

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-17 \_\_\_\_\_

DOCKET NO. UG-17 \_\_\_\_\_

EXH. EMA-9

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

**AVISTA UTILITIES  
CALCULATION OF GENERAL REVENUE REQUIREMENT  
WASHINGTON NATURAL GAS  
TWELVE MONTHS ENDED DECEMBER 31, 2016**

The following information provides the Company's "Rate Year Study" results for the period 5/1/2018 through 4/30/2021. This Study is provided as additional support for the rate relief requested by the Company for the Three-Year Rate Plan beginning May 1, 2018 through April 30, 2021. See Exh. EMA-7 for the EOP Rate Base Study representing the Company's requested natural gas rate relief proposed in this case.

		May 1, 2018
Line No.	Description	(000's of Dollars)
1	Pro Forma Rate Base	\$ 325,263
2	Proposed Rate of Return	7.69%
3	Net Operating Income Requirement	\$25,013
4	Pro Forma Net Operating Income	\$ 19,498
5	Net Operating Income Deficiency	\$5,515
6	Conversion Factor	0.620645
7	Revenue Requirement	<b>\$8,886</b>
8	Total Base Distribution Revenues*	\$ 92,192
9	Percentage Base Distribution Revenue Increase	<b>9.64%</b>
10	Total Present Billed Revenue	\$ 152,089
11	Percentage Billed Revenue Increase	<b>5.84%</b>
* Line 8 "Total General Business Revenues" includes special contract transportation revenues.		
12	<b>Total 05/01/2019 Revenue Increase (Rate Year 2, per pg 9)</b>	<b>\$ 3,461</b>
13	<b>Percentage Billed Revenue Increase</b>	<b>2.15%</b>
14	<b>Total 05/01/2020 Revenue Increase (Rate Year 3, per pg 10)</b>	<b>\$ 3,936</b>
15	<b>Percentage Billed Revenue Increase</b>	<b>2.39%</b>

**AVISTA UTILITIES  
RATE YEAR STUDY COST OF CAPITAL  
WASHINGTON NATURAL GAS**

<b>Capital Structure</b>			
<b>Component</b>	<b>Capital Structure</b>	<b>Cost</b>	<b>Weighted Cost</b>
Total Debt	51.5%	5.62%	2.89%
Common Equity	48.5%	9.90%	4.80%
Total	<u>100.00%</u>		<u>7.69%</u>

**AVISTA UTILITIES  
REVENUE CONVERSION FACTOR  
WASHINGTON NATURAL GAS  
TWELVE MONTHS ENDED DECEMBER 31, 2016**

<u>Line No.</u>	<u>Description</u>	<u>Factor</u>
1	<b>Revenues</b>	1.000000
	<b>Expense:</b>	
2	Uncollectibles	0.004827
3	Commission Fees	0.002000
4	Washington Excise Tax	0.038334
6	Total Expense	<u>0.045161</u>
7	Net Operating Income Before FIT	0.954839
8	Federal Income Tax @ 35%	0.334194
9	REVENUE CONVERSION FACTOR	0.620645

Rate Year Study  
(Natural Gas)

AVISTA UTILITIES  
WASHINGTON NATURAL GAS  
RATE YEAR STUDY - 5/1/2018 - 4/30/2021  
TWELVE MONTHS ENDED DECEMBER 31, 2016  
(000'S OF DOLLARS)

<b>ACTUAL</b>	<b>RESTATEMENT ADJUSTMENTS</b>
<b>RESULTS</b>	

Line No.	DESCRIPTION	Per Results Report	Deferred FIT Rate Base	Deferred Debits and Credits	Working Capital	Eliminate B & O Taxes	Restate Property Tax	Uncollectible Expense	Regulatory Expense	Injuries & Damages	FIT / DFIT Expense
	Adjustment Number Workpaper Reference	1.00	1.01	1.02	1.03	2.01	2.02	2.03	2.04	2.05	2.06
		G-ROO	G-DFIT	G-DDC	G-WC	G-EBO	G-RPT	G-UE	G-RE	G-ID	G-FIT
	REVENUES										
1	Total General Business	\$ 146,098	\$ -	\$ -	\$ -	\$ (5,097)	\$ -	\$ -	\$ -	\$ -	\$ -
2	Total Transportation	4,595	-	-	-	(118)	-	-	-	-	-
3	Other Revenues	69,723	-	-	-	-	-	-	-	-	-
4	Total Gas Revenues	220,416	-	-	-	(5,215)	-	-	-	-	-
	EXPENSES										
	Production Expenses										
5	City Gate Purchases	112,605	-	-	-	-	-	-	-	-	-
6	Purchased Gas Expense	988	-	-	-	-	-	-	-	-	-
7	Net Nat Gas Storage Trans	2,932	-	-	-	-	-	-	-	-	-
8	Total Production	116,525	-	-	-	-	-	-	-	-	-
	Underground Storage										
9	Operating Expenses	974	-	-	-	-	-	-	-	-	-
10	Depreciation/Amortization	492	-	-	-	-	-	-	-	-	-
11	Taxes	210	-	-	-	-	-	-	-	-	-
12	Total Underground Storage	1,676	-	-	-	-	-	-	-	-	-
	Distribution										
13	Operating Expenses	12,049	-	-	-	-	-	-	-	-	-
14	Depreciation/Amortization	9,866	-	-	-	-	-	-	-	-	-
15	Taxes	12,807	-	-	-	(5,183)	375	-	-	-	-
16	Total Distribution	34,722	-	-	-	(5,183)	375	-	-	-	-
17	Customer Accounting	7,352	-	2	-	-	-	(590)	-	-	-
18	Customer Service & Information	7,595	-	-	-	-	-	-	-	-	-
19	Sales Expenses	-	-	-	-	-	-	-	-	-	-
	Administrative & General										
20	Operating Expenses	13,763	-	-	-	-	-	-	(3)	76	-
21	Depreciation/Amortization	6,260	-	-	-	-	-	-	-	-	-
22	Regulatory Amortizations	-	-	-	-	-	-	-	-	-	-
23	Taxes	-	-	-	-	-	-	-	-	-	-
24	Total Admin. & General	20,023	-	-	-	-	-	-	(3)	76	-
25	Total Gas Expense	187,893	-	2	-	(5,183)	375	(590)	(3)	76	-
26	OPERATING INCOME BEFORE FIT	32,523	-	(2)	-	(32)	(375)	590	3	(76)	-
	FEDERAL INCOME TAX										
27	Current Accrual	(841)	-	(1)	-	(11)	(131)	207	1	(27)	-
28	Debt Interest	-	3	-	9	-	-	-	-	-	-
29	Deferred FIT	9,923	-	-	-	-	-	-	-	-	-
30	Amort ITC	(17)	-	-	-	-	-	-	-	-	-
31	NET OPERATING INCOME	\$ 23,458	\$ (3)	\$ (1)	\$ (9)	\$ (21)	\$ (244)	\$ 384	\$ 2	\$ (49)	\$ -
	RATE BASE										
	PLANT IN SERVICE										
32	Underground Storage	\$ 26,868	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
33	Distribution Plant	390,508	-	-	-	-	-	-	-	-	-
34	General Plant	82,624	-	-	-	-	-	-	-	-	-
35	Total Plant in Service	500,000	-	-	-	-	-	-	-	-	-
	ACCUMULATED DEPRECIATION/AMORT										
36	Underground Storage	(10,317)	-	-	-	-	-	-	-	-	-
37	Distribution Plant	(129,098)	-	-	-	-	-	-	-	-	-
38	General Plant	(23,473)	-	-	-	-	-	-	-	-	-
39	Total Accumulated Depreciation/Amortization	(162,888)	-	-	-	-	-	-	-	-	-
40	NET PLANT	337,112	-	-	-	-	-	-	-	-	-
41	DEFERRED TAXES	(73,856)	(325)	-	-	-	-	-	-	-	-
42	Net Plant After DFIT	263,256	(325)	-	-	-	-	-	-	-	-
43	GAS INVENTORY	9,116	-	-	-	-	-	-	-	-	-
44	GAIN ON SALE OF BUILDING	-	-	-	-	-	-	-	-	-	-
45	OTHER	(249)	-	-	-	-	-	-	-	-	-
46	WORKING CAPITAL	15,664	-	-	(864)	-	-	-	-	-	-
47	TOTAL RATE BASE	\$ 287,787	\$ (325)	\$ -	\$ (864)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
48	RATE OF RETURN	8.15%									
50	REVENUE REQUIREMENT	-2,138	-35	2	-93	34	393	-618	-3	80	0
	Pro Forma Rate of Return	7.69%									
	Revenue Conversion Factor	0.620645									

Rate Year Study

(Natural Gas)

AVISTA UTILITIES  
WASHINGTON NATURAL GAS

RATE YEAR STUDY - 5/1/2018 - 4/30/2021  
TWELVE MONTHS ENDED DECEMBER 31, 2016  
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Office Space Charges to Subs	Restate Excise Taxes	Net Gains & Losses	Weather Normalization / Gas Cost Adjust	Eliminate Adder Schedules	Misc. Restating Non-Util / Non-Recurring Expenses	Project Compass Deferral	Restating Incentives	Restate Debt Interest	Restated TOTAL
	Adjustment Number Workpaper Reference	2.07 G-OSC	2.08 G-RET	2.09 G-NGL	2.10 G-WNGC	2.11 G-EAS	2.12 G-MR	2.13 G-CD	2.14 G-RI	2.15 G-DI	R-Ttl
<b>REVENUES</b>											
1	Total General Business	\$ -	\$ -	\$ -	\$ 11,209	\$ (1,240)	\$ -	\$ -	\$ -	\$ -	\$ 150,970
2	Total Transportation	-	-	-	-	-	-	-	-	-	4,477
3	Other Revenues	-	-	-	(5,427)	(63,276)	-	-	-	-	1,020
4	Total Gas Revenues	-	-	-	5,782	(64,516)	-	-	-	-	156,467
<b>EXPENSES</b>											
<b>Production Expenses</b>											
5	City Gate Purchases	-	-	-	5,274	(54,419)	-	-	-	-	63,460
6	Purchased Gas Expense	-	-	-	6	-	-	-	-	-	994
7	Net Nat Gas Storage Trans	-	-	-	-	(2,932)	-	-	-	-	-
8	Total Production	-	-	-	5,280	(57,351)	-	-	-	-	64,454
<b>Underground Storage</b>											
9	Operating Expenses	-	-	-	-	-	-	-	-	-	974
10	Depreciation/Amortization	-	-	-	-	-	-	-	-	-	492
11	Taxes	-	-	-	-	-	-	-	-	-	210
12	Total Underground Storage	-	-	-	-	-	-	-	-	-	1,676
<b>Distribution</b>											
13	Operating Expenses	-	-	-	-	-	1	-	-	-	12,050
14	Depreciation/Amortization	-	-	(13)	-	-	-	-	-	-	9,853
15	Taxes	-	2	-	430	(48)	-	-	-	-	8,383
16	Total Distribution	-	2	(13)	430	(48)	1	-	-	-	30,286
17	Customer Accounting	-	-	-	54	(6)	-	-	-	-	6,812
18	Customer Service & Information	-	-	-	-	(6,632)	-	-	-	-	963
19	Sales Expenses	-	-	-	-	-	-	-	-	-	-
<b>Administrative &amp; General</b>											
20	Operating Expenses	(9)	-	-	22	(2)	(316)	-	(181)	-	13,350
21	Depreciation/Amortization	-	-	-	-	-	-	-	-	-	6,260
22	Regulatory Amortizations	-	-	-	-	-	-	1,079	-	-	1,079
23	Taxes	-	-	-	-	-	-	-	-	-	-
24	Total Admin. & General	(9)	-	-	22	(2)	(316)	1,079	(181)	-	20,689
25	Total Gas Expense	(9)	2	(13)	5,786	(64,039)	(315)	1,079	(181)	-	124,880
26	OPERATING INCOME BEFORE FIT	9	(2)	13	(4)	(477)	315	(1,079)	181	-	31,587
<b>FEDERAL INCOME TAX</b>											
27	Current Accrual	3	(1)	5	(1)	(167)	110	(378)	63	(171)	(1,340)
28	Debt Interest	-	-	-	-	-	-	-	-	-	12
29	Deferred FIT	-	-	-	-	-	-	-	-	-	9,923
30	Amort ITC	-	-	-	-	-	-	-	-	-	(17)
31	NET OPERATING INCOME	\$ 6	\$ (1)	\$ 8	\$ (3)	\$ (310)	\$ 205	\$ (701)	\$ 118	\$ 171	\$ 23,009
<b>RATE BASE</b>											
<b>PLANT IN SERVICE</b>											
32	Underground Storage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,868
33	Distribution Plant	-	-	-	-	-	-	-	-	-	390,508
34	General Plant	-	-	-	-	-	-	-	-	-	82,624
35	Total Plant in Service	-	-	-	-	-	-	-	-	-	500,000
<b>ACCUMULATED DEPRECIATION/AMORT</b>											
36	Underground Storage	-	-	-	-	-	-	-	-	-	(10,317)
37	Distribution Plant	-	-	-	-	-	-	-	-	-	(129,098)
38	General Plant	-	-	-	-	-	-	-	-	-	(23,473)
39	Total Accumulated Depreciation/Amortization	-	-	-	-	-	-	-	-	-	(162,888)
40	NET PLANT	-	-	-	-	-	-	-	-	-	337,112
41	DEFERRED TAXES	-	-	-	-	-	-	-	-	-	(74,181)
42	Net Plant After DFTT	-	-	-	-	-	-	-	-	-	262,931
43	GAS INVENTORY	-	-	-	-	-	-	-	-	-	9,116
44	GAIN ON SALE OF BUILDING	-	-	-	-	-	-	-	-	-	-
45	OTHER	-	-	-	-	-	-	-	-	-	(249)
46	WORKING CAPITAL	-	-	-	-	-	-	-	-	-	14,800
47	TOTAL RATE BASE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 286,598
48	RATE OF RETURN										(1)
50	REVENUE REQUIREMENT	-9	2	-14	4	500	-330	1,130	-190	-276	-1,562

(1) The Restated TOTAL column does not represent 12/31/2016 Test Period Commission Basis results of operation on a normalized basis (CBR basis). Difference exists due to inclusion of proposed cost of debt (pro forma versus CBR cost of debt) impacting Adjustment 2.15 above.

Pro Forma Rate of Return  
Revenue Conversion Factor

Rate Year Study  
(Natural Gas)

AVISTA UTILITIES  
WASHINGTON NATURAL GAS

PRO FORMA ADJUSTMENTS

RATE YEAR STUDY - 5/1/2018 - 4/30/2021  
TWELVE MONTHS ENDED DECEMBER 31, 2016  
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Atmospheric Testing & Leak Survey	Pro Forma Labor Non-Exec	Pro Forma Labor Exec	Pro Forma Employee Benefits	Pro Forma Incentive Adjustment	Pro Forma Property Tax	Pro Forma IS/IT Expense	Pro Forma Revenue Normalization
	Adjustment Number	3.01	3.02	3.03	3.04	3.05	3.06	3.07	3.08
	Workpaper Reference	G-PAT	G-PLN	G-PLE	G-PEB	G-PI	G-PPT	G-PIS	G-PREV
	REVENUES								
1	Total General Business	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(66,671)
2	Total Transportation	-	-	-	-	-	-	-	56
3	Other Revenues	-	-	-	-	-	-	-	(776)
4	Total Gas Revenues	-	-	-	-	-	-	-	(67,391)
	EXPENSES								
	Production Expenses								
5	City Gate Purchases	-	-	-	-	-	-	-	(63,460)
6	Purchased Gas Expense	-	31	-	(6)	-	-	-	-
7	Net Nat Gas Storage Trans	-	-	-	-	-	-	-	-
8	Total Production	-	31	-	(6)	-	-	-	(63,460)
	Underground Storage								
9	Operating Expenses	-	-	-	-	-	-	-	-
10	Depreciation/Amortization	-	-	-	-	-	-	-	-
11	Taxes	-	-	-	-	-	37	-	-
12	Total Underground Storage	-	-	-	-	-	37	-	-
	Distribution								
13	Operating Expenses	348	371	-	(76)	-	-	-	-
14	Depreciation/Amortization	-	-	-	-	-	-	-	-
15	Taxes	-	-	-	-	-	439	-	(2,554)
16	Total Distribution	348	371	-	(76)	-	439	-	(2,554)
17	Customer Accounting	-	203	-	(41)	-	-	-	(322)
18	Customer Service & Information	-	18	-	(4)	-	-	-	-
19	Sales Expenses	-	-	-	-	-	-	-	-
	Administrative & General								
20	Operating Expenses	-	251	(10)	(49)	34	-	201	(133)
21	Depreciation/Amortization	-	-	-	-	-	-	-	-
22	Regulatory Amortizations	-	-	-	-	-	-	-	-
23	Taxes	-	-	-	-	-	-	-	-
24	Total Admin. & General	-	251	(10)	(49)	34	-	201	(133)
25	Total Gas Expense	348	874	(10)	(176)	34	476	201	(66,469)
26	OPERATING INCOME BEFORE FIT	(348)	(874)	10	176	(34)	(476)	(201)	(922)
	FEDERAL INCOME TAX								
27	Current Accrual	(122)	(306)	4	62	(12)	(167)	(70)	(323)
28	Debt Interest	-	-	-	-	-	-	-	-
29	Deferred FIT	-	-	-	-	-	-	-	-
30	Amort ITC	-	-	-	-	-	-	-	-
31	NET OPERATING INCOME	\$ (226)	\$ (568)	\$ 7	\$ 114	\$ (22)	\$ (309)	\$ (131)	\$ (599)
	RATE BASE								
	PLANT IN SERVICE								
32	Underground Storage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
33	Distribution Plant	-	-	-	-	-	-	-	-
34	General Plant	-	-	-	-	-	-	-	-
35	Total Plant in Service	-	-	-	-	-	-	-	-
	ACCUMULATED DEPRECIATION/AMORT								
36	Underground Storage	-	-	-	-	-	-	-	-
37	Distribution Plant	-	-	-	-	-	-	-	-
38	General Plant	-	-	-	-	-	-	-	-
39	Total Accumulated Depreciation/Amortization	-	-	-	-	-	-	-	-
40	NET PLANT	-	-	-	-	-	-	-	-
41	DEFERRED TAXES	-	-	-	-	-	-	-	-
42	Net Plant After DFTT	-	-	-	-	-	-	-	-
43	GAS INVENTORY	-	-	-	-	-	-	-	-
44	GAIN ON SALE OF BUILDING	-	-	-	-	-	-	-	-
45	OTHER	-	-	-	-	-	-	-	-
46	WORKING CAPITAL	-	-	-	-	-	-	-	-
47	TOTAL RATE BASE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
48	RATE OF RETURN								
50	REVENUE REQUIREMENT	364	915	-10	-184	36	499	211	966

Pro Forma Rate of Return  
Revenue Conversion Factor

Rate Year Study

(Natural Gas)

AVISTA UTILITIES  
WASHINGTON NATURAL GAS

RATE YEAR STUDY - 5/1/2018 - 4/30/2021  
TWELVE MONTHS ENDED DECEMBER 31, 2016  
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Regulatory Amortization	Pro Forma 2017 Threshold Capital Adds	Pro Forma O&M Offsets	Pro Forma Director Fees Expense	Pro Forma Leap Deferral Gas Line Ext.	Pro Forma Sub-Total
	Adjustment Number	3.09	3.10	3.11	3.12	3.13	
	Workpaper Reference	G-PRA	G-PCAP16	G-POFF	G-PDF	G-PLEAP	PF-STtl
	REVENUES						
1	Total General Business	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84,299
2	Total Transportation	-	-	-	-	-	4,533
3	Other Revenues	-	-	-	-	-	244
4	Total Gas Revenues	-	-	-	-	-	89,076
	EXPENSES						
	Production Expenses						
5	City Gate Purchases	-	-	-	-	-	-
6	Purchased Gas Expense	-	-	-	-	-	1,019
7	Net Nat Gas Storage Trans	-	-	-	-	-	-
8	Total Production	-	-	-	-	-	1,019
	Underground Storage						
9	Operating Expenses	-	-	-	-	-	974
10	Depreciation/Amortization	-	-	-	-	-	492
11	Taxes	-	-	-	-	-	247
12	Total Underground Storage	-	-	-	-	-	1,713
	Distribution						
13	Operating Expenses	-	-	-	-	-	12,693
14	Depreciation/Amortization	-	366	-	-	-	10,219
15	Taxes	-	-	-	-	-	6,268
16	Total Distribution	-	366	-	-	-	29,180
17	Customer Accounting	-	-	-	-	-	6,652
18	Customer Service & Information	-	-	-	-	-	977
19	Sales Expenses	-	-	-	-	-	-
	Administrative & General						
20	Operating Expenses	-	-	(32)	108	-	13,720
21	Depreciation/Amortization	-	1,217	-	-	-	7,477
22	Regulatory Amortizations	(1,079)	-	-	-	584	584
23	Taxes	-	-	-	-	-	-
24	Total Admin. & General	(1,079)	1,217	(32)	108	584	21,781
25	Total Gas Expense	(1,079)	1,583	(32)	108	584	61,322
26	OPERATING INCOME BEFORE FIT	1,079	(1,583)	32	(108)	(584)	27,754
	FEDERAL INCOME TAX						
27	Current Accrual	378	(554)	11	(38)	(204)	(2,681)
28	Debt Interest	-	(180)	-	-	(15)	(183)
29	Deferred FIT	-	-	-	-	-	9,923
30	Amort ITC	-	-	-	-	-	(17)
31	NET OPERATING INCOME	\$ 701	\$ (848)	\$ 21	\$ (70)	\$ (365)	\$ 20,712
	RATE BASE						
	PLANT IN SERVICE						
32	Underground Storage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,868
33	Distribution Plant	-	14,510	-	-	-	405,018
34	General Plant	-	8,260	-	-	-	90,884
35	Total Plant in Service	-	22,770	-	-	-	522,770
	ACCUMULATED DEPRECIATION/AMORT						
36	Underground Storage	-	-	-	-	-	(10,317)
37	Distribution Plant	-	(163)	-	-	-	(129,261)
38	General Plant	-	(624)	-	-	-	(24,097)
39	Total Accumulated Depreciation/Amortization	-	(787)	-	-	-	(163,675)
40	NET PLANT	-	21,983	-	-	-	359,095
41	DEFERRED TAXES	-	(4,142)	-	-	-	(78,323)
42	Net Plant After DFTT	-	17,841	-	-	-	280,772
43	GAS INVENTORY	-	-	-	-	-	9,116
44	GAIN ON SALE OF BUILDING	-	-	-	-	-	-
45	OTHER	-	-	-	-	1,474	1,225
46	WORKING CAPITAL	-	-	-	-	-	14,800
47	TOTAL RATE BASE	\$ -	\$ 17,841	\$ -	\$ -	\$ 1,474	\$ 305,913
48	RATE OF RETURN						
50	REVENUE REQUIREMENT	-1,130	3,578	-34	113	770	4,531

Pro Forma Rate of Return  
Revenue Conversion Factor



Rate Year Study  
(Natural Gas)

AVISTA UTILITIES  
WASHINGTON NATURAL GAS  
RATE YEAR STUDY - 5/1/2018 - 4/30/2021  
TWELVE MONTHS ENDED DECEMBER 31, 2016  
(000'S OF DOLLARS)

Step 1 Increase (5/1/2018)  
05.2018 Rate Year Analysis  
(5/1/2018-4/30/2018)

Line No.	DESCRIPTION	EOP 2017 Capital Net Plant Adj	Rate Period Capital Add 05.2018-04.2019 AMA	Rate Period IS/TT Expense	Rate Period Revenues 05.2018-04.2019	May 1, 2018 Rate Period Total
		18.01	18.02	18.03	18.04	18-Ttl
		G-EOPCAP17	G-RPCAP	G-RPIS	G-RPRev	
	Adjustment Number					
	Workpaper Reference					
	REVENUES					
1	Total General Business	\$ -	\$ -	\$ -	\$ 3,390	\$ 87,689
2	Total Transportation	-	-	-	(29)	4,504
3	Other Revenues	-	-	-	(1,584)	(1,340)
4	Total Gas Revenues	-	-	-	1,777	90,853
	EXPENSES					
	Production Expenses					
5	City Gate Purchases	-	-	-	-	-
6	Purchased Gas Expense	-	-	-	-	1,019
7	Net Nat Gas Storage Trans	-	-	-	-	-
8	Total Production	-	-	-	-	1,019
	Underground Storage					
9	Operating Expenses	-	-	-	-	974
10	Depreciation/Amortization	37	14	-	-	543
11	Taxes	-	-	-	-	247
12	Total Underground Storage	37	14	-	-	1,764
	Distribution					
13	Operating Expenses	-	-	-	-	12,693
14	Depreciation/Amortization	725	482	-	-	11,426
15	Taxes	-	-	-	129	6,397
16	Total Distribution	725	482	-	129	30,516
17	Customer Accounting	-	-	-	16	6,668
18	Customer Service & Information	-	-	-	-	977
19	Sales Expenses	-	-	-	-	-
	Administrative & General					
20	Operating Expenses	-	-	135	7	13,862
21	Depreciation/Amortization	926	1,476	-	-	9,879
22	Regulatory Amortizations	-	-	-	-	584
23	Taxes	-	-	-	-	-
24	Total Admin. & General	926	1,476	135	7	24,325
25	Total Gas Expense	1,688	1,972	135	152	65,269
26	OPERATING INCOME BEFORE FIT	(1,688)	(1,972)	(135)	1,625	25,584
	FEDERAL INCOME TAX					
27	Current Accrual	(591)	(690)	(47)	569	(3,441)
28	Debt Interest	(138)	(58)	-	-	(379)
29	Deferred FIT	-	-	-	-	9,923
30	Amort ITC	-	-	-	-	(17)
31	NET OPERATING INCOME	\$ (959)	\$ (1,224)	\$ (88)	\$ 1,056	\$ 19,498
	RATE BASE					
	PLANT IN SERVICE					
32	Underground Storage	\$ 1,349	\$ 811	\$ -	\$ -	\$ 29,028
33	Distribution Plant	29,936	19,165	-	-	454,119
34	General Plant	7,229	7,681	-	-	105,794
35	Total Plant in Service	38,514	27,657	-	-	588,941
	ACCUMULATED DEPRECIATION/AMORT					
36	Underground Storage	(655)	(518)	-	-	(11,490)
37	Distribution Plant	(12,080)	(9,541)	-	-	(150,882)
38	General Plant	(4,979)	(7,078)	-	-	(36,154)
39	Total Accumulated Depreciation/Amortization	(17,714)	(17,137)	-	-	(198,526)
40	NET PLANT	20,800	10,520	-	-	390,415
41	DEFERRED TAXES	(7,174)	(4,796)	-	-	(90,293)
42	Net Plant After DFTT	13,626	5,724	-	-	300,122
43	GAS INVENTORY	-	-	-	-	9,116
44	GAIN ON SALE OF BUILDING	-	-	-	-	-
45	OTHER	-	-	-	-	1,225
46	WORKING CAPITAL	-	-	-	-	14,800
47	TOTAL RATE BASE	\$ 13,626	\$ 5,724	\$ -	\$ -	\$ 325,263
48	RATE OF RETURN					
50	REVENUE REQUIREMENT	3,234	2,681	141	-1,702	8,886

Pro Forma Rate of Return  
Revenue Conversion Factor

Rate Year Study  
(Natural Gas)

AVISTA UTILITIES  
WASHINGTON NATURAL GAS  
RATE YEAR STUDY - 5/1/2018 - 4/30/2021  
TWELVE MONTHS ENDED DECEMBER 31, 2016  
(000'S OF DOLLARS)

Step 2 Increase (5/1/2019)  
05.2019 Rate Year Analysis  
(5/1/2019-4/30/2020)

Line No.	DESCRIPTION	May 1, 2018	2.71%				May 1, 2019	Incremental
		FINAL Rate Period Total	Rate Period Capital (AMA) 05.2019-04.2020	Rate Period O&M/A&G 2.71%	Rate Period Property Tax Expense	Rate Period Revenues 05.2019-04.2020	FINAL Rate Period Total	May 1, 2019 (I) Rate Period Total
		18-Ttl	19.01 G-CAP19	19.02 O&M/A&G G-LN19	19.03 Property Tax G-PT19	19.04 G-Rev19	19-Ttl	19-Ttl
	Adjustment Number							
	Workpaper Reference							
	REVENUES							
1	Total General Business	\$ 87,689	\$ -	\$ -	\$ -	\$ 1,147	\$ 88,836	\$ 1,147
2	Total Transportation	4,504	-	-	-	69	4,573	69
3	Other Revenues	(1,340)	-	-	-	(69)	(1,409)	(69)
4	Total Gas Revenues	90,853	-	-	-	1,147	92,000	1,147
	EXPENSES							
	Production Expenses							
5	City Gate Purchases	-	-	-	-	-	-	-
6	Purchased Gas Expense	1,019	-	28	-	-	1,047	28
7	Net Nat Gas Storage Trans	-	-	-	-	-	-	-
8	Total Production	1,019	-	28	-	-	1,047	28
	Underground Storage							
9	Operating Expenses	974	-	26	-	-	1,000	26
10	Depreciation/Amortization	543	15	-	-	-	558	15
11	Taxes	247	-	-	18	-	265	18
12	Total Underground Storage	1,764	15	26	18	-	1,823	59
	Distribution							
13	Operating Expenses	12,693	-	344	-	-	13,037	344
14	Depreciation/Amortization	11,426	790	-	-	-	12,216	790
15	Taxes	6,397	-	-	213	47	6,657	260
16	Total Distribution	30,516	790	344	213	47	31,910	1,394
17	Customer Accounting	6,668	-	181	-	6	6,855	187
18	Customer Service & Information	977	-	26	-	-	1,003	26
19	Sales Expenses	-	-	-	-	-	-	-
	Administrative & General							
20	Operating Expenses	13,862	-	376	-	2	14,240	378
21	Depreciation/Amortization	9,879	838	-	-	-	10,717	838
22	Regulatory Amortizations	584	-	-	-	-	584	-
23	Taxes	-	-	-	-	-	-	-
24	Total Admin. & General	24,325	838	376	-	2	25,541	1,216
25	Total Gas Expense	65,269	1,643	981	231	55	68,179	2,910
26	OPERATING INCOME BEFORE FIT	25,584	(1,643)	(981)	(231)	1,092	23,821	(1,763)
	FEDERAL INCOME TAX							
27	Current Accrual	(3,441)	(575)	(343)	(81)	382	(4,058)	(617)
28	Debt Interest	(379)	(152)	-	-	-	(531)	(152)
29	Deferred FIT	9,923	-	-	-	-	9,923	-
30	Amort ITC	(17)	-	-	-	-	(17)	-
31	NET OPERATING INCOME	\$ 19,498	\$ (916)	\$ (638)	\$ (150)	\$ 710	\$ 18,504	\$ (994)
	RATE BASE							
	PLANT IN SERVICE							
32	Underground Storage	\$ 29,028	\$ 972	\$ -	\$ -	\$ -	\$ 30,000	\$ 972
33	Distribution Plant	454,119	32,273	-	-	-	486,392	32,273
34	General Plant	105,794	6,616	-	-	-	112,410	6,616
35	Total Plant in Service	588,941	39,861	-	-	-	628,802	39,861
	ACCUMULATED DEPRECIATION/AMORT							
36	Underground Storage	(11,490)	(532)	-	-	-	(12,022)	(532)
37	Distribution Plant	(150,882)	(9,894)	-	-	-	(160,776)	(9,894)
38	General Plant	(36,154)	(6,947)	-	-	-	(43,101)	(6,947)
39	Total Accumulated Depreciation/Amortization	(198,526)	(17,373)	-	-	-	(215,899)	(17,373)
40	NET PLANT	390,415	22,488	-	-	-	412,903	22,488
41	DEFERRED TAXES	(90,293)	(7,484)	-	-	-	(97,777)	(7,484)
42	Net Plant After DFTT	300,122	15,004	-	-	-	315,126	15,004
43	GAS INVENTORY	9,116	-	-	-	-	9,116	-
44	GAIN ON SALE OF BUILDING	-	-	-	-	-	-	-
45	OTHER	1,225	-	-	-	-	1,225	-
46	WORKING CAPITAL	14,800	-	-	-	-	14,800	-
47	TOTAL RATE BASE	\$ 325,263	\$ 15,004	\$ -	\$ -	\$ -	\$ 340,267	\$ 15,004
48	RATE OF RETURN						5.44%	-6.63%
50	REVENUE REQUIREMENT	8,886	3,335	1,027	242	-1,144	12,347	3,461

Pro Forma Rate of Return  
Revenue Conversion Factor

5.8%

2.1%

Rate Year Study  
(Natural Gas)

AVISTA UTILITIES  
WASHINGTON NATURAL GAS  
RATE YEAR STUDY - 5/1/2018 - 4/30/2021  
TWELVE MONTHS ENDED DECEMBER 31, 2016  
(000'S OF DOLLARS)

Step 3 Increase (5/1/2020)  
05.2020 Rate Year Analysis  
(5/1/2020-4/30/2021)

Line No.	DESCRIPTION	2019 Rate Period Total	2.71%				May 1, 2020 Rate Period Total	Incremental May 1, 2020 (I) Rate Period Total
			Rate Period Capital Add (AMA) 05.2020-04.2021	Rate Period O&M/A&G 2.71%	Rate Period Property Tax Expense	Rate Period Revenues 05.2020-04.2021		
	Adjustment Number	18-Ttl	20.01	20.02	20.03	20.04	20-Ttl	20-Ttl
	Workpaper Reference		G-CAP20	G-LN20	G-PT20	G-Rev20		
	REVENUES							
1	Total General Business	\$ 88,836	\$ -	\$ -	\$ -	\$ 749	\$ 89,585	\$ 749
2	Total Transportation	4,573	-	-	-	49	4,622	49
3	Other Revenues	(1,409)	-	-	-	339	(1,070)	339
4	Total Gas Revenues	92,000	-	-	-	1,137	93,137	1,137
	EXPENSES							
	Production Expenses							
5	City Gate Purchases	-	-	-	-	-	-	-
6	Purchased Gas Expense	1,047	-	28	-	-	1,075	28
7	Net Nat Gas Storage Trans	-	-	-	-	-	-	-
8	Total Production	1,047	-	28	-	-	1,075	28
	Underground Storage							
9	Operating Expenses	1,000	-	27	-	-	1,028	27
10	Depreciation/Amortization	558	15	-	-	-	573	15
11	Taxes	265	-	-	16	-	281	16
12	Total Underground Storage	1,823	15	27	16	-	1,882	58
	Distribution							
13	Operating Expenses	13,037	-	353	-	-	13,390	353
14	Depreciation/Amortization	12,216	838	-	-	-	13,054	838
15	Taxes	6,657	-	-	189	31	6,877	220
16	Total Distribution	31,910	838	353	189	31	33,321	1,411
17	Customer Accounting	6,855	-	186	-	4	7,044	190
18	Customer Service & Information	1,003	-	27	-	-	1,031	27
19	Sales Expenses	-	-	-	-	-	-	-
	Administrative & General							
20	Operating Expenses	14,240	-	386	-	2	14,628	388
21	Depreciation/Amortization	10,717	1,159	-	-	-	11,876	1,159
22	Regulatory Amortizations	584	-	-	-	-	584	-
23	Taxes	-	-	-	-	-	-	-
24	Total Admin. & General	25,541	1,159	386	-	2	27,088	1,547
25	Total Gas Expense	68,179	2,012	1,008	205	37	71,440	3,262
26	OPERATING INCOME BEFORE FIT	23,821	(2,012)	(1,008)	(205)	1,100	21,697	(2,125)
	FEDERAL INCOME TAX							
27	Current Accrual	(4,058)	(704)	(353)	(72)	385	(4,801)	(744)
28	Debt Interest	(531)	(161)	-	-	-	(692)	(161)
29	Deferred FIT	9,923	-	-	-	-	9,923	-
30	Amort ITC	(17)	-	-	-	-	(17)	-
31	NET OPERATING INCOME	\$ 18,504	\$ (1,147)	\$ (655)	\$ (133)	\$ 715	\$ 17,283	\$ (1,220)
	RATE BASE							
	PLANT IN SERVICE							
32	Underground Storage	\$ 30,000	\$ 924	\$ -	\$ -	\$ -	\$ 30,924	\$ 924
33	Distribution Plant	486,392	33,276	-	-	-	519,668	33,276
34	General Plant	112,410	8,611	-	-	-	121,021	8,611
35	Total Plant in Service	628,802	42,811	-	-	-	671,613	42,811
	ACCUMULATED DEPRECIATION/AMORT							
36	Underground Storage	(12,022)	(547)	-	-	-	(12,569)	(547)
37	Distribution Plant	(160,776)	(10,831)	-	-	-	(171,607)	(10,831)
38	General Plant	(43,101)	(8,065)	-	-	-	(51,166)	(8,065)
39	Total Accumulated Depreciation/Amortization	(215,899)	(19,443)	-	-	-	(235,342)	(19,443)
40	NET PLANT	412,903	23,368	-	-	-	436,271	23,368
41	DEFERRED TAXES	(97,777)	(7,471)	-	-	-	(105,248)	(7,471)
42	Net Plant After DFTT	315,126	15,897	-	-	-	331,023	15,897
43	GAS INVENTORY	9,116	-	-	-	-	9,116	-
44	GAIN ON SALE OF BUILDING	-	-	-	-	-	-	-
45	OTHER	1,225	-	-	-	-	1,225	-
46	WORKING CAPITAL	14,800	-	-	-	-	14,800	-
47	TOTAL RATE BASE	\$ 340,267	\$ 15,897	\$ -	\$ -	\$ -	\$ 356,164	\$ 15,897
48	RATE OF RETURN							-7.68%
50	REVENUE REQUIREMENT	12,347	3,818	1,055	215	-1,152	16,282	3,936

Pro Forma Rate of Return  
Revenue Conversion Factor

2.4%

**Exh. EMA-9 – Natural Gas Rate Year Study**

**Q. Please explain the purpose of the natural gas Rate Year Study.**

A. The Rate Year Study was developed to show the planned investment, and operating expenses, offset by revenues from increased sales to customers through each rate year of the Three-Year Rate Plan, May 1, 2018 through April 30, 2021. This Study is provided as additional evidence demonstrating the need for revenue increases for the three-year rate period. This information is the same information presented to Avista's Board of Directors and Rating Agencies, and reflects the planned operations for Avista for the specific rate year. Therefore, the results of the Rate Year Study reflect the revenue increases actually needed by Avista during the three-year period in order for revenue to be sufficient during the rate year to cover Avista's costs, and have a reasonable opportunity to earn the allowed return on investment.

The results of the natural gas Rate Year Study are \$8.9 million for Rate Year 1, effective May 1, 2018; \$3.5 million for Rate Year 2, effective May 1, 2019; and \$3.9 million for Rate Year 3, effective May 1, 2020.

**Q. Please explain what is shown on pages 1 – 3 of Exh. EMA-9.**

A. Page 1 of Exh. EMA-9 shows, at line 7, the calculation of the natural gas Rate Year 1 revenue requirement of \$8,886,000, or 9.64% revenue increase, as shown on line 9. This page also shows the effect on billed rates of 5.84%.

Also shown on page 1, at lines 12-15, are the incremental rate adjustments, per the Rate Year Study, for Rate Year 2 (effective May 1, 2019) and Rate Year 3 (May 1, 2020). As shown on lines 12 and 13, the incremental revenue requirement for Rate Year 2 is

1 \$3,461,000, or 2.15% on a billed basis. Lines 14 and 15 show the incremental revenue  
2 requirement for Rate Year 3 is \$3,936,000, or 2.39% on a billed basis.

3 Page 2 of Exh. EMA-9, shows the Cost of Capital and Capital Structure included  
4 in the Rate Year Study, including: 1) 48.5% Common Equity / 51.5% Debt capital  
5 structure; 2) Return on Equity of 9.9%; and 3) cost of debt of 5.62%, resulting in an overall  
6 Rate of Return (weighted average cost of capital) of 7.69%. Company witness Mr. Thies  
7 discusses the Company's rate of return and the capital structure, while Company witness  
8 Mr. McKenzie provides additional testimony related to the appropriate return on equity for  
9 Avista.

10 Page 3 shows the derivation of the natural gas net-operating-income-to-gross-  
11 revenue conversion factor. The conversion factor takes into account uncollectible accounts  
12 receivable, Commission fees and Washington State excise taxes. Federal income taxes are  
13 reflected at 35%.

14 **Q. Now turning to pages pages 4 through 7 of Exh. EMA-9, please explain**  
15 **what is included on those pages?**

16 A. Page 4 begins with actual operating results and rate base for the twelve-  
17 months-ending December 31, 2016 test period on an AMA basis in column (1.00).  
18 Individual normalizing and restating adjustments that are standard components of our  
19 annual reporting to the Commission begin in column (1.01) on page 4 and continue through  
20 column (2.15) on page 5. Individual Pro Forma adjustments are shown on pages 6 and 7  
21 in columns (3.01) though (3.13). The last column on page 7, labeled "Pro Forma Sub-  
22 Total" is the subtotal of the previous columns (1.00) through (3.13), and produces the

1 Traditional Pro Forma Study net operating income (NOI), total rate base, and revenue  
2 requirement totaling \$4,531,000, as seen in Exh. EMA-6.

3 Provided with Exh. EMA-6 are explanations of each of the natural gas Commission  
4 Basis, restating and Pro Forma adjustments included on pages 4 through 7. The Company  
5 has also provided workpapers, both in hard copy and electronic formats, which include  
6 additional details related to each of these adjustments.

7 **Q. Now turning to pages pages 8 through 10 of Exh. EMA-9, please explain**  
8 **what is included on those pages?**

9 A. Page 8 of Exh. EMA-9 includes additional Rate Year 1 (May 1, 2018 – April  
10 30, 2019) adjustments necessary beyond that included in the Traditional Pro Forma Study.  
11 These adjustments represent Rate Year 1 adjustments that do not meet the Commissions  
12 traditional pro forma methodology for inclusion in the Traditional Pro Forma Study; but  
13 none-the-less, are planned costs during the Rate Year 1 period. These individual Rate Year  
14 adjustments include columns (18.01) through (18.04). A summary column on page 8,  
15 labeled “May 1, 2018 Rate Period Total” sums the Traditional Pro Forma Total column  
16 and these four adjustments reflecting the overall revenue requirement needed per Rate Year  
17 1 of \$8,886,000.

18 Turning to page 9, this page starts with the “May 1, 2018 Rate Period Total.” Four  
19 Rate Year 2 adjustments, (19.01) through (19.04) for the period May 1, 2019 – April 30,  
20 2020, are included here to reflect planned capital additions and expenses, offset by revenues  
21 from increased sales to customers for Rate Year 2, effective May 1, 2019. The impact of  
22 including these Rate Year 2 adjustments, result in a total revenue requirement as of May 1,

1 2019 of \$12,347,000 as shown in column “May 1, 2019 Rate Period Total.” This reflects  
2 an incremental revenue requirement amount of \$3,461,000 above the May 1, 2018 level.

3 Turning to Page 10, this page starts with the “May 1, 2019 Rate Period Total.” Four  
4 Rate Year 3 adjustments, (20.01) through (20.04) for the period May 1, 2020 – April 30,  
5 2021, are included here to reflect planned capital additions and expenses, offset by revenues  
6 from increased sales to customers for Rate Year 3, effective May 1, 2020. The impact of  
7 including these Rate Year 3 adjustments, result in a total revenue requirement as of May 1,  
8 2020 of \$16,282,000. This reflects an incremental revenue requirement amount of  
9 \$3,936,000 above the May 1, 2019 level.

10 Below is an explanation of each of the Rate Year Study adjustments mentioned  
11 above. The Company has also provided workpapers, both in hard copy and electronic  
12 formats, which include additional details related to each of these adjustments.

13

14 **Rate Year 1 (May 1, 2018 – April 30, 2019) Adjustments**

15 **Q. Please explain each of the Rate Year 1 adjustments included on page 8**  
16 **of Exh. EMA-9.**

17 A. Page 8 of Exh. EMA-9 includes the following adjustments:

18 **EOP 2017 Capital Net Rate Base Additions**, column (18.01), adjustment starts  
19 with the Traditional Pro Forma Study net plant after ADFIT results and adjusts total net  
20 plant after ADFIT, including all 2017 remaining capital additions, to a 2017 EOP basis.  
21 Specifically, Avista reviewed the planned capital projects that were below the 0.5 percent  
22 threshold for 2017 (i.e., those not included in the Traditional Pro Forma Study adjustment  
23 3.10 Pro Forma 2017 “Threshold Capital Additions” discussed in Exh. EMA-6). These

1 additions were included for 2017, together with the associated A/D and ADFIT on a 2017  
2 EOP basis, as well as annual depreciation expense.<sup>1</sup> The associated ADFIT includes the  
3 repairs deduction and bonus tax depreciation expected through 2017 on an EOP basis<sup>2</sup>. In  
4 addition, the plant-in-service for 2016 AMA was adjusted to a 2017 EOP basis. The effect  
5 of this adjustment increases rate base by \$13,626,000 and decreases net operating income  
6 by \$959,000. Company witness Ms. Schuh sponsors this adjustment.

7 **Rate Period Capital Additions (AMA) 05.2018-04.2019**, column (18.02), this  
8 adjustment includes planned capital additions for the period January 1, 2018 through April  
9 30, 2019, together with the associated A/D and ADFIT for the period 12-months ended  
10 April 30, 2019 on an average-of-monthly-average (AMA) basis. Annual depreciation for  
11 these capital additions are also included in this adjustment. The associated ADFIT includes  
12 repairs and bonus tax depreciation expected through April 2019 on an AMA basis. In  
13 addition, total plant-in-service as of EOP 2017 was adjusted to a 04.2019 AMA basis. The  
14 effect of this adjustment increases rate base by \$5,724,000 and decreases net operating  
15 income by \$1,224,000. Ms. Schuh sponsors this adjustment.

16 **Rate Period IS/IT Expense**, column (18.03), adjusts the level of information  
17 services and information technology (IS/IT) expense included in the Traditional Pro Forma  
18 Study in Pro Forma IS/IT adjustment (3.07), which included the level of IS/IT expenses  
19 that would be known as of May 1, 2018. This adjustment includes the incremental IS/IT

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<sup>1</sup> The Company reviewed large capital additions in 2017 to determine any offsets (e.g., reduced O&M costs, reduced load losses, etc.). Maintenance records were reviewed to determine whether any specific maintenance costs were incurred in the test year that would be reduced or eliminated by the investment. Those costs were quantified and included as a reduction to O&M expenses in adjustment (3.11) Pro Forma O&M Savings included in Exh. EMA-6 and Exh. EMA-9.

<sup>2</sup> The IRS extended bonus depreciation through 2019. The Company has included bonus depreciation through 2019 within its capital adjustments.



1 expenses planned during the period May 1, 2018 through April 30, 2019. This adjustment  
2 includes the incremental costs associated with software development, application licenses,  
3 maintenance fees, and technical support for a range of information services programs.  
4 These incremental expenditures are necessary to support Company cyber and general  
5 security, emergency operations readiness, electric and natural gas facilities and operations  
6 support, and customer services. Company witness Mr. Kensok sponsors this adjustment  
7 and provides more information within his testimony. The effect of this adjustment  
8 decreases net operating income by \$88,000.

9 **Rate Period Revenues 05.2018-04.2019**, column (18.04), reflects the incremental  
10 revenue at present rates from loads and customers included in the Company's forecast for  
11 the period 12-months ended April 30, 2019 compared to the test year Pro Forma  
12 Normalized Revenue. The adjustment includes estimated deferred revenues associated  
13 with the Decoupling Mechanism assuming the decoupling base is updated by Pro Forma  
14 Normalized Revenue at present rates. Company witness Ms. Knox sponsors this  
15 adjustment. The effect of this adjustment increases Washington net operating income by  
16 \$1,056,000.

17

18 **Rate Year 2 (May 1, 2019 – April 30, 2020) Adjustments**

19 **Q. Please explain each of the Rate Year 2 adjustments included on page 9**  
20 **of Exh. EMA-9.**

21 A. Page 9 of Exh. EMA-9 includes the following adjustments:

22 **Rate Period Capital Additions (AMA) 05.2019-04.2020**, column (19.01), this  
23 adjustment includes planned capital additions for the period May 1, 2019 through April 30,

1 2020, together with the associated A/D and ADFIT for the period 12-months ended April  
2 30, 2020 on an AMA basis. Annual depreciation for these capital additions is also included  
3 in this adjustment. The associated ADFIT includes the repairs deduction and bonus tax  
4 depreciation expected through April 2020 on an AMA basis. In addition, total plant-in-  
5 service as of AMA 04.2019 was adjusted to a 04.2020 AMA basis. The effect of this  
6 adjustment increases rate base by \$15,004,000 and decreases net operating income by  
7 \$916,000. Ms. Schuh sponsors this adjustment.

8 **Rate Period O&M/A&G (2.71%) Expense**, column (19.02), reflects the annual  
9 planned increase in operating expenses of 2.71%, including O&M, customer service, and  
10 administrative and general expenses. Per the Company's current financial forecast, the  
11 annual percentage increase in O&M has been reduced to reflect "efficiency reductions" in  
12 O&M, resulting in an O&M average increase of 2.71% on a system basis over the four-  
13 year period 2017 to 2020 for the combined electric and natural gas systems. This 2.71%  
14 growth in operating expenses is a significant reduction from the prior year's average growth  
15 in O&M expenses, and reflects an effort by the Company to reduce its O&M expenses from  
16 previous years. The effect of this adjustment decreases Washington net operating income  
17 by \$638,000.

18 **Rate Period Property Tax Expense**, column (19.03), restates the Rate Year 1 level  
19 of property tax expense (beginning May 1, 2018) included in adjustment (3.06) Pro Forma  
20 Property tax, to the level of property tax expense the Company will experience during Rate  
21 Year 2 beginning May 1, 2019. The property on which the tax is calculated is the property  
22 value as of December 31, 2018. The effect of this adjustment decreases net operating  
23 income by \$150,000.

1           **Rate Period Revenues 05.2019-04.2020**, column (19.04), reflects the incremental  
2 revenue at present rates from loads and customers included in the Company's forecast for  
3 the period 12-months ended April 30, 2020 compared to the Rate Period Revenues  
4 05.2018-04.2019. The adjustment includes estimated deferred revenues associated with  
5 the Decoupling Mechanism assuming the decoupling base is updated by Pro Forma  
6 Normalized Revenue at present rates. Ms. Knox sponsors this adjustment. The effect of  
7 this adjustment increases Washington net operating income by \$710,000.

8  
9           **Rate Year 3 (May 1, 2020 – April 30, 2021) Adjustments**

10           **Q. Please explain each of the Rate Year 3 adjustments included on page 10**  
11 **of Exh. EMA-9.**

12           A. Page 10 of Exh. EMA-9 includes the following adjustments:

13           **Rate Period Capital Additions (AMA) 05.2020-04.2021**, column (20.01), this  
14 adjustment includes planned capital additions for the period May 1, 2020 through April 30,  
15 2021, together with the associated A/D and ADFIT for the period 12-months ended April  
16 30, 2021 on an AMA basis. Annual depreciation for these capital additions are also  
17 included in this adjustment. The associated ADFIT includes the repairs deduction and  
18 bonus tax depreciation expected through April 2021 on an AMA basis. In addition, total  
19 plant-in-service as of AMA 04.2020 was adjusted to a 04.2021 AMA basis. The effect of  
20 this adjustment increases rate base by \$15,897,000 and decreases net operating income by  
21 \$1,147,000. Ms. Schuh sponsors this adjustment.

22           **Rate Period O&M/A&G (2.71%) Expense**, column (20.02), reflects the annual  
23 planned increase in operating expenses of 2.71%, including O&M, customer service, and

1 administrative and general expenses. Per the Company's current financial forecast, the  
2 annual percentage increase in O&M has been reduced to reflect "efficiency reductions" in  
3 O&M, resulting in an O&M average increase of 2.71% on a system basis over the four-  
4 year period 2017 to 2020 for the combined electric and natural gas systems. This 2.71%  
5 growth in operating expenses is a significant reduction from the prior year's average growth  
6 in O&M expenses, and reflects an effort by the Company to reduce its O&M expenses from  
7 previous years. The effect of this adjustment decreases Washington net operating income  
8 by \$655,000.

9 **Rate Period Property Tax Expense**, column (20.03), restates the Rate Year 2 level  
10 of property tax expense (beginning May 1, 2019) included in adjustment (19.03) Rate  
11 Period Property tax, to the level of property tax expense the Company will experience  
12 during Rate Year 3 beginning May 1, 2020. The property on which the tax is calculated is  
13 the property value as of December 31, 2019. The effect of this adjustment decreases net  
14 operating income by \$133,000.

15 **Rate Period Revenues 05.2020-04.2021**, column (20.04), reflects the incremental  
16 revenue at present rates from loads and customers included in the Company's forecast for  
17 the period 12-months ended April 30, 2021 compared to the Rate Period Revenues  
18 05.2019-04.2020. The adjustment includes estimated deferred revenues associated with  
19 the Decoupling Mechanism assuming the decoupling base is updated by Pro Forma  
20 Normalized Revenue at present rates. Ms. Knox sponsors this adjustment. The effect of  
21 this adjustment increases Washington net operating income by \$715,000.