**Exhibit No. JH-1T**

**Dockets UE-160228/UG-160229**

**Witness: Joanna Huang**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

|  |  |
| --- | --- |
| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**  **Complainant,**  **v.**  **AVISTA CORPORATION d/b/a**  **AVISTA UTILITIES,**  **Respondent.** | **DOCKETS UE-160228 and**  **UG-160229 (*Consolidated*)** |

**TESTIMONY OF**

**JOANNA HUANG**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***Results of Operations and Revenue Requirements,***

***Pro Forma Policy, Pro Forma Rate Base Adjustments,***

***Restating and Pro Forma Property Tax***

***Pro Forma O & M Offsets***

**August 17, 2016**

***Revised 8/24/16 (redline)***

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Exhibit No. JH-2, Electric Pro Forma Analysis

Exhibit No. JH-3, Natural Gas Pro Forma Analysis

Exhibit No. JH-4, Avista Updated Electric and Natural Gas Pro Forma Cross Check Study

Exhibit No. JH-5, Major Electric ER Transfers as of July 31, 2016

Exhibit No. JH-6, Major Natural Gas ER Transfers as of July 31, 2016

Exhibit No. JH-7, Avista’s Response to UTC Staff Data Request No. 95

Exhibit No. JH-8, Avista’s Response to UTC Staff Data Request No. 96

Exhibit No. JH-9, Pro Forma O & M Offsets for Natural Gas

**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Joanna Huang. My business address is the Richard Hemstad Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504.

**Q. By whom are you employed and in what capacity?**

A. I am employed by the Washington Utilities and Transportation Commission (“Commission” or “UTC”) as a Regulatory Analyst in the Energy Section of the Regulatory Services Division.

**Q. How long have you been employed by the Commission?**

A. I have been employed by the Commission since June 1996.

**Q. Would you please state your educational and professional background?**

A. I received a Bachelor of Business Administration degree majoring in Accounting from National Chung-Hsing University, Taiwan, in 1987, and a Master of Accounting Degree from Washington State University in 1991. Prior to my employment at the Commission, I was employed by the Washington State Department of Revenue as an Excise Tax Examiner. I performed desk audits on Business and Occupation tax returns.

I began my employment with the Commission in June 1996. My work generally includes financial, accounting and other analyses for general rate case proceedings and other tariff filings by the electric and natural gas utilities regulated by the Commission. I attended the National Association of Regulated Utility Commissioners Annual Utility School in 1996 and 2001. In addition, I have attended numerous training seminars and conferences regarding utility regulations and operations.

**Q. Have you testified previously before the Commission?**

A. Yes. I testified in Puget Sound Energy (“PSE”) general rate cases in Dockets UE-090704 and UG-090705, and Dockets UE-072300 and UG-07230; a PSE Power Cost Only Rate Case (“PCORC”) in Docket UE-130617; a Pacific Power general rate case in Dockets UE-152253, UE-130043 and UE-032065; Avista general rate cases in Dockets UE-140188 and UG-140189, Dockets UE-120436 and UG-120437, Dockets UE-090134 and UG-090135, and Dockets UE-991606 and UG-991607; and a Northwest Natural filing in Docket UG-111233.

I have also participated in Staff’s investigation in the following general rate cases and other matters: Docket UE-011595, Dockets UE-050482 and UG-050483, Dockets UE-070804 and UG-070805, Dockets UE-100467 and UG-100468, and Dockets UE-110876 and UG-110877 (all Avista); Docket UG-152286 and Docket UG-060256 (Cascade); Docket UG-080546 and Docket UG-031885 (Northwest Natural); and Dockets UE-070725 and UG-130137 (PSE).

**II. SCOPE AND SUMMARY OF TESTIMONY**

**Q. Please explain the purpose of your testimony.**

A. The purpose of my testimony is to present Staff’s attrition adjusted revenue requirement analysis. Staff’s attrition adjusted revenue requirement analysis is an independent and stand-alone analysis to determine the revenues sufficient for Avista Corporation d/b/a Avista Utilities (“Avista” or “Company”) to have an opportunity to achieve its rate of return using a modified historical test year *pro forma* approach and incorporating the results of Staff’s attrition studies. My testimony also responds to the Company’s Pro Forma and Cross Check studiessponsored by Company witness Ms. Smith.

**Q. In addition to revenue requirement analysis, do you also present analysis on any adjustments in this proceeding?**

A. Yes. I present Staff’s recommendations on the following adjustments:

* Pro Forma Capital Addition for 2015 (Electric-3.09, Gas-3.08)
* Pro Forma 2016 Limited Capital Addition (Electric-3.10, Gas-3.09)
* Cross Check Capital Addition for 2016 (Electric-4.00, Gas-4.01)
* Cross Check Capital Addition for 2017 (Electric-4.01, Gas-4.02)
* Cross Check Capital Addition for 2018 (Electric-18.04, Gas-18.05)
* Restate Property tax (Adjustments 2.02 Electric, 2.02 Gas)
* Pro Forma Property tax (Adjustments 3.06 Electric, 3.04 Gas)
* Pro Forma O & M Offsets (Electric-3.11)

**Q. Have you prepared any exhibits in support of your testimony?**

A. Yes. Exhibit No. JH-2 and Exhibit No. JH-3 present Staff’s attrition adjusted revenue requirement analysis using a modified historical test year pro forma approach plus an attrition adjustment for electric and natural gas operations respectively. My Exhibit No. JH-2 and Exhibit No. JH-3 are Staff’s responses to Avista witness Ms. Smith, Exhibit Nos. \_\_ (JSS-2) and Exhibit No. \_\_ (JSS-3).

My Exhibit No. JH-4 contains part of Avista’s “Supplemental 2” response to UTC Staff Data Request No. 91. Avista’s responses to UTC Staff Data Request No. 91 update the Company’s Results of Operations for its Pro Forma and Cross Check studies, which use a 12-month period ended September 30, 2015, as the test year. My Exhibit No. JH-4 presents Avista’s updated “Pro Forma Capital Additions December 2015 AMA” (Electric-3.09, Gas-3.08) adjustment for electric and natural gas operations respectively based on Avista’s discovery responses. I further discuss Avista’s “Pro Forma Capital Additions December 2015 AMA” (Electric-3.09, Gas-3.08) adjustment later on page 12 of my testimony.

I also sponsor Exhibit No. JH-5 and Exhibit No. JH-6. These exhibits show the actual transfer to plant balances as of July 31, 2016, in electric and natural gas operations respectively. The plant balances are based on Avista’s updated response to UTC Staff Data Request No. 12, dated August 9, 2016. Staff includes six electric and five natural gas Expenditure Requests (“ERs”) as “major” plant investments that Avista transferred to rate base in 2016. Exhibit No. JH-7 and Exhibit No. JH-8 are the update for the restating and pro forma property taxes for 2015 and 2016. Exhibit No. JH-9 is Staff’s presentation of the “Pro Forma O & M Offsets for Natural Gas” adjustment.

**Q.** **Please introduce the other Staff witnesses testifying in this proceeding and the subjects of their testimony.**

A. The following witnesses present testimony and exhibits for Staff:

* Mr. Christopher Hancock presents Staff’s policy analysis and attrition studies.
* Mr. David Gomez presents Staff’s analysis of power supply expense.
* Mr. Jason Ball presents Staff’s recommendations for cost of service, rate spread and rate design for electric and natural gas revenue requirements.
* Mr. David Nightingale addresses Avista’s prudence and cost recovery presentation of its Advanced Meter Infrastructure (AMI) project.
* Ms. Melissa Cheesman presents Staff’s recommendations for adjustments related to labor and incentive expenses and for the recovery of expenses related to retiring conventional meters in the context of AMI deployment.
* Ms. Jing Liu provides a status update on Avista’s low income program, LIRAP.
* Mr. David Parcell testifies to Staff’s recommended cost of capital.
* Ms. Elizabeth O’Connell presents Staff’s recommendations for adjustments for Plant Held for Future Use (Electric 1.04), Montana Riverbed Lease expense (Electric 1.02) and Pro Forma Regulatory Amortization – BPA Settlement Deferral (Electric 3.05).

**Q. Please identify the contested adjustments that Staff witnesses address in their testimonies.**

A. The following table shows the adjustments that Staff contests and the staff witness who addresses each adjustment.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  |  | | |  | |  | |  |
|  | |  | **Table 1** | | |  | |  | |  |
|  | |  |  | | |  | |  | |  |
| **Line** | | **Description** | **Electric Adj.** | | | **Gas Adj.** | |  | | **Staff** |
| 1 | Deferred Debits and Credits | | | 1.02 |  | |  | | O'Connell | |
| 2 | Plant Held for Future Use | | | 1.04 |  | |  | | O'Connell | |
| 3 | Restate Property Tax | | | 2.02 | 2.02 | |  | | Huang | |
| 4 | Restate Debt Interest | | | 2.15 | 2.13 | |  | | Huang | |
| 5 | Restate Incentive Expenses | | | 2.16 | 2.14 | |  | | Cheesman | |
| 6 | Pro Forma Power Supply | | | 3.00 |  | |  | | Gomez | |
| 7 | Pro Forma Transmission Rev/Exp | | | 3.01 |  | |  | | Gomez | |
| 8 | Pro Forma Employee Benefits | | | 3.04 | 3.02 | |  | | Cheesman | |
| 9 | Pro Forma Pipeline Safety Labor | | |  | 3.03 | |  | | Cheesman | |
| 10 | Regulatory Amortization Adj. | | | 3.05 |  | |  | | O'Connell | |
| 11 | Pro Forma Property Tax | | | 3.06 | 3.04 | |  | | Huang | |
| 12 | Pro Forma Meter Deferral & Amortization | | | 3.07 |  | |  | | Cheesman | |
| 13 | Pro Forma Capital Add Dec 2015 AMA | | | 3.09 | 3.08 | |  | | Huang | |
| 14 | Pro Forma Capital Limited 2016 Adds | | | 3.10 | 3.09 | |  | | Huang | |
| 15 | Pro Forma O&M Offsets | | | 3.11 | 3.10 | |  | | Huang | |
| 16 | Cross Check Capital Add 2016 AMA | | | 4.00 | 4.01 | |  | | Huang | |
| 17 | Cross Check Capital Add 2017 AMA | | | 4.01 | 4.02 | |  | | Huang | |
| 18 | Cross Check Labor Non-Exc | | | 4.02 | 4.00 | |  | | Huang | |
| 19 | Cross Check 2017 AMI Capital & Expense | | | 4.03 | 4.03 | |  | | Huang | |
| 20 | Cross Check Information Tech/Serv Exp | | | 4.04 | 4.04 | |  | | Huang | |
| 21 | Cross Check Property Tax | | | 4.05 | 4.06 | |  | | Huang | |
| 22 | Cross Check Insurance Expense | | | 4.06 | 4.05 | |  | | Huang | |
| 23 | Reconcile Pro Forma to Attrition | | | 4.07 | 4.07 | |  | | Huang | |
| 24 | Staff Attrition Allowance | | | 4.08 |  | |  | | Hancock | |
| 25 | Cross Check Power Supply Adjustment | | | 18.01 |  | |  | | Huang | |
| 26 | Cross Check Transmission Rev/Exp | | | 18.02 |  | |  | | Huang | |
| 27 | Cross Check Labor Non-Exc | | | 18.03 | 18.01 | |  | | Huang | |
| 28 | Cross Check Regulatory Amortization | | |  | 18.02 | |  | | Huang | |
| 29 | Cross Check Capital Add 2018 AMA | | | 18.04 | 18.05 | |  | | Huang | |
| 30 | Cross Check 2018 AMI Capital & Expense | | | 18.05 | 18.06 | |  | | Huang | |
| 31 | Cross Check Insurance Expense | | | 18.06 | 18.03 | |  | | Huang | |
| 32 | Cross Check Information Tech/Serv Exp | | | 18.07 | 18.04 | |  | | Huang | |
| 33 | Reconcile 2018 Cross Check to Attrition | | | 18.08 | 18.07 | |  | | Huang | |

**III. RESULTS OF OPERATIONS AND Revenue Requirements**

1. **Staff’s Presentations on Revenue Requirements**

**Q.** **What is Staff’s calculation based upon for Avista’s revenue requirement for electric operation in the state of Washington?**

A. Staff’s analysis, based on a modified historical test period with limited pro forma adjustments plus an attrition adjustment, shows an increase of $25,570,000 to Avista’s electric revenue requirement, or an increase of 5.1 percent as shown in Exhibit No. JH-2, page 2, line 7. Staff’s revenue requirement calculation is based on Staff witness Mr. Parcell’s recommended 7.30 percent overall rate of return.

**Q.** **What is Staff’s calculation based upon for Avista’s revenue requirement for natural gas operation in the state of Washington for 2017?**

A. Staff’s analysis, based on a modified historical test period with limited pro forma adjustments plus an attrition adjustment, shows an increase of $2,143,000 to Avista’s revenue requirement, or an increase of 2.4 percent as shown in Exhibit No. JH-3, page 2, line 7. Staff’s revenue requirement calculation is based on Staff witness David Parcell’s recommended 7.30 percent overall rate of return.

**Q. Does Staff recommend that the Commision set rates on the basis of the revenue requirement deficiency after the attrition adjustment?**

A. Yes. Staff recommends acceptance of our forward looking attrition-based revenue requirement determination. Staff’s retrospective pro forma analysis is the foundation of the attrition-based revenue requirement for each service (electric and natural gas). Staff witness Mr. Hancock presents the attrition studies that Staff uses to produce the attrition adjustment for each service. The attrition adjustment brings the rearview mirror picture of revenue requirements into a forward view of the revenues required to offer Avista a reasonable chance to earn Staff’s proposed rate of return for the 18-month rate-effective period. Mr. Hancock explains further in Section V of his testimony.

**Q. How do you incorporate the attrition analysis of Staff witness Mr. Hancock into your revenue requirement calculation?**

A. I incorporate Mr. Hancock’s attrition analysis into a column labelled “Staff Proposed Attrition Allowance” (Exh. JH-2 and 3, Adjustment 4.08, electric and natural gas respectively), to calculate Staff’s recommended revenue requirement.

**Q. Do Staff’s revenue requirements reflect Avista’s proposed rate plan?**

A. Staff proposes a single revenue requirement for each service, electric and natural gas. to produce fair, just, reasonable and sufficient rates through the rate period ending in June 2018. Mr. Hancock testifies further regarding Staff’s approach in Section III.C. of his testimony.

1. **Avista’s Presentations on Revenue Requirements**

**Q. What revenue requirement did Avista present for its electric operations in Washington?**

A. Avista proposes a rate plan consisting of a revenue requirement for 2017 rates and an additional revenue requirement for the rate period January through June 2018. Avista presents an increase of $38.568 million to its 2017 electric revenues plus $10.3 million more to its 2018 electric revenue, based on its attrition analysis. Avista supports this revenue requirement through its attrition study.

**Q. What revenue requirements did Avista present for its natural gas operations in Washington?**

A. Avista calculates 2017 and 2018 revenue requirement increases of $4,397,000 and $941,000 based on its attrition analysis.

**Q. How did the Company present its 2017 revenue requirement calculation in this general rate case?**

A. Avista’s revenue requirement calculation is based solely on its attrition study. The Company calculates its own modified historical test period results of operations with limited pro forma adjustments (shown on the final column of page 10 of Exhibit Nos. \_\_ (JSS-2) and (JSS-3)). Avista then adds its attrition adjustment although it itemizes certain forecasted items as the cross check adjustments plus a “Reconcile 2017 Cross Check to Attrition” column to align the cross check revenue requirement with that of the attrition study. Avista states that its Adjustments 4.00 through 4.07 are necessary to conduct the cost-of-service study. The cross check adjustments need not be considered for the purpose of determining revenue requirement in this case.

The pro forma sub-total, shown on the final column of page 10 of Exhibit No. \_\_ (JSS-2) and (JSS-3) is Avista’s presentation of its modified historic test period results of operations with limited pro forma adjustments. Again, the details of adjustments 4.00 through 4.08 are not relevant to determining revenue requirement in this case.

**Q. What is the purpose of Avista’s “Cross Check adjustments” from Columns 4.00 through 4.06 and Columns 18.01 through 18.07?**

A. The purpose of these cross check adjustments is only to provide a reference point for Avista’s attrition studies[[1]](#footnote-2) and to better allocate attrition developed expenses and rate base in the cost of service study.[[2]](#footnote-3) The Company is not requesting recovery of its cross check adjustments per se. Avista’s cross check adjustments are only a check of the “reasonableness of the levels produces by the attrition studies” and “for the limited purpose of preparing the cost-of-service study.”

**Q. How did the Company present its 2018 results of operations in this general rate case?**

A. Avista also bases the 2018 revenue requirement calculation on its attrition study for that period. Avista presents its 2018 results of operations as incremental adjustments, 18.00 through 18.08, to the 2017 attrition results of operations.

**IV. PRO FORMA RATE BASE ADDITIONS**

**Q. Which pro forma rate base additions do you address?**

A. I apply standard pro forma analysis and follow Commission precedent to address Avista’s 2015 capital additions, Avista’s 2016 capital additons, and the future capital additions Avista forecasts for 2016, 2017, and 2018.

**A. Pro Forma Policy**

**Q. What is the Commission’s standard ratemaking practice?**

A. The Commission’s standard ratemaking practice starts with an historical test year per book amount and adds restating adjustments and pro forma adjustments to bring the rate base and expenses closer to the rate year amount.

**Q. What are the criteria that have been applied historically to pro forma adjustments?**

A. Historically, there are four major criteria applied to pro forma adjustments. They are listed below:

1. If the pro forma adjustment is to add new plant, is it “major?”
2. Are the costs associated with the adjustment known and measurable?
3. If the pro forma adjustment is to add new plant, has it been shown that the new plant will be used and useful to serve Washington customers? [[3]](#footnote-4)
4. Have the costs related to the adjustment been prudently incurred?

**Q. How does Staff treat Avista’s cross check studies?**

A. Staff replaces the cross check adjustments for 2017 and 2018 with its attrition adjustment in column 4.08 for both electric and gas.

# **b. 2015 Capital Additions**

**Q. Please describe the purpose of Avista’s “Pro Forma Capital Additions December 2015 AMA” (Electric-3.09, Gas-3.08) adjustment.**

A. This adjustment “pro forms” actual transfers to plant in the final three months of calendar year 2015 for electric and natural gas operations. It brings net plant included in the historical Commission Basis Report (CBR) test year from a September 30, 2015, AMA basis to a December 31, 2015, AMA basis, together with the associated depreciation expense, accumulated depreciation (A/D) and accumulated deferred federal income tax (ADFIT) at December 31, 2015.

**Q. Has Avista updated its “Pro Forma Capital Additions December 2015 AMA” adjustment from its as-filed adjustment?**

A. Yes. Avista updated its “Pro Forma Capital Additions December 2015 AMA” adjustment from the as-filed “Pro Forma Capital Additions December 2015 AMA” adjustment, according to Avista’s “Supplemental 2” response to UTC Staff Data Request No. 91.

**Q. What is the difference between its updated “Pro Forma Capital Additions December 2015 AMA” adjustment and its as-filed adjustment?**

A. In Avista’s “Supplemental 2” response to UTC Staff Data Request No. 91, Avista trues up some estimated information, included in the original filing, to actual expenses. This updated information includes plant retirement, depreciation expenses, A/D and ADFIT.

**Q. How does Staff treat this updated information on capital additions in its “Pro Forma Capital Additions December 2015 AMA” adjustment?**

A. Staff accepts this “pro forma” capital additions adjustment for transfers to plant between the end of the test year and December 31, 2015, regardless of the size of the projects. Staff included not only the as-filed adjustment but also the incremental portion of the adjustment included in its “Supplemental 2” response to UTC Staff Data Request No. 91. These capital additions are actual additions and are used and useful to Washington ratepayers. In addition, these additions are known and measurable.

**Q. What is the effect on net operating income due to this adjustment?**

A. This adjustment reduces net operating income by $1,235,000 Electric and $305,000 Natural Gas respectively.

**Q. What is the effect on ratebase due to this adjustment?**

A. This adjustment increases ratebase by $21,831,000 Electric and $964,000 Natural Gas respectively.

# **c. 2016 Capital Additions**

**Q. Avista includes two 2016 capital additions adjustments, called “Pro Forma 2016 Limited Capital Addition” (Electric-3.10, Gas-3.09) and “Cross Check Capital Addition for 2016” (Electric-4.00, Gas-4.01). What is the difference between these two adjustments?**

A. Avista placed “major” projects in its “Pro Forma 2016 Limited Capital Addition” adjustment and other minor projects in its “Cross Check Capital Additions 2016” adjustment.

**Q. How does Staff treat the 2016 capital additions?**

A. Staff reviewed and accepted the 2016 capital additions that meet the definition of “major” plant additions and were placed into service by July 31, 2016[[4]](#footnote-5). Staff does not accept the remainder of Avista’s 2016 capital additions because they are forecasts of possible capital investment. By their nature, forecasted capital investments are not known and measurable.

**Q. Please define “major” capital addition.**

A. Major capital additions are projects that are greater than one-half of one percent of the Company’s net utility plant[[5]](#footnote-6) using the most current CBR.

**Q. Does this definition of “major” rate base addition comport with State rules?**

A. Yes. The relevant portion of WAC 480-140-040, Commission general—Budgets, reads as follows:

Major construction projects will be determined for water, gas, and electrical companies, as all projects where the Washington-allocated share of the total project is greater than five-tenths of one percent of the company's latest year-end Washington-allocated net utility plant in service, but does not include any project of less than three million dollars on a total project basis. This determination for companies providing combined industry services will be done on an industry-specific basis.

Consistent with the rule, Staff has calculated a “one-half of one percent” threshold. None of the projects at issue are less than three million dollars on a total project basis.

**Q. Do previous decisions of the Commission provide guidance on the definition of a “major” rate base addition?**

A. Yes. Staff relied on the Commission’s guidance for major plant additions both in the Pacific Power & Light Company general rate case, Docket UE-140762, Order 08, Section III.F.2, and in the last Avista general rate case, Docket UE-150204/UG-150205, Order 05, paragraph 40.

**Q. Which Commission Basis Report did Avista use to delineate “major” capital additions?**

A. Avista used 2014 Washington-allocated net utility plant from the electric and natural gas CBRs. This was the most recent report at the time Avista filed this case.

**Q. Which Avista Commission Basis Report did Staff use to calculate its threshold for major rate base additions?**

1. Staff used 2015 Washington-allocated net utility plant (utility plant in service reduced by accumulated depreciation) from the Company’s electric and natural gas CBRs on file in Dockets UE-160454 and UG-160455.

**Q. What are the appropriate cut-off amounts that should be used to delineate “major” capital additions in this general rate case?**

A. Staff calculates that the “major” capital addition thresholds for Avista’s electric and natural gas operations in this case are $7,947,430 for Washington-allocated electric additions, and $1,547,880 for Washington-allocated gas additions, per the Company’s 2015 electric and natural gas CBRs in Docket UE-160454 and UG-160455.

Avista calculated different thresholds, but the “cut-offs” that Staff calculated are the appropriate thresholds to apply because they are consistent with WAC 480-140-040. Consistent with the precise language of the rule, Staff used Avista’s “net utility plant in service” to calculate the thresholds. And Staff based its calculations on Avista’s 2015 CBRs, which reflect the Company’s “latest year-end Washington-allocated” plant figures.

**Q. How many projects did Avista propose as “major” for 2016 according to its threshold?**

A. Avista proposed treating eight electric Expenditure Requests (“ERs”) and six natural gas ERs as major according to the threshold that the Company calculated.

**Q. Which 2016 projects meet Staff’s threshold for “major” capital additions?**

A. Six electric ERs and five natural gas ERs qualify as “major” under Staff’s approach to calculating the threshold for major capital additions. One of these ERs, ER 5005, applies to both industries. These ERs are listed in the table below. Note that the values below represent the Washington-allocated share for each ER. The figures Staff is supporting as 2016 transfers to plant are reflected in the amount that the Company actually expensed, per Avista’s supplemental responses to UTC Staff Data Request No. 12.

**Table 3**

**Electric Major 2016 *Pro Forma* Transfers to Plant, Avista vs. Staff proposed**

|  |  |  |  |
| --- | --- | --- | --- |
| **ER** | **ER Title** | **Avista Proposed** | **Staff Proposed** |
| 4140 | Nine Mile Redevelopment | $ 47,363,423 | $ 38,781,228 |
| 4152 | Little Falls Powerhouse Redevelopment | $ 14,813,348 | $ 10,458,243 |
| 4161 | CG HED U#1 Refurbishment | $ 9,513,881 | $ - |
| 4162 | PF S Channel Gate Replacement | $ 9,119,089 | $ 9,952,363 |
| 5005 | Information Technology Refresh Program | $ 8,744,730 | $ 4,277,263 |
| 4116 | Colstrip Capital Additions | $ 7,954,153 | $ 3,611,852 |
| 7139 | Netwk Bldg Purchase and Renovation | $ 7,559,424 | Excluded |
| 2532 | Noxon 230 kV Substation - Rebuild | 7,441,651 | Excluded |
|  | **Total: Listed ERs** | **$ 112,509,698** | **$ 77,936,682** |

**Table 4**

**Natural Gas Major 2016 *Pro Forma* Transfers to Plant, Avista vs. Staff proposed**

|  |  |  |  |
| --- | --- | --- | --- |
| **ER** | **ER Title** | **Avista Proposed** | **Staff Proposed** |
| 3008 | Aldyl A Replacement | $ 11,473,303 | $ 5,976,039 |
| 5005 | Technology Refresh to Sustain Business Process | $ 2,515,648 | $ 1,197576 |
| 3007 | Gas Isolated Steel Replacement Program | $ 2,460,079 | $ 224,108 |
| 3005 | Gas Non-Revenue Program | $ 2,442,037 | $ 954,632 |
| 7139 | Netwk Bldg Purchase and Renovation | $ 2,040,576 | $ 579,079 |
| 7126 | Long term Campus Re-Structuring Plan | 1,334,655 | Excluded |
|  | **Staff Total; Listed ERs** | **$ 22,266,025** | **$ 8,931,433** |

**Q. What is Staff’s proposed amount for 2016 transfers to plant?**

A. Staff’s amount for 2016 transfers to plant for electric and natural gas operations is $77,936,682 and $8,931,433, as shown above in Tables 3 and 4. The figures Staff supports as 2016 transfers to plant represent captital costs that the Company actually incurred for plant placed into service by July 31, 2016. In contrast, not all ERs that Avista proposes transferring to plant in 2016 actually occurred and incurred expenses.

# **d. 2017 and 2018 Capital Additions**

**Q. How does Staff treat Avista’s 2017 and 2018 forecasted capital additions?**

A. Avista’s Cross Check Capital Addition for 2017 (Electric-4.01, Gas-4.02) and its Cross Check Capital Addition for 2018 (Electric-18.04, Gas-18.05) are not intended for specific approvals by the Commission. Staff replaces these adjustments with its attrition adjustment for the 18-month period ending in June 2018.

**Q. Is Staff’s treatment of Avista’s capital additions for 2016, 2017, and 2018 consistent with prior rate cases and approved by the Commission?**

A. Yes. Staff’s treatment of Avista’s capital additions is the same as in Avista’s last general rate case in Dockets UE-150204 and UG-150205. The Commission accepted Staff’s approach, which applies the known and measurable criterion.

**V. Property Tax Adjustments**

**Q. Please describe the Company’s “Restate Property tax” adjustment (Adjustments 2.02 Electric, 2.02 Gas).**

A.This adjustment restates the accrued property tax during the test period to actual property tax paid during 2015. The actual plant balances of December 31, 2014, are the basis for the calculation of 2015 property tax expense.[[6]](#footnote-7)

**Q. Please describe the Company’s “Pro Forma Property tax” adjustment (Adjustments 3.06 Electric, 3.04 Gas).**

A.This adjustment is to restate the 2015 level of property tax expense included in “Restate Property tax” (Adjustments 2.02 Electric, 2.02 Gas) to the 2016 level of expense. The 2015 property tax is the basis for the calculation of the 2016 property tax expense.[[7]](#footnote-8)

**Q. What was included in the Company’s calculation of “Restate Property tax” and “Pro Forma Property tax”?**

A.Avista included the estimated property tax rate to calculate its “Restate Property tax” for 2015 and “Pro Forma Property tax” for 2016. Using the estimated property tax rate is inappropriate because it produces estimated property taxes for 2015 and 2016, which are not known and measurable.

**Q. What is Staff’s proposed “Restate Property tax” adjustment (Adjustments 2.02 Electric, 2.02 Gas)?**

A.Staff used the updated actual property tax rate to calculate its “Restate Property tax” adjustment for 2015.[[8]](#footnote-9) The impact of restating the property tax adjustment reduces Washington restated property tax expense for 2015 by approximately $767,000 electric and $163,000 natural gas.

**Q. What is Staff’s proposed “Pro Forma Property tax” adjustment (Adjustments 3.06 Electric, 3.04 Gas)?**

A.The 2016 property tax is based on a “flow-through” of the 2015 property tax. Since Staff used the updated actual property tax rate to calculate its “Restate Property tax” adjustment for 2015. Staff’s 2016 property tax adjustment reflects Staff’s 2015 figures.[[9]](#footnote-10) The impact of restating the property tax adjustment reduces Washington restated property tax expense for 2015 by approximately $38,000 electric and increases the expense by approximately $35,000 for natural gas.

**VI.** **Pro Forma O & M Offsets Adjustments**

**Q. Please describe the Company’s “Pro Forma O & M Offsets” (Adjustments 3.11 Electric, 3.10 Gas).**

A.This adjustment is to adjust any specific maintenance costs incurred in the test period that could be reduced or eliminated by including the investment for in-service major 2016 capital projects (contained in Avista’s “Pro Forma 2016 Limited Capital Additions” Adjustment 3.10-Electric and 3.09 Gas).

**Q. What projects were included by the Company as “Pro Forma O & M Offsets” (Adjustments 3.11 Electric, 3.10 Gas)?**

A.Avista included ERs 7139 and 7126 both for electric and natural gas operation in the calculations for these adjustments.

**Q. What projects were included in Staff’s “Pro Forma O & M Offsets” (Adjustments 3.11 Electric, 3.10 Gas)?**

A.According to Staff’s calculation of “major” projects, neither ER 7139 nor 7126 qualify as “major” projects for electric operation as discussed above in my testimony. Staff includes only ER 7139 for natural gas operation as a “Pro Forma 2016 Limited Capital Addition” (Adjustment 3.09 Gas). Therefore, Staff has not included any of Avista’s proposed O & M offsets from the electric operation and has included only the O & M offset related to ER 7139 for natural gas operations in this calculation.

**Q. What is the effect of Staff’s “Pro Forma O & M Offsets” adjustment (Adjustments 3.11 Electric) on electric operations?**

A. **“**Pro Forma O & M Offsets” (Adjustments 3.11 Electric) is eliminated. Therefore, the effect of this adjustment on Washington net operating income to the electric operation is zero. This results in a revenue requirement of zero.

**Q. What is the effect of Staff’s “Pro Forma O & M Offsets” adjustment (Adjustments 3.10 Gas) on natural gas operations?**

A.The effect of this adjustment on Washington net operating income to the natural gas operation is an increase of $22,000. This results in a revenue requirement decrease of $36,000.

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

A. Yes.

1. Smith, Exh. No. \_\_ (JSS-1T) 5:4-7. Ms. Smith states that the cross check balances are “for comparison purposes only, to act as a ‘cross check’ to the reasonableness of the electric and natural gas Attrition Study results.” [↑](#footnote-ref-2)
2. Smith, Exh. No. \_\_(JSS-2) and (JSS-3) p. 1, n.1. [↑](#footnote-ref-3)
3. *Wash. Utils & Transp. Comm’n v. Pacific Power & Light Co.*, Docket UE-050684, Order 04 (Apr. 17, 2006), 19-28 (providing a description of the used and useful standard). [↑](#footnote-ref-4)
4. Huang, Exh. Nos. JH-5 and JH-6. Staff relies on Avista’s supplemental responses to UTC Staff Data Request No. 12 for the actual in-service 2016 capital additions. [↑](#footnote-ref-5)
5. “Net utility plant” is defined as the original costof utility property minus any accumulated depreciation. [↑](#footnote-ref-6)
6. Smith, Exh. No. \_\_ (JSS-1T) 21:5-6. [↑](#footnote-ref-7)
7. Smith, Exh. No. (JSS-1T) 21:8-9. [↑](#footnote-ref-8)
8. Huang, Exh. No. JH-7 (Avista’s Response to UTC Staff Data Request No. 95). [↑](#footnote-ref-9)
9. Huang, Exh. No. JH-8 (Avista’s Response to UTC Staff Data Request No. 96). [↑](#footnote-ref-10)