

Exhibit No. ____ CT (KHB-1TC)
Dockets UE-120436, et al.
Witness: Kathryn H. Breda
REDACTED VERSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION, d/b/a
AVISTA UTILITIES,**

Respondent.

**DOCKETS UE-120436/UG-120437
(consolidated)**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION d/b/a AVISTA
UTILITIES,**

Respondent.

**DOCKETS UE-110876/UG-110877
(consolidated)**

TESTIMONY OF

Kathryn H. Breda

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Attrition Study, Overall Electric and Natural Gas Revenue Requirement, Deferred
Maintenance, Allocations, and Renewable Energy Credit Revenues*

September 19, 2012

CONFIDENTIAL PER PROTECTIVE ORDER IN DOCKETS UE-120436 ET AL.

TABLE OF CONTENTS

I. INTRODUCTION 1

II. SCOPE AND SUMMARY OF TESTIMONY 2

III. STAFF’S OVERALL ELECTRIC AND NATURAL GAS REVENUE
REQUIREMENT ANALYSIS 4

IV. CONTESTED ADJUSTMENTS 5

 A. Staff Adjustment 1.04, Electric and Natural Gas - Federal Income
 Tax Correction 5

 B. Staff Adjustment 2.16, Electric - Colstrip and Coyote Springs 2
 Maintenance 6

 C. Staff Adjustments 2.18, Electric, and 2.16, Natural Gas –
 Booz & Company Contract 6

 D. Adjustment 3.00, Electric - Pro Forma Power Supply 7

 E. Adjustment 3.07, Electric Adjustment 3.06, Natural Gas –
 Restating 2011 Capital; Adjustment 4.00, Electric and Natural Gas –
 Planned Capital Additions 2012; Adjustment 4.01, Electric and
 Natural Gas - Planned Capital Additions 2013 AMA; Adjustment 4.02,
 Electric – DSM; Adjustment 4.03, Electric – Other, Adjustment 4.06
 Electric and 4.03 Natural Gas - O&M Offsets 8

 F. Staff Adjustment 3.08, Electric - Noxon Rapids Unit 4 Runner Upgrade 9

 G. Staff Adjustment 3.09, Electric - Pullman Smart Grid Adjustment 10

 H. Adjustment 4.04, Electric - Retail Revenue Credit 10

V. DEFERRED MAINTENANCE 10

VI. ALLOCATIONS 16

VII. RENEWABLE ENERGY CREDITS REVENUE 17

VIII. ATTRITION ANALYSIS 19

 A. Background..... 19

1 operating income by \$1,913,000 and increases the electric revenue requirement by
2 \$3,081,000.¹²

3
4 **E. Adjustment 3.07, Electric and Adjustment 3.06, Natural Gas - Restating**
5 **2011 Capital; Adjustment 4.00, Electric and Natural Gas - Planned**
6 **Capital Additions 2012; Adjustment 4.01, Electric and Natural Gas -**
7 **Planned Capital Additions 2013 AMA; Adjustment 4.02, Electric - DSM;**
8 **Adjustment 4.03, Electric – Other, Adjustment 4.06 Electric and 4.03**
9 **Natural Gas – O&M Offsets**
10

11 **Q. Please explain why you have grouped Adjustments 3.06, 3.07, 4.00, 4.01, 4.02,**
12 **4.03, and 4.06.**

13 **A.** Each of these adjustments is related to the issue of attrition. Because Staff addresses
14 attrition through a separate attrition study, these adjustments are duplicative and
15 therefore Staff does not separately address them.

16 Avista presents Adjustments 4.00 through 4.03 as attrition-related
17 adjustments. However, Avista's Adjustments 3.06 and 3.07 are also attrition-related
18 because they reflect rate base on an end-of-period basis, rather than an average of the
19 monthly averages basis.

20 The Commission has recognized that average of monthly averages rate base
21 "is most favored", but year-end rate base is a tool the Commission can use to address
22 attrition.¹³ Because both Staff's and the Company's attrition studies consider plant
23 additions through the rate year, Adjustments 3.06 and 3.07 are duplicative.

¹² Breda, Exhibit No. ____ (KHB-6) details this adjustment.

¹³ *Utilities and Transp. Comm'n v. Wash. Natural Gas Co.*, Cause U-80-111, Third Supplemental Order (September 24, 1981), at 6. The Commission listed four conditions under which year-end rate based could be used: "a) Abnormal growth in plant; b) Inflation and/or attrition c) As a means to mitigate regulatory lag d)

1 Similarly, Avista's adjustments 4.06, Electric and 4.03, Natural Gas, O&M
2 Offsets, include projected reductions in operations and maintenance expense related
3 to capital additions through the rate year 2013. Staff removes these adjustments as
4 separate items because, again, I consider operations and maintenance expense
5 growth in my attrition study.

6
7 **F. Staff Adjustment 3.08, Electric – Noxon Rapids Unit 4 Runner Upgrade**

8
9 **Q. Please explain Staff Adjustment 3.08, Electric - Noxon Rapids Unit 4 Runner**
10 **Upgrade.**

11 **A.** Avista is making upgrades to its hydroelectric facility at Noxon. Mr. Buckley,
12 Staff's power supply witness, includes the impact of these upgrades on power supply
13 costs. Therefore, it is appropriate to reflect the impact of the upgrades on rate base.
14 Staff's Adjustment 3.08 includes the plant additions related to the production assets
15 Staff considered in the dispatch of power in the rate year. Staff witness Alan
16 Buckley describes this adjustment in detail.¹⁴

17 Staff Adjustment 3.08 decreases Washington net operating income by
18 \$15,000 and increases net rate base \$5,173,000, thereby increasing the electric
19 revenue requirement by \$625,000.¹⁵

20

Failure of utility to earn its authorized rate of return over a historical period." Staff considers each of these conditions as indications of attrition.

¹⁴ Buckley, Exhibit No. ____ (APB-1CT) at 9, line 19 to 13, line 2.

¹⁵ Breda, Exhibit No. ____ (KHB-7) details this adjustment.