Exh. EMA-6T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-240006

DOCKET NO. UG-240007

(consolidated)

REBUTTAL TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

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I. INTRODUCTION

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

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

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

A. Yes. My direct testimony and exhibits[1] in this proceeding supported various adjustments in which I sponsored, that are included by Ms. Schultz within her overall Electric and Natural Gas Revenue Requirement Studies[2] prepared for the Company's proposed Two-Year Rate Plan. These adjustments included: 1) Restating Remove Test Period Colstrip Costs, 2) Pro Forma Wildfire Plan Expenses, 3) Pro Forma Insurance Expense, 4) Miscellaneous Operations and Maintenance (O&M) Expense, 5) Pro Forma 2024 – 2026 Capital Additions O&M and Revenue Offsets; 6) Pro Forma EDIT (RSGM) and 7) 2026 CS2 Major Maintenance Deferral and Pro Forma Amortization Expense.

In addition to the various accounting adjustments I sponsored, I discussed the Company's requests to update its Wildfire Balancing Account[3] baseline to match pro formed wildfire plan expenses, as well as the Company's proposal to continue its current Insurance Expense Balancing

[1] See Exhs. EMA-1T through EMA-6.
[2] Schultz, Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas).
[3] The Company's Wildfire Resiliency Plan ("Wildfire Plan") Wildfire Expense Balancing Account (WF Balancing Account) was established in the prior Avista general rate cases (GRC) Dockets UE-200900, et. al., with an update to the Wildfire Expense baseline in Dockets UE-220053, et. al.

Account[4], including an update to the insurance baseline to reflect the significant increase and continued volatility associated with insurance expenses.

Other adjustments or accounting requests included the Company's proposal to defer its Coyote Springs 2 (CS2) major maintenance (overhaul) expense that is planned for 2026, and the 4-year amortization of Washington's share of this expense, to recover between overhauls, [5] as well as a summary of the total O&M and revenue direct "offsets" included by the Company in this case.

Q. What is the scope of your rebuttal testimony?

A. My rebuttal testimony will provide Avista's response mainly to the testimony of Staff[6], Public Counsel[7] and AWEC[8] witnesses in regard to their opposition of various adjustments supported by the Company in its direct case or as revised on rebuttal. My testimony covers the following areas as they apply to the specific party: 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 (RY2) Removal of Colstrip Units 3 and 4.

Q. Would you please summarize your rebuttal testimony?

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

- Approve Avista Provisional Capital Adjustments - The Company has provided full

[4] The Company's Insurance Expense Balancing Account was established in the prior Avista GRC Dockets UE-220053, et. al., (approved Settlement Stipulation) for the current Two-Year Rate Plan. Per Dockets UE-220053, et. al. Avista was required to support the continuation of its Insurance Expense Balancing Account in its next GRC, e.g., this case.

[5] CS2 major maintenance (overhaul) occurs every 32,000 fired-hours, or approximately every four (4) years.

[6] Washington Utilities and Transportation Commission (WUTC or Commission) Staff Witnesses Erdahl (Exh. BAE-1T) and Hillstead (Exh. KMH-1T).

[7] Washington State Office of the Attorney General Public Counsel Unit (Public Counsel) Witness Mark Garrett (Exh. MEG-1T).

[8] Alliance of Western Energy Consumers (AWEC) Witness Mullins (Exh. BGM-1T).

support of provisional capital investments for 2024 through 2026[9] in the Company's direct case, allowing this Commission to approve an overall net plant after ADFIT level in Rate Year 1 (RY1) and Rate Year 2 (RY2),[10] subject to review and refund through the after-the-fact Provisional Capital Report process as discussed by Company witness Ms. Benjamin within her direct case and consistent with the current approved process,[11] with the exception of extending parties review of these reports from four months to six months, as proposed by Staff[12]. The Company does not, however, believe separate provisional capital tariffs outside of base rates are necessary to track these balances until final prudency determination, as proposed by Staff[13], as this would add unnecessary complexity and administrative burden to all parties.

- Deny AWEC Capital Adjustments - This Commission should deny AWEC Witness Mullins RY1 and RY2 Provisional Capital Adjustments[14], adjusting net plant after ADFIT in each rate year from the average-monthly-average (AMA) basis, as proposed by the Company, to his end-of-period (EOP) basis, prior to new rates going into effect, and an attestation of this net rate base at end of year, on a project-by-project basis. AWEC's proposal is unreasonable and would not allow Avista the opportunity to earn its authorized rate of returns, not to mention would result in taking steps backward from the progress made in the last few years for the rate-making shortcomings that this Commission and the legislative changes that SB 5295[15] sought to correct. No other party contested the Company's Pro Forma or Provisional Capital Adjustments, except for the impact on these adjustments of parties' positions on cost of capital.

- Wildfire Expense and Balancing Account Baseline - The Commission should approve the Company's electric Wildfire Expense Adjustment 3.24, adjusting the Company's wildfire expense and Wildfire Expense Balancing Account baseline to $8.3 million over the Two-Year Rate Plan, including a carrying charge at the Company's cost of debt on the deferred balances (current and on-going), and during

[9] Avista's 2023 Capital Investments were found prudent per Commission confirmation on July 31, 2024, with a finding that Avista's 2023 Provisional Capital Report complies with Order 10/04, and these investments are no longer subject to refund.
[10] Net plant after ADFIT (including gross plant investment, offset by Accumulated Depreciation (AD) and Accumulated Deferred Federal Income Taxes (ADFIT)) for RY1 and RY2 on rebuttal are provided by Ms. Schultz per Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas). Specifically, the Company is requesting this Commission approve electric net plant after ADFIT balances of $2,189,067,000 for RY1 and $2,281,707,000 for RY2 (see Schultz, Exh. KJS-7, p. 1, column h, row 46 (RY1) and Exh. KJS-7, p. 2, column g, row 46 (RY2)). For natural gas, the Company requests this Commission approve natural gas net plant after ADFIT balances of $558,255,000 for RY1 and $575,225,000 for RY2 (see Schultz, Exh. KJS-8, p. 1, column h, row 42 (RY1) and Exh. KJS-8, p. 2, column g, row 42 (RY2)).
[11] Benjamin, Exh. TCB-1T, at 30-32.
[12] Erdahl, Exh. BAE-1T, at 8:4 – 11:11.
[13] *Id*. at 10:12-21
[14] Mullins, Exh. BGM-1T, at 9:18 – 14:10.
[15] Engrossed Substitute Senate Bill 5295, signed into law by Governor Inslee on May 3, 2021.

amortization of these deferred balances, as-filed by the Company, and supported by Staff[16], and uncontested by the remaining parties. In addition, the Company requests the Commission allow the Wildfire Expense Balancing Account "tracker" to continue beyond this GRC, at least through 2029 (over the 10-Year Wildfire Resiliency Plan) as previously approved by this Commission in Dockets UE-200900, et. al., and does not believe the Commission should remove the Balancing Account tracker in the Company's next general rate case (GRC) as proposed by Staff[17], as this tracker acts as protection for customers and the Company, if costs expected over the life of the Wildfire Plan vary from that included in base rates.

- <u>Insurance Expense and Balancing Account Baseline</u> - The Commission should approve the Company's electric and natural gas Insurance Expense Adjustments 3.12, updating the Company's insurance expense and its proposed Insurance Expense Balancing Account baselines, over the Two-Year Rate Plan, to $12.8 million for electric, and $2.3 million for natural gas, as-filed by the Company. The Pro Forma Insurance Expense Adjustment was uncontested by Staff[18], as well as by Public Counsel, with the exception of adjusting the current authorized D&O Insurance expense sharing of 90% Customer / 10% Company, to a 50%/50% sharing as proposed by Public Counsel[19]. The inclusion of a carrying charge at the Company's cost of debt on the deferred balances (current and on-going), and during amortization of these deferred balances, was supported by Staff[20], and uncontested by the parties. AWEC witness Mullins, however, opposes the continuation of the Insurance Expense Balancing Account[21], which the Commission should reject, as it has been made evident, as recognized by Order 10/04 in Dockets UE-220053, et. al., that the volatility experienced by Avista, and the utility industry, is extraordinary and outside the Company's control. Commission-approved "tracking mechanisms" were created for this very reason, to protect the Company and customers from "extraordinary" circumstances and volatility in certain expenses.

- <u>Miscellaneous Contested Adjustments</u> - The Commission should approve the Miscellaneous Contested Adjustments as proposed by the Company as follows:

  a) <u>Miscellaneous O&M/A&G Expense</u> – the Commission should approve the electric and natural gas Miscellaneous O&M/A&G expense Pro Forma Adjustments 3.14 (RY1) of $9.0 million for electric and $223,000 for natural gas, and the incremental expense in PF 5.06 (RY2) of $1.6 million for electric and $346,000 for natural gas, as adjusted by the Company on rebuttal, reflecting 1) updating these expenses from the twelve-months-

[16] Erdahl, Exh. BAE-1T, at 26:12-16.
[17] *Id.* at 27:14 – 29:3.
[18] Erdahl, Exh. BAE-1T, at 32:3-8.
[19] M. Garrett, Exh. MEG-1T, at 34:4-12.
[20] *Id.* at 32:18 – 33:3.
[21] Mullins, Exh. BGM-1T, at 64:17-65:14.

ended 06.2023 test period (12ME 06.2023) to the actual 12ME 12.2023 expense level, for this subset of O&M/A&G expenses, as supported by Staff witness Hillstead[22], and 2) the escalating of 12ME 12.2023 balances by a 2.5% growth rate as supported by Public Counsel witness M. Garrett in RY1 and RY2.[23] (AWEC witness Mullins, for his part proposes a 2.3% growth rate beyond RY1 to RY2[24].)

b) Working Capital – the Commission should approve the Company's as-filed electric and natural gas Investor Supplied Working Capital (ISWC or Working Capital) Restating Adjustment 1.03, and reject AWEC Witness Mullins[25] proposal to remove certain balances (Wells and Mizuho margin accounts FERC Accounts 134.122 and 134.123). The Company is following the methodology approved by the Commission in Avista's litigated proceeding, Dockets UE-190334, UG-190335, UE-190222, *consolidated*, to remove the minimal interest-bearing portion of these accounts, resulting in restated 12ME 06.2023 ISWC rate base balances, as-filed by the Company, of $100.7 million for electric and $14.4 million for natural gas, which do represent expected ISWC balances during the Two-Year Rate Plan. Furthermore, the Company has experienced a Washington lost return of over $6.3 million in 2023 alone, due to the increased ISWC balances experienced by the Company in recent years, mainly due to the increased power supply margin account balances, as opposed to that currently authorized in base rates, causing a substantial regulatory lag related to ISWC.

c) Power Purchase Agreement Interest – the Commission should approve the Company's electric Pro Forma Power Purchase Agreement (PPA) Interest Adjustments 3.23 (RY1) and 5.12 (RY2), as proposed by the Company as-filed, to reflect the authorized rate of return approved by the Commission in this proceeding, resulting in increased interest income of $2.2 million in RY1 and an incremental increase of $176,000 in RY2.[26] The Commission should reject the removal of interest as proposed by NWEC Witness

[22] *Id*. at 16:12-16. Hillstead Exh. KMH-7, is a copy of Avista's response to PC-DR-297, which provides the change in O&M expense from twelve-months-ended June 30, 2023 (12ME 06.2023) to twelve-months-ended December 31, 2023 (12ME 12.2023), resulting in an increase in O&M expenses of $5.9 million for electric, and net reduction in O&M expense of $468,000 for natural gas.

[23] M. Garrett, Exh. MEG-1T at 12:1-4.

[24] Mullins, Exh. BGM-1T, at 19:12-20.

[25] Mullins, Exh. BGM-1T, at 29:11-22.

[26] Senate Bill 5116 states (https://lawfilesext.leg.wa.gov/biennium/2019-20/Pdf/Bills/Senate%20Bills/5116-S2.E.pdf), in reference to the transition to clean energy, that the "legislature declares that utilities in the state have an important role to play in this transition, and must be fully empowered, through regulatory tools and incentives, to achieve the goals of this policy." The purposeful inclusion of "a rate of return of no less than the authorized cost of debt and no greater than the authorized rate of return of the electrical company…" (see Sec. 5, p. 2) is, in our view, just such an incentive.

Gehrke[27], and reject interest based only on the Company's cost of debt as proposed by Staff Witness Hillstead[28].

d) Rent From Electric Property – the Commission should approve the Company's electric Pro Forma Adjustments AWEC1 (RY1) and AWEC2 (RY2) proposed on rebuttal, to reflect incremental joint use revenues (rent from electric property) from other utilities which place their utilities on our poles. The effect of these adjustments increases other electric revenue by $600,000 in RY1 and $200,000 in RY2. 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. This is in contrast to Witness Mullins proposed revenue[29], which should be rejected, as his assumed levels are overstated based on one-time back-billing of joint users for unauthorized attachments.

- Customer Tax Credits –

a) Deferral versus Flow Through of Current Tax Expense Benefits - The Commission should reject AWEC Witness Mullins recommendation that Avista be required to fully transition to "Flow-Through" accounting of its 2025 estimated tax deductions associated with IDD#5 and meters expenditures, moving this deduction to base rates, as an offset to electric and natural gas current tax expense in RY1 of approximately $4.4 million and $0.9 million, respectively[30]. All tax credits are deferred for the benefit of customers, as currently authorized per Order 01 in Dockets UE-200895 and UG-200896 and returned to customers thorough Separate Tariff Schedule 78 (electric) and 178 (natural gas). This tracking mechanism allows the Company to account monthly for any amortizations and deferrals of estimated tax deductions in the current year, as well as true-ups for actual tax deductions, for any changes from estimates and as approved by the Internal Revenue Service (IRS) over time. This, in-turn, protects both customers and the Company of any inaccuracies of the future estimated tax deduction estimates for these items from year to year, and it tracks actual dollar-for-dollar tax benefits owed as a benefit of customers.

b) Accounting for the Return on the Change in Rate Base - The Commission should reject Witness Mullins calculated Tax Credit Deferred Balances[31] that he argues Avista owes customers as of December 2024 of $5.7 million electric and $5.4 million natural gas. Witness Mullins argues Avista did not

[27] Northwest Energy Coalition (NWEC), Gehrke, Exh. WG-1T, at 2:5-17.
[28] Hillstead, Exh. KMH-1T, at 18:10-17.
[29] Mullins, Exh. BGM-1T, at 24:9-26:1.
[30] Mullins, Exh. BGM-1T, at 36:15 – 37:5.
[31] Mullins, Exh. BGM-1T, at 38:12 – 39:12.

have the authority to account for the return on the change in rate base over time, as the Company refunded the deferred customer tax credits to customers.[32] He then proposes the Commission amortize and return his calculated balances over 1-year in RY2 for electric and over two-years in RY1 and RY2 for natural gas through separate Tariff Schedules 78 and 178. I demonstrate that Witness Mullins ignores, that over the 4-year period from October 2021 – December 2024 the Company will have returned $68.1 million of Washington system Customer Tax Credits – all while this balance has reduced rate base by $68.1 million, and, reduced base rates collected from customers by approximately $9.7 million, over this same 4-year period. In order to remain whole, over this same time, Avista recorded a monthly offset against the deferred customer tax credits, for the return on the change in rate base, as shown in exhibits and workpapers provided to all parties, and approved by the Commission. Avista's accounting for these tax credits has kept customers whole – returning no more, no less owed them.

- Coyote Springs II (CS2) Deferral of Major Maintenance and Recovery – the Commission should approve the Company's request for deferred accounting treatment of Washington's share of the CS2 major maintenance overhaul required every 32,000 hours, totaling $12.0 million for Washington, expected to occur in 2025 or 2026, depending on plant-run hours. Parties were otherwise silent regarding this matter, however, no party contested PF Adjustment 3.22 removing the normalized test period level of CS2 Major Maintenance, to make way for the Company's proposed four-year amortization of the deferred major maintenance expense balance included as RY2 Pro Forma Adjustment 5.11, beginning July 1, 2026 through June 30, 2030. No party contested RY2 PF Adjustment 5.11, although Staff for its part contests RY2 of the Two-Year Rate Plan[33].

- Colstrip Unit 3 and 4 removal in RY2 – the Commission should approve the Company's adjustment included in RY2 Pro Forma Power Supply Adjustment 5.00P to remove Colstrip Unit 3 and 4 from base rates as mandated by law on or before January 1, 2026, resulting in an increase in net power supply expense and an increase in overall electric revenue requirement of $54.2 million.[34] Offsetting this increase in net power supply expense and base rates in RY2, however, will be the reduction in the separate Colstrip Tariff Schedule 99, reflecting the reduction in

[32] *Ibid.*
[33] Erdahl, Exh. BAE-1T, at 6:18-22.
[34] Company witness Mr. Kalich at Exh. CGK-7T, at 5:10 - 7:23, discusses Avista's recommendation for approval of the updated net power supply expense sponsored on rebuttal, which would remain in place over the Two-Year Rate Plan, with the exception in RY2 for the impact of removing Colstrip as required by law. This allows the Commission to approve base rates in RY1 and RY2, without a RY2 PCORC or 60-day update, resulting in final base rate changes or customer impacts being known at this time. Furthermore, if the Commission were to approve the ERM updates as proposed by the Company, with a revised deadband and 90/10 sharing, an appropriate amount of any actual changes up or down would be deferred for recovery or surcharge at a future time.

costs of removing Colstrip O&M and other expenses, depreciation expense, and return on rate base, reflecting only the recovery of D&R Regulatory Asset/Liability balances and amortization expense on an on-going basis. This reduction to Colstrip Tariff 99 will reduce "billed" rates to customers by approximately $24.4 million (Washington expense). In addition, the Commission should reject Witness Mullins recommendations to remove net Colstrip Transmission assets as of December 31, 2025 of $6.6 million and Colstrip wheeling costs of $4.0 million, reducing the revenue requirement as proposed by Witness Mullins by $1.9 million (AWEC-5.14) and $4.2 million (5.00P), respectively[35]. Company witness Mr. Kinney describes the usefulness of the Colstrip transmission assets and point-to-point transmission rights beyond December 31, 2025, after the removal of the Colstrip Unit 3 and 4 generation assets.[36 / 37]

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

A. Yes. I am sponsoring Exh. EMA-7 and Exh. EMA-8. Exh. EMA-7 provides information regarding Miscellaneous O&M Expense Adjustments 3.14 and 5.06, including summary tables of Avista's position on direct versus position on rebuttal, the position of each party (Staff, Public Counsel and AWEC), as well as the impact of Staff's model error, discussed below. Exh. EMA-8 provides Avista's electric and natural gas Customer Tax Credit amortization schedules estimated through December 2027.

[35] Mullins, Exh. BGM-1T, at 57:12-19 and 58:1-21.

[36] Kinney, Exh. SJK-17T, at 25:9 – 30:18.

[37] Furthermore, the Commission ordered the Colstrip transmission assets, including transmission decommissioning and remediation (D&R) costs, be depreciated consistent with the depreciation rates for non-Colstrip transmission assets as approved in Depreciation Docket UE-180167, so long as the Colstrip transmission assets are used and useful consistent with RCW 19.405.030(2). See Order 09, Docket UE-190334, et.al., p. 18, par. 47-48.

II. PROVISIONAL CAPITAL INVESTMENT AND RECOVERY

Q. What is the purpose of this section of your rebuttal testimony?

A. This portion of my testimony responds to the testimony of Staff Witness Erdahl[38] (Exh. BAE-1T) and AWEC Witness Mullins[39] (Exh. BGM-1T), with regard to the review and recovery of provisional capital investments and reporting on capital investments through the annual Provisional Capital Report.[40]

A. Response to Staff Witness Erdahl

Q. Briefly, what is the position of Staff regarding recovery of capital investment?

A. In summary, Staff Witness Erdahl proposes that the Company label the pro forma 2023 and 2024 capital investment in this case as "Provisional" versus "Pro Forma," and subject to review and refund. Also, she recommends that the Commission require separate tariffs for recovery of all annual provisional capital investments beginning with the next GRC, until the investment is deemed prudent through Provisional Capital Reporting, and that the Commission extend the Provisional Capital Report review period from four months to six months.[41] Staff did not otherwise contest the Company's Pro Formed/Provisional Capital Adjustments (PF 3.15; 3.16; 3.17; or 4.01) as discussed by Ms. Schultz at Exh. KJS-5T).[42 / 43]

[38] Erdahl, Exh. BAE-1T, at 8:4 - 11:11.
[39] Mullins, Exh. BGM-1T, at 9:18 – 14:10.
[40] Company witness Mr. DiLuciano responds to the testimony of Staff Witness Atitsogbe Golo regarding distribution system capital investment.
[41] Erdahl, Exh. BAE-1T, at 8:4 – 11:11.
[42] Supporting PF Capital Adjustments can be found within Ms. Schultz Electric and Natural Gas Revenue Requirement native long models – Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) filed on rebuttal, as well as within supporting workpapers provided to all parties.
[43] As discussed by Ms. Schultz, on rebuttal the Company's proposed Washington electric net plant after ADFIT it is requesting this Commission approve is $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 $575,225,000 for RY2.

Q. Is Avista supportive of Staff's labeling of 2023 and 2024 capital investments as "provisional" and subject to review and refund, and the changes to the Provisional Capital Reporting process?

A. Yes, in part, as discussed further below. First, to prevent any confusion, if this Commission prefers, the Company will label all investment beyond the test period in future Multi-Year Plans as "provisional". The Company also understands that all capital investment beyond 2023 in this case is subject to further review and refund.[44] Second, the Company is also supportive of extending the Provisional Capital Reporting review period by the parties from four months to six months. The Company however, as discussed further below, is not supportive of the use of separate tariffs for recovery of all annual provisional capital investments, believing this to add unnecessary complexity and administrative burden on all parties. It would not serve to achieve any level of efficiencies.

Q. Although you are supportive in part of Staff's recommendations, what concerns do you have with other portions of Staff Witness Erdahl's testimony?

A. First, it is important to note that the Company's intent of labeling 2023 and 2024 as "pro forma" in its direct case was not an expectation or assumption that these investments were no longer subject to review and refund at that time. This designation by the Company reflects that the "subject to review and refund" designation was decided and relevant to the net rate base

[44] In 2023, after the Company's submission of its 2022 Provisional Capital Report, the Commission confirmed on September 15, 2023 Avista's compliance with Order 10/04 in Dockets UE-220053, et. al., and stated "the revenue requirements shown therein are sufficient to justify the provisional capital included in the year two rates. Accordingly, the rates set forth in Avista's Report are no longer subject to later review and refund." Similarly, 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. These two reports and Commission acknowledgement confirmed that the 2022 and 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.

approved by the Commission in Docket UE-220053, et. al., and would be decided as prudent after the 2022 – 2024 annual Provisional Capital Reports are filed by the Company in each respective year. In comparison, the Company designated the 2025 and 2026 capital investments included in this case as "provisional," because this Commission will establish the level of approved rate base in this proceeding for each rate year over this Two-Year Rate Plan, i.e., RY1 (2025 AMA) and RY2 (2026 AMA), designating this capital investment as subject to review and refund <u>in this case</u>. The 2025 and 2026 capital investment will then be verified through the compliance filings filed within the context of this GRC (Docket UE-24006, et.al.), through the 2025 and 2026 annual Provisional Capital Reports, filed on or before March 31, 2026 and March 31, 2027, respectively. Regardless, to ease confusion regarding whether any pro formed capital investment is "subject to review and refund" between or during GRCs, the Company will revise its labeling descriptor going forward as "provisional" as suggested by Staff.

Furthermore, the Company recognizes, to the extent actual overall 2024 investments vary from that included in this case, any subsequent refund specific to this case will be determined after review of the 2025 Provisional Capital Report is complete. Any deferral (due to underfunded 2024-2025 investment) for later return to customers as a result of rate base levels set in this proceeding would continue until rates are updated to reflect any required change.[45]

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[45] 2024 Capital investment was included in the 2022 GRC (Docket UE- UE-220053, et. al.) on an AMA basis in RY1 (2024); whereas the total 2024 investment is now included on an end-of-period (EOP) basis in this case in RY1 (2025). Similarly, 2025 capital investment is included on an AMA basis in RY1 (2025), with the remaining flowing into RY2 (2026) on an EOP basis. Finally 2026 capital investment is included on an AMA basis in RY2 (2026), with the remaining flowing into the next GRC on an EOP basis, and so on. A determination in RY1 (2025) of any balances to be deferred in relation to over-collection from customers in RY1 (2025) from this case, cannot be determined until the 2025 Provisional Capital Report compares actual net rate base with approved net rate base on an AMA basis for calendar 2025. Net rate base as approved and on an actual basis, also reflects the offset of Accumulated Depreciation (AD) and Accumulated Deferred Federal Income Taxes (ADFIT). This is, in part, why it is necessary to determine <u>the actual amounts collected from customers</u> based on the <u>net rate base</u> approved by the Commission, versus just looking at the actual versus approved gross plant investment in any given year.

Q. What additional concerns do you have with Staff testimony regarding pro forma versus provisional distinctions for 2023 and 2024 capital investment?

A. Witness Erdahl states that the use of classifying 2023 and 2024 investment as pro forma versus provisional in this GRC puts at issue this investment during their respective Provisional Capital Report reviews, causing duplicative reviews in this GRC by Staff and other parties, requiring review of the same plant in both the prior GRC and this GRC, as well as possible inconsistent prudency determinations by the Commission.[46] The Company strongly disagrees with this assertion. First and foremost, as noted above, the final review and prudency determination of the 2023 and 2024 annual capital investment is to be determined in each subsequent Provisional Capital Report review (as has already occurred with respect to 2023) for the specific year in review, regardless of which case the investment was included (2022 GRC versus 2024 GRC). Accordingly, there is no "inconsistent prudency determination by the Commission."

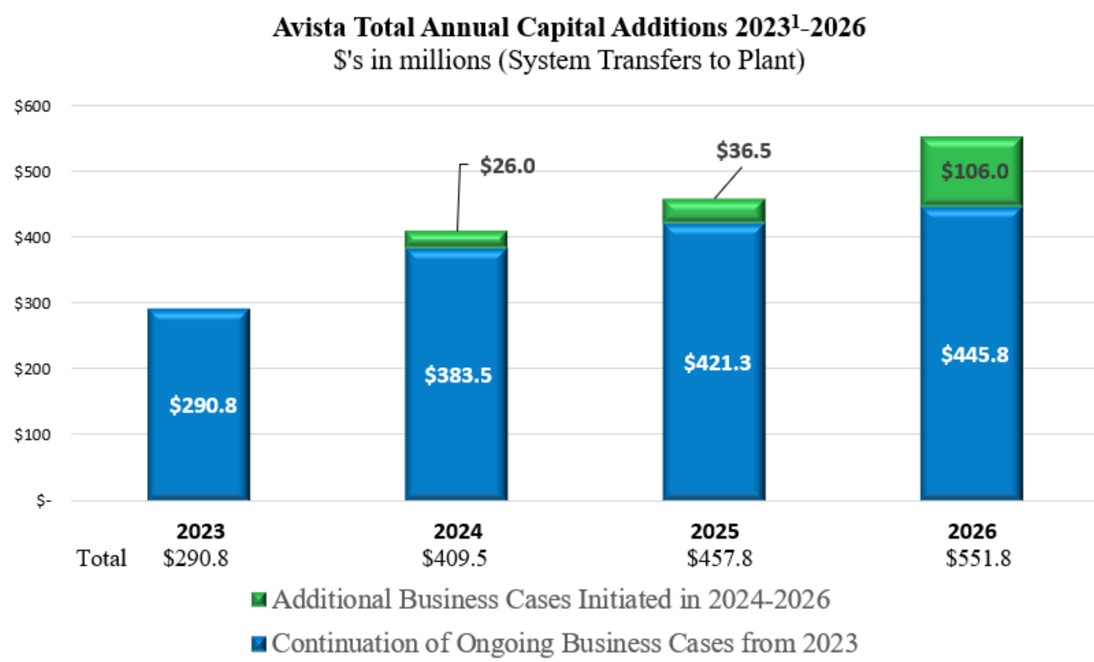
Most of the capital investment relates to ongoing, multi-year efforts that continue over time, at various funding levels. The rationale and justification for these ongoing projects, however, does not change over time, only the funding levels. This should facilitate subsequent review of investments between GRCs, at an overall review of funding levels.

For illustrative purposes, Witnesses Mr. Alexander, Mr. DiLuciano, and Mr. Manuel, who addressed most of the capital projects within their direct testimonies, included yearly bar charts for 2023-2026 depicting the yearly spend within each existing Business Case versus "provisional" expenditures associated with an entirely new Business Case in 2025-2026. As shown, in the aggregated chart below that combines the results in those areas covered by the witnesses, in excess

[46] Erdahl, Exh. BAE-1T, at 9:15 – 22.

of 80% of "provisional" expenditures have their genesis in <u>existing</u> test period Business Cases reviewed in prior GRCs. The chart below was previously provided by Ms. Benjamin[47]:

<u>Chart No. 1 – Avista Total Annual Capital Additions July 2023-2026</u>



[1]2023 includes the pro forma period of July-December only.
2026 additional business cases primarily made up of three large distinct projects: Noxon Rapids Gantry Crane Modernization, Post Falls North Channel Spillway Rehabilitation, Metro 115kV Substation

Regardless, the opportunity to review is available to parties - and given Staff's request to change the annual Provisional Capital Report review from 4 months to six months, there is more review time in the Provisional Capital Report process.

Q. Finally, please discuss why Avista does not support Staff's recommendation that, beginning with the next GRC, the Commission require separate tariffs[48] for recovery of annual provisional capital investments until the investment is deemed prudent through

[47] Benjamin, Exh. TCB-1T, at 36, Chart No. 1.
[48] Erdahl, Exh. BAE-1T at 10:12-21.

Provisional Capital Reporting.

A. The Company is not supportive of Staff's recommendation that the Commission require Avista to file in its next GRC for the recovery of annual provisional capital investment through separate tariff, rather than in base rates, as this requirement would only add unnecessary complexity and additional burden on the Company and the parties of additional filings. This would actually have the perverse effect of adding more work for resource-constrained parties, as they would now have to also address additional tariff filings. Staff Erdahl states that the Commission's "… use of a separate tariff schedule for provisional rates is encouraged in the Used and Useful Policy.[49]" In fact, the Policy Statement merely states, "Property granted provisional approval, with rates subject to refund, can either be embedded in base rates **or** recovered through a separate tariff schedule."[50] (emphasis added)

For Avista, given that the last two years of filing its Provisional Capital Reports for 2022 and 2023 have resulted in no refunds to customers, the Company has not had to add the further, complicated step of making yet another compliance filing with the Commission in Docket UE-220053, et. al. Furthermore, if in a future period it is determined that the Company does require a refund to customers, it will report this within its annual Provisional Capital Report filing, and it would begin to defer any amounts to be refunded to customers for the respective rate year until reflected in base rates.

Specifically, requiring the implementation of separate provisional rates from base rates, effectively increases the number of changes to base rates by service required to be filed and

[49] Ibid, at 10:13-14.
[50] Commission's January 31, 2020 "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement"), Docket U-190531, para. 46, p. 15.

reviewed by parties. It also lends to:

- Increased Complexity in Revenue Requirements and Review: Introducing separate provisional rates adds layers of complexity to revenue requirements, affecting both GRCs and individual riders and trackers.

- Rate Management Complexity and Review: Each rate type requires distinct settings and separate revenue buckets, complicating rate management and accounting processes.

- Multiple Tariff Management and Review: Managing multiple tariffs raises the likelihood of inconsistencies and errors, adding regulatory complexity to ensure alignment among base rates, riders, and trackers.

- Complicated Accounting Procedures: The expanded rate structure complicates accounting procedures and review.

Overall, requiring separate tariffs would increase (not lessen) administrative burden, complexity, and the risk of errors across various functions and filings. It makes more sense to keep the provisional capital as a part of base rates, requiring a deferral of any required refunds that could then be returned through separate tariff or a future GRC, of any disallowed portion determined during the provisional review period.

B. Response to AWEC Witness Mullins

Q. What is the position of AWEC Witness Mullins regarding recovery of capital investment[51]?

A. In summary, first AWEC proposes that the Commission only include capital investment on or before the rate-effective date of the respective rate years be considered in revenue requirement, adjusting Avista's balances from an AMA balance of each rate year (i.e., 2025 AMA (RY1) and 2026 AMA (RY2)), to an end-of-period (EOP) basis each year (i.e., 12.2024 EOP

[51] Mullins, Exh. BGM-1T, at 9:18 – 14:10

(RY1-2025) and 2025 EOP (RY2-2026)).[52] Second, Witness Mullins recommends a project-by-project attestation be required in RY1 and RY2 and filed concurrent with its compliance filing in each year of the GRC, that the capital included through the end of December (2024 and 2025, respectively) was placed in service. [53] In addition, if variances for any project exceeding $1.0 million placed into service is less than Avista had forecast, Avista would be required to reduce rates that go into effect by the revenue requirement impact of the difference. [54 / 55]

Q. What is the effect of Witness Mullins' recommendation on the Company's rate base and revenue requirement as filed by the Company?

A. Witness Mullins' recommended adjustment removes $25.8 million electric and $3.2 million natural gas of rate base in RY1 (2025 AMA), and depreciation expense of $5.3 million[56] for electric and $2.2 million for natural gas. For RY2, he removes an incremental $9.0 million electric and $5.9 million natural gas of rate base, with the net adjustments to RY2, increasing depreciation expense in RY2 by $2.2 million for electric, and reducing natural gas depreciation expense by $1.6 million.[57]

Q. Do you believe Witness Mullins made modeling errors within his RY2 2026 capital adjustment?

[52] *Id.* at 11:11 – 24, 13:19 – 14:10.
[53] *Id.* at 11:11 – 24, 13:3-18.
[54] *Ibid*.
[55] Witness Mullins also briefly opines, that, since most of the rate increase in RY2 at issue in this case is related to the removal of Colstrip from rates, it may be more efficient in this case to simply approve a single year revenue requirement and consider those costs in a rate filing next year. Under this approach, Witness Mullins would have this Commission ignore over $15 million in revenue requirement included by the Company in this GRC, of additional capital investment and non-power supply expenses, and already reviewed by parties in this proceeding, requiring another GRC to filed on the heels of this one. Mullins, Exh. BGM-1T, at 13:3-18.
[56] Note, although Mullins Table 2 on page 14 of Exh, BGM-1T shows an electric depreciation reduction to expense of $24.0 million, this is an error within his table, and does not accurately reflect what is actually shown in his workpapers, where electric depreciation expense of $2.2 million is removed.
[57] Mullins, Exh. BGM-1T, Table 2 at 14.

A. Yes, I do. From review of his workpaper "240006 07-AWEC-BGM-WP01-UsedAndUsefullAnalysis-07-04-2024," even if one were to approve Witness Mullins proposed adjustments, his calculations for RY2 failed to adjust ADFIT to 2025 EOP versus 2026 AMA, as filed by the Company, for both electric and natural gas operations (as he had adjusted for gross plant investment and AD), resulting in an overstatement of ADFIT in RY2 and a further erroneous reduction to net rate base by an additional $10.0 million for electric and $1.1 million for natural gas. This net rate base error resulted in overstating his revenue requirement reduction related to capital investment in RY2 by $859,000 electric and $96,000 for natural gas.

Q. Even if corrected, do you agree with Witness Mullins rate base and revenue requirement adjustments in RY1 and RY2?

A. No, I do not. Witness Mullins adjustments remove necessary investments that will be required during RY1 and RY2 to provide reliable service to its customers. Furthermore, the Company has included offsets as required by the Commission for inclusion of capital investment during each rate year, matching all costs in RY1 and RY2 that are necessary to allow Avista the opportunity to earn its allowed returns over the Two-Year Rate Plan. He further suggests that capital at the end of 2024 and 2025 be subject to a project-by-project attestation, versus the Provisional Capital Report process currently in place.

He, in effect, would upset the new regulatory paradigm, as a result of regulatory guidance provided by the Commission's January 31, 2020 Policy Statement[58] and the Engrossed Substitute Senate Bill 5295 (SB 5295). Specifically he criticizes recent regulatory treatment by stating "[i]t

[58] Docket No. U-190531.

has come to the point where ratepayers have little recourse in a proceeding,"[59] and that "utilities effectively have done away with traditional ratemaking principles, such as the used and useful and known and measurable standards,"[60] and that this has "encouraged utilities to submit filings with forecast assumptions...."[61]

Q. What do you say to these criticisms?

A. I do not agree. First, with respect to his criticism "ratepayers have little recourse in a proceeding," this could not be further from the truth. In fact, customers have more protections and opportunities for engagement through the rate case process today than they had in years prior to the changes in legislation. Through Multi-Year Rate Plans, capital investment is subject to review and refund, as discussed above, through a reporting process that allows an after-the-fact review of capital investment based on actual versus forecasted data; this was not the case for capital investment in prior cases. Customers are still protected by an earnings test. Further, the Company also must include all "offsetting factors." As discussed within my direct testimony, the Company has included "offsetting factors" totaling of $69.6 million for electric and $12.5 million for natural gas, over the Two-Year Rate plan. In doing so, the Company has ensured that over the Two-Year Rate Plan, in each RY1 and RY2, the Company is "matching" revenues, expenses and rate base, by rate year, which has always been a regulatory expectation.

Second, Witness Mullins' statement that utilities like Avista "have done away with traditional ratemaking principles, such as the used and useful and known and measurable standards"[62] and "the regulatory policy towards revenue requirement has been flipped on its head

[59] Mullins, Exh. BGM-1T, at 5:21.
[60] Mullins, Exh. BGM-1T, at 6:6-8.
[61] Ibid, at 6:23-7:1.
[62] Mullins, Exh. BGM-1T, at 6:7-8.

in Washington,"[63] also serve to criticize this Commission for how it has set rates in recent years through Multi-Year Rate Plans. I fully disagree. This Commission has made it quite clear that it has authority to consider and approve rate base through the rate-effective period, especially under Multi-Year Rate Plans, and has established an appropriate process to ensure capital investment included in rates is reviewed to ensure it is, in fact, used-and-useful and is subject to refund. Specifically, as noted in the Policy Statement[64]:

> (3) The commission may provide changes to rates under this section for *up to forty-eight months after the rate effective date using any standard, formula, method, or theory of valuation* reasonably calculated to arrive at fair, just, reasonable, and sufficient rates. *The commission must establish an appropriate process to identify, review, and approve* public service company property that becomes used and useful for service in this state after the rate effective date. (footnotes omitted)
> With the changes to RCW 80.04.250(3), we find that the requirements for pro forma adjustments discussed above hold true for requests for rate-effective period property, although they cannot be reviewed completely prior to rates going into effect. Accordingly, we must replace the traditional prospective review with a retrospective review for rate-effective period property requests. (emphasis added)

Furthermore, guidance from the Commission's Policy Statement ensured that current applicable principles and standards for setting rates still are applicable today, and are enforced by this Commission[65]:

> ...the Commission's longstanding ratemaking practice is to set rates using a modified historical test year with post-test-year rate-base adjustments using the known and measurable standard, the matching principle, and the used and useful standard, all while exercising considerable discretion under each of these standards in the context of individual cases. We intend to continue following these practices and standards as we implement the change to how and when we evaluate property as used and useful. It continues to be necessary within the context of a GRC to first develop a modified historical test year (*i.e.*, pro forma study) upon which requests

[63] Ibid, at 6:3-4.
[64] Policy Statement, Docket U-190531, par. 6 p. 3 and par. 27, p. 10.
[65] Policy Statement, Docket U-190531, par. 21 p. 8 and par. 26, pp. 9-10.

> to include property in rates will be considered.…[66]
>
> The Commission's longstanding interpretation of the property valuation provision of RCW 80.04.250 is that property or plant additions must be used and useful to serve Washington customers to be included in rates. "Used" means that the investment (plant) is in service, and "useful" means that a company has demonstrated that its investment benefits Washington ratepayers. (emphasis added, footnotes omitted)

Further, in regard to recovery of used and useful property, at paragraph 28 of the Policy Statement, the Commission stated its intent to achieve four goals:

> (1) Ensure general consistency with longstanding ratemaking practices, principles, and standards; (2) Maintain flexibility; (3) Avoid overly prescriptive guidance; and (4) Support streamlined processes by requiring additional process only when necessary.

With this guidance, the Commission outlined its process for review of proposed investments that become used and useful after the rate-effective date, as follows[67]:

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

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

- Offsetting Factors - Companies must include the estimated or projected costs (including all offsetting factors and duplicative recovery considerations) and a description of the investment, as well as other existing documentation, for a project

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

[67] Policy Statement, Docket No. U-190531, para. 11, p. 5 and para. 34, page 11.

that will be subject to review and audit during a future period.

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

As fully outlined by Ms. Schultz within her direct testimony, at Exh. KJS-1T, pp 15, ll. 3 – pp. 16, ll. 14, the Company has met these Commissions requirement within its filed case. Specifically, the Company has not submitted its current Two-Year Rate Plan using forecasted assumptions. Instead, the Company has filed each case in 2022 and 2024 following Commission policy – starting with its modified historical test year with post-test-year rate-base and other adjustments, ensuring the known and measurable standard is met and that offsetting factors are taken into account. These are elements of the "matching principle" standard, that ensure that costs and offsetting benefits are accounted for during the period in which they occur. The Company's filings also ensure the used and useful standard is adhered to, ensuring investment is in service, and "useful" benefitting Washington ratepayers. If investment is completed after the rate-effective period, it is subject to review and refund, until such time as the investment is reviewed through the Commission established Provisional Capital Report Process.

Q. Witness Mullins' states the "problems" with Multi-Year Rate Plans cannot be accomplished through after-the-fact capital reviews, because utilities have an incentive to spend up to its approved budgets to avoid refunding amounts to customers and the Commission and parties do not have an opportunity to determine the reasonableness of a utility's spending.[68] How do you respond?

[68] Mullins, Exh. BGM-1T, at 7:15-8:10.

A. Witness Mullins' statements are his generalized opinion, that have no basis of fact. Company witness Mr. Christie in his direct testimony,[69] fully describes Avista's process of identifying and prioritizing capital investment (including a range of factors that influence Avista's funding levels), which are designed to meet the overall need for investment, in the appropriate time frame, in a manner that best meets the future needs and expectations of our customers, in both the short-term and long-term. The Company's long-standing practice has been to constrain the level of capital investment each year, such that not all of the prioritized projects and programs will be funded in a given year at the level requested. However, as explained by Mr. Christie, once projects are approved for any given year, and the plan is approved by the Finance Committee of the Board, this plan is not a fixed and static plan. Rather, the projects in the Company's portfolio are regularly reviewed through its Capital Planning Group, which is comprised of Avista directors from across all of the capital-intensive areas of the Company as well as others from the Finance and Regulatory groups. This monthly review occurs to take into account changes in assumptions, constraints, project delays, accelerations, weather impacts, outage coordination, system operations, performance, permitting/licensing/agency approvals, safety, and customer-driven needs that arise. In recent years, we can also add pandemics to that list as well. The portfolio is continually updated throughout the year to remain as appropriate as possible. These changes and this review is not done to otherwise "spend up to its approved budgets to avoid refunding amounts to customers" as suggested by Witness Mullins.

[69] Mr. Christie, starting at page 21 of Exh. KJC-1T, Avista's plans call for a continuation of utility capital investments in generation, transmission, electric and natural gas distribution systems, and technology to preserve and enhance service reliability for our customers, including the continued replacement of aging infrastructure. Capital expenditures, on a system basis, of $500 million (for 2024), $525 million (for 2025), and $575 million (for 2026) are planned over the term of the filing and rate-effective dates for this rate plan. These levels are approved by the Company's Board of Directors.

With regards to "the reasonableness of a utility's spending," in each of the Company's filed cases, the Company provides thousands of pages of documentation to support capital investments on a pro-forma/provisional basis and then provides hundreds of pages of additional documentation to adequately allow for the provisional review proceeding. As a part of that documentation, a Business Case justification narrative is filed for <u>every</u> capital investment the Company includes on a pro-forma or provisional basis. These documents include an overall executive summary, project drivers, alternatives considered, offsetting factors, project ownership and oversight, and references to additional supporting documents that may be available. Then, when the capital investments are placed into service, the Company files a report which provides a description of any variances that have occurred in the period, a discussion of management oversight for variances, an updating any offsetting factors. It attaches supporting documentation and updated Business Case justification narratives if changes have occurred for the period, each signed off on at the Director management level.

Furthermore, as noted above, parties are able to review the levels of plant by investment type and reasonableness year-over-year. As noted above, most of the capital investment relates to ongoing, multi-year efforts that continue over time, at various funding levels. The rationale and justification for these ongoing projects, however, does not change over time, only the funding levels. This facilitates review of investments during a GRC at a review of funding levels. As previously noted and reflected in the aggregated Chart No. 1 above and explained by Company witnesses, in excess of 80% of "provisional" expenditures included in this case have their genesis in existing test period Business Cases reviewed in prior GRCs.

Q. What additional problems do you see with Witness Mullins' recommendation for an end-of-year project-by-project attestation, versus a portfolio approach, and a requirement to refund variances, with no consideration for projects which replace those as-filed by the Company during a rate year?[70]

A. This approach is unreasonable, overly restrictive and would prevent the necessary recovery of investments by Avista, as those evolve through a multi-year rate plan. A "portfolio" approach is necessary in a multi-year rate plan. The Company provides its best assumptions at the point in time it files its direct case. However, with an 11-month general rate case process, and a multi-year required rate plan, the Company is providing best estimates at the time of project costs and monthly transfers to plant, which are 15-27 months in advance of completion of RY1, 27-39 months in advance of completion of RY2, and an additional 12-24 months on top of that (or 51-63 months) for a 3 or 4-year rate plan. To require the Company to file a multi-year plan, and then "freeze" assumptions on a project-by-project basis is completely unreasonable. This would ignore the changing operational needs of the utility – both capital investment needs or operational issues that may occur over the Multi-Year Rate Plan. Operational issues that occur during the rate period often require changing capital investment in a distribution or generation plant as required for reliability or compliance matters. The same is true for road or other moves required by regulatory bodies and wildfires that destroy facilities. If any of these types of investments were not accurately captured with perfect foresight 2-4 years in advance under Witness Mullins proposal, Avista would not only be penalized (through non-recovery) for making the right operational decisions for its

[70] Mullins, Exh. BGM-1T, at 12:1 - 13:18.

customers, it would not be able to recover the investments it did make, and would have to return funds to customers that were absolutely necessary for changing operational needs.

Finally, Staff Witness McGuire, in response to Puget Sound Energy's recent GRC, Docket UE-24004, et.al., similarly discusses provisional plant subject to review, and provides support for the use of the level of plant included in provisional rates on a "portfolio" basis, stating the following[71]:

> **Q. Does Staff agree with PSE that the annual capital reviews should compare actual used and useful plant to the level of plant included in provisional rates on a portfolio basis (rather than on a project-by-project basis)?**
>
> A. Yes. Requiring the Company to stick rigidly to its forecasted capital plan could lead to bad business decisions and the Company should not be penalized for adaptively managing its investment plan and appropriately responding to changing circumstances. Examining the level of plant on a portfolio level allows for adaptive management while still ensuring that, in the aggregate, customers only pay for plant that is used and useful during the rate-effective period.

The annual Provisional Capital Review, therefore, is a reasonable process that is in place today, providing a review of all projects on an actual basis and provides an opportunity to explain any variances. This process allows this Commission to decide prudency of capital investment for any given rate year – as can be attested to by the successful completion of the 2022 and 2023 Provisional Capital Reports filed by the Company in March 2023 and March 2024, respectively. This includes the confirmation from this Commission, that Avista sufficiently justified its provisional capital investment included in rate year 1 (2023) of the current Two-Year Rate Plan, and its compliance with Order 10/04 in Dockets UE-220053, et.al. Furthermore, it is well to note

[71] Puget Sound Energy general rate case, Dockets UE-240004, UG-240005, and UE-230810, McGuire, Exh. CRM-1T, at 9:16 – 10:3.

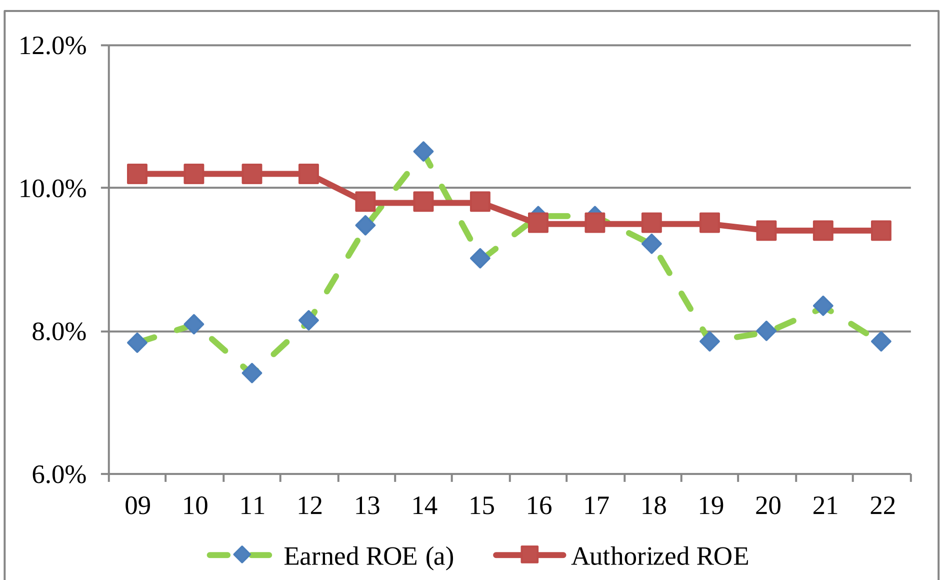
that no other party contested Avista's Pro Forma or Provisional Capital Adjustments, with the exception of the impact of cost of capital on those adjustments.

Q. Finally, Witness Mullins' states that his proposal does not prevent a utility from earning its returns. How do you respond?

A. Avista's chronic under-earning year-over-year as reported in prior rate case proceedings and attested to by Mr. Christie in his direct testimony, proves otherwise. As stated by Mr. Christie within his direct testimony[72]:

> **Q. Has Avista continued to experience "earnings erosion," notwithstanding an approved two-year rate plan?**
>
> A. Yes, it has. Our actual (normalized) returns continue to lag well below the authorized levels. Figure No. 2 below, excerpted from Mr. McKenzie's testimony (Exh. AMM-1T, p. 21), shows actual versus authorized returns from 2009-2022, and but for a brief period (2014-2018) when an "attrition adjustment" was in place, our earnings are again lagging behind the authorized level.

<u>Figure No. 2 – Actual Vs. Authorized ROE (System)</u>



(a) Normalized (Commission basis).

[72] Christie, Exh. KJC-1T, at 9, Figure No. 2.

The need for changes to the utility regulatory paradigm was also evident by the Company's (and other peer utilities) need to file annual rate cases (as even noted by Witness Mullins) up until its first Multi-Year Rate Plan filed in 2022. The final evidence is as provided by the State of Washington, who found it necessary to establish legislative requirements through SB 5295, requiring utilities to file multi-year rate plans and giving the Commission authority to approve, and utilities the opportunity to recover, rate period investment. This provided protection to utilities, while requiring investment review processes, as well as earnings tests requirements, be established to protect customers.

To approve the recommendations of Witness Mullins now, which are completely unreasonable for the reasons discussed above, would be taking steps backwards from the progress made in the last few years, and for the regulatory shortcomings this Commission and the legislative changes in SB 5295 sought to correct.

III. BALANCING ACCOUNTS

A. Wildfire Expense Balancing Account

Q. Please begin by summarizing the existing Wildfire Expense Balancing Account approved by the Commission, and what the Company has proposed in this proceeding.

A. In Avista Dockets UE-200900, et. al., per Order 08/05, the Commission approved a two-way Wildfire Expense Balancing Account that would track the variability in Avista's wildfire expenses against an established baseline, with a deferral of the difference in actual O&M Wildfire expenses, up or down, over the 10-Year Wildfire Resiliency Plan. The authorized wildfire expense "base" level was first set at $3.065 million for Washington electric operations, effective October 1, 2021, in Dockets UE-200900, et. al., and updated to $5.1 million in Dockets UE-220053, et. al., with any deferrals above or below this level to be deferred for later return to or recovery from customers.

In this proceeding, the Company is proposing to update the "base" level to $8,323,000, and to remain at that level over the Company's Two-Year Rate Plan. In addition, the Company has requested the Commission approve a carrying charge on the existing deferred Wildfire balance, and any new deferred balances going forward, and while these balances are being amortized, doing so at the Company's actual cost of debt, updated semi-annually (January 1 and July 1), effective with December 21, 2024 (RY1).[73]

Q. Are the parties to this proceeding supportive of the change in the Wildfire expense level included by the Company in this case?

A. Yes. The Company's Wildfire Expense Adjustment 3.24 as-filed by the Company in its direct case and unchanged on rebuttal, as included in Ms. Schultz' overall Electric Revenue Requirement,[74] is uncontested by parties to this proceeding. Staff Witness Erdahl, at Exh. BAE-1T, p. 26, lines 5-10, specifically privides Staff's support for the Wildfire Balancing Account baseline update.

Q. How did parties respond to Avista's proposal to include a carrying charge on the deferred Wildfire expense balances?

A. Parties were silent on this issue, with the exception of Staff Witness Erdahl, who expressed Staffs' support, stating: "Staff supports the accrual of interest on this deferred balance

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[73] See Andrews, Exh. EMA-1T, pages 17-23, for support of Avista's pro formed expenses over the Two-Year Rate Plan, continuation of the Wildfire Expense Balancing Account, and support of a carrying charge on Avista's deferred balances.
[74] Schultz, Exh. KJS-7, PF Wildfire Expense Adjustment 3.24.

because the circumstances were outside of the utility's control and the costs were unexpected and significant."[75]

Q. Staff witness Erdahl proposes in the next GRC that the Commission should remove the Balancing Account "tracker." Please summarize Witness Erdahl's position.[76]

A. Specifically, Staff witness Erdahl recommends Avista: (1) fold all costs that result in other shared benefits, in addition to wildfire mitigation, into base rates instead of being part of the wildfire balancing account; and (2) clearly identify and report learnings from any enhanced grid hardening (i.e., undergrounding) wherever those projects are located on Avista's electric transmission and distribution grid. Witness Erdahl states that Staff believes Wildfire efforts are now increasingly becoming typical, normal costs for all electric utilities, and therefore a tracker is not necessary for such costs.

Q. Do you agree with Witness Erdahl's statements?

A. Yes, in part. I agree with Witness Erdahl's characterization of costs that relate to the mitigation of wildfire risk (i.e., weather monitoring, enhanced vegetation management, etc.) and that there are shared benefits associated with vegetation management and grid hardening efforts – efforts that benefit both wildfire resiliency, as well as enhances reliability and storm damage; and that wildfire resiliency efforts and once extraordinary, are becoming a normal part of Avista's operations. However, I do not believe the efforts, focus, and expedited action "initially necessary to recognize and react to growing wildfire risk …" should be considered typical and result in normal costs, nor do I agree the "tracker is not necessary for such costs; they should

[75] Erdahl, Exh. BAE-1T, at 26:12-16.
[76] *Id.* at 27:14 – 29:3.

instead become a part of base rates."[77]

First, and most importantly, with regards to costs being included in base rates – expenses associated with the Wildfire Resiliency Plan efforts have been included in the Company's Two-Year Rate Plan, as discussed above and supported by Staff, within the Wildfire Expense Adjustment 3.24, and the update of the Wildfire Expense Balancing Account "base" level of $8.3 million for Washington electric operations. By establishing the "base" to utilize in the Wildfire Expense Balancing Account (or tracker), only those actual costs which vary from the "base," up or down, will be deferred for later recovery or return to customers. The "tracker" acts as protection for customers and the Company, if costs expected over the Two-Year Rate Plan vary from that included in base rates.

Second, I would <u>not</u> categorize Wildfire Resiliency Plan efforts, focus, and expedited actions "initially necessary to recognize and react to growing wildfire risk …," as <u>typical</u>. Wildfires continue to blaze across the United States, requiring continued review of Wildfire Resiliency Plans, utility diligence and efforts, and needs will continue to evolve over time. For example, although Staff has noted Avista's Wildfire Resiliency Plan and Balancing Account has been in place since 2020, they fail to note the significant changes to the plan that have occurred year-to-year, such as the significant growth in risk-tree vegetation management expenses required to manage dead, diseased, and dying trees in Avista's service territory updated in 2022 and 2023, or the addition of Public Safety Power Shutoff (PSPS) to the Company's Wildfire Resiliency efforts in 2024. All these efforts have added additional costs not included, or perhaps even contemplated in Avista's original 2020 Wildfire Resiliency Plan. These changes have evolved over

[77] *Id.* at 28:18 – 29:3.

time as Wildfire efforts and requirements have increased year-to-year. The Wildfire "tracker" has protected the Company by allowing it to track the increased costs associated with these evolving efforts, and continuation of the tracker allows the Company to be adaptable as the Company continues to learn what efforts may be required year-to-year to combat wildfires.

Finally, the 'tracker" allows the Company to adjust cost recovery if actual wildfire expenses versus that included in base rates decline. As noted in my direct testimony, 2026 expense levels are expected to be slightly lower than 2025, and further decline beyond 2026. That said, and as noted above, the Company cannot predict future needs that may require it to adjust its current Wildfire Resiliency Plan – revising its costs further up or down over time. Furthermore, while Staff and the Company both recognize there are shared benefits with on-going vegetation management efforts (which are separately tracked and compared to Wildfire resiliency expenses, so as to not double count), as well as other benefits, i.e., reliability, grid-hardening efforts, reduced storm costs, etc., – these benefits are not easily identified or quantified in real time, let alone estimated into the future in order to include in the next GRC. The Company has committed however, to ensure that quantified savings not otherwise included in base rates would be included as an offset within the Wildfire Balancing Expense deferral account, including savings related to on-going vegetation management versus risk-tree vegetation management expenses.

For these reasons, the Company requests the Commission continue to allow the Wildfire Expense Balancing Account "tracker" to continue, at least through 2029 (over the 10-Year Wildfire Resiliency Plan) as previously approved by this Commission in Dockets UE-200900, et. al., and to update the Wildfire expense and Wildfire Expense Balancing Account baseline, with a carrying charge on deferred wildfire expenses at Avista's actual cost of debt.

B. Insurance Expense Balancing Account

Q. Please summarize the existing Insurance Expense Balancing Account approved by the Commission.

A. In Avista Dockets UE-220053, et. al., per Order 10/04, the Commission approved a two-way Insurance Expense Balancing Account to track the variability in insurance expenses and defer the difference in actual insurance expenses, up or down, over the Two-Year Rate Plan (2023-2024), for later return to or recovery from customers. The authorized insurance expense "base" level was set at approximately $8.3 million for Washington electric operations and $1.7 million for natural gas operations, beginning December 21, 2021.[78]

The establishment of the Insurance Expense Balancing Account, however, as stated in the Full Multiparty Settlement Stipulation (Settlement), in Docket UE-220053, et. al., was "non-precedential, and its continuation may be challenged in a future proceeding,"[79] requiring the Company in this case, to support the continuation of its Insurance Expense Balancing Account. Approval of the Insurance Expense Balancing Account, was also conditioned that Avista document its action to seek out, negotiate, and attain the best insurance at the lowest costs and file with the Commission such documentation, with explanatory narratives, in Avista's annual filing beginning September 1, 2023.[80]

In response to the Commission's reporting "condition," on September 1, 2023, the Company filed its electric and natural gas tariff sheets (Tariff WN U-28, WA Electric and Natural Gas Insurance Expense Balancing Mechanism), which became effective November 1, 2023,

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[78] Order 10/04, in Dockets UE-220053, et. al., para. 138.
[79]See Full Multiparty Settlement Stipulation, Dockets UE-220053, et. al., Order 10/04, Appendix A, page 8.
[80] Dockets UE-220053, et. al., Order 10/04, para. 144 – 146

including in that tariff filing an insurance renewal summary describing the annual actions utilized by Avista to seek out, negotiate, and attain the best insurance at the lowest costs.

Q. Please summarize what the Company proposes in this proceeding with regards to the Insurance Expense Balancing Account.

A. As described in my direct testimony (Exh. EMA-1T), the Company has included incremental expected insurance expense increases in electric and natural gas Pro Forma Insurance Expense Adjustments (3.12) of $5.3 million for electric and $0.6 million for natural gas, above 12ME June 30, 2023 test period levels ($7.5 million for electric operations and $1.7 million for natural gas), to reflect the insurance expense levels expected in RY1, including insurance premiums for general liability, directors and officers ("D&O") liability, property insurance, and other insurance expense. This results in pro formed electric and natural gas insurance expense levels of approximately $12.8 million and $2.3 million, respectively. Furthermore, because the Company is proposing to continue its Insurance Expense Balancing Account mechanism, the Company is proposing to set insurance expense and the Insurance Expense Balancing Account "baseline" at these same as-filed expense levels shown above for the Two-Year Rate Plan.[81 / 82]

[81] See Andrews, Exh. EMA-1T, pages 24-42, and Exh. EMA-2C, for testimony and exhibits in support of Avista's pro formed expenses over the Two-Year Rate Plan, continuation of the Insurance Expense Balancing Account, variability in each insurance type, and support of a carrying charge on Avista's deferred balances.

[82] If this Commission were <u>not</u> to approve the continuation of the Insurance Expense Balancing Account, the Company would request an <u>incremental increase in insurance expense above test period levels</u> of approximately $10.7 million for electric (versus as-filed $5.3 million) and $0.9 million for natural gas (versus as-filed of $0.6 million) in RY1, and incremental increases of approximately $4.7 million Washington electric and $0.2 million for Washington natural gas in RY2, above RY1 levels. These updated expected amounts are based on Avista's response to discovery request Staff-DR-153C updating its expected insurance expense levels in 2025 and 2026, based on more current information than as originally filed with the direct case. Although projected insurance expense is expected to be higher over the Two-Year Rate Plan in both RY1 and RY2 than that included in this case, because the 2025-2026 levels are substantial, if this Commission approves the on-going insurance "tracker," the Company would prefer to allow the "tracker" to work as intended by deferring actual insurance expense above or below the baseline. This protects the customer and Company for any variability or inaccuracies above or below the Company's forecasted values.

In addition, the Company has requested the Commission approve a carrying charge on the existing deferred insurance balance, and any new deferred balances going forward, and continuing while these balances are being amortized, at the Company's actual cost of debt, updated semi-annually (January 1 and July 1), effective with December 21, 2024 (RY1).

Q. Are the parties to this proceeding supportive of the change in the insurance expense levels included by the Company in this case?

A. Yes. Other than the proposed sharing of D&O insurance expense costs (as proposed by Public Counsel Witness M. Garrett of 50% shareholder / 50% customer, versus the current authorized 90% shareholder / 10% customer sharing included in PF Insurance Expense Adjustment 3.12[83]), the Company's Insurance Expense Adjustment 3.12 as-filed by the Company in its direct case and unchanged on rebuttal is included in Ms. Schultz' overall Electric and Natural Gas Revenue Requirements.[84] It is uncontested by parties to this proceeding. Staff witness Erdahl, at Exh. BAE-1T, p. 32, ll. 3-8, specifically provides Staff's support for the insurance expense levels as proposed by the Company.

Q. How did parties respond to Avista's proposal to include a carrying charge on the deferred Insurance Expense balances?

A. Parties were silent on this issue, with the exception of Staff Witness Erdahl, who expressed Staffs' support, stating: "Staff supports the accrual of interest on this deferred balance because insurance costs have increased dramatically over recent years and the circumstances are outside of the utility's control."[85]

[83] M. Garrett, Exh. MEG-1T at 34:4-12.
[84] Schultz, Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas), PF Insurance Expense Adjustment 3.12.
[85] Erdahl, Exh. BAE-1T, at 32:18 – 33:3.

Q. How did Staff respond to Avista's proposal to continue the Insurance Expense Balancing Account and "baseline" expense level?

A. Staff, for its part, supported the continuation of the Insurance Expense Balancing Account and "baseline" expense level to match insurance expenses approved in base rates, noting the Commission approved the two-way Insurance Expense Balancing Account to "track the variability in insurance expenses Avista incurs to address the unprecedented increases and volatility in its insurance costs."[86] Staff further noted the continuation of this volatility and their support as follows[87]:

> **Q. Are these extraordinary and volatile increases in insurance costs due to factors outside the Company's control?**
>
> A. Yes. In Avista's last MYRP, the Commission found, "…that the record supports the creation of an Insurance Balancing Account, as agreed to in the Settlement, in particular because of the unique circumstances and terms presented." Staff has not seen any indication that Avista's insurance costs have become less volatile … and has not yet seen evidence of the volatility in the insurance market for utilities leveling off.
>
> **Q. Does Staff support Avista's proposal to continue its Insurance Balancing Account?**
> A. Yes. Staff recommends Avista be allowed to continue its insurance balancing account since there has not been evidence of conditions becoming more stable. It protects the ratepayers and the Company from over or under-collection of insurance expense.
>
> **Q. Does Staff support Avista's proposal to increase the insurance balancing account baseline?**
> A. Yes. Staff believes it is reasonable to increase the baseline amount to Avista's 2025 estimated level because this increase includes Avista's estimates for its 2025 pro forma insurance expense. The Company estimates insurance premiums based on annual review analysis of its policies prior to renewal, including actual invoices and estimated premiums to determine the appropriate expense level. (footnotes omitted)

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[86] *Id.* at 30:5-7.
[87] *Id*. at 30:10 – 32:16.

Other parties to this proceeding, with the exception of AWEC as described below, were silent with regard to the Company's proposed Insurance Expense Balancing Account.

Q. AWEC Witness Mullins proposes the Commission deny the continuation of the Insurance Expense Balancing Account, opposing the "true-up mechanism" as "single issue ratemaking" that increases administrative burden and removes Avista's incentive to manage insurance costs.[88] Do you agree with his assertion?

A. No, I do not. It has been made clear to the Commission, as recognized by Order 10/04 in Dockets UE-220053, et. al., and as reiterated by Staff as noted above, that the volatility experienced by Avista, and the utility industry, is extraordinary and outside the Company's control. Commission-approved "tracking mechanisms" were created for this very reason, to protect the Company and customers from "extraordinary" circumstances and volatility in certain expenses.

Furthermore, the Company has provided continued information regarding the impact on insurance costs and what Avista is doing to manage its insurance costs:

> 1) Avista's electric and natural gas Compliance filing, Dockets UE-220053, et. al., "Tariff WN U-28, WA Electric and Natural Gas Insurance Expense Balancing Mechanism", filed September 1, 2023, included an insurance renewal summary describing the annual actions utilized by Avista to seek out, negotiate, and attain the best insurance at the lowest costs;
>
> 2) Docket UE-210254, re: Avista's Response Related to Wildfire Preparedness Wildfire Comments, included information on insurance, filed November 17, 2023;
>
> 3) Docket UE-210254, re: Avista's Response Related to Wildfire Preparedness Wildfire Comments, included information on insurance, filed July 18, 2024; and
>
> 4) Andrews direct testimony in this proceeding, Exh. EMA-1T, pp. 37, ll. 13 – pp. 42, ll. 6.

[88] Mullins, Exh. BGM-1T, at 64:17-65:14.

For these reasons, the Company requests the Commission to take notice of this information allow the Insurance Expense Balancing Account "tracker" to continue as proposed by the Company, with an update to insurance expense and Insurance Expense Balancing Account baselines, along with a carrying charge on deferred insurance expenses at Avista's actual cost of debt. The Company will continue to provide support for the continuation of its Insurance Expense Balancing Account in future general rate cases.

IV. MISCELLANEOUS CONTESTED ADJUSTMENTS

Q. Would you please address the specific contested adjustments that you discuss on rebuttal?

A. Yes. Below, I address the following specific contested adjustments by various parties, which I discuss and that are otherwise included by Ms. Schultz within her overall Electric and Natural Gas Revenue Requirement Studies prepared for the Company's proposed Two-Year Rate Plan. These specific adjustments are as follows:

A. Miscellaneous O&M – Pro Forma Adjustments 3.14 (RY1), PF 5.06 (RY2)
B. Working Capital – Restating Adjustment 1.03 (RY1)
C. PPA Interest – Pro Forma Adjustments 3.23 (RY1), PF 5.12 (RY2)
D. Rent From Electric Property – Pro Forma Adjustments AWEC1 (RY1), AWEC2 (RY2)

A. Miscellaneous O&M – PF Adjustments 3.14 (RY1), PF 5.06 (RY2) (Electric & Natural Gas)

Q. Prior to providing Avista's position on rebuttal, please summarize Avista's Pro Forma Miscellaneous O&M Adjustments 3.14 (RY1) and 5.06 (RY2) as provided within its direct case and through discovery.

A. In the Company's filed case, it proposed, through Pro Forma Miscellaneous O&M Adjustments 3.14 (RY1) and 5.06 (RY2), to increase certain O&M and A&G expenses from historical test period levels to expected RY1 (2025) and RY2 (2026) expense levels, by applying a separate electric and natural gas 4-year historical O&M growth average (2019-2022). The escalation was applied to a small subset of electric and natural gas O&M and A&G expenses that were not otherwise pro formed or restated in other adjustments. Specifically, Avista applied an annual escalation factor of 6.3% for electric, and 4.57% for natural gas from the end of the test year (12ME 06.2023) through each rate year (December 2025) in RY1 and (December 2026) RY2.[89]

The Company later through discovery, however, modified its Pro Forma Miscellaneous O&M Adjustments 3.14 and 5.06, in response to PC-DR-297, <u>to reflect actual known changes in expense through 12ME December 2023, above test period expense 12ME June 2023</u>, and revised its annual historical O&M growth average to include 2023 results (2019-2023), resulting in escalation growth rates of 4.57% for electric and 4.28% for natural gas, above the 12ME December 2023 actual results.

As noted above, updating Avista's actual results to reflect known and measurable increases in the specific O&M and A&G expenses as of 12ME 12.2023 produces an increase in <u>actual</u> electric O&M /A&G expense of $5.9 million above test period levels, and shows a reduction in <u>actual</u> natural gas O&M / A&G expense of $468,000. In PC-DR-297, Avista then escalated this small subset of actual electric and natural gas O&M and A&G expenses as of 12ME 12.2023, not

[89] See Andrews Exh. EMA-1T, at 11-14.

otherwise adjusted, by the revised escalation rates to reflect the level of actual expenses it had expected over the Two-Year Rate Plan.[90]

Q. So, if Avista were simply to support revised values for these expenses at 12ME December 2023, what would be the reduction to Avista's filed case for RY 1?

A. For electric operations, Avista's electric PF 3.14 would drop by $3.0 million, from a level of $8.9 million to $5.9 million. For natural gas, Avista's PF 3.14 would drop by $2.1 million, from an increase of $1.6 million to a decrease of $0.5 million.

Q. Do you believe Staff supports this revised adjustment for electric and natural gas?

A. Yes, I do. Staff Witness Hillstead explains that Staff does not support using an O&M growth escalation as proposed by the Company to reflect RY1 (2025) O&M expense levels.[91] Instead, Staff recommends including the "incremental known and measurable 2023 O&M expenses not already included in the Company's test year, …" for RY1.[92] Reflecting the actual annual O&M/A&G expense level through 12 months-ending December 2023, versus the annual expense level per the test period (12ME 06.2023), supports an increase in Washington electric expense above test period levels by $5.9 million and a reduction to test period expense of $468,000

[90] Supporting PF O&M Miscellaneous Adjustments (3.14 and 5.06), as revised on rebuttal, can be found within Ms. Schultz Electric and Natural Gas Revenue Requirement native long models – Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) filed on rebuttal, as well as within supporting workpapers provided to all parties.
[91] Hillstead, Exh. KMH-1T, at 16:6-10.
[92] *Id*. at 16:12-16. Hillstead Exh. KMH-7, is a copy of Avista's response to PC-DR-297, which provides the change in O&M expense from twelve-months-ended June 30, 2023 (12ME 06.2023) to twelve-months-ended December 31, 2023 (12ME 12.2023), resulting in an increase in O&M expenses of $5.9 million for electric, and net reduction in O&M expense of $468,000 for natural gas. Avista's response to PC-DR-297 also provides an update to the Company's historical average O&M percentage used within its direct case, to reflect 2023 results. However, as described below, the Company does not use its historical average on rebuttal, opting to support Public Counsel Witness M. Garrett's proposal of <u>2.5%</u> annually above test period levels.

for natural gas. Staff, however, does not support a Two-Year Rate Plan, and is therefore silent regarding RY2 adjustments.

Q. Do you believe Staff made modeling errors in its filed case associated with these adjustments?

A. Yes, I do. While Witness Hillstead expresses support for the known changes to actual annual 2023 levels, Staff excluded Avista's electric and natural gas Pro Forma Miscellaneous O&M Adjustments 3.14 in their entirety within Staff's electric and natural gas revenue requirement models, and further reduced net expense by $181,000 electric and $1,000 natural gas, via hard coded inputs[93].

In effect, rather than removing only the escalated balances from Avista's direct case of $3.0 million electric and $2.1 million natural gas O&M expense, Witness Hillstead removed $9.1 million electric and $1.6 million natural gas O&M expense. If corrected for both of the noted errors, Staff's overall electric expense would increase $6.1 million, and its natural gas expense would decrease $467,000. Therefore, Staff's electric revenue requirement proposed in its direct case would increase by $6.4 million, whereas, its natural gas revenue requirement would decrease by $490,000. (See Andrews Exh. EMA-7 for reconciliation tables, reconciling Staff's error.)

Q. Does Avista agree with Staff's proposal to go to 12 months ending December 2023 test year levels?

[93] Staff Bench Request 1, 240006-07-Staff-Electric RR Model (C) Attach. A, "Adj Detail-Input" tab, column AT, and 240006-07-Staff-NG RR Model (C) Attach. B, "Adj Detail-Input" tab, column AM, includes hard coded inputs with no underlying support or links within supporting tabs. The net of Staff's actual adjustment from Avista's as-filed case removes $9.1 million for electric ($8.9 million included by Avista + $181,000 incremental) and $1.6 million for natural gas ($1.6 million included by Avista + $1,000 incremental). See also Andrews Exh. EMA-7.

A. Yes. I will summarize our position on these adjustments, for rebuttal purposes, but as a starting point, beginning with December 2023 values for electric and natural gas is supported by the Company. The Company, however, still believes these costs should be escalated, albeit by a smaller amount (2.5%) than originally requested, as supported by other parties.

Q. Briefly, what were the views of Public Counsel and AWEC on these adjustments?

A. Public Counsel Witness M. Garrett proposes to revise Avista's proposed growth escalation from 12ME 06.2023 test period results by 2.5% annually, per his review of the Personal Consumption Expenditures price index (PCEPI) forecast of the Federal Reserve, and the Federal Open Market Committee ("FOMC").[94] AWEC Witness Mullins, for both Washington electric and natural gas operations, proposed to exclude any rate escalation in RY1, arguing "costs have declined in 2023 relative to the Historical Test Period...," but applied an inflationary escalator of 2.3% in RY2, which Mullins argues represents the mid-point PCEPI forecast of the Federal Reserve, and FOMC per its June 12, 2024, projections.[95]

Q. AWEC Witness Mullins expressed concern over the overall O&M expense proposed by the Company in this case. Do you agree with his assertions?[96]

A. No, I do not. In the Company's prior general rate case, the Company significantly understated its expected level of O&M expenses in its direct case (filed January 2022), because the extent of inflation in 2022 and beyond was still not fully understood by the industry. By the time the Company recognized it would experience inflationary levels of over 10% for its electric

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[94] M. Garrett, Exh. MEG-1T at 11:12 - 13:6.
[95] Mullins, Exh. BGM-1T, at 19:12-20.
[96] Id. at 18:4-19:9.

operations in 2022, levels which were not included in base rates,[97] it was too late to reflect these results in the Company's 2022 GRC. This is also occurring in this case, as the actual results of 12ME 2023 are not fully reflected in this proceeding. Although the higher levels of inflation experienced in 2022 have begun to decline, a certain level of inflation will still exist beyond 2023 levels (as noted by both Witnesses Mullins[98] and Garrett[99]).

Q. What is Avista supporting on rebuttal with regards to its Pro Forma Miscellaneous O&M Adjustments 3.14 (RY1) and 5.06 (RY2)?

A. First, the Company has included the actual changes in this subset of O&M and A&G expenses of 12ME 12.2023 levels versus test period levels, as provided in PC-DR-297 (Exh. KMH-7), as these balances are clearly known and measurable, and should be reflected as discussed earlier (and as supported by Staff).

Second, while the Company believes that the use of its own historical growth average of O&M / A&G utility expenses may be more representative of the incremental changes in its utility operating expenses over time, the Company concedes that inflationary costs experienced in 2022 have begun to decline, and an average including the actual higher 2022 inflation O&M year may not be representative at this time. The Company, therefore, supports the inflationary rate of 2.5% annually through 2026 as proposed by Public Counsel Witness M. Garrett.

Q. Please provide a simplified table showing Avista's original Pro Forma Miscellaneous O&M Adjustments 3.14 (RY1) and 5.06 (RY2) and its rebuttal positions, factoring in Staff's and Public Counsel's positions which you are adopting.

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[97] This was reflected in its poor returns per a normalized Commission Basis earned return on equity (ROE) in 2022 of 7.8% for its Washington electric operations versus its authorized 9.4% ROE)
[98] Mullins, Exh. BGM-1T, at 19:12-20.
[99] M. Garrett, Exh. MEG-1T at 11:12 - 13:6.

A. Table No. 1 below summarizes Avista's Miscellaneous O&M Expense Adjustments 3.14 for RY1 (2025) and Adjustment 5.06 for RY2 (2026), as filed within its direct case and as revised on rebuttal.

Table No. 1 - Avista Washington Miscellaneous O&M Expense Direct versus Rebuttal

Avista Washington Miscellaneous O&M Expense - Two-Year Rate Plan				
RY1 - 2025		(000s)		
Adjustment 3.14		**Electric**		**Natural Gas**
Direct	$	8,876	$	1,634
Rebuttal	$	9,012	$	223
Net Change in Expense	$	136	$	(1,411)
Net Change in Revenue Requirement	$	143	$	(1,481)
RY2 - 2026				
Adjustment 5.06		**Electric**		**Natural Gas**
Direct	$	3,550	$	654
Rebuttal	$	1,555	$	346
Net Change in Expense	$	(1,995)	$	(308)
Net Change in Revenue Requirement	$	(2,094)	$	(323)

As shown in Table No. 1 above, the result on rebuttal of these changes to Avista's electric and natural gas revenue requirement in RY1, is an increase of $143,000 for electric, and a reduction of $1.5 million for natural gas. For RY2, these changes reduce the Company's electric and natural gas revenue requirements by $2.1 million for electric and $323,000 for natural gas. More detailed tables have been provided in my exhibit, Exh. EMA-7, summarizing Avista's direct case versus its position on rebuttal, along with a reconciliation of parties' positions (Staff, Public Counsel and AWEC), as well as a reconciliation of Staff's error.)

B. Working Capital – Restating Adjustment 1.03 (RY1) (Electric & Natural Gas)

Q. AWEC Witness Mullins proposes to exclude FERC Account balances 134.122 and 134.123 - Other Special Deposits, related to the Company's Mizuho and Wells margin

accounts, from Avista's overall Working Capital rate base adjustment.[100] **Does the Company agree with such an exclusion?**

A. No, it does not. For reasons discussed below, Avista includes FERC Accounts 134.122 and 134.123 (Wells and Mizuho[101]) within its Investor Supplied Working Capital (ISWC) Restating Adjustment (1.03), using the methodology approved by the Commission in Avista's litigated proceeding, Dockets UE-190334, UG-190335, UE-190222, *consolidated*. In that proceeding, Staff witness Erdahl (at Exh. BAE-1T, starting at page 6), after a thorough review of the Company's ISWC adjustment, proposed the methodology currently approved by the Commission and utilized today, specific to FERC Accounts 134.122 and 134.123 – Other Special Deposits. In testimony, witness Erdahl explained FERC Accounts 134.122 and 134.123 are funds held for daily trade positions for gas and electric purchase and sales, and proposed to <u>re-categorize the portion of Accounts 134.122 and 134.123 that already earns interest</u>. Avista supported Staff Witness Erdahl on the method of calculation to determine the small portion of Accounts 134.122 and 134.123 that earn minimal interest over the historical test period for exclusion. The Company has followed that methodology in all later rate cases.

Q. Please explain the purpose of these accounts (FERC Accounts 134.122 and 134.123) and how Avista transacts with Wells and Mizuho clearing members.

A. Clearing members, such as Wells and Mizuho, stand in the middle of each commodity trade and become the central counterparty to the trade, thereby guaranteeing financial

[100] Mullins, Exh. BGM-1T, at 29:11-22.

[101] Wells Fargo Securities, LLC (Wells) and Mizuho Securities USA, LLC (Mizuho) are registered futures commission merchants (FCM) with the Commodity Futures Trading Commission (CFTC) and members of the National Futures Association (NFA). Avista transacts futures-based swaps for power and natural gas, through ICE (Intercontinental Exchange) Futures Europe, one of the derivative exchanges and Swap Execution Facilities whom both Wells and Mizuho are clearing members.

performance of the contract, mitigating counterparty risk for Avista, and providing for more liquid markets. Transactions executed on these exchanges are financially cleared through either Wells or Mizuho. There are stringent requirements including minimum capital levels, operational and technical abilities, and risk management competence that futures commission merchants must meet and maintain to be clearing members.

When Avista enters into a financial transaction, the transaction is assessed an initial margin, based on published rates by the Exchange for each futures product (i.e. Mid C Pwr, Mid C Peak, Nymex Alberta, Nymex Malin, etc.) and cash is posted to either Wells or Mizuho into Avista's segregated accounts. Initial margins represent a theoretical loss that could occur over a specified time based on historical price volatility. In addition, transactions are marked-to-market (MTM) daily to ensure adequate margin which may require an additional deposit to Wells or Mizuho. <u>Avista wires funds to or receives funds from Wells and Mizuho daily</u>. The funds are cumulative of changes in initial margin, MTM changes, fees (commissions, clearing, NFA, etc.), and profit or loss of settled transactions with the net deficit/excess amount either being wired or received.

As described above, for the deposits in FERC Accounts 134.122 and 134.123, only a minimal portion of the balances earn interest. In Avista's filed case, included in support of Avista's ISWC Adjustment 1.03, Ms. Schultz provided the calculation showing that, of the <u>system</u> AMA balances of $75.5 million included in these two accounts, only $6.1 million effectively earned interest. In other words, 92% of the balance did not earn any interest. The Company removed Washington's share of these balances (the other 8%) that were "interest-bearing" from its working capital. WA electric share of $2.851 million and WA natural gas share of $0.903 million were removed from the working capital rate base. The remaining balances included in working capital in FERC Accounts 134.122 and 134.123 represent the non-interest-bearing portion of the account balances, and therefore remained in working capital rate base by the Company as of the twelve-months-ended June 30, 2023 (12ME 06.2023) historical test period results. The resulting adjusted ISWC included in the Company's case totaled $100.7 million for electric and $14.4 million for natural gas.

Q. AWEC Witness Mullins also argues that these accounts within the historical test period do not represent expectations during the Company's rate plan period. Do you agree with this assumption?[102]

A. No, again I do not. While the balances which occurred in the winter of 2022-2023 were extraordinary compared to several years past, the market is clearly not the same as it had been even 4 to 5 years ago, causing these balances to remain much higher than previously experienced.[103] In fact, the market is drastically different, having a direct impact on collateral (specifically Wells and Mizuho balances), caused by: 1) elevated power and gas prices, which are consistently higher than several years ago for all forward periods, in part attributable to carbon reduction legislation; 2) price volatility, or price swings, for both power and gas are much more dramatic than in past experience, causing associated dramatic collateral swings, of which it is now not uncommon to see calls of $3.0 million in one day, a level uncommon only a few years ago; and 3) the impact of significant market events experienced in the last three years, causing

[102] Mullins, Exh. BGM-1T, at 28:3-29:3.

[103] For example, in 2019 the Wells and Mizuho balances on an AMA basis for the year totaled $16.2 million and $14.4 million, respectively, as provided with Avista's 2019 Electric and Natural Gas Commission Basis Reports filed with this Commission. In contrast, the balances in this case as of 12ME 06.2023 AMA, provided within the Working Capital Adjustment 1.03 support, totaled $41.9 million (Wells) and $33.6 million (Mizuho).

significant power and gas price spikes; Avista has seen more market events in the last five years than we have in the prior ten-plus combined.[104]

With all these examples, while overall Wells and Mizuho collateral balances have come off some since the December 2022 event, they have not come back down to levels we saw prior to that event, nor are they expected to. Collateral balances used to hover below $20 million (most of the time well below) but now the floor appears to be more in the $30 million - $40 million range during the summer months and $50 million-plus in the winter months. Therefore, initial margin rates have also not returned to pre-December 2022 rate levels.

Q. What final concerns do you have with Witness Mullins' removal of these balances?

A. Beyond the facts noted above, ISWC is included in each general rate case based on actual balances per the historical test period – i.e. 12ME 06.2023 in this proceeding on an average-monthly-average (AMA) basis. The reason for that is because adjusting ISWC to a projected rate period is simply not feasible. ISWC is made up of hundreds of balance sheet accounts at a point in time, all of which increase and decrease ISWC, netting to the overall monthly amount. The Company is unable to project out to rate period levels for each of the balance sheet accounts included within the ISWC, and therefore, it is highly inappropriate to "cherry pick" a few specific accounts, as Witness Mullins has done, to reduce or revise ISWC. One cannot argue that certain accounts may decline during the Rate Plan versus that included per the historical test period, when other accounts may just as likely increase significantly.

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[104] Just some examples include prolonged cold in coastal West Coast areas that historically rarely saw 30 degree or below temperatures, prolonged heat of 90 plus degree days, significant pipeline ruptures, and regional power constraints.

Q. Has Avista experienced regulatory lag with regards to ISWC over recent years, including in the current 2023-2024 Multi Year Rate Plan?

A. Yes, it has. In the 2022 general rate case (Docket UE-220053, et.al.,) the adjusted ISWC balances included (adjusted to remove FERC Accounts 134.122 and 134.123 interest portions), were based on the historical test period balances at 12ME 09.2021 totaling $51.3 million for Washington electric and $2.5 for Washington natural gas, or <u>$53.8 million Washington system</u>. Comparing this to <u>actual</u> 2023 ISWC reported in Avista's 2023 Commission Basis Report of $102.0 million for Washington electric and $18.8 million for Washington natural gas (or <u>$120.8 million Washington system)</u>, the Company experienced a <u>Washington lost return of over $6.3 million in 2023 alone</u>. Until new rates are established in this proceeding, including the 06.2023 ISWC rate base amount as filed by the Company of $115.1 million (Washington system)[105] is included in rate base for recovery of the return on this asset, the Company will continue to under-earn by an incremental lost return through 2024 of over $5 million.[106]

For the reasons discussed above, the Company believes Witness Mullins removal of Working Capital rate base of $28.8 million for Washington electric and $3.6 million for Washington natural gas, reducing the Company's overall revenue requirement by approximately $2.5 million for Washington electric and $311,000 for Washington natural gas, is not reasonable, should be rejected, and would only result in an even greater lost return to be absorbed by the Company, beyond what it has already incurred.

[105] Restating Working Capital Adjustment 1.03 can be found within Ms. Schultz Electric and Natural Gas Revenue Requirement native long models – Exh. KJS-7 (electric) and Exh. KJS-8 (natural gas) filed on rebuttal, as well as within supporting workpapers provided to all parties.

[106] The Company also absorbed approximately $3.3 million in lost return in 2022 due to ISWC regulatory lag, resulting in an overall expected lost return absorbed by shareholders of $14.6 million between 2022 and 2024.

C. Power Purchase Agreement Interest - PF Adjustments 3.23 (RY1), 5.12 (RY2) (Electric)[107]

Q. NWEC Witness Gehrke at Exh. WG-1T, pp. 2-8, recommends the Commission reject a return on investment for Power Purchase Agreements (PPAs), arguing that a return on PPAs does not "follow traditional cost-based rate-making"[108]. Do you agree?

A. No. The incentive rate of return on PPAs is not a cost-based item, rather it is an incentive created by the Washington State Legislature to drive acquisition of clean energy resources under Washington's Clean Energy Transformation Act (CETA). In essence the return is a performance-based incentive which serves to compensate utilities for seeking clean energy PPAs over potentially more expensive self-build options.

Q. What was the intent of the legislature?

A. Senate Bill 5116[109] states, in reference to the transition to clean energy, that the "legislature declares that utilities in the state have an important role to play in this transition, and must be fully empowered, through regulatory tools and incentives, to achieve the goals of this policy."[110] The purposeful inclusion of "a rate of return of no less than the authorized cost of debt and no greater than the authorized rate of return of the electrical company…,"[111] is, in our view, just such an incentive.

Q. Are incentives unjustifiable windfalls for the utility?

[107] Supporting PF PPA Return Adjustments (3.23 and 5.12) can be found within Ms. Schultz electric Revenue Requirement native long model Exh. KJS-7 filed on rebuttal, as well as within supporting workpapers provided to all parties.
[108] Gehrke, Exh. WG-1T, at 5:14.
[109] https://lawfilesext.leg.wa.gov/biennium/2019-20/Pdf/Bills/Senate%20Bills/5116-S2.E.pdf
[110] Id. p. 2, Sec. 5
[111] RCW 80.28.410(2)(b)

A. Absolutely not. Incentives of any type are meant to drive certain behaviors. They are tools that are deployed to cause an action. For example, the IIJA and IRA discussed by Company witness Ms. Scarlett discuss federal incentives meant to drive the adoption of clean energy technologies in a manner quicker than would otherwise occur. For CETA, an incentive rate of return will help drive adoption of clean energy PPAs and/or remove any bias towards selecting self-build options.

Q. Are the findings of another State regarding earning a return on PPA's appropriate in this matter?[112]

A. No, the findings of the Oregon Public Utility Commission is not relevant I this instance. Witness Gehrke cites an investigation – <u>from 2010</u> – where the OPUC found it to be inconclusive as to whether customers were harmed by paying an incentive rate of return as compared to the savings from the mitigation of a self-build bias. The OPUC was "unable to determine whether any of the proposals in this docket would mitigate the bias without improperly rewarding the utilities and unfairly harming customers".[113] In the end, none of the record of that old proceeding in a different jurisdiction is before the Commission in this case. Perhaps more important is the driver of the incentive rate of return in Washington at this time; not a driver 14 years ago in Oregon. The energy landscape has changed dramatically since that time, with all of the additional clean energy requirements of utilities throughout the Northwest. Such a stale proceeding in Oregon should not be used to supplant the legislature intent upon the passage of CETA, that allows for an incentive rate of return.

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[112] Gehrke, Exh. WG-1T, at 4:1 – 5:4.

[113] *Id.* at 4:18-21. See, In the Matter of the Public Utility Commission of Oregon, An investigation regarding performance-based ratemaking mechanisms to address potential build-buy bias, Public Utility Commission of Oregon, Docket UM 1276, Order 11-001, at p. 5.

Q. Witness Gehrke (in an alternative position)[114] and Staff Witness Hillstead[115] support a cost of debt return rather than a full rate of return. Is the cost of debt return appropriate?

A. In the end, the Commission must weigh where setting a precedent in this case authorizing a full rate of return as proposed by the Company would further help to drive clean energy acquisition for Washington customers and remove any potential bias for all Washington utilities to seek potentially more expensive, self-build options. A full rate of return quite simply would help in that regard.

Q. Witness Hillstead cites a debt return of 4.93 percent. Is that the correct cost of debt in this case?[116]

A. The Company has filed a 4.99 percent cost of debt, which has been supported (or not opposed) by the parties in this case. Witness Hillstead (in citing Staff Witness Parcel's testimony)[117], states that the cost of long-term debt is 4.93%. That is correct, but what is contemplated in the law is the "authorized cost of debt", not authorized cost of long-term debt. As such, if the Commission were to authorize a return on PPAs at the authorized cost of debt, 4.99 percent would be the appropriate value. Table No. 2 below takes information from Witness Parcel's Exh. DCP-3, (page 1) and adds two additional columns – "Interest" and "Cost of Debt" which proves out the 4.99 percent cost of debt inclusive of short-term and long-term debt:

[114] *Id*. at7:17.
[115] Hillstead, Exh. KMH-1T, at 18:10-17.
[116] Witness Hillstead's adjustment reduces Staff's RY1 revenue requirement by $810,000. Her adjustment does not impact RY2 as Staff does not support the multi-year rate plan. Hillstead, Exh. KMH-1T, at 10, Table 3, row 3.23.
[117] Hillstead, Exh KMH-1T, at 18:13.

Table No. 2 – Cost of Debt

		Amount (000)	Percent	to 51.5%	**Interest**	**Cost of Debt**
Short-Term Debt		$100,000,000	3.73%	1.92%	**$6,587,858**	
Long-Term Debt		$2,583,700,000	96.27%	49.58%	**$127,376,647**	
Total Debt		$2,683,700,000		51.50%	**$133,964,505**	**4.99%**

D. Rent from Electric Property – Pro Forma AWEC-4.03 (RY1), AWEC-5.13 (RY2) (Electric)

Q. AWEC Witness Mullins proposes to include a higher level of Rent from Electric Property. Does the Company agree with such an inclusion?[118]

A. Yes, in part. For reasons discussed below, Avista is including an additional $0.6 million of electric revenue requirement for RY1 (included as PF AWEC-4.03), and $0.2 million for RY2 (included as PF AWEC-5.13)[119], as compared to Witness Mullins total increase of $2.1 million in Rate Year 1, and an incremental $0.3 million in Rate Year 2.

Q. In short, what is "Rent from Electric Property"?

A. Generally, Rent from Electric Property is related to Joint Use facilities, whereby other utilities pay Avista rent for placing their infrastructure on our poles. These companies primarily are telecommunications, fiber optics, and cable television companies.

Q. Please describe why Witness Mullins rationale for AWEC's larger adjustment, than that proposed by the Company on rebuttal, is incorrect.

A. First, Witness Mullins claims that "(t)here has been increasing demand for pole attachments, particularly given the deployment of 5G mobile telecommunications services".[120] 5G

[118] Mullins, Exh. BGM-1T, at 22-26.
[119] Supporting PF Rent from Electric Property Adjustments (AWEC-4.03 and AWEC-5.13) can be found within Ms. Schultz electric Revenue Requirement native long model Exh. KJS-7 filed on rebuttal, as well as within supporting workpapers provided to all parties.
[120] Mullins, Exh. BGM-1T, at 23:6-7.

was growing rapidly when it first entered the market, but either the market has been saturated, or the demand has diminished as Avista has only processed 1 application in the last 12 months for a new 5G antenna. Another provider recently <u>removed</u> 20+ antennas. In short, 5G has no bearing on joint use growth.

Second, Witness Mullins claims that Avista has experienced "exponential revenue growth"[121], and extrapolates from that higher level of growth to reach his adjustment. The substantial growth shown in Witness Mullins' Figure 2 for 2023 was related to a <u>one-time audit</u> Avista completed for the purpose of inventorying the joint use on every pole in our distribution system and level setting on that bases. The audit uncovered approximately 20,000 unauthorized attachments. Those 20,000 attachments will increase our rental revenue (and which is factored into Avista's adjustment on rebuttal). Upon completion of the audit, Avista back billed - on a one-time basis - the joint users for the unauthorized attachments. Avista in 2023 back billed $3.2 million (system basis). Based on the level of billings and the reactions from Joint Users, Avista expects to recover no more than half that amount.

Third, Witness Mullins relies on his own Century Link calculations for his analysis, stating that it is "one of Avista's largest pole attachment customers".[122] Century Link has only requested to attach to 420 poles thus far in 2024. For comparison, other joint users like TDS, Declaration, Lincoln County, and Fatbeam attach to over 1,000 poles in 2024. Ziply Fiber attaches to 3600 poles in 2024, all of which are included in our expected revenues for 2024. In the end, relying on Century Link to determine a proper level of rent is flawed.

[121] *Id.* at 24:8-9.
[122] *Id.* at 24:14.

Q. Avista has proposed on rebuttal to increase Rent from Electric Property by $0.6 million to a level of $3.4 million for the Rate Year. How was that calculated?

A. The Company, when it was preparing this general rate case, did not have firm numbers on what joint use revenue might be as the audit referenced above was only being finalized. With the audit now complete and monthly billings now reflecting the proper level of attachments, we can see what the new level of ongoing revenue is. For the first six months of 2024, Avista has billed $1.7 million (Washington-share). Extrapolating that to all 2024, that level would be $3.4 million. The test year level was $2.8 million, thus leading to the $0.6 million increase included in the Rebuttal revenue requirement. Table No. 3 below provides further details.

<u>Table No. 3 – Joint Use Revenue Analysis</u>

	Washington	Allocated Washington	Total Washington	
2022	$ (2,427,290)	$ (140,027)	$ (2,567,317)	
Test Period 07/2022 - 06/2023	**$ (2,639,066)**	**$ (142,728)**	**$ (2,781,794)**	
2023	$ (4,153,022)	$ (122,247)	$ (4,275,269)	(1)
2024 (Jan-Jun 2024)	$ (1,630,736)	$ (58,282)	$ (1,689,018)	
Annualized 2024 / 2025	**$ (3,261,472)**	**$ (116,564)**	**$ (3,378,036)**	(2)
Incremental 2024/2025 Annualized versus 12ME 06.2023 Test Period			$ (596,242)	**(RY1)**
Revenue Requirement			$ (625,971)	

Rate Year 1	Growth Rate	Rate Year 2 Incremental (RY2)	Rate Year 2 Revenues	
$ (3,378,036)	5.6%	$ (188,608)	**$ (3,566,644)**	(3)

(1) As discussed in AWEC-DR-035, 2023 annual revenues included additional one-time invoices for back rent related to unauthorized attachments that were found during our 2023 system-wide pole audit.

Incremental one-time invoices backbilled were recorded in Q4 '2023, causing an over-inflated growth in revenues for 2023 as referenced by Mr. Mullins (53.7%).

(2) 2024 Annualized rental revenue (of actual Jan-Jun 2024 rental revenue) is representative of annual pole revenues expected for 2024 and Rate Year 1 (2025), reflecting the system-wide audit review of pole revenue, and revised pole invoicing for attachments.

(3) Rate Year 2 (2026) expected pole revenue after estimated growth (5.58%) $3.57 million.

Q. Table No. 3 above does show a substantial increase in 2023. Why shouldn't that level of joint use revenue also be considered?

A. Again the large increase in 2023 was related to one-time back billing of rents owed but not paid in prior years. Avista has back billed those customers, but in the end does not expect to recover even half of those bills. Irrespective of that, one-time back billing revenue should not be factored into the rate year level of revenues as they simply won't exist.

Q. Shouldn't there also be an increase in revenues for Rate Year 2?

A. Yes, the Company agrees an expected increase in RY2 (2026) is reasonable, and therefore the Company has included in RY2 an additional increase in joint use revenue of $189,000. The Company derived that value by taking the Annualized RY1 Washington joint use revenue from Table No. 3 above ($3,378,036) and utilized Witness Mullins 5.6% growth extrapolated from his Table 6[123] from 2025 to 2026 for determining that adjustment.

V. CUSTOMER TAX CREDITS – FLOW THROUGH vs DEFERRAL BALANCES

Q. What is the purpose of this section of your rebuttal testimony?

A. This portion of my testimony is to respond to the testimony of AWEC Witness Mullins (Exh. BGM-1T), with regard to the return of Customer Tax Credits to Washington electric and natural customers. More specifically, I address: 1) Deferral of on-going IDD#5 & Meters Tax Deductions versus flow-through of these tax benefits; and 2) Accounting for the return on the change in rate base over time. I will also provide a summary of the change to flow-through accounting, Commission deferral approvals, and amortization and return of tax benefits to customers ordered by the Commission.

[123] *Id*. at 26, Table 6. Witness Mullins shows an increase of $272,590. That value divided by his 2025 Washington level of $4,882,187 is 5.6%.

<u>**A. Deferral of IDD#5 & Meters Tax Deductions versus Flow Through Tax Benefits**</u>

Q. Do you agree with Witness Mullins' recommendation on flow through accounting?

A. No, I do not. AWEC Witness Mullins recommends that the Commission require Avista to fully transition to "Flow-Through" accounting of its 2025 estimated tax deductions associated with IDD#5 and meters expenditures, moving this deduction to base rates, as an offset to electric and natural gas current tax expense in RY1 of approximately $4.4 million and $0.9 million, respectively. This varies from the current approved accounting treatment of deferring these tax benefits for later return to customers through the separate Customer Tax Credit Tariff Schedules.

First, the deferred accounting treatment of the IDD#5 and meters expenditure tax deductions (both the balances as of December 2020, and any future deductions), was approved by the Commission per Order 01 in Dockets UE-200895 and UG-200896, as described further below. The approved deferred accounting treatment of on-going IDD#5 and meters tax deductions approved by this Commission, allows the Company to <u>track the total actual tax benefits for the benefit of customers</u>. The Company's intent, as described in its original petition, was to defer the tax credit benefits owed customers then and on-going over time, rather than just treat future balances as a flow-through going forward year-over-year, ensuring customers receive <u>dollar for dollar the tax benefits owed them</u>. This tracking mechanism allows the Company to monthly account for any amortizations and deferrals of estimated tax deductions in the current year, as well as true-up for actual tax deductions for any changes from estimates and as approved by the Internal Revenue Service (IRS) over time. This in-turn protects both customers and the Company from any inaccuracies of the Company's tax deduction estimates for these items year-to-year.

Second, the current amortization of Tariff Schedules 78 (electric) and 178 (natural gas) "Customer Tax Credit" expires in December 2024, resulting in an end-of-period Customer Tax Credit asset (debit balance) due from customers of $0.5 million for electric and a net Customer Tax Credit liability (credit balance) owed to customers of $2.4 million for natural gas, as shown in the electric and natural gas schedules provided as Andrews Exh. EMA-8.[124] If the Commission were to order this method change with the effective date of this case, and ending any future deferrals, an adjustment to remove the 12ME 06.2023 test period Customer Tax Credit (net of ADFIT) liability balances on AMA basis of $29.6 million for electric and $13.5 million for natural gas, would have to be made to the net ADFIT balances at December 2024 (at expiration of existing Tariff Schedules 78 / 178) to reflect the revised ADFIT level (deferred tax credits, net of ADFIT owed customers) when new rates go into effect.[125] This would have the effect of increasing overall net rate base by $30.1 million and $11.6 million,[126] and increasing (correcting) Witness Mullin's proposed revenue requirement by approximately $2.8 million electric and $1.1 million for natural gas,[127] as shown in Table No. 4 below.[128]

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[124] Balances as shown See Andrews Exh. EMA-8, see pp. 1 (electric) and 3 (natural gas), row 202412, column "Rate Base", balance net of FERC Accounts 254.393 (Regulatory Liability) and 190.393 (ADFIT).

[125] Witness Mullins states he was unable to identify any residual ADFIT balance recorded by Avista and therefore he made no such adjustment, even though this information was available per the amortization schedules Witness Mullins included as his Exh. BGM-5 Mullins/13 (electric) & 15 (natural gas). See row 202306, column "AMA Rate Base" balances of $29,645,746 (electric) and $13,490,482 (natural gas).

[126] Electric $30.1 million (ADFIT Liability at 12ME 06.2023 of $29.6 million + $0.5 million ADFIT Debit balance). Electric Revenue requirement impact $2.82 million ($30.1 million *AWEC ROR 7.06% / CF .75248, net of debt interest). Natural Gas $11.6 million (ADFIT Liability at 12ME 06.2023 of $13.5 million less $1.9 million ADFIT owed customers). Natural Gas Revenue requirement impact $1.09 million ($11.6 million *AWEC ROR 7.06% / CF .75248, net of debt interest).

[127] Revenue requirement increase on the increase in rate base, based on AWEC proposed 9.25% ROE.

[128] Witness Mullins proposed estimated 2025 tax expenses deductions totaled $4.4 million electric and $0.9 million natural gas expense, resulting in reductions to his electric and natural gas revenue requirements of $5.8 million and $1.2 million, respectively. Correcting his balances as discussed above, result in revised (corrected) revenue requirement deductions of approximately $3.0 million electric and $138,000 for natural gas.

Table No. 4 – Correction to Mullins Net Rate Base and Revenue Requirement

Increase in Rate Base Required RY1 (2025) With Flow Through Accounting Proposed by Mullins			
Net Rate Base Impact [Customer Tax Credit (254) net of ADFIT (190]	**Electric**	**Natrual Gas**	**WA System**
Test Period ADFIT Balance 12ME 06.2023 (AMA)	**$ (29,646)**	**$ (13,490)**	**$ (43,136)**
Required ADFIT Balance RY1-2025 (AMA)	$ (346)	$ (1,860)	**$ (2,206)**
Increase in Mullins Rate Base	$ 29,300	$ 11,630	$ 40,930
Impact On Mullins Revenue Requirement*	**$ 2,749**	**$ 1,090**	**$ 3,839**

*Revenue Requirement based on AWEC ROR 7.06%, would vary at Company ROR of 7.61%

Q. Does there tend be significant variations in the electric and natural gas annual Customer Tax Credit deductions, both estimated and actually realized, year over year?

A. Yes, there are. As can be seen in Table No. 5 below, the actual tax deductions between 2022 and 2023 alone varied $1.2 million for electric and $0.7 million for natural gas, and these actual balances, vary again significantly from that expected between 2024 and 2027.

Table No. 5 – Washington Annual Customer Tax Credit Deferral (Actual and Estimated)[129]

Washington Annual Customer Tax Credit Deferral (1)		
Year	**Electric**	**Natural Gas**
May-Dec. 2021	(1,618,160)	(575,698)
2022 (2)	(1,949,541)	(1,718,471)
2023	(3,099,655)	(2,394,050)
2024 Estimated	(2,284,976)	(903,738)
2025 Estimated	(4,385,523)	(923,080)
2026 Estimated	(4,739,798)	(3,507,849)
2027 Estimated	(2,166,401)	(30,451)
(1) Initial Customer Deferred Tax Credits through December 2020 recorded upon approval by all jurisdictions (WA, ID, OR) in April 2021.		
(2) Balance recorded Jan. - Nov. 2022 totaled $941,000 for electric and $1.2 million for natural gas, with a true-up of $1.0 million electric and $477,000 natural gas record in December 2022 to adjust to actual.		
(3) Balance recorded Jan. - Nov. 2023 totaled $470,000 for natural gas, with a true-up of $1.9 million in December 2023 to adjust to actual.		

[129] See Andrews Exh. EMA-8, see pp. 1-2 (electric) and 3-4 (natural gas).

As noted in footnotes (2) and (3) in Table No. 5 above, it is important to recognize that in December of 2022 and 2023, a significant true-up occurred to recognize actual deferred Customer Tax Credit deferral balances, versus that estimated at the beginning of the year. These significant increases in the actual tax deductions recorded to the deferral at year end would have flowed through as a benefit to the Company, rather than customers, if flow-through accounting was currently utilized in base rates, versus the on-going deferral approved by the Commission.

If ultimately this Commission decides it would like the Company to end its Customer Tax Credit deferred accounting treatment, thereby ending the separate customer tax credit tariffs, and flowing through as a current tax expense offset all future IDD#5 and meter tax credits, the Company requests the Commission order this change to take effect prospectively in Avista's next general rate case. This would allow the Company to fully account for the impact of such a change through the next GRC rate plan on expense and net rate base.[130]

B. Accounting for the Return on the Change in Rate Base

Q. Witness Mullins also argues that the Company improperly recorded a return on the change in rate base since 2021 on its books, reducing the tax benefit balances owed customers and recalculates what he believes is owed to customers since 2021 through December 2024.[131] What is your response?

A. In short, Witness Mullins inappropriately deleted key information from Avista's electric and natural gas Customer Tax Credit amortization and deferral schedules discussed above.

[130] If, however, the Commission decides this change should occur in this proceeding, a change in the tax expense deduction should be based on current estimates for 2025 and 2026. In addition, proper pro forma tax expense and net rate base adjustments must be recorded for both RY1 (2025) and RY2 (2026), given the variation in the tax expense deductions expected, especially for natural gas, as shown in Table No. 5 above.
[131] Mullins, Exh. BGM-1T, at 38:12-39:12.

He zeroed out the monthly and cumulative return balances, which were appropriate and should not have been deleted. Witness Mullins created his own amortization and deferral schedules (see Exh. BGM-6), revising Avista's actual balances beginning May 2021, removing the monthly and cumulative return balances recorded, changing the overall schedule provided by Avista. These adjustments result in deferred tax credit balances of $5.7 million for electric and $5.4 million for natural gas calculated by Witness Mullins, that he now claims Avista owes customers as of December 2024.

Q. Why does the Company disagree with the Deferred Tax Credit balances and amortization as proposed by Witness Mullins?

A. First, Witness Mullins inaccurately states the Company did not have authority to record the return on the change in rate base. As a result, his proposal would have the Company return more tax benefit dollars than is actually owed customers ($6.3 million electric and $3.1 million natural gas), as shown in Table No. 6 below.[132]

Table No. 6 - Washington Deferred Tax Credit Liability (Account 254) at December 2024

Washington Deferred Tax Credit Liability (FERC Account 254) at December 2024		
	Electric	Natural Gas
Mullins Deferred Tax Credit Balances @ 12.2024	$ (5,733,917)	$ (5,436,066)
Avista Deferred Tax Credit Balance @ 12.2024	$ 512,964	$ (2,387,588)
Mullins Overstatement of Balances Owed Customers	**$ 6,246,881**	**$ 3,048,478**

In addition, again Witness Mullins ignores the impact on Company net rate base in RY1 and RY2, if this Commission were to approve his proposed return of $5.7 million electric and $5.4 million natural gas tax dollars through separate tariff, increasing rate base, and resulting in further

[132] If the Commission were to order Avista return these tax benefit amounts to customers, this would require an immediate write off be recorded in December 2024 to Washington operations of $9.7 million, or $6.3 million electric and $3.1 million natural gas to establish these balances as a liability owed customers.

lost return on the higher assets over the Two-Year Rate Plan, under his methodology.

Later I will discuss Avista's authority to record the return on rate base.

Q. Under Avista's methodology, what is the expected change in net rate base that the Company expects to occur over the Two-Year Rate Plan (2025-2026) in this case?

A. As discussed earlier, the Company's historical test period Customer Tax Credit balances for Washington at 06.2023 total $29.6 million for electric and $13.5 million for natural gas, or $43.1 million (Washington system). Since the deferred tax balances through December 2023 will have been returned to customers, with only on-going deferrals remaining during the Two-Year Rate Plan, the actual net deferred tax benefit liability (Tax Credit 254, net of ADFIT 190) balances on the Company's books of record will be much lower, estimated to total approximately $2.2 million in 2025, and $5.0 million in 2026, on a system Washington basis. Table No. 7 below summarizes this activity:

<u>Table No. 7 – Actual Customer Tax Credit Deferred Balances vs Two Year Plan Balances</u>

Customer Tax Credit (Deferred Liability (254) net of ADFIT (190) Deferral Balance (AMA)*			WA System Expected Rate Base (AMA)	WA AMA Rate Base Per GRC	Net Increase to Rate Base Over the Two-Year Rate Plan	Estimated Return on Change in Rate Base (WA System) Over Two-Year Rate plan
(000s)	WA E	WA NG	WA System			
6/30/2023 TP	$ (29,646)	$ (13,490)	**$ (43,136)**			
12.2025	$ (346)	$ (1,860)	**$ (2,206)**	**$ (40,930)**	$ 38,724	$ 3,526
12.2026	$ (2,089)	$ (2,880)	**$ (4,969)**	**$ (38,167)**	$ 33,198	$ 3,406

As can be seen in Table No. 7 above, the increase in net rate base expected in 2025 and 2026 on the Company's books on an AMA basis, versus that included in the 12ME 06.2003 test period, results in an <u>understatement of rate base on a Washington system basis of $38.7 million in 2025, and $33.2 million in 2026,</u> versus that included in this case over the Two-Year Rate Plan.

The effect of including this lower test period rate base of $43.1 million (WA system) in the

Company's case, also has the effect of lowering Avista's overall Washington system revenue requirement requested in this proceeding (by the return on that rate base) of approximately $3.5 million annually over the Two-Year Rate Plan. How Avista accounts for the missing return in base rates, on this change in rate base over time, is described below in Section c. "Summary of Customer Tax Credits Benefit Approval and Accounting."

Q. Since the Customer Tax Credit Tariff Schedules 78 (electric) and 178 (natural gas) expire at the end of the current year rate plan (December 2024), did the Company propose a change in these tariffs to return incremental deferred tax dollars to customers concurrent with this case?

A. No, the Company did not propose a change in Tariff Schedule 78 and 178 "Residual Customer Tax Credit" in this GRC, to become effective concurrent with this proceeding (December 2024), as it had in the prior two GRCs.[133] After December 2024, the initial, substantial recorded deferred tax benefits as of December 2020 recorded in April 2021 (as well as on-going deferral balances through 2023) will have been returned to customers. As noted in Table No. 6 above, the expected Customer Tax Benefit deferred balances as of December 2024 is a deferred asset (owed Avista) of $513,000 for electric, and a deferred liability owed customers of $2.4 million for natural gas. The Company opted to wait until a later point in time, when further <u>actual</u> balances are available, and when actual balances owed customers are <u>more substantial</u> for both services, before filing to begin a new amortization.

Q. Is Avista required to update or change Tariff Schedules 78 and 178 within a

[133] Although all parties received Avista's response to AWEC-DR-07 (Mullins Exh. BGM-5) providing the expected balances through December 2024, and Staff-DR-215 (Andrews Exh. EMA-8) providing the expected balances through December 2027, no other party proposed to extend Tariff Schedules 78 / 178 beyond their current expiration date of December 2024 at this time in this GRC.

GRC?

A. No, it is not. That is the beauty of the use of the Residual Customer Tax Credit Tariff Schedules 78 and 178. The Company may file at any time to modify these tariffs to return incremental actual deferred tax credit balances owed customers. This can occur, without waiting for a chance to do so in a GRC, or to modify estimated balances that may have been included in a prior GRC on a forecasted basis, that may no longer represent reality.[134]

Q. To fully understand the approvals surrounding the deferred Customer Tax Credit balances, please summarize the creation of the deferred tax benefits for customers, and what those balances represent.

A. The Customer Tax Credits paid to customers are the result of the Company's filing on October 30, 2020 with the WUTC of its "Petition for an Order Authorizing Approval to Change Its Accounting for Federal Income Tax Expense of Certain Plant Basis Adjustments and Deferral of Associated Changes in Tax Expense" (Tax Accounting Petition). Approval by the Commission of the Company's Tax Accounting Petition, per Order 01 in Dockets UE-200895 and UG-200896, provided authority to change its accounting for federal income tax expense from the normalization method to a flow-through method for certain "non-protected" plant basis adjustments, including Industry Director Directive No. 5 (IDD #5) and meters[135], and authority to defer any tax benefit

[134] As noted above in Table No. 5, if flow-through accounting had been utilized in the Company's prior Washington GRCs for 2022 and 2023 rate periods, deferred tax balances returned to customers would have likely been largely understated by $1.0 million for electric in 2022, and by $477,000 in 2022 and $1.9 million in 2023 for natural gas. Those understated balances would remain until updated or reset in a future GRC.

[135] During 2020, Avista worked with consultants from the Deloitte accounting firm on a 2019 tax review to determine tax deductions Avista could utilize going forward, benefitting the Company and its customers. As a result of this effort, Avista filed two new accounting method changes with the IRS to modify its tax method for accounting for certain costs relating to IDD #5 and meters. IDD #5 relates to mixed services costs that are part of the capitalized book costs of utility property but can be capitalized to inventory and expensed for tax purposes as a cost of goods sold expenditure. The meter accounting method change allows Avista, for income tax purposes, to deduct meter costs instead of capitalizing them if the per unit cost is less than $200. These changes were included with the 2019 federal

owed customers, as a result of the tax accounting change.

As approval of this tax accounting change was required by all three of Avista's jurisdictions (Washington, Idaho and Oregon), a separate Tax Accounting Petition or Application was also filed in Avista's Idaho and Oregon jurisdictions, approval of which were received from the Idaho Public Utilities Commission (IPUC) in Order No. 34906 in Case Nos. AVU-E-20-12 and AVU-G-20-07, and from the Public Utility Commission of Oregon per Order No. 21-131, in Docket No. UM 2124. The final State approval was received May 4, 2021, allowing the Company to consistently change its accounting for federal income tax expense from a normalization method to a flow-through method across all three jurisdictions, and allowing the Company authorization for the immediate benefits to customers to be deferred and recorded for later return to customers.

As a result of the tax accounting change approved by all jurisdictions, the Company recorded in April 2021 a deferred system tax benefit of $150.8 million, including the tax benefit specifically owed to Washington electric and natural gas customers of approximately $58.1 million and $28.2 million, respectively, through December 31, 2020. The original balances, along with additional, on-going tax credits continue to accrue annually and be deferred for customers in FERC Account No. 254.3 – Regulatory Liability (at a grossed-up amount). The net of the Regulatory Liability (FERC Account 254.3), offset by related ADFIT (FERC Account 190), previously recorded in FERC Account. No. 282900, continued to be included as an offset to rate base until funds were/are returned to customers through a separate tariff as discussed below. This allows customers to continue to receive the net benefits of the "basis" adjustments, <u>as a reduction to rate</u>

tax return that was filed in October 2020 and was the basis of the request for an accounting change in the Company's Tax Accounting Petition, resulting in a substantial deferred system tax benefit for customers of $150.8 million.

base, until such time the flow-through benefits are returned to customers or included in rates. For Avista, as the regulatory liability balance is amortized and refunded to customers, net rate bate will necessarily increase on the Company's books of record, even though not reflected within "base rates" until future GRC proceedings.

Q. How has the Company returned these tax credits to customers to date?

A. In Avista's GRC in Dockets UE-200900, et. al., per Order 08/05, paragraphs 119-121, the Commission ordered the return of electric and natural gas deferred tax credit balances recorded as of December 31, 2020, through separate Tariff Schedules 76 (electric) and 176 (natural gas), annually of approximately $17.4 million and $8.7 million, respectively, over a two-year period beginning October 1, 2021 through September 30, 2023, with any remaining and incremental deferred tax credit balances being returned to customers over a ten-year period, at least until revisited in the next GRC.

In the Company's following GRC (Docket UE-220053 et. al.), the expected remaining Tax Credit balance as of December 31, 2023 was ordered to be returned to customers for Washington electric and natural gas of approximately $27.6 million and $12.5 million, respectively, over a two-year amortization period beginning December 2022 through December 2024, concurrent with the effective date of that case or December 21, 2022, through separate Tariff Schedules 78 (electric) and 178 (natural gas) labelled "Residual Tax Customer Credit." These balances reflected the actual deferred tax credit balances as of December 31, 2020 for Washington electric and natural gas operations, adjusted to include the annual estimated incremental tax credit deferrals from January 1, 2021 through December 31, 2023, and adjusted to exclude the annual estimated amortizations of the tax credit deferred balances per Order 08/05 in Dockets UE-200900, et. al. (amortized

October 1, 2021 through September 30, 2023). Amounts owed customers beyond 2024 will be deferred monthly and returned to customers at a later point in time through Tariff Schedules 78/178.

Q. How has the Company accounted for the tax credits owed customers within base rates as approved by the Commission since 2021?

A. As described above, at original deferral of these tax credits, and over the time that these deferred tax credits were returned to customers through separate tariff, their original tax deferred balances (amounts prior to the return of such balances) were included as an offset (reduction) to rate base within and between general rate case proceedings, ultimately reducing base rates for customers during each rate year and between rate cases.

Q. How has the return of these tax credits impacted Avista's rate base on its books of record between 2022 through 2024, versus what has been included in base rates?

A. As shown in Table No. 8 below, base rates have included an overall net Washington system rate base reduction of $68.1 million annually on an AMA basis from October 2021 through December 2024. This compares to actual book net rate base associated with the Customer Tax Credit deferred balance, due to the amortization and return of Customer Tax Credits through Tariff Schedules 76/176 & 78/178 from October 1, 2021 a December 2024.

Table No. 8 – Customer Tax Credit Impact on AMA Rate Base (Actual versus GRC)

Customer Tax Credit (Deferred Liability (254) net of ADFIT (190) Balance (AMA)*			WA System Actual Rate Base (AMA)	WA AMA Rate Base Per GRC	Net Increase in Booked Rate Base Over Amortization Periods
AMA (000s)	WA E	WA NG	WA System		
10/1/2021	$ (45,782)	$ (22,359)	**$ (68,141)**		
12.2022	$ (37,334)	$ (17,553)	**$ (54,887)**	**$ (68,141)**	**$ 13,254**
12.2023	$ (19,707)	$ (8,670)	**$ (28,377)**	**$ (68,141)**	**$ 39,764**
12.2024	$ (5,161)	$ (4,187)	**$ (9,348)**	**$ (68,141)**	**$ 58,793**

As shown above, "rate base" included in "base rates" was understated by $13.3 million during 2022, $39.7 million during 2023, and $58.8 million (expected) in 2024.

Q. What impact would this net <u>understatement of rate base in base rates versus actual rate base</u> have had on the Company' books, if a return on this change in rate base was not somehow accounted for?

A. As shown in the Table No. 9 below, given the reduced rate base included in base rates, the lost return to the Company compared to actual rate base, if not somehow accounted for, would result in lost return on assets to the Company of $9.7 million.

<u>Table No. 9 – Return on Change in Rate Base Between October 2021 – December 2024</u>

Customer Tax Credit (Deferred Liability (254) net of ADFIT (190) Balance (AMA)*			WA System Actual Rate Base (AMA)	WA AMA Rate Base Per GRC	Net Increase in Booked Rate Base Over Amortization Periods	Actual Return Amount on Change in Rate Base (WA System)
(000s)	WA E	WA NG	WA System			
10/1/2021	$ (45,782)	$ (22,359)	**$ (68,141)**			
12.2022	$ (37,334)	$ (17,553)	**$ (54,887)**	**$ (68,141)**	**$ 13,254**	**$ 1,212**
12.2023	$ (19,707)	$ (8,670)	**$ (28,377)**	**$ (68,141)**	**$ 39,764**	**$ 3,443**
12.2024	$ (5,161)	$ (4,187)	**$ (9,348)**	**$ (68,141)**	**$ 58,793**	**$ 5,067**
					Net Return	**$ 9,722**

Q. Please explain how the Company has accounted for the impact of this difference in rate base over time as it has returned the customer tax credits to customers through the Customer Tax Credit Tariffs, to prevent that lost return.

A. Monthly as the Company recorded the amortization of Tariff Schedules 76/176 & 78/178 (returning the tax credits to customers, reducing the deferred tax balance, and increasing net rate base), a return on the change in rate base (calculated based on the actual monthly AMA balance versus the AMA balance included in base rates) was (is) recorded as an offset to the monthly overall deferred Customer Tax Credit balance. The result of that accounting treatment has reflected a reduction to the monthly on-going deferred tax credit amount owed customers, summing to $1.2 million in 2022, $3.4 million in 2023 and $5.1 million in 2024, as shown in Table No. 9, above.

Q. Is this accounting treatment appropriate based on the deferred accounting treatment approved by the Commission in May 2021?

A. Yes, it is. This accounting treatment properly reflects the overall amounts owed customers over time – no more, no less.[136] Alternatively, if the Commission had ordered the return of the Customer Tax Credits be included in base rates, the Company would have included a pro forma adjustment in each rate period (2022 – 2024) increasing net rate base by $13.3 million in 2022, $36.8 million in 2023 and $58.8 million in 2024. The result of which would have increased the annual base rate revenue requirement approved by the Commission of $1.2 million in 2022, $3.4 million in 2023 and $5.1 million in 2024.

Rather, the Commission ordered the on-going deferred accounting treatment utilized today and the return of the Customer Tax Credits through separate tariff schedules - resulting in the matching values recorded through the accounting for the return of the tax credits through Tariff Schedules 76/176 & 78/178. Said another way, this treatment has the same effect on customers and the Company, keeping both whole. Otherwise, the Company would be unfairly harmed by the lost return on the accelerated change in rate base during the multi-year rate plans as these dollars are being returned, until the next GRC, in which Washington rate base is reset (increased) reflecting the actual return of these deferred tax dollars to customers. To do otherwise, would have

[136] Exhibits and or workpapers supporting this methodology were provided to all parties during the 2020 and 2022 GRC, and discussed with parties to the proceedings.

over-refunded amounts owed customers, at the detriment of the Company by $9.7 million to date.

Q. Do you think that the Company would propose future, innovative accounting concepts for the benefit of customers if they were to be harmed by such efforts?

A. Absolutely not. Recall that the purpose of passing these benefits through to customers was an effort by the Company to help mitigate general rate case impacts, especially during the COVID pandemic.[137] The Company does not believe the Commissions' intent would have been to approve the accounting treatment, as proposed by Witness Mullins, that would ignore the significant change (increase) in rate base, resulting in the lost return on rate base of $9.7 million (between 2022 and 2024), and ultimately returning more dollars than owed customers; nor do I imagine it would be the Commission's desire to require Avista to incur this loss of $9.7 million in 2024. This would have <u>purposefully penalized</u> the Company then (or would penalize the Company now), for doing the right thing for customers. As described in the Company's deferral request applications and later GRCs, in 2020 Avista took it upon itself to seek out ways to reduce its tax expenses for the Utility and for customers and <u>requested to defer all benefits current and on-going to return these benefits from customers dollar for dollar</u>, versus flow-through accounting, at a time when customers needed these offsetting benefits the most during the COVID pandemic.

Q. Please summarize why in October 2020, the Company proposed this deferred accounting treatment for the initial balance and that the deferred accounting of these tax

[137] Without the request by the Company in each of its jurisdictions to defer the tax credit benefits to a Regulatory Liability (FERC Account 254), and to change to flow-through accounting, the existing tax credits would have continued to be normalized and returned to customers over approximately 36 years. Under this methodology, the change in rate base would have occurred slowly and normalized through the test period balances within the general rate case, with no need for special treatment. Given the significant balances and the complexity to account for these balances, it was through the 2020 and 2022 general rate cases that the initial proposed modifications took place, with the benefit used to mitigate rate filings, and the amortization through separate tariffs was used to appropriately track the balances and changes in rate base and other accounts over time.

credits <u>be on-going</u>, rather than just defer the total balance owed customers at that time and allow the incremental on-going tax credits to just flow through the Company's books of record annually.

A. <u>First</u>, at the time of filing its deferred accounting request – both initial and on-going deferral – the overall initial balance of $150 million system (Washington, Idaho and Oregon) owed to customers was significant, and therefore it was unknown how each State would approve these dollars to be returned to customers over time. <u>Second</u>, the Company only had estimates of the monthly on-going balances beyond December 2020 that the Company expected to defer based on future investments in meters and IDD#5, that would qualify for the tax deduction and ultimately result in a tax credit amount to defer for the benefit of customers. And <u>third</u>, at the time of the request for on-going deferral in each of Avista's jurisdictions, Avista was not allowed to include net rate base on an AMA basis <u>as of the rate period in base rates</u>. Therefore, since expected rate base during the rate period was not allowed, it would have been inappropriate to include incremental ADFIT Customer Tax Credit balances expected during each rate period, resulting from the very rate base excluded from base rates.[138]

The Company's intent however, as requested, was to defer these tax credit benefits owed customers then and on-going, rather than just treat future balances as a flow through going forward year-over-year, <u>ensuring customers received dollar for dollar the tax benefits owed them over time</u>. This in-turn protected customers and the Company, keeping both whole during the rate year and between GRCs of the impact on net rate base and of the accuracy of its estimates, allowing for

[138] While the Commission now has the authority to approve AMA <u>net</u> rate base during the rate period (including an offset for ADFIT), this is not the case in Avista's Idaho and Oregon jurisdictions. And more importantly, the issue still remains of the ability to accurately determine the actual tax deductions that will occur and be approved by the IRS, versus estimates available at the time rates are set.

actual true-ups to occur over time. Furthermore, tracking these balances through the accounting treatment of the tariff schedules, separate from base rates, has kept base rates lower than they otherwise would have been if the change in rate base had been reflected in base rates on an AMA basis in each rate year – an important aspect, especially during 2020 – 2022, when customers were most impacted by COVID-19.

Q. Now that you have described the accounting treatment approved, and how the Company has accounted for the Tax Customer Benefits over time, please explain how this Commission "approved" this accounting treatment.

A. Specifically, in the 2020 litigated GRC, Dockets UE-200900, et. al., the Company provided within its exhibit (Exh. EMA-5), its native file Exh. EMA-5, spreadsheet "4.00T Strategic Tax,", tab "Year 1", which illustrated the return owed Avista on the change in rate base on an AMA basis in the first rate year of $1.6 million electric and $557,000 natural gas, reducing the overall deferred tax credits owed customers, as a result of Avista's proposal to return through separate tariff, $17.7 million (electric) and $6.1 million (natural gas) for the period October 2021 through September 2022. The Company discussed these files, the proposed amortization, and the accounting of these tax amortizations with parties during that proceeding. As noted above, the Commission ultimately approved the return through separate Tariff Schedules 76 (electric) and 176 (natural gas), of $17.4 million and $8.7 million[139], respectively, over a two-year period beginning October 1, 2021 through September 30, 2023. Ultimately, as shown in Table No. 9 above, the Company recognized only $1.2 million (Washington electric and natural gas) of return

[139] Balances approved for return to customers varied from as filed, due to modifications during the process of the case for updated balances.

on investment in 2022 related to the actual change in rate base over time.[140]

With regards to the Company's 2022 GRC[141] (Docket UE-220053 et. al.), since the Company was not proposing a GRC adjustment, but proposing an incremental tariff to return additional tax credit dollars to customers concurrent with base rates, which was supported by the Settling Parties[142] in that case, and ultimately approved by the Commission, this same accounting treatment was provided in workpapers to all parties. These workpapers provided a separate schedule of electric and natural gas Customer Tax Credit amortizations over time, showing the accounting (including recorded return on change in rate base), historically and through time as proposed by the Company, and were consistent with that provided by Witness Mullins as Exh. BGM-5 Mullins/12-16.

Similarly, in this proceeding, the Company provided updated amortization schedules through December 2024 in response to AWEC-DR-07, as provided in Exh. BGM-5. The Company provided additional estimated balances through December 2027 in response to Staff-DR-215, which has now been provided with Andrews exhibits, as Exh. EMA-8.

In summary, the intent of the on-going deferral of the Customer Tax Credits is to defer for the benefit of customers balances owed them, and return dollar for dollar these balances, which the Company has, and is doing through Separate Tariffs 76/176 (electric and 78/178 (natural gas). In order to keep both customers and the Company whole as these dollars are returned to customers,

[140] This amount varies from that estimated per Exh. EMA-5 in Dockets UE-200900, et. al., due to the actual rate of return and the amounts ultimately amortized by the Commission, as well as differences in the period of time (annual 2022 versus the twelve-month period 10.2021 – 09.2022).

[141] While the 2022 GRC approved was the result of a Settlement with most parties, the Settlement was ultimately litigated in front of the Commission, due to Public Counsel contesting the Settlement.

[142] Docket UE-220053, et. al., Full Multiparty Settlement Stipulation, Settling Parties consisted of Avista, the WUTC Staff, AWEC, NWEC, The Energy Project, Sierra Club, Walmart, and Small Business Utility Advocates.

the change in rate base of this significant (accelerated) nature must be taken into consideration through the deferred balances tracked for customers and returned through separate tariff, between rate cases. Otherwise, the Company would be unfairly harmed by the lost return on the accelerated change in rate base during the multi-year rate plans as these dollars are being returned, until the next GRC, in which Washington rate base is reset (increased) reflecting the actual return of these deferred tax dollars to customers.

VI. COYOTE SPRINGS DEFERRAL OF MAJOR MAINTENANCE AND RECOVERY

Q. Please summarize the Company's proposal with regard to the CS2 Major Maintenance (overhaul) as described in its direct case, and the impact on this GRC.

A. Within my direct testimony I described Avista's proposal to defer Washington's share (approximately $12.0 million) of the actual CS2 major maintenance expense (overhaul) originally scheduled for June 2026, and to amortize the deferred balance over four (4) years, beginning July 1, 2026, through June 30, 2030. The Company also proposed to include a carrying charge on both the deferred balance and during the proposed 4-year amortization period.

I also explained that the Company has included the effect of the proposed amortization expense in RY2, within Ms. Schultz's overall Electric Revenue Requirement,[143] in Electric Adjustment (5.11) Pro Forma CS2 Amortization, of Washington's share of the CS2 major maintenance expense deferral, amortized over 4 years beginning July 1, 2026 through December 31, 2026 (six months), including interest on the deferral balance and during the amortization

[143] Supporting PF CS2 Amortization Expense Adjustment (5.11) can be found within Ms. Schultz electric Revenue Requirement native long model Exh. KJS-7 filed on rebuttal, as well as within supporting workpapers provided to all parties.

period.

Q. Is the deferral and amortization of the CS2 major maintenance expense included in the electric pro forma study supported by the parties in this proceeding?

A. All parties, with the exception of Staff who does not support a multi-year rate plan, did not contest the Pro Forma CS2 Amortization Expense Adjustment (5.11)[144], and although there were several discovery requests by parties with regard to the CS2 overhaul, no party objected to the Company's proposal to defer the actual CS2 Major Maintenance when it occurred or the 4-year amortization period beginning July 1, 2026.

Q. Is there any change to the Company's deferral request you wish to bring to the Commission attention?

A. Yes. As previously described in my direct testimony (Exh. EMA-1T, p. 52, ll. 3-5), CS2 is required to have a major maintenance overhaul every 32,000 fired-hours on the unit (approximately every 4-years). At the time of the Company's direct case, the Company had anticipated the over-haul to occur in mid-2026, resulting in the Company reporting in testimony the major maintenance and deferral would occur in June 2026, with a 4-year amortization to begin July 2026. Since the Company's filing, the actual run hours have been greater than originally anticipated during 2024, which may require the major maintenance overhaul to occur during 2025, rather than 2026.

[144] Also included in my direct testimony is an explanation of electric adjustment Pro Forma Remove Normalize CS2 Major Maintenance Adjustment (3.22) included in RY1, which removes the normalized CS2 major maintenance expense recorded in Adjustment 2.18 (Restating Normalize CS2 Major Maintenance Adjustment sponsored by Ms. Schultz), to reflect a change in accounting for CS2 major maintenance expense at $0 for RY1, by removing the normalizing methodology previously ordered by this Commission, giving way for the RY2 Major Maintenance 4-year amortization expense beginning July 2026. All parties, including Staff did not contest PF Adjustment 3.22 or the removal of the Normalize CS2 Major Maintenance methodology.

Regardless of the timing of the major maintenance overhaul, the amount of expense is still anticipated at this time to be approximately $12.0 million (Washington share). The Company, therefore, requests this Commission approve the deferral of Washington's share of the actual costs of the overhaul (estimated at $12.0 million), when the overhaul occurs – regardless of if occurs in mid-2025 or 2026.

The Company is not otherwise revising its proposed amortization expense in RY2, included in electric Adjustment (5.11) Pro Forma CS2 Amortization, amortizing Washington's share of the expense over 4 years, beginning July 1, 2026 through December 31, 2026 (6 months on RY2). Given the delay in recovery of this large maintenance item from time of completion, i.e., through the 4-year amortization period (July 1, 2026 – June 30, 2030), it is important the Commission also include a carrying charge on both the deferred balance and during the proposed 4-year amortization period. Any difference between the actual overhaul versus the expected overhaul amount of $12.0 million (Washington Share), and Washington's actual allocated share would be adjusted within the remaining balance to amortize in the Company's next general rate case (i.e. over the remaining 3.5 years, January 1, 2027 through June 30, 2030), truing up the deferred balance and amortization expenses to reflect actual amounts.

VII. REMOVAL OF COLSTRIP IN 2026 (RY2) / TRANSMISSION COSTS

A. Removal of Net Power Supply Colstrip Costs in RY2 (2026)

Q. Briefly, what were the positions of Staff, Public Counsel, and AWEC as it relates to the removal of Colstrip from rates in Rate Year 2?

A. As it relates to the removal of Colstrip in RY2, Public Counsel was silent with respect to Avista's treatment of removing Colstrip in RY2 and Avista's RY2 Pro Forma Power Supply Adjustment 5.00P[145], including the change to remove Colstrip was otherwise uncontested. For Staff, as discussed by Witness Erdahl, if the Commission rejects the Multi-Year Rate Plan as proposed by Staff, they propose the Commission order the Company to file a power cost update with a rate-effective date of December 31, 2025, to remove Colstrip from rates to comply with CETA.[146] Finally, while Witness Mullins does not otherwise remove Avista's RY2 Pro Forma Power Supply Adjustment 5.00P for Colstrip net power costs within his electric RY2 revenue requirement, he does remove the Colstrip transmission wheeling expenses included in net power supply costs, as described below, and proposes Avista perform a full update to net power supply expense for RY2 through a separate Power Cost Only Rate Case (PCORC) or more limited update.[147]

Q. Does the Company still propose that the removal of Colstrip in Rate Year 2 is appropriate to address in this case?

A. Yes. Staff's proposed additional administrative process around Colstrip does not make sense, for reasons discussed by Mr. Christie[148]. That said, Avista has updated the value of Colstrip, such that it matches the value from the most current power supply baseline supported by Mr. Kalich[149].

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[145] Supporting PF Power Supply Adjustment (5.00P) for RY2 can be found within Ms. Schultz electric Revenue Requirement native long model Exh. KJS-7 filed on rebuttal, as well as within supporting workpapers provided to all parties.
[146] Erdahl, Exh. BAE-1T, at 15:9-17.
[147] See Exh. BGM-1T, pp. 55, ll. 1 – pp. 56, ll. 2
[148] Christie, KJC-4T, at 23:1 – 24:3.
[149] Kalich, Exh. CGK-7T, at 5:10 – 8:1, and Exh. CGK-13.

Q. Please summarize the impact of removing Colstrip in RY2 as updated by the Company on rebuttal.

A. As previously discussed by Mr. Kalich (see CGK-1T, at 14:23 – 15:10) and summarized per Andrews Exh. EMA-1T, pp. 6 ll. 15- pp. 8 ll. 21, Colstrip net power supply costs are included in Pro Forma Power Supply Adjustment 3.00P[150] and the Energy Recovery Mechanism (ERM) baseline in RY1 (2025) (both updated on rebuttal). However, the Company is mandated, by January 1, 2026, to remove all Colstrip costs from customer rates, exclusive of on-going decommissioning and remediation (D&R) and Colstrip transmission-related costs. As discussed by Mr. Kalich, sponsor of RY2 Pro Forma Power Supply Adjustment (5.00P), effective with the RY2 incremental base rate increase, the Company is proposing to revise net power supply costs and the ERM baseline, as updated on rebuttal, to reflect the mandated removal of Colstrip effective with RY2. The net effect to Washington electric results of Pro Forma Adjustment 5.00P, increases the Company's requested revenue requirement on rebuttal by $54.2 million in RY2, solely due to removing the net impact of Colstrip generation.[151]

Offsetting this increase in net power supply expense and base rates in RY2, however, will be the reduction in the separate Colstrip Tariff Schedule 99[152]. Tariff Schedule 99, in order to comply with the January 1, 2026 mandate, will be reduced to reflect the reduction in Colstrip costs, removing Colstrip O&M and other expenses, depreciation expense, and return on rate base,

[150] Updated PF Power Supply Adjustments 3.00P (2025) and 5.00P (2026) on rebuttal as sponsored by Mr. Kalich, are included in Ms. Schultz's Electric Revenue Requirement Model for RY1 and RY2, Exh. KJS-7.
[151] Updated on rebuttal to $54.2 million on a revenue requirement basis, based on the revised RY1 PF Power Supply Adjustment 3.00P prepared by Mr. Kalich, versus the balance determined with the Company's direct case of $59.5 million. See Ms. Schultz Electric Revenue Requirement models Exh. KJS-2 (direct) and Exh. KJS-7 (rebuttal).
[152] The Company was required to remove Colstrip Unit 3 and Unit 4 costs (exclusive of transmission investment and those costs included in the ERM) from base rates, and separately track these costs through Tariff Schedule 99 "Colstrip Tracker" per Docket UE-220053, et., al.

reflecting only the recovery of D&R Regulatory Asset/Liability balances and amortization expense on an on-going basis. This reduction to Colstrip Tariff 99 will reduce "billed" rates to customers by approximately $24.4 million (Washington expense). As shown in Ms. Schultz's Exh. KJS-5T, Table No. 1 "Summary of WA Electric Revenue Requirement – As-filed versus Rebuttal," in RY2, the Washington electric bill impact to customers is reduced by approximately $24.4 million, or 3.6%[153]. This offset reflects the existing calendar 2024 Tariff Schedule 99 recovery amount and may vary from the actual balances removed prior to the mandatory January 1, 2026 date, per Tariff Schedule 99 approved later in 2024 for calendar 2025.

In order to effectuate the change in base rates for the RY2 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 RY2 base rate change, to become effective on December 21, 2025. This will allow the Commission to authorize one net bill change for customers.

The following Table No. 10 (also appearing in Ms. Schultz' testimony at Exh. KJS-5T, Table No. 14), summarizes the net impact of the above Colstrip adjustments:

Table No. 10 – Washington Electric RY2 Revenue Requirement – Colstrip Offset

Breakdown of Washington Electric RY2 Revenue Requirement (000s)		
Net Expenses/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

[153] Company witness Mr. Miller (Exh. JDM-1T) discusses the bill impact to customers of reducing Tariff Schedule 99 in RY2.

As noted in Table No. 10 above, with the alignment of base rates and Colstrip 99, the overall bill impact, after the Colstrip Tracker Reduction (offset) of $24.4 million, would result in a net incremental $44.8 million bill impact to customer.[154 / 155]

B. On-Going Colstrip Transmission Assets and Other Costs

Q. AWEC witness Mullins proposes two adjustments in his RY2 electric revenue requirement to (1) remove estimated Colstrip transmission assets as of December 31, 2025 of $6.6 million (rate base), and (2) Colstrip wheeling costs of $4.0 million.[156] This results in revenue requirement reductions of $1.9 million (AWEC-5.14) and $4.2 million (5.00P), respectively. Are these adjustments reducing his overall revenue requirement by $6.1 million appropriate?

A. No, they are not. In the Company's 2019 GRC (UE-190334, et.al.), the Commission ordered the accounting methodology utilized by Avista today, accelerating the depreciation schedules for Colstrip Units 3 and 4 generation assets to December 2025, to effectuate the mandatory removal of Colstrip generation assets from base rates on or before as of January 1, 2026 as required by law. It was discussed and contemplated then that Colstrip Transmission assets would continue to be utilized for the benefit of customers, even after the Colstrip generating facility

[154] As discussed by Ms. Schultz, this would result in an overall bill impact in RY2 of 6.5%.
[155] As noted above, AWEC Witness Mullins, at Exh. BGM-1T, pp. 55, ll. 13 – pp. 56, ll. 2, proposes that Avista perform a full update to net power supply expense for RY2 through a separate Power Cost Only Rate Case (PCORC) or more limited update. Mr. Kalich, Exh. CGK-7T, at 5:10 – 8:1, discusses Avista's recommendation for the Commission to approve the updated net power supply expense sponsored on rebuttal, which would remain in place over the Two-Year Rate Plan, with the exception in RY2 for the impact of removing Colstrip as required by law. This allows the Commission to approve base rates in RY1 and RY2, without a RY2 PCORC or 60-day update, resulting in final base rate changes or customer impacts being known at this time. Furthermore, if the Commission were to approve the ERM updates as proposed by the Company, with a revised deadband and 90/10 sharing, an appropriate amount of any actual changes up or down would be deferred for recovery or surcharge at a future time.
[156] Mullins, Exh. BGM-1T, at 57:12-19 and 58:1-21.

was removed from base rates. Specifically, the Commission ordered the Colstrip transmission assets, including transmission decommissioning and remediation (D&R) costs, be depreciated consistent with the depreciation rates for non-Colstrip transmission assets as approved in Depreciation Docket UE-180167[157], so long as the Colstrip transmission assets are used and useful consistent with RCW 19.405.030(2)[158]. Mr. Kinney describes the usefulness of the Colstrip transmission assets and point-to-point transmission rights beyond December 31, 2025 after the removal of the Colstrip Unit 3 and 4 generation assets.[159] Therefore, as explained by Mr. Kinney, Witness Mullins Transmission Asset adjustment (AWEC 5.14) and Wheeling expense adjustment removed from the Company Power Supply adjustment as-filed (PF 5.00P), should be rejected.

Furthermore, if this Commission were to approve Witness Mullins removal of transmission assets as of December 31, 2025, his adjustment failed to remove related Colstrip ADFIT and applying his incorrect system Colstrip net rate base balance using an inaccurate P/T ratio of 65.54%, resulting in an overstatement of rate base removed of $856,000 and an incremental reduction to revenue requirement $80,000, in error. Witness Mullins also applied the incorrect P/T ratio of 54.54% to the system wheeling expenses of $6.0 million, resulting in an overstated reduction to his revenue requirement of $72,000, for a grand total Colstrip-related revenue requirement reduction error of $152,000.[160]

Q. Does this conclude your testimony?

A. Yes, it does.

[157] New depreciation rates have since been approved that per Dockets UE-230123 and UG-230130, again requiring Colstrip transmission depreciation rates to remain consistent with the depreciation rates for non-Colstrip transmission assets.

[158] Order 09, Docket UE-190334, et.al., p. 18, par. 47-48.

[159] Kinney, Exh. SJK-17T, at 25:9 – 30:18.

[160] See Mullins Exh. BGM-3, tab "Exh. BGM-3 (Detail), rows 67 and 85.