

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-18\_\_\_\_

DIRECT TESTIMONY OF

ANNETTE M. BRANDON

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, business address and present position with Avista**  
3 **Corporation ("Avista" or "Company").**

4 A. My name is Annette M. Brandon and my business address is 1411 East Mission  
5 Avenue, Spokane, Washington. I am employed by Avista as a Senior Regulatory Analyst in  
6 the Regulatory Affairs department.

7 **Q. Would you briefly describe your educational background and**  
8 **professional experience?**

9 A. Yes. I am a 2002 graduate of Eastern Washington University with a Bachelor  
10 of Arts degree in Business Administration – Professional Accounting. I started with Avista  
11 in January 1999 as a Budget Analyst in the Company’s Transmission department. I spent  
12 three years in the Company’s Tax Department before moving to Resource Accounting for the  
13 next eight years. In this role, I was primarily responsible for accounting for natural gas and  
14 associated budgeting and reporting requirements. I joined the Regulatory Affairs department  
15 as a Regulatory Analyst in 2012 and was promoted to my current role in 2013. My primary  
16 responsibilities relate to natural gas procurement (including purchase gas adjustment filings),  
17 monthly/annual Energy Recovery Mechanism (ERM) filings and key contact for the  
18 Company’s compensation and benefits programs.

19 **Q. What is the scope of your testimony in this proceeding?**

20 A. My testimony addresses the accounting associated with the power cost  
21 deferrals under the Energy Recovery Mechanism (“ERM”) approved by the Commission in  
22 Docket No. UE-011595. I also explain what is contained in the monthly reports that are filed  
23 with the Commission.

1           **Q.     Are you sponsoring any exhibits?**

2           A.     Yes. I am sponsoring Exhibit No. \_\_\_\_ (AMB-2), which consists of a copy of  
3 the December 2017 ERM report for informational purposes.

4

5                           **II. ACCOUNTING ASSOCIATED WITH ERM DEFERRALS**

6           **Q.     Would you please describe the accounting associated with the Company's**  
7 **ERM deferral mechanism?**

8           A.     Yes. In his direct testimony Company witness Mr. Johnson discusses the  
9 procedure to calculate the monthly variations between actual and authorized power supply  
10 revenues and expenses.

11           Under the ERM deferral mechanism, monthly variations are accumulated until the  
12 calendar-year deadband of \$4.0 million is exceeded. Once the deadband is exceeded, 50% of  
13 the cumulative variation between actual and authorized net power supply costs between \$4.0  
14 million and \$10.0 million is deferred if the deferral is in the surcharge direction, and 75% is  
15 deferred if the deferral is in the rebate direction. Once the cumulative power supply cost  
16 variance from the amount included in base rates exceeds \$10.0 million, 90% of the cost  
17 variance above \$10 million is deferred for future surcharge or rebate.

18           When actual net power supply costs exceed authorized costs, entries are made to  
19 record the deferral amount by crediting FERC Account 557.28 - Other Power Supply  
20 Expenses, thereby decreasing recorded power supply expenses, and debiting FERC Account  
21 186.28 - Miscellaneous Deferred Debits. If actual net power supply costs are less than  
22 authorized costs in a given month, an entry is made to record the difference by debiting FERC  
23 Account 557.28 - Other Power Supply Expenses, thereby increasing recorded power supply

1 expenses, and crediting FERC Account 186.28 - Miscellaneous Deferred Debits. An  
2 accumulated debit balance in FERC Account 186.28 represents a surcharge balance, while an  
3 accumulated credit balance represents a rebate balance.

4 **Q. How is interest recorded on the deferral balances?**

5 A. Interest is calculated pursuant to the Settlement Stipulation approved by the  
6 Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002.  
7 Interest is applied to the average of the beginning and ending month balances in Account  
8 186.28 net of associated deferred federal income tax. The Company's weighted cost of debt  
9 is used as the interest rate. The interest rate is updated semi-annually and interest is  
10 compounded semi-annually. The interest rate used for the period January 1, 2017 through  
11 June 30, 2017 was 5.420%, the Company's weighted cost of debt at December 31, 2016. The  
12 interest rate used for the period July 1, 2017 through December 31, 2017 was 5.445%, the  
13 Company's weighted cost of debt at June 30, 2017.

14 **Q. How are income taxes accounted for under the deferred power cost**  
15 **mechanism?**

16 A. The power cost deferral entries are not recognized in the determination of  
17 taxable income for federal income tax purposes. Deferred federal income taxes related to the  
18 ERM are recorded to FERC Account 283.28 – Accumulated Deferred Federal Income Tax.  
19 When FERC Account 283.28 is credited, Account 410.10 – Deferred FIT Expense is debited.  
20 Likewise, when FERC Account 283.28 is debited, FERC Account 410.10 is credited.

21 In December 2017, the H.R.1 - Tax Cut and Jobs Act ("TCJA") was implemented  
22 which reduced the Federal Income Tax Rate from 35% to 21%. Per the requirements of the  
23 TCJA deferred tax amounts are required to be revalued at the lower corporate rate and

1 reclassification from deferred tax to deferred regulatory assets or liabilities. As such, the  
2 balances in account 283.28, which previously represented 35% of deferral balances, was  
3 revalued to represent 21%. A reclassification entry in the amount of \$3,322,706 was recorded  
4 crediting the deferred tax account 283.28 and debiting the “non-plant” excess tax regulatory  
5 liability account 254910 in recognition of this change.<sup>1</sup>

6 **Q. In 2017 what were the amounts deferred and the amount absorbed by the**  
7 **Company?**

8 A. For the 2017 calendar year, actual net power costs were less than authorized  
9 net power costs for the Washington jurisdiction by \$6,219,740. The deferral in the rebate  
10 direction for 2017 amounted to \$1,664,805, which consists of 75% of the \$4.0 million to \$10.0  
11 million sharing band ( $\$2,219,740 * 75\%$ )<sup>2</sup>. The Company absorbed \$4,554,935 in reduced net  
12 power costs in 2017.

13 **Q. What was the total balance in the ERM deferral accounts at December 31,**  
14 **2017, including deferrals that arose prior to 2017?**

15 A. The total balance in the ERM deferral accounts, including the 2017 rebate  
16 recorded, was \$23,733,616, in a rebate direction.

17 Table No. 1 summarizes the activity in the ERM deferral accounts and the resulting  
18 balance at December 31, 2017.

---

<sup>1</sup> The excess tax related to the enactment of the TCJA is currently being reviewed in a separate docket, UE-170485 et al.

<sup>2</sup> Interest was recorded in the amount of \$19,996 in addition to the \$1,664,805 in deferrals for a total deferral balance in the rebate direction of \$1,684,801.

**Table No. 1:**

| <b>Summary of Account 186280 and 182350<br/>Surcharge/(Rebate)</b> |  |                        |
|--|--|------------------------|
| <b>GL Account</b>  | <b>Description</b>   | <b>Activity</b>        |
| <b>182350</b>  | Deferral Beginning Balance as of 01/2017                               | \$ (17,947,670)        |
|  | 2016 Deferral Balance (incl interest) <sup>1</sup> Transferred 07/2017 | \$ (3,342,983)         |
|  | Interest on Balance and Activity                                       | \$ (758,162)           |
|  | <b>Ending Recoverable Deferral Balance</b>                             | <b>\$ (22,048,815)</b> |
| <b>186280</b>  | Current Year Deferral (2017)   | \$ (1,664,805)         |
|  | Interest (2017)  | \$ (19,996)            |
|  | <b>Ending Deferral Balance for 2017 Activity</b>                       | <b>\$ (1,684,801)</b>  |
|  | <b>TOTAL</b>   | <b>\$ (23,733,616)</b> |

**Q. Under the ERM, what is the provision for a rebate or surcharge of the ERM balance to customers?**

A. A rate adjustment trigger was originally set at 10% of base revenues per the Settlement Stipulation and approved by the Fifth Supplemental Order in Docket UE-011595. The multiparty settlement stipulation in Docket No. UE-120436 reduced the rate adjustment trigger from 10 percent of base revenues to \$30 million. However, as indicated in footnote 1, rebates of ERM balances (as approved by the Commission) have occurred separate from this provision.

### **III. ERM MONTHLY AND ANNUAL REPORTS**

**Q. Would you please describe the monthly reports that the Company submits to the Commission?**

A. Yes. The Company submits monthly reports to the Commission, Public Counsel, and the Industrial Customers of Northwest Utilities that include the monthly power

<sup>3</sup>As a part of the Settlement Stipulation approved by the Commission in Docket Nos. UE-140188 and UG-140189, Avista was authorized to rebate to customers approximately \$8.2 million during 2015. Approximately

1 cost deferral journal entries together with backup work papers and other supporting  
2 documentation. The cover letter to the monthly report contains a brief explanation of the  
3 factors causing the variance between actual and authorized power costs. The beginning of the  
4 month account balances, the recorded activity within the accounts, and the ending month  
5 account balances are shown. The January and July reports contain the supporting work papers  
6 for the semi-annual updates of the weighted cost of debt used in the interest calculations. The  
7 monthly reports also include any new power supply contracts of one-year or longer, entered  
8 into during the month. The December 2017 report is attached for informational purposes as  
9 Exhibit No. \_\_\_\_ (AMB-2).

10 **Q. What are the requirements associated with the annual filing to review**  
11 **deferrals?**

12 A. The Company is required to make an annual filing, on or before April 1 of each  
13 year, regarding the power costs deferred in the prior calendar year under the ERM. The filing  
14 consists of testimony, exhibits, and supporting documentation.

15 **Q. What is the review period for the annual ERM filing?**

16 A. The Commission Staff and other interested parties have the opportunity to  
17 review the deferral information during a 90-day review period ending June 30<sup>th</sup> each year.  
18 The 90-day review period may be extended by agreement of the parties participating in the  
19 review, or by Commission order.

20 **Q. When was the last annual ERM filing addressed by the Commission?**

---

\$8.0 million was passed back to customers during 2015. That rebate was set to expire on December 31, 2015, however, in Docket No. UE-152406, the Commission extended the rebate for an additional 11 days (January 1-January 11, 2016) to coincide with the effective date of the Company's 2015 general rate case for approximately \$640,000.

1           A.     The annual ERM filing covering the 2016 calendar year was filed March 30,  
2     2017 in Docket No. UE-170218. Order No. 01 was issued in that Docket on June 29, 2017,  
3     and the Commission found that the power cost deferrals for 2016 were properly calculated  
4     and recorded.

5           **Q.     Have the 2017 ERM calculations and accounting entries been made in a**  
6     **manner consistent with the ERM methodology approved by the Commission?**

7           A.     Yes.

8           **Q.     Does this conclude your pre-filed, direct testimony?**

9           A.     Yes, it does.