

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES

Respondent.

DOCKETS UE-240006 and UG-240007 (*Consolidated*)

**CROSS-ANSWERING TESTIMONY OF MARK E. GARRETT
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT MEG-9T

August 16, 2024

CROSS-ANSWERING TESTIMONY OF MARK E. GARRETT

DOCKET(S) UE-240006 AND UG-240007 EXHIBIT MEG-9T

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CROSS-ANSWERING TESTIMONY OF MARK E. GARRETT

DOCKET(S) UE-240006 AND UG-240007

EXHIBIT MEG-9T

EXHIBITS LIST

Exhibit MEG-10 Updated Electric Utility Revenue Requirement

Exhibit MEG-11 Updated Gas Utility Revenue Requirement

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I. INTRODUCTION & SUMMARY

Q. Please state your name and business address.

A. My name is Mark Garrett. My business address is 4028 Oakdale Farm Circle, Edmond, Oklahoma 73013.

Q. By whom are you employed and in what capacity?

A. I am an attorney and a certified public accountant. I work as a consultant in the area of public utility regulation.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Public Counsel Unit of the Washington Attorney General’s Office (Public Counsel).

Q. Did you provide testimony in this case on July 3, 2024?

A. Yes. In my Response Testimony I reviewed the general rate case filing of Avista Corporation (Avista or the Company) and presented alternative calculations and ratemaking policy considerations related to the Company’s proposed revenue requirement adjustments for its electric and natural gas utility. I also sponsored electric and gas utility revenue requirement accounting schedules.

Q. Have your qualifications previously been accepted by this Commission?

A. Yes, they have. A description of my qualifications and a list of the proceedings in which I have been involved are attached to my testimony filed July 3, 2024, as Exhibit MEG-1T.

Q. Are you sponsoring exhibits related to this Cross-Answering testimony?

A. Yes, I am updating my previously filed exhibits MEG-3 and MEG-4 with the following exhibits:

1 **Q. Please describe the rationale for this adjustment.**

2 A. In response to discovery, Avista provided an updated actuarial report, dated
3 February 15, 2024. The pension and other post-employment benefit expense was
4 materially less in the updated actuarial report than the values used in the original
5 filing due primarily to a pension settlement event that occurred in 2022. This 2022
6 settlement event resulted in a non-recurring \$11.8 million expense on a total
7 system basis. To match the offsetting gains that Avista will experience over time
8 through lower annual pension benefit expense, the settlement charge was deferred
9 and amortized over approximately 12 years. Although Avista included the
10 amortization in its overall benefits expense, the Company did not include the full
11 reduction to pension expense on an on-going basis.²

12 **Q. Do you agree with Mullins' adjustment to Pension and Other Post**
13 **Employment Benefit Expense?**

14 A. Yes. Mullins' testimony demonstrates that the Company's pension and other post-
15 employment benefit expense is overstated, and that an adjustment is necessary to
16 establish the appropriate expense level.

17 **Q. Why is this adjustment important?**

18 A. Without this adjustment, customers would be paying for the amortized charge, but
19 would not receive any benefit from the lower pension and other post-employment
20 benefit expense.

² *Id.* at 21:9–22:2.

1 **Q. What adjustment did Mullins make regarding the Company’s revenues from**
2 **rent from Electric Property?**

3 A. Mullins adjusted Avista’s revenue from rent from electric property by
4 \$2.205 million due to the actual growth that occurred since the historical period
5 and the growth that is anticipated through the end of RY1.³

6 **Q. Please describe AWEC’s adjustment related to rents from Electric Property.**

7 A. As described in Mullins’ testimony, the Company experienced substantial growth
8 in rent from electric property due to substantial growth in the demand for pole
9 attachments for the deployment of 5G mobile telecommunication services and
10 broadband.⁴

11 **Q. Do you agree with Mullins’ recommendation?**

12 A. Yes. Mullins correctly recognizes that revenue for rent from electric property is
13 understated in Avista’s original filing, and he makes reasonable assumptions to
14 project revenue for RY1.

15 **Q. What should the regulatory treatment be for rent from Electric Property?**

16 A. Through base rates, customers have paid for the distribution plant from which the
17 Company earns rental revenue. The rent received from electric property can
18 partially offset these rates. However, like other costs and revenues, these revenues
19 should be adjusted for actual and anticipated growth through RY1.

³ *Id.* at 2, Table 1.

⁴ *Id.* at 23:5–25:13.

1 **Q. What did Mullins recommend regarding Avista’s capital forecast?**

2 A. Mullins recommends that the Commission adhere to the *used and useful* standard
3 and allow capital projects in rates that are providing service to ratepayers in the
4 rate effective periods. To accomplish this, he recommends that only capital in
5 service as of December 21, 2024, be included in RY1. In essence, he rejects using
6 a projected 2025 test year for RY1 and uses instead the actual cost of plant in
7 service when new rates go into effect. His adjustments to the Company’s capital
8 forecast decrease the electric operations revenue requirement by \$7.742 million
9 and decrease the natural gas utility operations revenue requirement by \$2.555
10 million in RY1.⁵

11 **Q. What rationale does Mullins provide for his recommendation?**

12 A. Mullins points out that his approach is the baseline plan described in the multi-
13 year statute, which states “[f]or the initial rate year, the commission shall, at a
14 minimum ascertain and determine the fair value for rate-making purposes of the
15 property of any gas or electric company that is used and useful for service in this
16 state as of the rate effective date.”⁶ Mullins further points out that the
17 Commission is not required to include a projected test year in rates but merely has
18 the discretion to do so.⁷

19 **Q. Does Mullins’ position mitigate regulatory lag?**

20 A. Yes. Mullins’ recommendation mitigates regulatory lag by allowing recovery of
21 capital projects placed into service prior to the new base rates becoming effective,

⁵ *Id.* at 2, Table 1.

⁶ RCW § 80.28.425(3)(b).

⁷ Mullins, Exh. BGM-1T at 7.

1 which includes an approximate 18-month period after the end of the historic test
2 year ending June 2023.

3 **Q. Are you aware of other jurisdictions nearby that follow a similar treatment**
4 **regarding capital expenditures made after the historic test year end?**

5 A. Yes. In Nevada, utilities are allowed to go beyond the test year for a period of up
6 to six months to include plant that is in service by the Certification Period cutoff
7 date, which is a date that occurs while the rate case is being processed. Plant that
8 is in service by that date is added to rate base.

9 **Q. Is Mullins' approach sound from a ratemaking perspective?**

10 A. Yes. Mullins' approach is more reasonable from a ratemaking perspective than
11 the Company's projected test year approach because it adheres more closely to the
12 *used and useful* standard. Moreover, it is a reasonable way to provide ratepayers
13 with protection against rates that are any higher than necessary.

14 **II. SUMMARY OF ALTERNATIVE CALCULATIONS**

15 **Q. Please summarize the rate impact of your revised alternative revenue**
16 **requirement calculations.**

17 A. My revised alternative calculations are summarized in the tables below. Table 1
18 summarizes the revenue requirement impact of adjustments to Avista's electric
19 utility. Table 2 summarizes the revenue requirement impact of adjustments to
20 Avista's gas utility.

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Table 1: Revised Summary of Revenue Requirement Impact of Adjustments to Electric Utility (Millions)⁸			
	YR1 Ending Dec-2025	YR2 Ending Dec-2026	Total
Company's Total Requested Increase	\$77,067	\$78,129	\$155,196
Cost of Capital Adjustment	(21,022)		
Deferred FIT Rate Base Adjustment	(29)		
Working Capital	32		
Remove Colstrip	248		
Restate Capital EOP	(538)		
Power Supply Adjustment	(44,458)		
AMI Amortization	75		
Executive Labor Expense	(63)		
Employee Benefits	(1,285)		
Directors' and Officers' Insurance	(237)		
Miscellaneous O&M Expense	(5,624)		
Capital additions to 12.2023 EOP	(831)		
Capital Additions to 12.2024 EOP	(700)		
Board of Directors' Comp. Expense	(819)		
Prov. Capital Additions to 12.2025	(257)		
Investor Relations Expense	(201)		
Industry Association Dues	(252)		
Rent from Electric Property	(2,791)		
YR-2 AMI Amortization		30	
YR-2 Employee Benefits		(318)	
YR-2 Pro Forma Misc. O&M Exp		(2,249)	
YR-2 Cap. Adds to 12.31.26 AMA		(929)	
YR-2 Rent from Electric Property		(362)	
Public Counsel's Total Proposed Adjustments	\$(78,752)	\$(3,829)	\$(82,582)
Difference	\$(1,685)	\$74,300	\$72,615

Table 2: Revised Summary of Revenue Requirement Impact of Adjustments to Gas Utility (Millions)⁹			
	YR1 Ending Dec-2025	YR2 Ending Dec-2026	Total
Company's Total Requested Increase	\$17,293	\$4,565	\$21,857
Cost of Capital Adjustment	(5,316)		
Deferred FIT Rate Base Adjustment	2		
Working Capital	6		
Restate Capital EOP	(124)		
AMI Amortization	21		
Executive Labor Expense	(20)		
Employee Benefits Expense	(407)		
Directors' and Officers' Insurance	(75)		
Miscellaneous O&M Expense	(778)		
Capital additions to 12.2023 EOP	(194)		
Capital Additions to 12.2024 EOP	(205)		
Board of Directors' Comp. Expense	(259)		
Prov. Capital Additions to 12.2025	(32)		
Investor Relations Expense	(60)		
Industry Association Dues	(140)		
YR-2 AMI Amortization		8	
YR-2 Employee Benefits Expense		(101)	
YR-2 Pro Forma Misc. O&M Exp		(311)	
YR-2 Cap. Adds to 12.31.26 AMA		(170)	
Public Counsel's Total Proposed Adjustments	\$(7,579)	\$(574)	\$(8,152)
Difference	\$9,714	\$3,991	\$13,705

1 **Q. Does this conclude your cross-answering testimony?**

2 A. Yes, it does.

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⁸ See Mark E. Garrett, Exh. MEG-10 (Updated Schedule 10.2 - Summary of Electric Utility Adjustments).

⁹ See Garrett, Exh. MEG-11 (Updated Schedule 11.2 - Summary of Gas Utility Adjustments).