Exhibit No. ___(TLK-4T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-160228

REBUTTAL TESTIMONY OF

TARA L. KNOX

REPRESENTING AVISTA CORPORATION

INTRODUCTION

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

A. My name is Tara L. Knox and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the State and Federal Regulation Department as a Senior Regulatory Analyst.

Q. Have you filed direct testimony in this proceeding?

A. Yes. I have filed direct testimony in this case addressing electric cost of service, among other things.

Q. What is the scope of your rebuttal testimony?

A. My testimony will address the testimony of Mr. Jason Ball of Commission Staff and Mr. Robert Stephens representing the Industrial Customers of Northwest Utilities ("ICNU") regarding proposed changes to the electric cost of service study.

Q. Are you sponsoring any exhibits that accompany your testimony?

A. No.

ELECTRIC COST OF SERVICE

Q. On page 9 of Mr. Ball's testimony he states that he has concerns about the "precision" of the Company's Cost of Service study, and on page 15 he makes reference to the accuracy of cost of service studies. Do you believe Mr. Ball is suggesting there were errors inherent in Avista's study?

A. No, there is no indication in the rest of his testimony that he had identified a problem with the mathematical precision of the Company's model. In fact, he stated that it

was consistent with the Company's prior filings. I believe he was referring to the variety of methodological choices available when developing cost of service analysis, that may lead some to characterize cost of service as not being an exact science. From a methodological standpoint, "precision" and "accuracy" are in the eye of the beholder. Depending on their point of view, one party may believe a particular approach is fair and reasonable, while another party may prefer a different approach. And both parties may find support for their point of view in the literature.

Avista has presented what it believes is a fair representation of the costs to serve each customer group, based on the best information available for the Company's electric utility system.

Q. Mr. Stephen's spends a considerable amount of his testimony objecting to the peak credit approach used by the Company to classify production and transmission costs on the grounds that investment is primarily incurred due to peak demands. Do you agree with his criticism of the peak credit approach?

A. No. The theory behind the peak credit approach is to provide a balance between the way the system is designed to meet peak load and how the system is used to provide energy every hour of every day. This approach reflects what the customers receive from the system, which is both energy all year long, as well as all the energy they need at the time they need it the most.

Q. Has the Commission weighed in on the use of the peak credit methodology in any recent cases?

A. Yes. In the 2014 Pacific Power case the Commission stated that it "has long preferred the Peak Credit methodology and consistently has approved its use in cost of service

studies for Pacific Power, and for both PSE and Avista."[1]

Q. Do you agree with Mr. Stephens that the peak credit should not be applied to transmission costs?

A. No. In the State of Washington the transmission function has consistently been treated as an extension of the production function since the 1980's. Starting with a Puget Sound Power and Light (now PSE) case in 1981 where the Commission's Order stated: "Transmission costs should not be fully allocated to demand, but should be allocated to both energy and to demand."[2] This was followed by a Washington Water Power (now Avista) case in 1982 where the Commission's Order stated: "Classification of transmission system cost should be applied using the same principles as for production plant."[3] For Avista today, continuing to apply the peak credit approach to both production and transmission costs maintains consistency year to year in the Company's Electric Cost of Service studies.

Q. Mr. Stephens also supports changing the basis for the allocation of demand-related production costs. Do you agree with his proposal for a summer/winter 4CP demand allocator?

A. The Company believes the twelve month coincident peak ("12CP") demand allocator provides a more balanced approach that is less likely to vary widely from year to year due to extraordinary weather conditions. Avista agrees with the Commission that peak demand based on only four hours is too narrow a range.[4] Furthermore, customers are billed on a monthly basis reflecting their monthly peak and energy consumption. The 12CP

[1] Docket UE-140762 et al. *(Consolidated)* Order 08 page 81 paragraph 190.
[2] Source: Cost of Service Analysis For the Electric and Natural Gas Industries An Historical Review of Decisions by the Washington Utilities and Transportation Commission 1978 – 1994 by Jim Lazar – Consulting Economist, page 5. This specific quote is cited Cause U-81-41, Sixth Supplemental Order, Page 23.
[3] Ibid. See Cause U-82-10, Second Supplemental Order, Page 37.
[4] PacifiCorp Docket No UE-140762 et al. *(Consolidated)* Order 08, page 82, paragraph 193 referencing PacifiCorp Docket No. UE-100749, Order No. 06.

allocation factor that captures peaks from every month provides a fair assignment of demand-related costs consistent with the billing measurement periods.

Q. Mr. Stephens proposed the allocation of AMI-related general and intangible plant on the same basis as AMI-related distribution plant. Do you agree with this proposal?

A. Yes. I agree that it is reasonable to segregate AMI-related communication and software investment costs from common general and intangible plant investment costs in order to classify them as customer-related costs. The weighted meter cost allocation factor (presently applied to Plant Account 370 meter costs) would be an appropriate choice for this category of customer-related costs.

Q. If the Company's Electric Cost of Service study was revised to reflect all AMI-related costs as customer-related, would it alter the implications for rate spread/rate design?

A. No, it would not materially change the results. Costs would increase slightly for residential, general service and pumping customers and decrease slightly for the other rate groups. The following table shows the results of the Company's Base Case Cost of Service including this revision compared with the originally filed results.

Table No. 1

Customer Class	Revised Rate of Return	Revised Return Ratio	As Filed Rate of Return	As Filed Return Ratio
Residential Service Schedule 1	3.26%	0.54	3.30%	0.55
General Service Schedules 11/12	11.76%	1.95	11.92%	1.98
Large General Service Schedules 21/22	9.06%	1.50	8.96%	1.49
Extra Large General Service Schedule 25	6.34%	1.05	6.23%	1.03
Pumping Service Schedules 31/32	4.99%	0.83	5.01%	0.83
Lighting Service Schedules 41 - 48	5.44%	0.90	5.32%	0.88
Total Washington Electric System	6.02%	1.00	6.02%	1.00

Mr. Ehrbar utilizes the Cost of Service study as a guide in the development of rate spread and rate design, not an absolute prescription. This revision does not materially change the guidance provided by the original study.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.