural gas) for the increase in labor costs for Union employees. This level of expense reflects the 5% labor increase, and is an increase from our as filed case of $417,000 for Washington electric and $126,000 for Washington natural gas (again, reflecting a 5% increase versus 4%).

Q. You mentioned earlier that you believe Staff would support this increase, correct?

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[62] Schultz, Exh. KJS-9 at 9-12.
[63] Detailed information by adjustment are provided to all parties within Schultz workpapers, and supporting PF Labor Adjustment 3.05 and 5.02 are included in the individual adjustment tabs, "E-3.05,5.02 PF NE Labor" and "G-3.05,5.02 PF NE Labor" of native Exh. KJS-7 (electric) and KJS-8 (natural gas) Electric and Natural Gas Revenue Requirement "long models".

A. Yes, as I noted above, Staff stated that it "would support including the 2024 and 2025 union wage increases in the revenue requirement on rebuttal should those increases become known".[64] These increases have been ratified by the Union and Avista, and are known and measurable. The impact, therefore, to Staff's adjustment of the 2024 and 2025 approved union increases in RY1 would result in an incremental $1.846 million to Washington electric and $558,000 to Washington natural gas, as shown in Table No. 22 below.

Table No. 22 – Staff's RY1 2025 Non-Executive Labor Expense

Staff's RY1 2025 Non-Executive Labor Expense		
	WA Electric	**WA Natural Gas**
Staff Proposed	$ 4,828,572	$ 1,304,079
Union Contract Ratification	$ 1,845,989	$ 558,155
Staff Updated	$ 6,674,561	$ 1,862,234

Q. How has the Company represented 2026 merit increases in this GRC filing?

A. The Company has included within Adjustment 5.02, Pro Forma Non-Executive Labor, a 3% merit increase for 2026 for both Non-Union and Union employees. The Board approved a minimum 3% merit increase for both 2025 and 2026 in early 2024.[65] It is appropriate to include the minimum as approved by the Board for Union employees, as the bargaining unit typically will not accept a merit increase less than that of Non-Union employees. In the end, the Commission should support the Two-Year Rate Plan, and as a part of that support the 3% increase for Non-Union and Union employees.

Q. How can the Commission have assurance that the 2026 Union wage increase

[64] Hillstead, Exh. KMH-1T at 12:15-17.
[65] See Board of Director meeting minutes included with Schultz, Confidential Exh. KJS-10C at 12-15.

would be greater than or equal to that authorized by the Board?

A. As shown in Table No. 23 below, over the past 5 years, the bargaining unit actual merit awarded has exceeded the minimum approved by the Board for the same year, and there is no reason to think that wages would increase by less than 3% in 2026.

Table No. 23 – Board Approved Minimum Merit Increases vs Bargaining Unit Actual[66]

2021-2025 Board Approved Minimum vs. Bargaining Unit Actual Merit Increases					
	2021	**2022**	**2023**	**2024**	**2025**
Board Approved Minimum	3.0%	2.5%	3.0%	3.5%	3.0%
Bargaining Unit Actual	4.0%	4.0%	3.5%	5.0%	5.0%

For supporting detail, see Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-3.05,5.02 PF NE Labor" and "G-3.05,5.02 PF NE Labor".

f) 3.06 Pro Forma Labor Exec (Electric and Natural Gas)

Q. Public Counsel Witness M. Garrett proposes to remove $60,000 of Washington electric expense and $19,000 of Washington natural gas expense for pro-formed executive compensation.[67] **What is the Company's adjustment on rebuttal?**

A. As discussed in Section IV., Item (f) above, the Company included in the Pro Forma Executive Labor Adjustment (PF 3.06) on rebuttal the Board approved salary level for 2024,[68] adjusted to reflect retirements and promotions, and updated for the allocation between utility and

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[66] Detail wage exhibit of the Local 77 bargaining unit contract for 2021-2023 was previously provided to the Parties in Confidential Staff-DR-043C, and included with Schultz, Confidential Exh. KJS-10C, pages 18-33.

[67] M. Garrett, Exh. MEG-1T at 6:3-14.

[68] The Company previously provided to the Parties in Confidential Staff-DR-151C, now included as Schultz, Confidential Exh. KJS-10C at 16-17, executive compensation approved by the Compensation Committee of the Board for 2024.

non-utility expense based on each individual officer's responsibilities. The Company's request in RY1 on rebuttal is an incremental increase in expense from test period results of $110,000 for Washington electric and $35,000 for Washington natural gas (or revenue requirement of $115,000 for electric, and $37,000 for natural gas).

Q. Witness M. Garrett suggests that all Executive pay is included in customer rates.[69] Is that true?

A. No, it is not. Witness M. Garrett suggests that the "Commission would be justified in requiring that some portion of Avista's executive compensation be paid by shareholders rather than ratepayers",[70] however, executive pay is already allocated by the Company based on the responsibilities of each officer.[71] / [72] A timesheet is completed bi-weekly for each employee of the Company, including officers. A portion of officer pay is allocated to a non-utility time code when performing work such as non-utility or shareholder activities. The portion of non-utility pay is determined for each individual officer based on their individual responsibilities and charged accordingly on their timesheet.

Furthermore, the Company employs a total compensation philosophy that includes a "pay-at-risk" component for variable pay through annual incentives, restricted stock units and performance shares. The Compensation Committee believes the overall compensation of our senior executives should be weighted toward variable performance-based compensation. As a result, a significant portion of compensation is linked with goals related to specific items of

[69] M. Garrett, Exh. MEG-1T at 7:14-16.
[70] *Ibid.*
[71] See Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) native Electric and Natural Gas Revenue Requirement "long models," adjustment tabs "E-3.06 PF Exec Labor" and "G-3.06 PF Exec Labor" for supporting information.
[72] Provided to the Parties in Staff-DR-041C. See Schultz, Confidential Exh. KJS-10C at 1-4.

corporate performance likely to produce long-term shareholder value. It is that compensation – incentives tied to earnings per share, and stock incentives – that is charged to shareholders and excluded from ratemaking. Only the appropriate portion of incentives related to Washington utility operations has been included in this case.

Q. Witness M. Garrett goes on to propose that the Commission require a study of executive compensation in a separate proceeding.[73] Do you agree?

A. No, a study is not needed. First, as part of Dockets UE-110876 & UG-110877, Avista completed and filed with this Commission a compliance filing on executive compensation.[74] In that filing, Avista was found to display acceptable methods for incorporating executive compensation in general rate cases. The overall methodology used today for determining types and levels of executive compensation, and pro forming adjustments (including in GRCs for rate recovery) is the same as the methodology found to be acceptable at that time. Since that compliance filing, Avista has filed many cases consistently following this methodology, with the levels of officer compensation included in each GRC reviewed, and ultimately approved in Washington base rates by this Commission. Therefore, there is no need for overall executive compensation methodology and levels to be reexamined now, especially in comparison against municipalities and COOPs, as suggested by Witness M. Garrett, as discussed below.

Second, Avista's compensation philosophy for executives is market-based and benchmarked against similarly-sized peer investor-owned utilities. We work with our independent compensation consultant to benchmark executive roles and all salaries are approved by our

[73] M. Garrett, Exh. MEG-1T at 8:17-23 and 9:1-11.
[74] WA GRC Executive Officer Compensation Compliance Filing UE-110876 & UG-110877, dated February 28, 2012.

independent Board of Directors Compensation Committee.[75] A discussion of the governance and process the Company uses for setting executive compensation is also provided in our annual Proxy Statement.

Finally, requiring an additional docket and review would be in additional burden for the Commission and Parties at a time when both are already overburdened with many other activities, as pointed out in Staff witness Erdahl's testimony.[76]

Q. Does Witness M. Garrett provide compelling support for his assumptions on executive compensation?[77]

A. No, he does not. Witness M. Garrett argues that the pay of executives should be benchmarked against municipalities and COOPs.[78] Garrett acknowledges that "Avista's executive base pay seems reasonable when compared to other Investor Owned Utilities (IOUs)".[79] Later, he presents testimony describing the complexity of Avista's business as an IOU and the diverse activities required of the Board.[80] One should not elucidate on how much more complicated an IOU is to operate, yet then state the talent necessary to do so should be compared to a less complicated utility model.

g) 3.07 / 5.03 Pro Forma Employee Benefits (Electric and Natural Gas)

Q. Would you please explain AWEC Witness Mullins adjustment to RY1 and

[75] Staff-DR-041C (see Schultz, Confidential Exh. KJS-10C at 1-4).
[76] Erdahl, Exh. BAE-1T at 7:10-19.
[77] M. Garrett, Exh. MEG-1T at 6-9.
[78] *Ibid.* at 7:8-14.
[79] *Ibid.* at 7:8-9.
[80] *Ibid.* at 24:18-23 and 25:1-14.

RY2 Pro Forma Employee Benefits (PF 3.07 and PF 5.03)?[81]

A. Yes. Witness Mullins incorporated into his adjustment a reduction to pension expense,[82] but omitted an update to health insurance, post-retirement medical expense and 401(k) expense. Additionally, Witness Mullins has removed the pension amortization expense originally included in the Company's adjustment, resulting in an overall reduction in total benefit expense for RY1 of approximately $1.2 million for Washington electric and $387,000 for Washington natural gas. For RY2, Witness Mullins reduced expense by approximately $303,000 for Washington electric and $96,000 for Washington natural gas, which were not materially different than Avista's updated adjustment on rebuttal, as discussed above.[83] It should be further noted that Witness Mullins states in testimony that he updated both pension and post-retirement medical expense[84] per the provided actuary reports[85] when in fact, Witness Mullins only updated the pension expense.[86]

Q. So is it fair to say that Witness Mullins reviewed the updated information, and only chose to select the one update that reduced expense, and ignored the other components that increased expense?

A. Yes, that appears to be the case.

Q. Witness Mullins asserts that the Company has not taken into consideration the

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[81] Mullins, Exh. BGM-1T at 20-22.
[82] *Ibid.* at 22:3-5.
[83] *Ibid.* at 22, Table 4.
[84] *Ibid.* at 22:3-9.
[85] AWEC-DR-004C (see Schultz, Confidential Exh. KJS-10C at 5-6).
[86] In contrast, as discussed in Section IV., Item (g) above, the Company updated its Pro Forma Employee Benefit Adjustments (PF 3.07 and PF 5.03) per Avista's response to AWEC-DR-004 Supplemental, which included updates to pro-forma health insurance, post-retirement medical, 401(k) and pension expense based on more current information. As noted, the incremental change from our as filed case is an increase in expense of $167,000 for Washington electric and $53,000 for natural gas in RY1, and a reduction in expense of $300,000 for Washington electric and $95,000 for Washington natural gas in RY2.

full effect of the pension settlement due to the timing of the settlement occurring within the historical test period.[87] **Has the Company included the full effect of the pension settlement and amortization in this adjustment?**

A. Yes, as a result of the lump sum benefit payments made during 2022 for participants in the Retirement Plan for Employees of Avista Corporation (Retirement Plan) exceeding the Settlement Threshold (Service Cost plus Interest Cost), a portion of the outstanding net loss was immediately recognized as part of the 2022 Total Benefit Cost for the Retirement Plan. The immediate recognition of a portion of the outstanding net loss as part of the 2022 Benefit Cost decreased the remaining outstanding net loss, leading to lower benefit costs in 2023 and beyond. The impact of the 2022 settlement is fully reflected in the projected Benefit Costs for 2023 and beyond in the forecast used in the Pro Forma Benefit Adjustments (PF 3.07 & PF 5.03). This Commission, therefore, should reject Witness Mullins adjustment to Pro Form Pension Adjustment 3.07, as he only "cherry picked" the portion of the Company's update that was reduced between test period and that expected in 2025, choosing to exclude the additional updates to total pension and medical costs, and arbitrarily removes the pension settlement amortization, previously approved by the Commission, in error. No other party otherwise contested Avista's as filed adjustments.

The Commission should accept Avista's updated Pro Forma Benefits 3.07 and 5.03 adjustments on rebuttal, as discussed above, as it reflects more current information of these costs, increasing the Company's <u>RY1</u> (3.07) revenue requirement from that as filed, by $175,000 for electric, and $56,000 for natural gas. For <u>RY2</u> (5.03), as also accepted by Witness Mullins, reflects

[87] Mullins, Exh. BGM-1T at 21:17-20 and 22:1-2.

a decrease to revenue requirement in RY2, below <u>RY1 levels,</u> of $315,000 for electric, and $100,000 for natural gas[88].

l) <u>PC (Exh. MEG-3, Sch. 3.7) Investor Relations Expense (Electric and Natural Gas)</u>

Q. Public Counsel Witness M. Garrett proposes to remove 50% of the costs associated with investor relations.[89] Is such a proposed adjustment reasonable?

A. No, such an adjustment to remove 50% of the costs associated with investor relations is completely unreasonable. Avista is an investor-owned utility who raises approximately half of the funds to operate our business on behalf of customers from the equity markets. As such, there are numerous rules and conditions that set forth how Avista operates, such as requirements for having a Board of Directors, independent auditors, and robust internal controls. Importantly, a requirement of the Securities and Exchange Commission (SEC) is the development and issuance of quarterly and annual financial reports, which is facilitated by investor relations.

Q. How do these activities benefit customers?

A. Put simply, our investors are the owners of Avista. They provide the funds necessary for Avista to build the infrastructure, purchase the energy, and operate our business for the benefit of our customers. Reporting financial results to our owners is crucial as it ensures transparency and accountability, fostering trust and confidence in our management and operations. Complying with SEC requirements is essential to maintaining legal and regulatory standards, which protects our Company from potential legal issues and enhances our credibility in the market.

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[88] Witness Mullins for his part, reduces his RY2 Pro Forma Benefit Adjustment 5.03 by $318,000 for electric and $101,000 for natural gas. See Mullins, Exh. BGM-1T at 22, Table 4, reducing Pro Forma Benefit expense in RY2 by $303,209 for electric and $95,980 for natural gas.
[89] M. Garrett, Exh. MEG-1T at 34-36.

Meeting with investors and the investment community allows us to communicate our strategic vision and financial health, potentially enabling us to issue more equity on favorable terms. This, in turn, provides the necessary capital to continue our mission in service to our customers. It is Avista's investor relations team that helps to facilitate such work.

Q. Is some adjustment reasonable in light of Public Counsel's arguments?

A. Yes. Upon review of the arguments set forth by Witness M. Garrett, and in concert with Avista's rationale for having 90% of the costs associated with having a Board of Directors charged to utility customers, Avista can support a 90% customer, 10% Company sharing of investor relations costs. Given a small portion of the overall Company is related to non-utility activities, it is reasonable to assert that a portion should be recognized as non-utility.

Q. Why isn't a 50% sharing reasonable?

A. A 50% reduction is not reasonable for two reasons. First, Witness M. Garrett does not provide support for his arbitrary split; there is no justification for why it would be 50%, or 60%, or the like. Such an arbitrary reduction unsupported by evidence does not make sense. Second, unlike in the past when Avista has significant non-utility operations (which could have been used as justification for a lower percentage sharing), Avista today is comprised almost entirely of utility operations, with just a small set of passive investments under Avista Capital. We are primarily a utility operation focused on serving our customers, and the costs of service should be paid by customers.

Q. What is the impact of your proposed 90/10 sharing of investor relations costs?

A. As discussed in Section IV. Item (l) above, the associated reduction in revenue requirement is $40,000 for Washington electric and $12,000 for Washington natural gas.

Q. Are there additional contested adjustments by the Parties that Avista did not update or otherwise revise on rebuttal?

A. Yes. Table No. 24 below provides a listing of adjustments proposed by various Parties that are opposed by Avista.

<u>Table No. 24 - WA Electric and Gas Contested Adjustments by Parties – Opposed by Avista</u>

Exh. KJS-5T Item	Washington Electric and Natural Gas Contested Adjustments by Parties - Opposed By Avista				
	Adjustment # Electric	Adjustment # Natural Gas	Adjustment Name	Party Contesting	Avista Rebuttal Witness
a)	COC	COC	Cost of Capital (ROE)	Staff / PC / AWEC	McKenzie, Exh. AMM-15T
b)	1.03	1.03	Working Capital	AWEC	Andrews, Exh. EMA-6T
c)	2.06	2.06	FIT/DFIT/ ITC Expense (Customer Tax Deductions)	AWEC	Andrews, Exh. EMA-6T
d)	3.08	3.08	Pro Forma Incentives	Staff	Schultz, Exh. KJS-5T
e)	3.12	3.12	Pro Forma Insurance Expense	PC	Schultz, Exh. KJS-5T
f)	3.20	3.20	Pro Forma BOD Fees Expense	PC / AWEC	Schultz, Exh. KJS-5T
g)	3.23		Pro Forma PPA Interest	Staff	Andrews, Exh. EMA-6T
h)	PC (Exh. MEG-3, Sch. 3.8)	PC (Exh. MEG-4, Sch. 4.8)	Association Dues	PC	Schultz, Exh. KJS-5T
i)	AWEC-CTC	AWEC-CTC	Customer Tax Credit Amortization	AWEC	Andrews, Exh. EMA-6T
j)	AWEC 5.14		Colstrip Transmission Assets	AWEC	Kinney, SJK-17T / Andrews, Exh. EMA-6T

As shown in Table No. 24 above, Items (a) through (c), (g), and (i) through (j) are sponsored by other Avista rebuttal witnesses as noted per column “Avista Rebuttal Witness”, with the corresponding testimony reference.

Q. Please explain the contested adjustments opposed by the Company on rebuttal that you sponsor.

A. The descriptions that follow explain the individual adjustments that I sponsor (Items (d) through (f) and (h) displayed in Table No. 24 above) and Avista’s opposition to each as proposed by the contesting Party.

d) <u>3.08 Pro Forma Incentives (Electric and Natural Gas)</u>

Q. Staff argues that the Company's proposal to increase the incentive expense above the six-year average methodology does not meet the Commission's standard of a pro forma adjustment.[90] Does the Company agree?

A. No, the Company believes that it is appropriate to increase incentive expense beyond the normal six-year average of the historical test period, representing a six-year average of incentive expense for the period 2017-2022. The restated level of incentive expense is not representative of the level the Company expects to incur in RY1 (and carry into RY2).

The Company provided in direct testimony (Exh. KJS-1T)[91] and further information to all parties during discovery a detailed description of the metrics that make up the officer and non-officer Utility incentive metrics. Incentive expense is based on a percentage of each individual employee's salary. As employee salaries increase each year, incentive expense will naturally increase as well. Staff supports the Company's Pro Forma Non-Executive Non-Union Labor increases through 2025[92] and considers them to be known and measurable at a much higher level than the conservative levels the Company is proposing in Adjustment 3.08 – Pro Forma Incentive Expense. Therefore, the conservative increases the Company included in the Pro Forma Incentive Adjustment (PF 3.08) should be supported by Staff as well.

The six-year average level of incentives approved by Staff is a <u>historical</u> level of expense (2017-2022), and thus understated from the get-go, since labor will increase through RY1 and RY2

[90] Hillstead, Exh. KMH-1T at 13:10-13.
[91] See Schultz, Exh. KJS-1T at 55:1-27 and 65:3-68:20.
[92] As discussed previously, Staff accepts the Company's <u>updated</u> "Non-Union" portion of the Pro Forma Non-Executive Labor adjustments through RY1, reflecting the annualized portion of 2023 and actual approved wage increases for 2024 and 2025 (Hillstead, Exh, KMH-1T at 11:1-18 & 12:1-17).

over the Two-Year Rate Plan. As shown by Avista in its restating adjustment detail, the six-year average payout percentage (2017-2022) is 95% for non-officer and 98% for officer. For RY1 and RY2 incentive levels expected, based on planned labor increases, one could use this expected incentive payout in 2025 (RY1) and 2026 (RY2), apply the payout ratios 95%/98% and propose these higher six-year average expected incentive value results for RY1 and RY2. Instead, the Company used the expected 2024 incentive payout. Therefore, the level included by the Company over the Two-Year Rate Plan versus the expected payouts in 2025 & 2026, adjusted by the six-year average payout percentage, is reasonable and conservative.

The Company included a level of non-executive and executive operating incentive that is \$2.5 million (system) higher than what the restating adjustment provides. For Washington electric, that amounts to approximately \$1.2 million, and for Washington natural gas, approximately \$0.4 million. We simply cannot leave a combined \$1.6 million of incentive expense unaccounted for and create yet more regulatory lag. Incentive compensation is a critical component of our total compensation philosophy necessary to recruit – but now more than ever to retain – qualified employees to run our organization. As such, customers should have this benefit reflected in their retail rates.

Q. Was this adjustment contested by any party other than Staff?

A. No. No other party otherwise contested the Company's proposed Pro Forma Incentive adjustment (PF 3.08).

e) <u>3.12 Pro Forma Insurance Expense (Electric and Natural Gas)</u>

Q. Public Counsel Witness M. Garrett[93] proposes to allocate Directors and Officers liability insurance (D&O insurance) on a 50% customer, 50% shareholder basis. Does the Company support such an adjustment?

A. No, the Company continues to support a 90% customer, 10% shareholder allocation of D&O insurance. Witness M. Garrett states that his proposed allocation "more closely aligns with the benefits derived from the costs"[94], but at the same time says that a study "which allocates the benefits of D&O liability insurance…would be cost prohibitive".[95] One cannot say that the benefits should be better aligned, yet have no support for what those supposed benefits even are.

Q. Is it compelling to review what other jurisdictions have done on this matter[96]?

A. No, it is not, especially when the analysis is based on 7 states, yet ignores the other 43 states. So what is compelling is what <u>this Commission</u> has found in other proceedings. The Company has consistently applied the reduction of 10% for D&O insurance since ordered by the Commission in Dockets UE-090134 and UG-090135, Order 10, where in reference to a 90/10 sharing for D&O insurance, the Commission stated:

> D&O insurance is a benefit that <u>is part of the compensation package offered to attract and retain qualified officers and directors. Accordingly, it makes sense to split the costs in the same manner we require other elements of their compensation to be shared</u>. Based on the formula currently used to allocate officer compensation between ratepayers and shareholders, this results in 90 percent of the costs being included for recovery in rates. (emphasis added) (Order No. 10, p. 56, para. 137)

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[93] Garrett, Exh. MEG-1T at 30:6-8.
[94] *Ibid.* at 30:11-12
[95] *Ibid.* at 30:3-4
[96] *Ibid.* at pp. 30-34.

Whereas, in this same Order No. 10, at p. 58, para. 141-142, the Commission stated that "In our analysis of D&O insurance costs, we focused on the point that it is part of the officers' and directors' compensation package, necessary to attract and retain qualified management". (emphasis added) As I stated in my direct testimony[97], the Board of Directors is focused primarily on our utility operations, and it is important to recognize that in rates. Based on the actual time dedicated to the utility by its Board of Director's, a 90%/10% sharing of these fees is conservative.

Q. Did any other parties address the Company's D&O insurance methodology?

A. No other Parties took issue with the Company's methodology.

f) <u>3.20 Pro Forma BOD Fees Expense (Electric and Natural Gas)</u>

Q. Both Public Counsel Witness M. Garrett[98] and AWEC Witness Mullins[99] proposes to remove 50% of Director Fee compensation paid in cash and 100% of Director Fee compensation paid through shares of stock, resulting in a reduction in Washington expense of $819,000 for electric and $259,000 for natural gas. Does the Company support this recommendation?

A. No, the Company believes it is appropriate to recover 90% of the Company's 12ME 06.2023 (test period) total Director Fee compensation levels expensed by the Company and supported in this case, and Public Counsel's and AWEC's adjustments to Director Fee expense should be rejected.

[97] Schultz, Exh. KJS-1T at 85:11-13.
[98] Garrett, Exh. MEG-1T at 27:11-13.
[99] Mullins, Exh. BGM-1T at 32:13-17.

While it is true, as noted by both Witnesses M. Garrett[100] and Mullins[101], this Commission originally ordered a 50% shareholder / 50% customer sharing of Director Fee expenses per Order 10 of Dockets UE-090134 and UG-090135, this Commission's decision was based on the operations of the Utility and information available at that time – i.e., 2009, over 15 years ago. Witness Mullins also correctly notes the Commission reiterated their decision in Avista's 2015 GRC, Dockets UE-150204, et. al.[102], in which it stated:

> …while our practice is to allow the Company recovery of 50 percent of director fees from ratepayers. Avista has not presented substantial evidence as to why this practice should be modified. Absent such a showing, we continue to authorize only 50 percent of director fees and meeting costs in both electric and natural gas rates.

Whether considering the 2009 order (15 years ago) or the 2015 order (9 years ago), these prior cases and Commission Orders were long ago, and a lot has changed for this Company regarding non-utility operations, warranting this Commission take a different look at the sharing of utility versus shareholder expenses, and order a change in practice that is long over-due.

Avista believes in this case it has provided support for approval of 90% of Director Fee compensation, as described in my direct testimony[103] – contrary to Witness Mullins statement that Avista's adjustment is provided "with no explanation.[104]" Specifically, within my direct testimony I explain:

> "Similarly, Directors' fees, like D&O insurance referred to above, are a part of the Directors' compensation package offered to attract and retain qualified Directors.

[100] Garrett, Exh. MEG-1T at 26:8-16.
[101] Mullins, Exh. BGM-1T at 30, footnote 20.
[102] Order 05, Dockets UE-150204, et. al., at 76, para. 220.
[103] Schultz, Exh. KJS-1T at 85:3-13.
[104] Mullins, Exh. BGM-1T at 31:10-12, further states: "Avista's only rationale for not following this practice is a single sentence that states it has included "the proper level of director fee expense that should be included during the rate period."[25] ([25]Schultz Exh. KJS-1T at 84:8-9.), ignoring Schultz direct testimony immediately following as described above.

> It is also important to recognize the changing makeup of Avista in the last ten years. Back in the 2000's and up to 2014, Avista had a portfolio of companies, including the utility, but also subsidiaries including Avista Energy, Avista Labs, and Ecova. Avista has divested itself of those entities, and today is comprised almost entirely of utility operations, with just a small set of passive investments under Avista Capital. As such, the BOD is focused primarily on our utility operations, and it is important to recognize that in rates. Based on the actual time dedicated to the utility by its Board of Director's, a 90%/10% sharing of these fees is conservative." (emphasis added)[105]

This is no less true today, as Avista's non-utility operations, and the Company's Board of Directors' time dedicated to non-utility operations, is vastly less today versus 2009. And equally important, is the complexity, as even noted by Witness M. Garrett[106], of Avista's operations:

> Avista Utilities, an operating division of Avista, is comprised of regulated utility operations in Washington, Idaho, Oregon, and Montana. Avista Utilities provides electric distribution and transmission, and natural gas distribution services in parts of eastern Washington and northern Idaho. Avista Utilities also provides natural gas distribution service in parts of northeastern and southwestern Oregon. Avista Utilities has electric generating facilities in Washington, Idaho, Oregon and Montana. Avista Utilities also supplies electricity to a small number of customers in Montana. Avista Utilities also engages in wholesale purchases and sales of electricity and natural gas as an integral part of energy resource management and its load-serving obligation. … The Board also maintains six standing committees comprised of independent directors to provide oversight over specific corporate functions. In addition, the independent directors regularly meet in executive session outside the presence of the CEO.

This complexity is further exacerbated by the increasing complexity of the utility industry in recent years with regards to new legislative requirements, i.e. CETA, CEIP, CCA, etc., to name a few. For these reasons, when surveyed to determine what percentage of time each Board of Director devoted to activities not directly related to the operations of Avista Utilities itself (non-utility), Avista's Board of Directors' average response ranged from 3% to 7%, with a total average for the

[105] Schultz, Exh. KJS-1T at 85:3-13.
[106] Garrett, Exh. MEG-1T at 24:18 – 25:14.

Board of Director at 6%. This Board summary, as well as the individual Board of Director surveys are included as Exh. KJS-11. The proposal by the Company to exclude 10% of Board compensation (and D&O insurance expense as discussed above), therefore, is conservative.

Q. Finally, what do you say regarding Witnesses M. Garrett and Mullins removal of 100% Stock compensation?

A. First, this Commission has never excluded, in full, director stock compensation, but has removed only a portion of total Director compensation to share between Utility customers and shareholders. Next, while Witness M. Garrett did not explain his reasoning for removing 100% stock compensation, Witness Mullins argues "Compensation in stock is not a cost to the utility."[107] This is entirely inaccurate, as Board of Director compensation is a utility expense, that is determined and recorded, not unlike executive compensation. Specifically, Director compensation is targeted at the median of the peer group used to review executive compensation. Directors receive a portion of their retainer in stock and have the option to receive the rest of their compensation retainer in cash or a combination of cash and stock. Whether the fee is paid in cash or stock, the level of expense to the Company is the same and is recorded in total to FERC Account 930.2 (Miscellaneous General Expenses)[108]. For the reasons outlined above, the Commission should approve Avista's Director Fee compensation as included by the Company.

Q. Did any other parties address the Company's Pro Forma BOD Fees Expense adjustment (PF 3.20)?

[107] Mullins, Exh. BGM-1T at 32:5.

[108] Miscellaneous General Expenses includes the cost of labor and expenses incurred in connection with the general management of the utility not provided elsewhere.

A. No other Parties took issue with the Company's Pro Forma BOD Fees Expense adjustment (PF 3.20).

h) PC (Exh. MEG-3, Sch. 3.8 & Exh. MEG-4, Sch. 4.8) Association Dues (Electric and Natural Gas)

Q. Public Counsel Witness M. Garrett proposes to remove all costs associated with the Company's membership with the Edison Electric Institute (EEI) and American Gas Association (AGA)?[109] Are the costs associated with political activities and lobbying efforts paid to EEI and AGA excluded from customer rates?

A. Yes, those costs are booked "below-the-line" and charged directly to shareholders. They are not included in our 12ME 06.2023 test year results of operations and are not in customer rates. All of the other costs related to membership are directly related to utility operations.

Q. What types of activities do those organizations undertake for the benefit of Washington customers?

A. EEI and AGA provide public policy leadership, critical industry data, market opportunities, strategic business intelligence, and one-of-a-kind conferences and forums, among other things. Washington ratepayers benefit from Avista's involvement in these organizations because they provide an opportunity for the Company's employees to stay abreast of critical electric and natural gas industry issues, issues critical to electric and natural gas utilities, access to volumes of information on industry data and fosters networking opportunities within those industries. All of these opportunities and activities make the Company's employees more knowledgeable to better perform their job.

[109] Garrett, Exh. MEG-1T at 15:8 – 24:17.

Avista is heavily involved in industry groups and forums, including EEI. Specifically, Avista participates on the EEI committees and programs that address the reliability and security of the electric grid, as well as the regulatory compliance that is fundamental to ensuring Avista meets its regulatory requirements related to reliability and security of Avista's system. The following are examples of how Avista and its customers benefit from Avista's involvement in EEI:

1. EEI's Reliability Technical Committee (RTC) focuses on monitoring the development and revisions of the NERC Reliability Standards. They assist EEI members and other industry forums with thorough review and impact assessment of proposed standards and preparing comments to consider for balloting. Avista actively participates on this committee.

2. EEI's Reliability Executive Advisory Committee (REAC) focuses on policy regarding longer term reliability and security concerns, as well as any issues regarding member concerns with the NERC Compliance Monitoring and Enforcement program. EEI and REAC leadership often interface with NERC and FERC in representing the EEI members. Avista actively participates on this committee.

3. The EEI STEP program (Spare Transformer Equipment Program) promotes sharing of equipment following emergency events. With over 50 transmission energy companies participating across the country, STEP also fosters industry member relationships to share technical expertise, latest industry trends, and performs drill exercises for emergency situations. The program provides legally enforceable rights to transformers in our voltage class when a declared state of emergency by the President of the United States is made. This gives Avista another avenue to ensure we can continue to provide reliable power to our customers.

Avista benefits in several ways from our involvement with AGA. Below are a few examples:

1) AGA Peer Review – The AGA manages a program whereby natural gas utility companies observe their peers, share leading practices, and identify opportunities to better serve customers and communities. Individuals from the 200 natural gas utilities that make up AGA's membership visit other facilities and conduct detailed reviews focusing on key aspects of pipeline and employee safety. Examples of adoption of past recommendations include development of a formal Underground Damage Prevention Program and a Gas Standards Committee. Avista's most recent peer review occurred in early March of 2024 and covered the topics of Underground Damage Prevention, Pipeline Safety Management and Workforce Development and Succession

Planning. Recent recommendations will further improve the safety and operation of Avista's distribution system by helping to lower third-party underground excavation damages, advance maturation of our pipeline safety management system, and further ensure a safe and qualified workforce.

2) AGA Technical Committees and Technical Discussion Groups – Avista has representatives on several technical committees of AGA, these include Piping Materials, Engineering, Field Operations, Operations Section Regulatory Action (OSRAC), and Safety. AGA's Technical Committees provide a forum for industry professionals to pool their collective knowledge to improve the state of operations, maintenance, engineering, and the technological aspects of transporting, storing, distributing, measuring, and utilizing natural gas. These committees typically meet twice a year to discuss current topics, review industry trends, and write white papers.

3) In the Field Operations Committee, Avista got the idea to improve our Gas Emergency Incident Response & Outage Management. From this, we developed the idea of tracking turn offs and relights digitally. This was a huge improvement over the previous paper tracking. Avista has had the opportunity to implement this digital tracking in several large outages. It improved visibility, created operational efficiencies, and allowed more real time status updates to management. Additionally, this process allowed us to communicate outage durations and expected restoration times to our customers more accurately.

Q. How was Avista's membership in AGA of value to the 36,000 natural gas customers who were impacted by a Williams Pipeline dig-in that occurred in November 2023?

A. AGA has a National Mutual Aid Program which facilitates coordination between natural gas utilities from across the country to quickly respond to emergencies, such as natural disasters and other necessary situations, in an efficient and timely manner. When activated, the program calls upon volunteers from other participating natural gas companies to send crews and support staff to assist in emergency response.

Avista benefited from this in November of 2023. The Mutual Aid program helped us quickly restore services to 36,000 natural gas customers after a pipeline was damaged by a farmer, causing all customers downstream of that incident to lose natural gas service. AGA helped coordinate more than 300 mutual aid workers from eight natural gas utilities across six states. This coordination and assistance allowed Avista to conduct more than 900 relights per hour, which restored service to customers in less than a week. Absent this mutual aid assistance coordinated by AGA, customers would have been out potentially for a significantly longer period of time.

Q. Witness M. Garrett states that Oregon recently "disallowed" industry association dues in an Avista general rate case.[110] Is that true?

A. No, it is not true as characterized by Witness M. Garrett. In the referenced Avista Oregon General Rate Case (Docket UG-461), the Commission approved an all-party settlement stipulation. As this Commission knows well, the process of settlement in complicated general rate cases involves significant negotiations, and lots of "give-and-take". One party may push an issue important to them, while another party advocates for a different issue. As a part of that "give-and-take", Avista agreed to remove, for settlement purposes (and only for that general rate case), costs associated with our participation in AGA and the Northwest Gas Association. In the end, the Commission did not "disallow" such expenses, rather it approved a settlement stipulation where certain costs were excluded. These are two very different things and should give the Commission pause when reviewing the other assertions of Witness M. Garrett.

Q. In the end, are the costs incurred for membership in EEI and AGA prudent?

A. Yes, Avista believes these costs are prudent, and Public Counsel's removal of such costs from the final revenue requirement should be rejected.

Q. Did any other parties address costs incurred for membership in EEI and AGA?

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[110] Garrett, Exh. MEG-1T at 21:13 and footnote 31.

A. No other Parties took issue with costs incurred for membership in EEI and AGA.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.