Exh. KJC-4T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-240006

DOCKET UG-240007

REBUTTAL TESTIMONY OF

KEVIN J. CHRISTIE

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Kevin Christie, and I am employed as the Senior Vice President, Chief Financial Officer, Treasurer and Regulatory Affairs Officer for Avista. My business address is 1411 East Mission Avenue, Spokane, Washington.

Q. Have you filed direct testimony and exhibits in this proceeding?

A. Yes, I filed direct testimony (Exh. KJC-1T), and two accompanying exhibits. Exh. KJC-2 provides Avista's credit ratings by S&P and Moody's, and Avista's proposed capital structure and cost of capital. Confidential Exh. KJC-3C shows the Company's planned capital expenditures and long-term debt issuances by year for 2024-2027.

Q. What is the scope of your rebuttal testimony?

A. I will summarize the Company's case on rebuttal, and through the introduction of witnesses, provide an overall response to many of the key issues raised by the Parties[2] in this proceeding. A table of contents for my testimony is as follows:

[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), the Alliance of Western Energy Consumers (AWEC), NW Energy Coalition (NWEC), Sierra Club, Walmart, and The Energy Project.

Q. Would you provide a brief summary of the Company's revenue requirement, on rebuttal?

A. Yes. After reviewing the testimony of the parties, Avista is proposing a smaller increase in both Rate Year 1 and 2 for electric and natural gas, for reasons discussed later in my testimony and in the testimony of our rebuttal witnesses. Table No. 1 below provides the revenue requirements filed by the Company, certain parties, and our rebuttal position:

Table No. 1 – Summary of Revenue Requirements

Revenue Requirements ($ millions)	Avista - As Filed	Staff*	Public Counsel	AWEC	Avista Rebuttal
Electric Rate Year 1	$77.1	$8.3	$2.4	($18.9)	$42.9
Natural Gas Rate Year 1	$17.3	$11.3	$10.1	$6.4	$16.8
Electric Rate Year 2	$78.1	-	$75.0	$69.1	$69.3
Natural Gas Rate Year 2	$4.6	-	$4.1	$2.8	$4.0

*Staff did not support a Rate Year 2 adjustment

Q. Before you provide an overview of the Company's rebuttal case (and key items contained within), would you please provide your view as Chief Financial Officer as to the current financial condition of the Company and the utility industry as a whole?

A. Yes. First, for Avista, as I discussed in more detail in my Direct Testimony, the cost pressures from inflation and rising interest rates have negatively impacted Avista. Over the last two years, these cost headwinds have significantly hurt Avista's financial performance, balance sheet strength, and credit metrics. In addition, another major headwind impacting Avista's financial performance are higher resource costs as a result of poor hydro performance in 2022, 2023, and now again in 2024. These past two and a half years are among the worst hydro years on record, and with Avista being approximately 50% hydro-based from a resource perspective, our financial performance has suffered. The higher resource costs absorbed through the Energy Recovery Mechanism (ERM) reduced earnings significantly in 2022, 2023, and have put significant pressure on our results thus far in 2024.[3]

From a rating agency perspective, Avista's credit remains on "negative outlook" from Standard and Poor's (S&P), due to Avista's weakening financial performance causing our metrics to fall below their downgrade thresholds in 2022 and 2023 because of inflation, rising interest rates, and regulatory lag. In addition to those items, wholesale energy markets have been extremely volatile. All of that, coupled with Customer Tax Credits the Company implemented to help during the pandemic has put a significant strain on cash flow. S&P has signaled they will downgrade our credit rating if our credit metrics don't improve above their downgrade threshold in the very near future. They have allowed the Company to be below downgrade threshold for a few years, but they simply will not provide further latitude much longer. The Company's continued weak financial performance, and deterioration in credit metrics highlights again the challenging environment in which we are operating and the importance of supportive regulators.

Given all of that, this Two-Year Rate Plan is tremendously important. In February, S&P issued a report titled "Rising Risks: Outlook for North American Investor-Owned Regulated Utilities Weakens."[4] In that report, S&P listed the following takeaways:

- We are updating our 2024 outlook on the investor-owned North American regulated utility industry to negative.

- Given the relatively high percentage of companies with negative outlooks, we expect that 2024 will likely be the fifth consecutive year that downgrades outpace upgrades.

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[3] For year to date 2024, we had a $4.7 million pre-tax expense under the ERM, compared to a $6.5 million pre-tax expense in 2023 and $3.6 million pre-tax expense in 2022.

[4] S&P Global Ratings, Ratings Direct. "Risking Risks: Outlook for North American Investor-Owned Regulated Utilities Weakens". February 14, 2024. at 1.

- The industry faces rising physical risks and high cash flow deficits that may not be sufficiently funded in a credit-supportive manner.

Ultimately, S&P states: [5]

> The industrywide negative outlook reflects rising physical risks as well as financial measures, which are weakening due to rising capital spending and cash flow deficits that are not funded in a sufficiently credit supportive manner. Furthermore, much of the industry operates with minimal financial cushion from their downgrade threshold. <u>This increases the susceptibility to a downgrade if negative events occur beyond our base case</u>. (emphasis added)

Q. Has the investment community weighed in on the importance of cost recovery and good regulatory outcomes?

A. Yes. Just a few selected comments from analysts who follow our stock are:

> Moody's believes the party is over with companies operating below their downgrade threshold. The credit rating agency was extremely patient for companies with weak credit metrics due to the pandemic and high commodity prices experienced this time last year. Companies have exhausted all alternative forms of financing and have stretched their credit metrics.[6]

> This year's event and meetings crystalized the importance of 1.) balance sheet strength, 2.) access to diverse funding sources, 3.) accretive growth prospects, and 4.) constructive regulatory backdrop.[7]

> Washington remains one of the more difficult jurisdictions for investor-owned utilities, as evidenced by AVA's 9.4% ROE awarded in its 2022 rate case that came in below the national average at the time of 9.52%."[8]

> Much of the outlook depends upon the next Washington multi-year rate proceeding (MYRP) to support the long-term EPS CAGR, with the prospect of just smidcap-average growth likely delayed into the second half of the decade even with a constructive outcome. This discount is appropriate given AVA's lower near-term growth profile, significant regulatory risk, below-average balance sheet, and unregulated operations that merit a lower

[5] *Id.* at.4.
[6] Anthony Crowdell, Mizuho, "Ebenezer Moody; Takeaways From Our Call With Moody's." 12/13/2023.
[7] Julien Dumoulin-Smith, Bank of America, "EEI 2023: Is 2024 an Oasis for Utilities, or Just a Mirage? What did we learn?" 11/16/2023.
[8] Anthony Crowdell, Mizuho, "Avista Corporation: A Vista Too Far; Maintain Underperform." 11/2/2023.

relative multiple.[9]

We believe the Commission's support of this Two Year Rate Plan, with the necessary rate relief requested, will be both credit-supportive and supportive in the equity markets as we need to source funds to continue our work on behalf of our customers. And that recovery is supported by a solid record. In our direct case, and this case on rebuttal, we have provided ample evidence and support for our proposals that, if accepted, should reassure our debt holders (through the rating agencies) and our owners (through the analyst community) that Avista is receiving timely recovery of its costs.

II. SUMMARY OF AVISTA'S ORIGINAL RATE REQUEST

Q. Would you please summarize the Company's electric and natural gas proposals included in its original filing?

A. Yes. In our filing, the Company proposed a Two-Year Rate Plan, which would begin with new base rates effective December 2024 (Rate Year 1) and December 2025 (Rate Year 2). For Rate Year 1, the proposed increases reflected an electric base rate relief of approximately $77.1 million, or 13.0% (12.6% on a billed basis), and natural gas base rate relief of $17.3 million, or 13.6% (6.3% on a billed basis), effective December 2024.

For Rate Year 2 of the Two-Year Rate Plan, the proposed increases reflect an electric net revenue of $53.7 million, or 11.7% (7.8% on a billed basis after taking into account the

[9] Julien Dumoulin-Smith, Bank of America, "Higher Capex Delights; Will Underearning Fright? EPS CAGR Delayed and In Doubt", 11/3/2023.

proposed reduction in electric Schedule 99 reflecting certain reductions related to Colstrip[10]), and natural gas base rate relief of approximately $4.6 million, or 3.2% (1.6% on a billed basis), effective December 2025.

The Company's electric and natural gas requests were based on a proposed rate of return of 7.61%, a cost of debt of 4.99%, with a common equity ratio of 48.5% and a 10.40% return on equity (ROE), as discussed by Mr. McKenzie and myself.

Q. What were the drivers of the Company's rate requests?

A. Without repeating all of the information contained in Mr. Vermillion's and my direct testimony (Exh. DPV-1T and Exh. KJC-1T), the increase in overall costs to serve customers is driven primarily by the continuing need to replace and upgrade the facilities and technology we use every day to serve our customers, while revenue growth remains low. As discussed by Ms. Schultz (Exh. KJS-1T, at 17-18), the primary factor driving the Company's electric and natural gas revenue requirements in Rate Year 1 and Rate Year 2 is an increase in net plant investment.[11] In addition, net power supply expense also contributes significantly to the incremental electric revenue requirements over the Two-Year Rate Plan. Other changes impacting the Company's revenue requirement request relate to regulatory amortizations and increases in distribution, operations and maintenance (O&M), and administrative and general

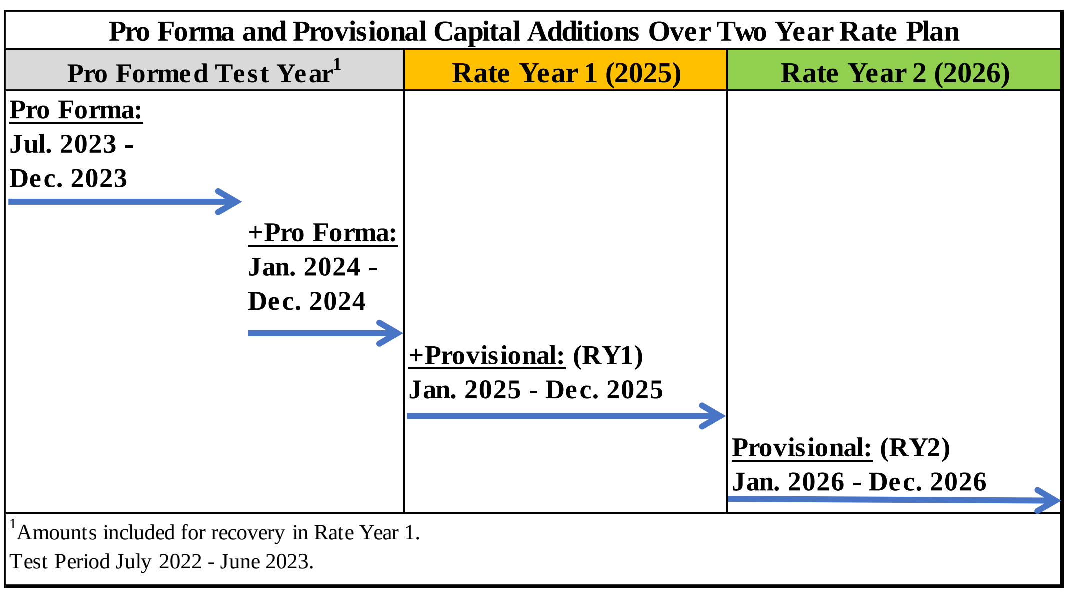
[10] Concurrent with the Rate Year 2 electric effective date of December 2025, the Company proposed to reduce the rates associated with Schedule 99, "Colstrip Tracker", to reflect the removal of certain costs associated with Colstrip Units 3 and 4, in compliance with the law, as discussed further by Ms. Andrews. In order to effectuate the change in base rates on the assumed Rate Year 2 effective date of December 21, 2025, and the mandatory change in Tariff Schedule 99 to remove the costs associated with Colstrip prior to January 1, 2026, the Company will file on or before October 21, 2025, to align the Colstrip Tariff 99 reduction and the Rate Year 2 base rate change, to become effective on December 21, 2025. This will allow for the Commission to authorize just one net bill change for customers.

[11] As discussed in my Direct Testimony, the Company typically has about 120 Business Cases completed on an annual basis. Over the past five years, this amounted to roughly $430 million of annual capital spending (system). This system-level investment has increased to $500 million in 2024, $525 million in 2025 and $575 million in 2026.

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

The Company has included total electric and natural gas pro forma and provisional capital additions planned to transfer-to-plant between July 1, 2023 through December 31, 2025 for Rate Year 1, and January 1, 2026 through December 31, 2026 for Rate Year 2. The Company pro formed capital additions for the period July 1, 2023 through December 31, 2024. 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 as described by Ms. Benjamin (Exh. TCB-1T). Illustration No. 1 below, copied from Ms. Schultz's testimony, provides a simple schematic of capital addition inclusion during the Two-Year Rate Plan.[12]

Illustration No. 1 – Capital Additions Included in Two-Year Rate Plan



Q. Did Avista propose to update power supply costs as a part of this case?

[12] See Illustration No. 3, Exh. KJS-1T, at 13. As discussed by Ms. Benjamin, 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 (completed in July 2024) and in March 2025 for 2024 capital investments (Benjamin, Exh. TCB-1T at 8:17:21).

A. Yes. In Avista's 2017 general rate request[13], the Commission stated in its Final Order 07 that baseline adjustments to power supply costs should only be made "in extraordinary circumstances". In this case, we believe that power supply costs should, in fact, be adjusted. First, for Rate Year 1, as discussed by Company witness Mr. Kalich, the Company has provided a new power supply baseline level of expense that reflects more current expectations of customer loads, generation availability, and wholesale electricity and natural gas prices, among other things, and provides a comparison to the present level of power supply baseline costs. For power supply alone, the increase for Washington above current authorized power supply expense is $23.2 million, which we believe meets any reasonable definition of "extraordinary".

The $23.2 million increase is due to new expectations of customer loads, generation availability, and market prices. The difficulty in forecasting power supply expenses is exacerbated by factors such as forecast timing, regional resource adequacy, lack of market liquidity, carbon emission policy, and changing market dynamics. Avista's second MYRP under SB 5295 aims to reflect a power supply base that is representative of the rate-effective periods, with the proposed base incorporating market conditions and pricing that is more recent than current embedded costs. As discussed later in my testimony (and in the rebuttal testimonies of Company witnesses Mr. Kinney and Mr. Kalich), the Company has updated its proposed power supply adjustment accordingly.

III. SUMMARY OF AVISTA'S REBUTTAL RATE REQUEST

Q. Would you please provide a "reconciliation" of the positions of the parties

[13] Dockets UE-170485 and UG-170486, Order 07, ¶160.

on overall revenue requirements?

A. Yes. The following tables, culled from Ms. Schultz's rebuttal testimony[14], set forth the positions of the parties on overall revenue requirement and includes a revised (lowered) revenue requirement proposal by the Company.

<u>Table No. 2 – Electric and Natural Gas Revenue Requirements – Rate Year 1</u>

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, 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.

<u>Table No. 3 – Electric and Natural Gas Revenue Requirements – Rate Year 2</u>

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.

Accordingly, the Company's proposed revenue requirement is $42.9 million (6.7% on a billed basis) for electric and $16.8 million (5.8% on a billed basis) for natural gas for Rate Year 1. For Rate Year 2, the Company's proposed revenue requirement is $69.3 million

[14] Schultz, Exh. KJS-5T, Table Nos. 3 and 4.

(6.5% on a billed basis after taking into account the proposed reduction in electric Schedule 99 reflecting certain reductions related to Colstrip discussed earlier) for electric, and $4.0 million (1.3% on a billed basis) for natural gas.

Q. Why is the revenue requirement for electric Rate Year 2, on rebuttal, still so high?

A. Put simply, to comply with the law – the Clean Energy Transformation Act. As show in Table No. 4 below,[15] the driver is the removal of Colstrip from base rates, required by the end of December 2025:

Table No. 4: Breakdown of Rate Year 2 Electric Request

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**

Importantly, though, is the recognition that Schedule 99, as discussed earlier, would expire and help to mitigate the overall increase.

Q. What would be the combined Washington return on equity ("ROE") for Avista using Staff's and the other Parties' proposed revenue requirements?

A. As discussed by Ms. Schultz in Exh. KJS-5T (Tables No. 9 and 10), using Staff's, Public Counsel's and AWEC's filed revenue requirements, would result in the following Return on Equity for Rate Year 1 and Rate Year 2. Clearly the proposals of the parties in this case are not a good indicator of supportive regulation, will definitely impact its

[15] Schultz, Exh. KJS-5T, Table No 14.

ability to attract capital on reasonable terms and remain financially secure, and in my view would cause a likely downgrade and lead to further financial struggles that could imperil the Company.

<u>Table No. 5: 2025 ROE Results of the Parties</u>

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 <u>natural gas</u> 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.

<u>Table No. 6: 2026 ROE Results of the Parties</u>

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 <u>electric</u> 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.

As shown in Table Nos. 5 and 6 above, approval of any of the recommended revenue increases proposed by Staff, Public Counsel, or AWEC 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, <u>under</u> that currently authorized (9.4%). For Rate Year 2, 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. And this potential outcome only occurs if everything goes as expected, costs occur as included in the Company's Two- Year Rate Plan, and without unanticipated events beyond the Company's control. This comparison is reflected in the illustrations set forth below:

Illustration No. 2: ROE Results of the Parties – Rate Year 1

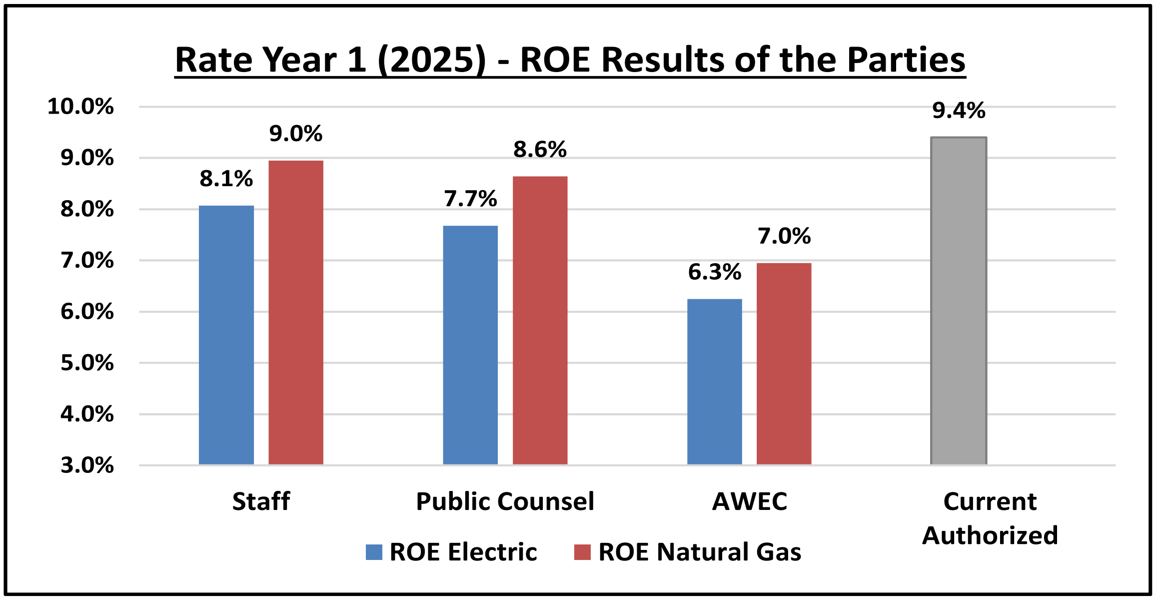
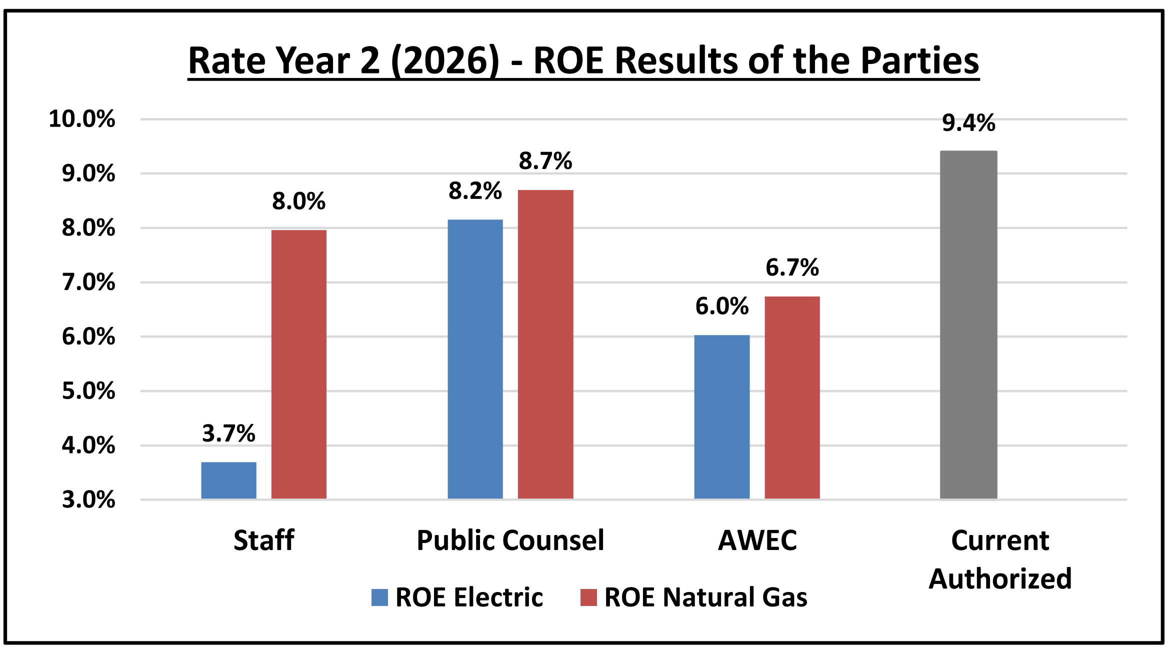


Illustration No. 3: ROE Results of the Parties – Rate Year 2



Q. What are the primary revisions that the Company is making to lower its revenue requirement on rebuttal?

A. After reviewing the positions of the parties in their cases, and making necessary revisions based on that review and reflecting the most current information available, Avista has lowered its overall revenue requirement. The primary revision is related to power supply in Rate Year 1, and Colstrip in Rate Year 2. Regarding power supply, as discussed by Mr. Kalich on rebuttal[16], the Company has rerun the pro forma power supply model, updating the usual components and accepting certain modifications recommended by the parties. Among the more noteworthy changes is the incorporation of updated EIM benefits to reflect a higher level of benefits.

The value of Colstrip's removal in Rate Year 2 is necessarily derived from the updated re-run of power supply. This will ensure that Colstrip has been fully removed from base rates in compliance with Washington State law (i.e., the value of Colstrip must be determined in the same model as the approved power supply base, to avoid any mismatch of what level of Colstrip is in the authorized base from any other power supply model run). The initial estimate of the removal of $59.5 million of Colstrip costs is now $54.2 million, based on the most recent re-run of power supply costs, and that is reflected in Year 2 electric revenue requirements.

Q. What is the Company's position on the structure of the ERM, after reviewing the testimony of Staff?

A. While Avista initially proposed a 95/5 sharing mechanism for the ERM, upon review of Staff's testimony, we are willing to accept a 90/10 sharing of costs and benefits, but

[16] Kalich, Exh. CGK-7T at 2:14 – 4:15.

with a slightly modified "deadband" than that proposed by Staff (who proposed a $3 million deadband). For reasons discussed by Mr. Kalich[17], the Company supports an asymmetric deadband, whereby when power supply costs are higher than authorized (i.e., the surcharge position), the Company would absorb $2.5 million before the 90/10 sharing. Likewise when actual power supply costs are lower than authorized, the Company would only retain $2 million, before sharing 90/10 with customers. We understand that Staff was attempting to arrive at a deadband commensurate with what it had proposed for PacifiCorp ($4 million), but ratioed downward to $3 million to reflect the relative size of Avista compared to PacifiCorp. Staff witness Wilson stated[18]:

> Avista's proposed NPE is much smaller than that of PacifiCorp, so it is inequitable to expose Avista to a relatively larger deadband risk. A $3 million deadband would still be slightly higher than that of PacifiCorp, in relative terms.

Avista believes that a more commensurate reduction to the proposed asymmetrical deadband of $2.5 and $2.0 million is justified based on relative size metrics of Avista and PacifiCorp and its corresponding ability to absorb the "deadband" in a way that would still be meaningful without being punitive. Mr. Kalich will speak to this analysis of the size of the "deadband."

Q. By way of summary, would you please provide a diagram of the existing ERM, Staff's proposed mechanism, and the Company's proposed mechanism on rebuttal?

A. Yes. Illustration Nos. 4, 5, and 6 provide visuals of the three mechanisms:

[17] Kalich, Exh. CGK-7T at 3:5-17.
[18] Wilson, Exh. JDW-1T at 37:9-10.

Illustration No. 4 – Avista's Existing ERM

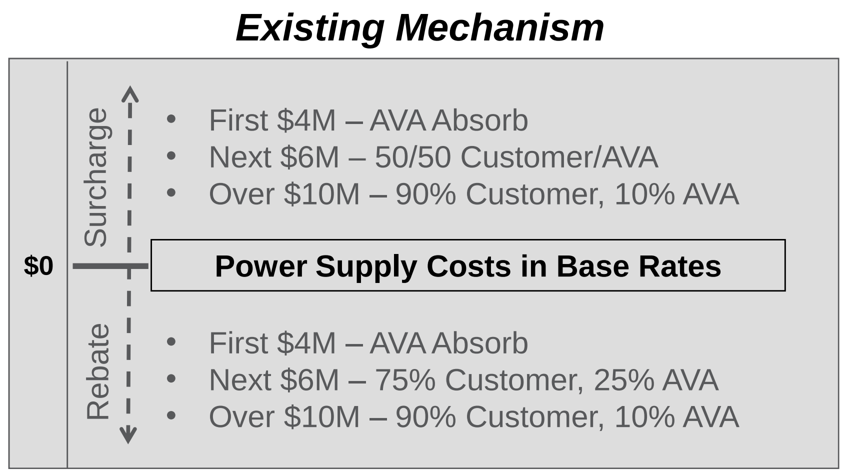


Illustration No. 5 – Staff's Proposed ERM

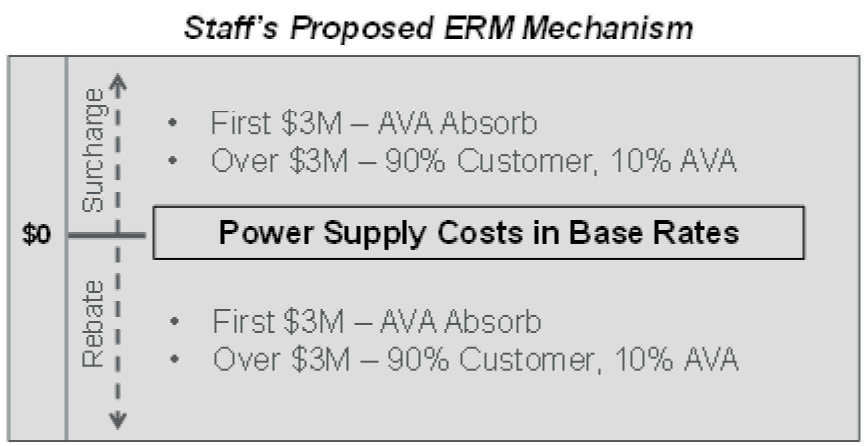
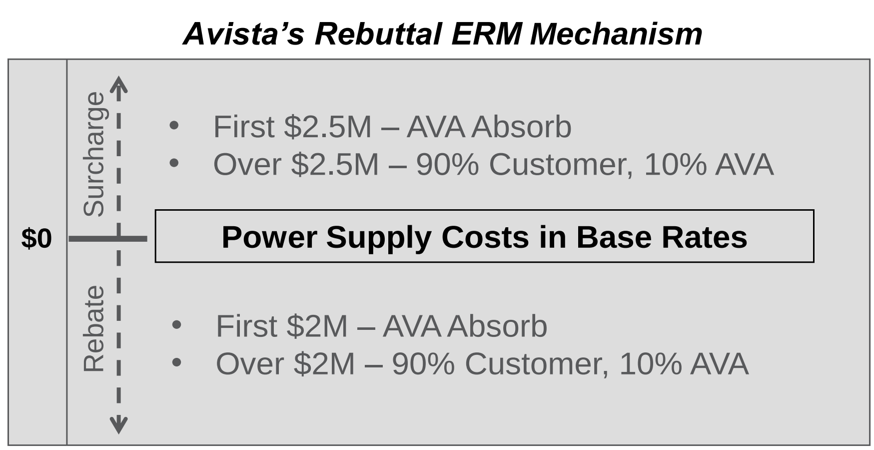


Illustration No. 6 – Avista's ERM on Rebuttal



Q. Has the ability to forecast power supply expenses become more difficult in recent years?

A. Yes. As both Mr. Kalich and Mr. Kinney discuss in direct testimony, the ability to accurately forecast rate year power supply expense has grown much more difficult. As noted earlier, such factors include:

- Forecast Timing – Authorized power supply expenses are determined using forward market prices as much as 35 months prior to the actual operating day with a multi-year rate filing. Power supply costs cannot be forecasted accurately this far in advance, especially during volatile market conditions and therefore managing the forecast timing is outside of the Company's control.

- Regional resource adequacy – The current regional resource mix is shifting with the retirement of thermal resources and the integration of more variable resources. The region is shifting from a resource sufficient position to a resource neutral or deficit position creating market uncertainty.

- Lack of market liquidity – With less resources available in the region it is difficult to procure future energy through market transactions as utilities are holding back their capacity to meet peak load needs.

- Carbon emission policy – New carbon emission policy has created market uncertainty resulting in forward price premiums.

- Changing market dynamics – With the uncertainty in market liquidity, emission policy implementation, and resource adequacy market dynamics have changed with significant volatility occurring for any unplanned event such as colder or warmer weather. These conditions can't be predicted when setting net power supply expense (NPE).

Q. Is the Company making several revisions after reviewing the testimony of other parties?

A. Yes. As Mr. Kinney discusses, Avista is proposing the following changes to its power supply filing:

1. Avista agrees to adopt Staff's ERM proposal identified in Mr. Wilson's testimony (JDW-1TR) with a 90/10 sharing, but with slight modifications to the deadbands. In surcharge years, the Company would absorb $2.5 million before the 90/10 sharing begins, and in rebate years, the Company would retain $2.0 million before the 90/10 sharing begins. This proposal maintains the Commission's policy of keeping a deadband in place, keeps the asymmetry of the deadbands, simplifies the ERM, addresses Company concerns about disproportional risk associated with conditions outside of its control, and better aligns Avista's cost sharing as a percent of net power supply expense with its peer utilities.

2. The Company has rerun the Power Supply Model, updating all of the usual components such as wholesale natural gas and power prices, new and short-term incremental contracts, non-gas fuel prices, and adopting certain of the positions of the parties that were discussed in their testimonies (see Mr. Kalich's testimony Exh. CGK-7T for a description of the specific changes).

3. The "forecast error adjustment" will remain but is reduced from $65.8 million to $29.7 million (both values on a system basis) using an average of actual 2021-2023 ERM variances, to address concerns expressed by the parties. Avista has revisited its NPE estimate to reflect intervenor positions that the Company supports, to reflect updated market prices and contracts, and to show the impact of a modified forecast error adjustment. The Company believes these changes offer a net power expense more closely aligned with what should be included in final rates based on updated information and the concerns of the parties. With the update the Company is not proposing further updates during the Rate Plan. The Company updated wholesale electricity and natural gas prices to a 3-month average of forward for the period ending July 15, 2024. We updated short-term contracts as of July 15, 2024.

4. Colstrip is removed from the 2026 net power supply expense based on its 2025 net value (i.e., market values less fuel). No further power supply updates to 2026 would then be necessary.

Q. Is maintaining Colstrip transmission essential for the Company's needs?

A. Yes. Avista's last three Integrated Resource Plans (IRP) show acquisitions of wind in Montana to meet load growth and compliance requirements under the Clean Energy Transformation Act (CETA). To facilitate the delivery of renewable resources in Montana to Avista customer load, the Company must retain its current Montana Intertie and point-to-point transmission contract rights with BPA.

Q. After reviewing testimony in this case, does the Company still believe the

incremental values for EIM is $5.5 million?

A. No. As explained by Mr. Kalich, the incremental value is $6.6 million (system) and not $5.5 million (system). The method used to arrive at the earlier estimate was in error. After review of the parties' testimony, and after further discussion with Puget Sound Energy, we learned that the approach described in Mr. Kalich's testimony correctly values all dispatch in EIM, and after that our method to identify the incremental value for EIM by limited Aurora in the hourly market was incorrect. Our updated Rebuttal case, based on the described changes discussed by Mr. Kalich, therefore correctly values EIM benefits at $6.6 million (system).

IV. COST OF CAPITAL

Q. Has the Company modified its proposed cost of capital?

A. No, it has not. The Company's electric and natural gas requests continue to be based on a proposed rate of return of 7.61%, with a capital structure comprised of 48.5% equity and 51.5% debt, a 4.99% cost of debt, and a 10.4% return on equity (ROE).

Q. Do you agree with the positions of the other parties regarding the cost of capital proposed in this proceeding?

A. No, the Company does not agree with the other witnesses' positions as it specifically relates to return on equity. The proposed cost of debt and capital structure were not otherwise adjusted by the parties. Table No. 7 below shows the proposed return on equity and overall rates of returns:

Table No. 7 – Parties Proposed Cost of Capital

AVISTA CORPORATION Proposed Cost of Capital	Percent of Total Capital	Cost	Component Cost
Total Debt	51.5%	4.99%	2.57%
Common Equity	48.5%	10.40%	5.04%
Total	100.0%		**7.61%**

Commission Staff - David Parcell Proposed Cost of Capital (Exh. DCP-1T, p.3)	Percent of Total Capital	Cost	Component Cost
Total Debt	51.5%	4.99%	2.57%
Common Equity	48.5%	9.50%	4.61%
Total	100.0%		**7.18%**

Public Counsel - David Garrett Proposed Cost of Capital (Exh. MEG-3, Sch. 3.10)	Percent of Total Capital	Cost	Component Cost
Total Debt	51.5%	4.99%	2.57%
Common Equity	48.5%	8.85%	4.29%
Total	100.0%		**6.86%**

AWEC - Lance Kaufman Proposed Cost of Capital (Exh. LDK-1CT, p.3)	Percent of Total Capital	Cost	Component Cost
Total Debt	51.5%	4.99%	2.57%
Common Equity	48.5%	9.25%	4.49%
Total	100.0%		**7.06%**

Q. What is the Company's view on why a 10.4% return on equity continues to remain appropriate, in light of other parties' testimonies?

A. As Company witness Mr. McKenzie states in his rebuttal testimony[19], the ROE recommendations of the ROE witnesses ("Other Witnesses") fall well below a fair and reasonable level for the Company's electric and gas operations. His rebuttal testimony demonstrates that the Other Witnesses analysis is undermined by errors and methodological flaws and fall below accepted benchmarks. Simply adjusting national authorized ROEs for electric utilities to reflect current capital market conditions, in and of itself, implies an ROE of approximately <u>10.43 percent</u>.[20]

[19] McKenzie, Exh. AMM-15T, at 2:8 – 3:3.
[20] *Ibid*.

Further, adjusting ROEs approved by the Commission in prior rate proceedings for increases in bond yields implies a current cost of equity of 10.43 percent. And finally, it should be noted that the expected earned returns for the Other Witnesses' own proxy groups fall in the range of approximately 10.0 percent to 10.7 percent.[21] In the end, a 10.4% ROE is reasonable.

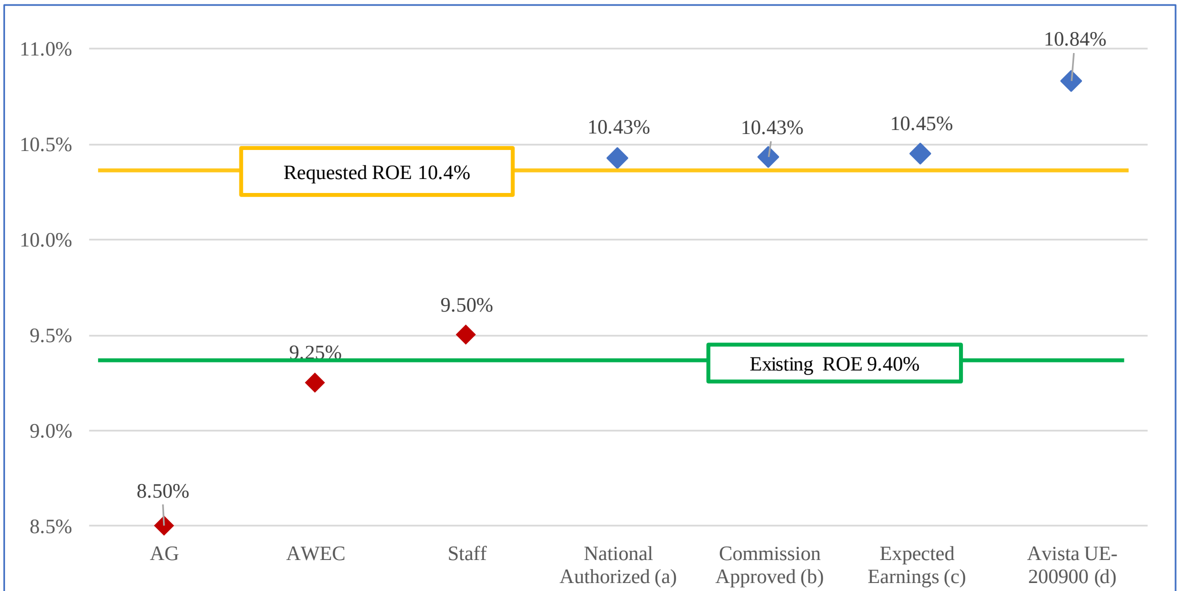
Q. What would Avista's currently authorized ROE of 9.40 percent equate to in today's capital markets?

A. As Mr. McKenzie states, after adjusting for current financial market conditions, Avista's currently approved ROE of 9.40 percent, which was authorized in September 2021, would be substantially higher.[22] The average yield on Baa utility bonds during Avista's last rate proceeding was 3.33 percent, and it is now 5.83 percent. Adding the adjusted risk premium of 5.01 percent to the average Baa utility bond yield in June 2024 of 5.83 percent results in an implied cost of equity of 10.84 percent for Avista in today's capital markets. This benchmark calculation supports Avista's 10.40 percent ROE request in this case. Even allowing for Staff's notion of "gradualism,"[23] this data further demonstrates that the ROE recommendations of the Other Witnesses are far too low.

The following illustration, excerpted from Mr. McKenzie's rebuttal testimony, sets forth the positions of the parties as set against various benchmarks and reveals the inadequacy of the return recommendations of the parties.[24]

[21] *Ibid*.
[22] *Id.* at 24:21 - 25:9. The calculation supporting this conclusion is presented on Exhibit AMM-16.
[23] Parcell, Exh. DCP-1T at 6:3-4, 26:3-4, 60:16-61:2.
[24] McKenzie, Exh. AMM-15T, at 6.

<u>Illustration No. 7 – FIGURE AMM-R1 – ROE BENCHMARK COMPARISON</u>



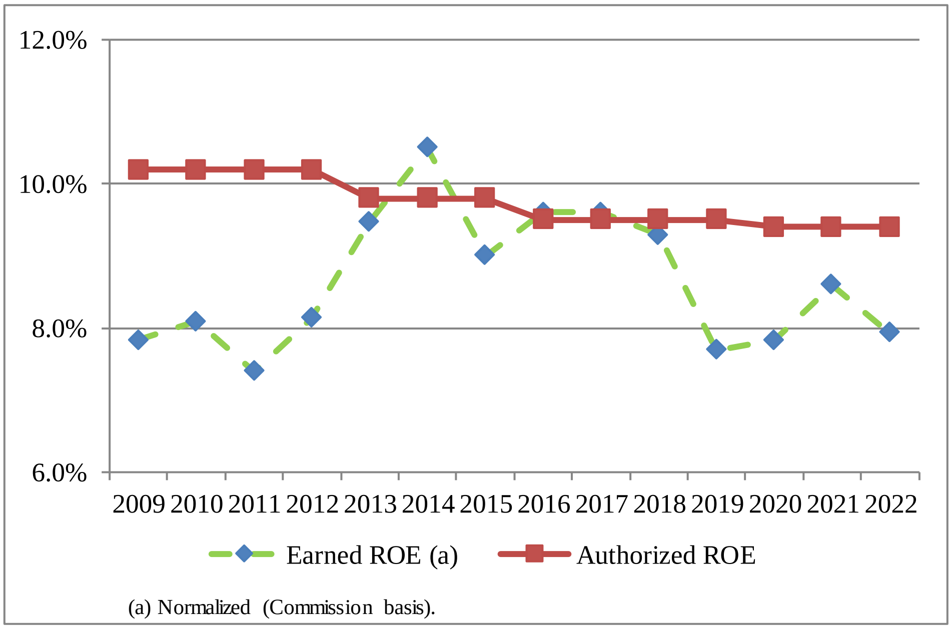
(a) Average of national ROEs for 2020-2024Q1 adjusted for current interest rates from Exh. AMM-16.
(b) Commission-approved ROEs adjusted for current interest rates from Exh. AMM-17.
(c) Expected earned rates of return for proxy groups used by Other Witnesses from Exh. AMM-18.
(d) Approved ROE for Avista from UE-200900 adjusted for current interest rates from Exh. AMM-17.

Q. Has Avista actually been able to earn its authorized return on equity in recent years?

A. No it has not at authorized let alone at the requested levels. As Mr. McKenzie stated in his Direct testimony[25] regulatory lag and attrition have been consistent issues for Avista. Figure No. 1 below compares the Company's actual earned ROE attributable to its Washington-jurisdictional utility operations with its authorized ROE over the 2009-2022 period:

[25] McKenzie, Exh. AMM-1T at 20-21.

FIGURE No. 1
ACTUAL VS. AUTHORIZED ROE



As shown above, Avista's earned ROE has fallen below its authorized ROE in 11 of the past 14 years, in many cases by a substantial margin, especially without the means to address regulatory lag since 2018. The credit rating agencies have also recognized the negative implications of earnings attrition for the Company. Moody's noted that "the lag in cash flow recovery and limited revenue increases have pressured Avista's credit metrics particularly during a time when the sector faced material headwinds from higher natural gas prices and other cost pressures."[26] Similarly, S&P reported the prospect of lowering Avista's ratings over the next 12 to 24 months if financial metrics are pressured by "regulatory lag."[27]

[26] Moody's Investors Service, *Avista Corp., update to credit analysis*, Credit Opinion (Aug. 16, 2023).
[27] S&P Global Ratings, *Avista Corp.*, RatingsDirect, Ratings Score Snapshot (Dec. 8, 2023).

V. MULTIYEAR RATE PLAN/CEIP REBUTTAL

Q. Staff Witness Erdahl recommends the rejection of Avista's proposed Two-Year Rate Plan.[28] Why is Staff's rationale unfounded?

A. Staff relies on two reasons for the rejection of the Rate Plan – regulatory burden, and timing with Clean Energy Implementation Plan (CEIP) filings. As it relates to regulatory burden, Staff's position falls well short on several fronts. First, while the Company's originally-filed revenue requirement for Rate Year 2 was sizeable at $78.1 million, almost $60 million of that amount is related to the removal of Colstrip from base rates, as required by Washington State law. In fact, Staff even understands that the law requires the removal of Colstrip under CETA, and that the "Commission should allow the Company to file a power cost update…removing Colstrip from rates on or before December 31, 2025."[29] So instead of addressing that issue now, and establish rates for Rate Year 2, Staff contemplates more administrative burden with yet another required filing to accomplish what could be accomplished now in this proceeding.

That leaves the other $18 million requested for Rate Year 2. When one simply reviews the components of Rate Year 2, one would see that the adjustments are similar to those for Rate Year 1 (and which were reviewed by Staff). These include things like incremental capital additions, increases in labor costs, certain expense items, etc. Again, Staff already reviewed these items to develop their first year revenue requirement and could have simply extended their work into Rate Year 2 with little additional effort. Simply put, Staff has had the case before them since mid-January, and almost a month before Puget Sound Energy filed their

[28] Erdahl, Exh. BAE-1T, at 7.
[29] Erdahl, Exh. BAE-1T at 15:13-16.

case. Moreover, the issues to be addressed in Rate Year 2 (including $15 million of non-Colstrip revenue requirement) could have been easily reviewed between the filing date in January, and the filing of testimony by the parties in July.

Q. Does the Company understand the benefits of staggering major rate filings?[30]

A. Yes, Avista can understand the benefits of staggering major utility filings While a staggering of major rate filings by utilities would relieve some of the administrative burden on Staff and the parties, it does not override the Commission's ultimate responsibility to provide timely rate relief where warranted. Moreover, the effect of Staff's proposal on Avista would be palpable. Avista would not be able to compile updated test year data and prepare the necessary general rate filing in the immediate aftermath of a Commission order in December 2024, if the Commission adopted only one-year rate change, without losing 9-12 months of additional rate relief (now covered by the second year of Avista's two-year Rate Plan).[31] That revenue shortfall would have significant financial repercussions, including impacts on credit metrics. There is no way to cut ourselves to earning our authorized under such a scenario. Essentially, Avista would be a "casualty" of Staff's unwillingness to now process the proposed two-year Rate Plan.

Finally, all of this is contrary to the clear interest and purpose of the Rate Plan legislation, depriving the utilities of the opportunity to put into place a longer rate period and plan accordingly. Also, customers lose the benefit of rate certainty provided by a two-year

[30] *Id.* at 7:10-13

[31] If the Commission were not to approve a Rate Year 2 increase, the Company would – at that point, then need to develop a new Multi-Year Rate Plan, which would be no more than Two Years in length given the uncertainty lack of a second year, in this case, would cause. Rate cases take a significant amount of time and effort to create, which would lead to significant lag in rate relief (especially if further tied to a CEIP which would not be filed until October 2025).

rate plan. All of this represents a "retreat" from the progress made in recent years in optimizing the regulatory process.

Q. Witness Erdahl suggests that it "is in the public interest to realign" Puget Sound Energy and Avista's rate cases so that "they will not be filed at the same time every two years."[32] How do you respond to that?

A. Avista has been open and transparent with the Commission and the parties as to our plans. In 2022, Avista filed a Two-Year Rate Plan. The Commission approved the settlement that set forth a Two-Year Rate Plan. We have been on a two-year cycle. Puget Sound Energy, however, in 2022 filed a Three-Year Rate Plan, yet settled on a Two-Year Rate Plan. That settlement which, in effect led to the circumstances Staff complains about here, was in fact caused by a settlement supported by Staff. We filed and settled a Two-Year Plan in 2022, and our intent to file another Two-Year Plan in 2024 has been completely transparent. We also note that this case was filed almost one month before Puget Sound Energy[33].

Q. Witness Erdahl believes that a multiyear rate plan should be timed with CEIPs.[34] Is that a valid argument?

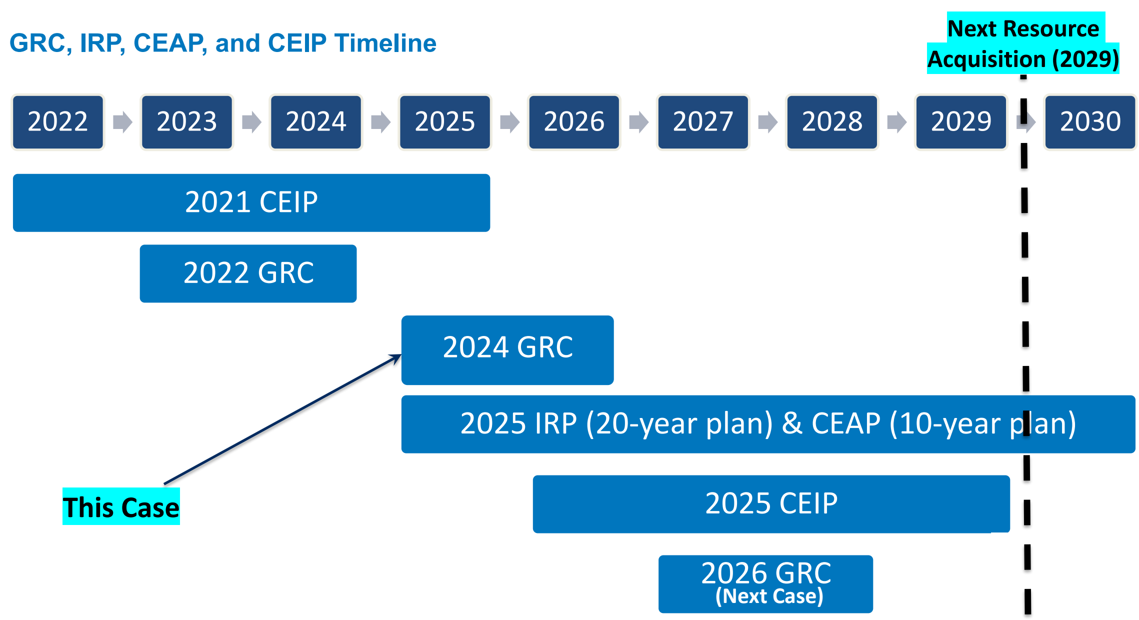
A. I can certainly understand the theoretical argument that the rate case should be timed with the CEIP if possible. But the facts of this case undermine Staff's arguments because there are no meaningful investments or costs of compliance related to the CEIP included in this case (other than those that were contemplated in Avista's last CEIP). In Rate Year 1 in this case, we have included new contracts, Power Purchase Agreements with Chelan

[32] Erdahl, Exh. BAE-1T at 7:16-18
[33] Puget Sound Energy filed its case on February 15, 2024, while Avista filed on January 18, 2024.
[34] Erdahl, Exh. BAE-1T at 7. RCW 80.28.425(9) states that multiyear rate plans should be aligned "to the extent practical". In this case, however, there are no CEIP costs of compliance to be "aligned".

PUD, the Clearwater Wind Project, and Columbia Basin Hydro Projects. These contracts are included in the Rate Year 1 authorized power supply in this case; there were no others for Rate Year 2.

In fact, the Company recently issued its Draft Preferred Resource Strategy for its 2025 Electric IRP.[35] For the State of Washington, no new resources are necessary to serve customers until at least 2029 – more than four years from now (as shown in Illustration No. 8 below).

<u>Illustration No. 8 – Timing of GRC, IRP, CEAP and CEIP</u>



So even if one were to think that the next CEIP would have investments or significant costs of compliance that lend itself towards a review in a similarly timed general rate case, that would not be the case in 2025. There is simply no need to kick the can down the road for rate relief for Year 2.

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[35] The Company issued its Preferred Resource Strategy (PRS) on July 16, 2024. In that PRS, the first significant clean energy needs for Washington State occur in 2029 through 2031, calling for a combined 500 MW of wind energy.https://www.myavista.com/-/media/myavista/content-documents/about-us/our-company/irp-documents/2025/2025-irp-tac-10-presentations-final.pdf , at 6.

Q. If the Commission were to "kick the can" and not approve a second year rate increase, what would be the financial impact to the Company?

A. First, the Commission and parties would still have to address the removal of Colstrip from base rates, so there would be further process, rather than being able to address it now, at this time, as discussed above. Setting Colstrip aside, and assuming the Commission would not allow Avista to file its next Two-Year Rate Plan until it files its 2025 CEIP, the Company would absorb almost 73 basis points of lost ROE for electric operations, and 77 basis points ROE for natural gas.[36] That is a significant reduction in earnings opportunity for the Company that it simply would not be able to make up and have any opportunity to earn its allowed return.

Q. From your vantage point as CFO, if the Commission were to only authorize a one year rate change, what would be the implications from a credit and equity perspective?

A. All I can say is that both of those audiences would find such an action to be extremely negative. It would, I am sure, set Avista on a path for certain downgrade and a reduction in market value. The implications are not good for the Company or its customers.

Q. Finally, did Commission Staff in Puget Sound Energy's rate case (UE-240004 et. al.) make a similar proposal as that proposed by Witness Erdahl for Avista?

A. No, it does not appear that Commission Staff provided the same treatment between the two rate cases. On August 6, Commission Staff through Witness Kermode filed responsive revenue requirements testimony.[37] In that testimony, Staff supports a Two-Year

[36] Using the Company's rebuttal Rate Year 2 revenue requirements for electric (excluding Colstrip) and natural gas.
[37] Dockets UE-240004, et. al. Kermode, Exh. DPK-1T.

Rate Plan and does not mention (1) CEIP, nor (2) administrative burden.

VI. EQUITY TESTIMONY

Q. Did any party provide a response to the Company's incorporation of equity into its business processes in this case?

A. Yes, Staff Witness Erdahl[38] and NWEC Witness Thompson[39] both provided testimony on equity (energy equity) in this case.

Q. Would you please summarize what these two witnesses said in relation to Avista's incorporation of equity into its business processes?

A. Staff Witness Erdahl explained how (1) Avista is incorporating equity into its business planning processes; (2) the requirement from Avista's 2022 GRC for Avista to develop methods and standards for distributional equity analysis (DEA); (3) Staff's perspective of how well Avista addressed equity in this case; (4) Staff's review of the formalization of equity-related duties for the Senior Vice President, Chief Strategy, and Clean Energy Officer, and Equitable Business Planning charter; (5) Avista's launch of its equitable business planning process; and (6) Staff's equity concerns with Avista's approach to incorporating the cost of carbon allowance compliance instruments in power supply forecast and dispatch decisions.[40]

NWEC Witness Thompson highlighted four ways in which she believes Avista is:

> … making meaningful effort and progress in advancing energy equity, including: (1) progress on its 2022 GRC settlement commitments; (2) progress on its 2021 CEIP commitments; (3) facilitation of its energy assistance advisory group; and (4) participation in the Commission docket

[38] *Id.* at 16
[39] Thompson, Exh. CT-1T at 6
[40] Exh. BAE-1T at 16-20.

on equity (A-230217).[41]

Witness Thompson further goes on to describe her perspective of additional ways in which Avista can further advance energy equity.

Q. What is your response to the testimony provided by Staff Witness Erdahl?

A. First and most important, the Company agrees with Staff's plan to offer a more detailed analysis of its equitable business planning process in Avista's next rate case, which is after the Company is able to gain more experience with its equity efforts.[42] Second, regarding the Company's requirement to address distributional equity analysis and Staff's expectation to see a report on progress made by Avista by the end of 2024[43], Avista has concerns with this expectation due to the fact that the Commission in its order approving the settlement where this requirement came from, said it would take the lead on this effort.[44] Because the Commission will be leading this effort, which has not yet begun, Avista has not undertaken its own efforts to develop methods and standards for DEAs. Finally, regarding Staff's equity concerns with Avista's approach of incorporating the cost of carbon allowance compliance instruments in power supply cost forecasts and dispatch decisions,[45] Mr. Kalich addresses this concern.

Q. What is your response to the testimony provided by NWEC Witness Thompson?

A. The Company appreciated the recognition offered by Witness Thompson regarding ways in which it has advanced energy equity. NWEC, and Witness Thompson in

[41] Thompson, Exh. CT-1T at 7.
[42] Erdahl, Exh. BAE-1T at 20:5-10.
[43] *Id.* at 17:6-8.
[44] UE-220053, UG-22054 & UE-210854, Order 10/04, Attachment A at ¶76.
[45] Erdahl, Exh. BAE-1T at 22:6-10.

particular, has been a valuable member of the Company's many advisory groups, where those groups have collaborated to advance energy equity. Regarding the additional perspectives to advance energy equity offered by Witness Thompson, Company witness Mr. Bonfield provides a response to each of the individual elements offered.[46]

Q. Do you see any contention in this case regarding the topics of equity or energy equity that the Commission must resolve?

A. No, I do not. Again, we agree with Staff that the appropriate time to analyze the Company's implementation of equity in capital planning is after it makes its compliance filing at the end of 2024 and in the Company's next rate case.

VII. OTHER COMPANY WITNESSES

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

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

Mr. Adrien McKenzie, Vice President of Financial Concepts and Applications (FINCAP), Inc., responds to Staff and intervenor testimony concerning the fair return on equity (ROE) for Avista. Mr. McKenzie concludes that the cost of equity recommendations of Witnesses Parcell, Garrett, and Dr. Kaufman fall below a fair and reasonable level for the Company's electric and gas operations. He finds that those witnesses' ROE recommendations fall below accepted benchmarks, and their ROE analyses are undermined by errors and methodological flaws.

[46] Bonfield, Exh. SJB-1T at 19.

Ms. Kaylene Schultz, Manager of Regulatory Affairs, will cover accounting and financial data in support of the Company's electric and natural gas Two-Year Rate Plan. Her testimony summarizes 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.

Ms. Elizabeth Andrews, Senior Manager of Revenue Requirements, provides Avista's response to the testimony of Staff[47], Public Counsel[48] and AWEC[49] witnesses in regard to their opposition to various adjustments supported by the Company in its direct case. Her testimony covers the following areas: 1) Provisional capital investment and recovery; 2) Wildfire and Insurance Expense Balancing Accounts; 3) Miscellaneous Contested Adjustments (a.) Miscellaneous O&M, b.) Working Capital, c.) PPA Return and d.) Rent From Utility Property); 4) Customer Tax Credits; 5) Coyote Springs II Major Maintenance Deferral and Recovery; and finally, 6) Rate Year 2 Removal of Colstrip Units 3 and 4.

Mr. Scott Kinney, Vice President of Energy Resources, discusses the following changes to the Company's power supply filing, on rebuttal:

(1) Avista agrees to adopt Staff's ERM proposal identified in Mr. Wilson's testimony (JDW-1TR) with a 90/10 sharing, but with slight modifications to the deadbands. In surcharge years, the Company would absorb \$2.5 million before the 90/10 sharing begins and in rebate years the Company retains \$2.0 million before the 90/10 sharing begins.

(2) The Company has rerun the Power Supply Model, updating all of the usual components such as wholesale natural gas and power prices, new and short-term incremental contracts, non-gas fuel prices, and adopting certain of the positions of the parties that were discussed in their testimonies.

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[47] Mainly Washington Utilities and Transportation Commission (WUTC or Commission) Staff Witnesses Erdahl (Exh. BAE-1T) and Hillstead (Exh. KMH-1T).
[48] Mainly Washington State Office of the Attorney General Public Counsel Unit (Public Counsel) Witness Mark Garrett (Exh. MEG-1T).
[49] Alliance of Western Energy Consumers (AWEC) witness Mullins (Exh. BGM-1T).

(3) The “forecast error adjustment” will remain but is reduced from $65.8 million to $29.7 million using an average of actual 2021-2023 ERM variances, to address concerns expressed by the parties.

(4) Colstrip is removed from the 2026 NPE based on its 2025 net value (i.e., market value less fuel). No further power supply updates to 2026 would then be necessary.

Finally, he also addresses the utilization and costs of Colstrip Transmission, as well as Climate Commitment Act Compliance.

Mr. Clint Kalich, Senior Manager of Resource Planning & Power Supply Analyses, will address four key areas that tie to the testimony of Mr. Kinney: (1) Derivation of Net Power Supply Expense, on rebuttal; (2) Energy Recovery Mechanism (ERM) modifications, on rebuttal, (3) an updated Forecast Error Adjustment; and (4) Energy Imbalance Market (EIM) Benefits.

Mr. Josh DiLuciano, Vice President of Energy Delivery, provides Avista’s response to the testimony of Commission Staff Witness Sofya Shafran Atitsogbe Golo’s related to electric distribution planning and investments in the electric distribution system, and the Sierra Club’s testimony on non-pipe alternatives (NPAs). Among other arguments, Mr. DiLuciano agrees with Staff’s portrayal of the Company’s electric distribution system investments prudency and the prudence standard used to evaluate capital investments. He demonstrates how Avista’s distribution planning process has matured in response to policy changes in Washington State and how Avista has incorporated the consideration of non-wire alternatives (NWAs) and distributed energy resources (DERs) into its planning processes.

Mr. Shawn Bonfield, Senior Manager of Regulatory Policy and Strategy, provides Avista’s response to the testimony of Staff, The Energy Project, NWEC and Public Counsel regarding the following topics:

- Affordability of Avista’s bills

- Disconnection Policies
- Low Income Needs Assessment & Energy Burden Assessment
- Customer Demographic Data
- Language Access
- Performance Measures Pursuant to RCW 80.28.425(7)
- Performance Based Ratemaking Metrics
- Recurring Reporting Obligations
- Natural Gas Energy Efficiency
- Decarbonization Plan & Targeted Electrification Pilot

Mr. Joseph Miller, Senior Manager of Rates and Tariffs, provides the Company's rate spread and rate design, upon rebuttal. Mr. Miller will also provide the Company's response to testimony related to:

- Colstrip Schedule 99 Rate Spread – The rate spread related to Colstrip Schedule 99 should be based on a proportional allocation of the Rate Year 1 base revenue spread as was approved as part of the Full Multiparty Settlement Stipulation in Docket UE-220053, contrary to AWEC's assertions.

- Natural Gas Line Extension Allowances – Avista commits to no longer offering line extension allowances for all customers, including Schedules 131, 132, and 146 beginning January 1, 2025.

- Electric Line Extension Allowances – Avista rejects the Sierra Club proposal of not allowing an electric line extension allowance to any customers installing natural gas or propane.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.