

Exhibit No. JH-1T
Dockets UE-160228/UG-160229
Witness: Joanna Huang

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

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

Respondent.

**DOCKETS UE-160228 and
UG-160229 (*Consolidated*)**

TESTIMONY OF

JOANNA HUANG

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Results of Operations and Revenue Requirements,
Pro Forma Policy, Pro Forma Rate Base Adjustments,
Restating and Pro Forma Property Tax
Pro Forma O & M Offsets*

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LIST OF EXHIBITS

- Exhibit No. JH-2, Electric Pro Forma Analysis
- Exhibit No. JH-3, Natural Gas Pro Forma Analysis
- Exhibit No. JH-4, Avista Updated Electric and Natural Gas Pro Forma Cross Check Study
- Exhibit No. JH-5, Major Electric ER Transfers as of July 31, 2016
- Exhibit No. JH-6, Major Natural Gas ER Transfers as of July 31, 2016
- Exhibit No. JH-7, Avista’s Response to UTC Staff Data Request No. 95
- Exhibit No. JH-8, Avista’s Response to UTC Staff Data Request No. 96
- Exhibit No. JH-9, Pro Forma O & M Offsets for Natural Gas

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Joanna Huang. My business address is the Richard Hemstad Building,
5 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
6 Washington 98504.

7

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

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“Commission” or “UTC”) as a Regulatory Analyst in the Energy Section of the
11 Regulatory Services Division.

12

13 **Q. How long have you been employed by the Commission?**

14 A. I have been employed by the Commission since June 1996.

15

16 **Q. Would you please state your educational and professional background?**

17 A. I received a Bachelor of Business Administration degree majoring in Accounting
18 from National Chung-Hsing University, Taiwan, in 1987, and a Master of
19 Accounting Degree from Washington State University in 1991. Prior to my
20 employment at the Commission, I was employed by the Washington State
21 Department of Revenue as an Excise Tax Examiner. I performed desk audits on
22 Business and Occupation tax returns.

1 I began my employment with the Commission in June 1996. My work
2 generally includes financial, accounting and other analyses for general rate case
3 proceedings and other tariff filings by the electric and natural gas utilities regulated
4 by the Commission. I attended the National Association of Regulated Utility
5 Commissioners Annual Utility School in 1996 and 2001. In addition, I have attended
6 numerous training seminars and conferences regarding utility regulations and
7 operations.

8
9 **Q. Have you testified previously before the Commission?**

10 A. Yes. I testified in Puget Sound Energy (“PSE”) general rate cases in Dockets UE-
11 090704 and UG-090705, and Dockets UE-072300 and UG-07230; a PSE Power Cost
12 Only Rate Case (“PCORC”) in Docket UE-130617; a Pacific Power general rate case
13 in Dockets UE-152253, UE-130043 and UE-032065; Avista general rate cases in
14 Dockets UE-140188 and UG-140189, Dockets UE-120436 and UG-120437, Dockets
15 UE-090134 and UG-090135, and Dockets UE-991606 and UG-991607; and a
16 Northwest Natural filing in Docket UG-111233.

17 I have also participated in Staff’s investigation in the following general rate
18 cases and other matters: Docket UE-011595, Dockets UE-050482 and UG-050483,
19 Dockets UE-070804 and UG-070805, Dockets UE-100467 and UG-100468, and
20 Dockets UE-110876 and UG-110877 (all Avista); Docket UG-152286 and Docket
21 UG-060256 (Cascade); Docket UG-080546 and Docket UG-031885 (Northwest
22 Natural); and Dockets UE-070725 and UG-130137 (PSE).

1 **Q. Have you prepared any exhibits in support of your testimony?**

2 A. Yes. Exhibit No. JH-2 and Exhibit No. JH-3 present Staff's attrition adjusted
3 revenue requirement analysis using a modified historical test year pro forma
4 approach plus an attrition adjustment for electric and natural gas operations
5 respectively. My Exhibit No. JH-2 and Exhibit No. JH-3 are Staff's responses to
6 Avista witness Ms. Smith, Exhibit Nos. __ (JSS-2) and Exhibit No. __ (JSS-3).

7 My Exhibit No. JH-4 contains part of Avista's "Supplemental 2" response to
8 UTC Staff Data Request No. 91. Avista's responses to UTC Staff Data Request No.
9 91 update the Company's Results of Operations for its Pro Forma and Cross Check
10 studies, which use a 12-month period ended September 30, 2015, as the test year.

11 My Exhibit No. JH-4 presents Avista's updated "Pro Forma Capital Additions
12 December 2015 AMA" (Electric-3.09, Gas-3.08) adjustment for electric and natural
13 gas operations respectively based on Avista's discovery responses. I further discuss
14 Avista's "Pro Forma Capital Additions December 2015 AMA" (Electric-3.09, Gas-
15 3.08) adjustment later on page 12 of my testimony.

16 I also sponsor Exhibit No. JH-5 and Exhibit No. JH-6. These exhibits show
17 the actual transfer to plant balances as of July 31, 2016, in electric and natural gas
18 operations respectively. The plant balances are based on Avista's updated response
19 to UTC Staff Data Request No. 12, dated August 9, 2016. Staff includes six electric
20 and five natural gas Expenditure Requests ("ERs") as "major" plant investments that
21 Avista transferred to rate base in 2016. Exhibit No. JH-7 and Exhibit No. JH-8 are
22 the update for the restating and pro forma property taxes for 2015 and 2016. Exhibit

1 No. JH-9 is Staff’s presentation of the “Pro Forma O & M Offsets for Natural Gas”
2 adjustment.

3

4 **Q. Please introduce the other Staff witnesses testifying in this proceeding and the**
5 **subjects of their testimony.**

6 A. The following witnesses present testimony and exhibits for Staff:

7 • Mr. Christopher Hancock presents Staff’s policy analysis and attrition
8 studies.

9 • Mr. David Gomez presents Staff’s analysis of power supply expense.

10 • Mr. Jason Ball presents Staff’s recommendations for cost of service, rate
11 spread and rate design for electric and natural gas revenue requirements.

12 • Mr. David Nightingale addresses Avista’s prudence and cost recovery
13 presentation of its Advanced Meter Infrastructure (AMI) project.

14 • Ms. Melissa Cheesman presents Staff’s recommendations for adjustments
15 related to labor and incentive expenses and for the recovery of expenses
16 related to retiring conventional meters in the context of AMI deployment.

17 • Ms. Jing Liu provides a status update on Avista’s low income program,
18 LIRAP.

19 • Mr. David Parcell testifies to Staff’s recommended cost of capital.

20 • Ms. Elizabeth O’Connell presents Staff’s recommendations for adjustments
21 for Plant Held for Future Use (Electric 1.04), Montana Riverbed Lease
22 expense (Electric 1.02) and Pro Forma Regulatory Amortization – BPA
23 Settlement Deferral (Electric 3.05).

1 **Q. Please identify the contested adjustments that Staff witnesses address in their**
 2 **testimonies.**

3 A. The following table shows the adjustments that Staff contests and the staff witness
 4 who addresses each adjustment.

Table 1

Line	Description	Electric Adj.	Gas Adj.	Staff
1	Deferred Debits and Credits	1.02		O'Connell
2	Plant Held for Future Use	1.04		O'Connell
3	Restate Property Tax	2.02	2.02	Huang
4	Restate Debt Interest	2.15	2.13	Huang
5	Restate Incentive Expenses	2.16	2.14	Cheesman
6	Pro Forma Power Supply	3.00		Gomez
7	Pro Forma Transmission Rev/Exp	3.01		Gomez
8	Pro Forma Employee Benefits	3.04	3.02	Cheesman
9	Pro Forma Pipeline Safety Labor		3.03	Cheesman
10	Regulatory Amortization Adj.	3.05		O'Connell
11	Pro Forma Property Tax	3.06	3.04	Huang
12	Pro Forma Meter Deferral & Amortization	3.07		Cheesman
13	Pro Forma Capital Add Dec 2015 AMA	3.09	3.08	Huang
14	Pro Forma Capital Limited 2016 Adds	3.10	3.09	Huang
15	Pro Forma O&M Offsets	3.11	3.10	Huang
16	Cross Check Capital Add 2016 AMA	4.00	4.01	Huang
17	Cross Check Capital Add 2017 AMA	4.01	4.02	Huang
18	Cross Check Labor Non-Exc	4.02	4.00	Huang
19	Cross Check 2017 AMI Capital & Expense	4.03	4.03	Huang
20	Cross Check Information Tech/Serv Exp	4.04	4.04	Huang
21	Cross Check Property Tax	4.05	4.06	Huang
22	Cross Check Insurance Expense	4.06	4.05	Huang
23	Reconcile Pro Forma to Attrition	4.07	4.07	Huang
24	Staff Attrition Allowance	4.08		Hancock
25	Cross Check Power Supply Adjustment	18.01		Huang
26	Cross Check Transmission Rev/Exp	18.02		Huang
27	Cross Check Labor Non-Exc	18.03	18.01	Huang
28	Cross Check Regulatory Amortization		18.02	Huang
29	Cross Check Capital Add 2018 AMA	18.04	18.05	Huang
30	Cross Check 2018 AMI Capital & Expense	18.05	18.06	Huang
31	Cross Check Insurance Expense	18.06	18.03	Huang
32	Cross Check Information Tech/Serv Exp	18.07	18.04	Huang
33	Reconcile 2018 Cross Check to Attrition	18.08	18.07	Huang

5

1 **III. RESULTS OF OPERATIONS AND REVENUE REQUIREMENTS**

2
3 **A. Staff's Presentations on Revenue Requirements**

4
5 **Q. What is Staff's calculation based upon for Avista's revenue requirement for**
6 **electric operation in the state of Washington?**

7 A. Staff's analysis, based on a modified historical test period with limited pro forma
8 adjustments plus an attrition adjustment, shows an increase of \$25,570,000 to
9 Avista's electric revenue requirement, or an increase of 5.1 percent as shown in
10 Exhibit No. JH-2, page 2, line 7. Staff's revenue requirement calculation is based on
11 Staff witness Mr. Parcell's recommended 7.30 percent overall rate of return.

12
13 **Q. What is Staff's calculation based upon for Avista's revenue requirement for**
14 **natural gas operation in the state of Washington for 2017?**

15 A. Staff's analysis, based on a modified historical test period with limited pro forma
16 adjustments plus an attrition adjustment, shows an increase of \$2,143,000 to Avista's
17 revenue requirement, or an increase of 2.4 percent as shown in Exhibit No. JH-3,
18 page 2, line 7. Staff's revenue requirement calculation is based on Staff witness
19 David Parcell's recommended 7.30 percent overall rate of return.

20
21 **Q. Does Staff recommend that the Commission set rates on the basis of the revenue**
22 **requirement deficiency after the attrition adjustment?**

1 A. Yes. Staff recommends acceptance of our forward looking attrition-based revenue
2 requirement determination. Staff’s retrospective pro forma analysis is the foundation
3 of the attrition-based revenue requirement for each service (electric and natural gas).
4 Staff witness Mr. Hancock presents the attrition studies that Staff uses to produce the
5 attrition adjustment for each service. The attrition adjustment brings the rearview
6 mirror picture of revenue requirements into a forward view of the revenues required
7 to offer Avista a reasonable chance to earn Staff’s proposed rate of return for the 18-
8 month rate-effective period. Mr. Hancock explains further in Section V of his
9 testimony.

10

11 **Q. How do you incorporate the attrition analysis of Staff witness Mr. Hancock into**
12 **your revenue requirement calculation?**

13 A. I incorporate Mr. Hancock’s attrition analysis into a column labelled “Staff Proposed
14 Attrition Allowance” (Exh. JH-2 and 3, Adjustment 4.08, electric and natural gas
15 respectively), to calculate Staff’s recommended revenue requirement.

16

17 **Q. Do Staff’s revenue requirements reflect Avista’s proposed rate plan?**

18 A. Staff proposes a single revenue requirement for each service, electric and natural gas.
19 to produce fair, just, reasonable and sufficient rates through the rate period ending in
20 June 2018. Mr. Hancock testifies further regarding Staff’s approach in Section III.C.
21 of his testimony.

1 **B. Avista’s Presentations on Revenue Requirements**

2

3 **Q. What revenue requirement did Avista present for its electric operations in**
4 **Washington?**

5 A. Avista proposes a rate plan consisting of a revenue requirement for 2017 rates and an
6 additional revenue requirement for the rate period January through June 2018.

7 Avista presents an increase of \$38.568 million to its 2017 electric revenues plus
8 \$10.3 million more to its 2018 electric revenue, based on its attrition analysis.

9 Avista supports this revenue requirement through its attrition study.

10

11 **Q. What revenue requirements did Avista present for its natural gas operations in**
12 **Washington?**

13 A. Avista calculates 2017 and 2018 revenue requirement increases of \$4,397,000 and
14 \$941,000 based on its attrition analysis.

15

16 **Q. How did the Company present its 2017 revenue requirement calculation in this**
17 **general rate case?**

18 A. Avista’s revenue requirement calculation is based solely on its attrition study. The
19 Company calculates its own modified historical test period results of operations with

20 limited pro forma adjustments (shown on the final column of page 10 of Exhibit

21 Nos. __ (JSS-2) and (JSS-3)). Avista then adds its attrition adjustment although it

22 itemizes certain forecasted items as the cross check adjustments plus a “Reconcile

23 2017 Cross Check to Attrition” column to align the cross check revenue requirement

1 with that of the attrition study. Avista states that its Adjustments 4.00 through 4.07
2 are necessary to conduct the cost-of-service study. The cross check adjustments
3 need not be considered for the purpose of determining revenue requirement in this
4 case.

5 The pro forma sub-total, shown on the final column of page 10 of Exhibit
6 No. __ (JSS-2) and (JSS-3) is Avista’s presentation of its modified historic test
7 period results of operations with limited pro forma adjustments. Again, the details of
8 adjustments 4.00 through 4.08 are not relevant to determining revenue requirement
9 in this case.

10

11 **Q. What is the purpose of Avista’s “Cross Check adjustments” from Columns 4.00**
12 **through 4.06 and Columns 18.01 through 18.07?**

13 A. The purpose of these cross check adjustments is only to provide a reference point for
14 Avista’s attrition studies¹ and to better allocate attrition developed expenses and rate
15 base in the cost of service study.² The Company is not requesting recovery of its
16 cross check adjustments per se. Avista’s cross check adjustments are only a check of
17 the “reasonableness of the levels produces by the attrition studies” and “for the
18 limited purpose of preparing the cost-of-service study.”

¹ Smith, Exh. No. __ (JSS-1T) 5:4-7. Ms. Smith states that the cross check balances are “for comparison purposes only, to act as a ‘cross check’ to the reasonableness of the electric and natural gas Attrition Study results.”

² Smith, Exh. No. __ (JSS-2) and (JSS-3) p. 1, n.1.

1 **Q. How did the Company present its 2018 results of operations in this general rate**
2 **case?**

3 A. Avista also bases the 2018 revenue requirement calculation on its attrition study for
4 that period. Avista presents its 2018 results of operations as incremental adjustments,
5 18.00 through 18.08, to the 2017 attrition results of operations.

6

7 **IV. PRO FORMA RATE BASE ADDITIONS**

8

9 **Q. Which pro forma rate base additions do you address?**

10 A. I apply standard pro forma analysis and follow Commission precedent to address
11 Avista's 2015 capital additions, Avista's 2016 capital additons, and the future capital
12 additions Avista forecasts for 2016, 2017, and 2018.

13

14 **A. Pro Forma Policy**

15

16 **Q. What is the Commission's standard ratemaking practice?**

17 A. The Commission's standard ratemaking practice starts with an historical test year per
18 book amount and adds restating adjustments and pro forma adjustments to bring the
19 rate base and expenses closer to the rate year amount.

20

21 **Q. What are the criteria that have been applied historically to pro forma**
22 **adjustments?**

1 A. Historically, there are four major criteria applied to pro forma adjustments. They are
2 listed below:

- 3 1. If the pro forma adjustment is to add new plant, is it “major?”
- 4 2. Are the costs associated with the adjustment known and measurable?
- 5 3. If the pro forma adjustment is to add new plant, has it been shown that the
6 new plant will be used and useful to serve Washington customers?³
- 7 4. Have the costs related to the adjustment been prudently incurred?

8

9 **Q. How does Staff treat Avista’s cross check studies?**

10 A. Staff replaces the cross check adjustments for 2017 and 2018 with its attrition
11 adjustment in column 4.08 for both electric and gas.

12

13 **B. 2015 Capital Additions**

14

15 **Q. Please describe the purpose of Avista’s “Pro Forma Capital Additions
16 December 2015 AMA” (Electric-3.09, Gas-3.08) adjustment.**

17 A. This adjustment “pro forms” actual transfers to plant in the final three months of
18 calendar year 2015 for electric and natural gas operations. It brings net plant
19 included in the historical Commission Basis Report (CBR) test year from a
20 September 30, 2015, AMA basis to a December 31, 2015, AMA basis, together with
21 the associated depreciation expense, accumulated depreciation (A/D) and
22 accumulated deferred federal income tax (ADFIT) at December 31, 2015.

³ *Wash. Utils & Transp. Comm’n v. Pacific Power & Light Co.*, Docket UE-050684, Order 04 (Apr. 17, 2006), 19-28 (providing a description of the used and useful standard).

1 **Q. Has Avista updated its “Pro Forma Capital Additions December 2015 AMA”**
2 **adjustment from its as-filed adjustment?**

3 A. Yes. Avista updated its “Pro Forma Capital Additions December 2015 AMA”
4 adjustment from the as-filed “Pro Forma Capital Additions December 2015 AMA”
5 adjustment, according to Avista’s “Supplemental 2” response to UTC Staff Data
6 Request No. 91.

7
8 **Q. What is the difference between its updated “Pro Forma Capital Additions**
9 **December 2015 AMA” adjustment and its as-filed adjustment?**

10 A. In Avista’s “Supplemental 2” response to UTC Staff Data Request No. 91, Avista
11 trues up some estimated information, included in the original filing, to actual
12 expenses. This updated information includes plant retirement, depreciation
13 expenses, A/D and ADFIT.

14
15 **Q. How does Staff treat this updated information on capital additions in its “Pro**
16 **Forma Capital Additions December 2015 AMA” adjustment?**

17 A. Staff accepts this “pro forma” capital additions adjustment for transfers to plant
18 between the end of the test year and December 31, 2015, regardless of the size of the
19 projects. Staff included not only the as-filed adjustment but also the incremental
20 portion of the adjustment included in its “Supplemental 2” response to UTC Staff
21 Data Request No. 91. These capital additions are actual additions and are used and
22 useful to Washington ratepayers. In addition, these additions are known and
23 measurable.

1 **Q. What is the effect on net operating income due to this adjustment?**

2 A. This adjustment reduces net operating income by \$1,235,000 Electric and \$305,000
3 Natural Gas respectively.

4

5 **Q. What is the effect on ratebase due to this adjustment?**

6 A. This adjustment increases ratebase by \$21,831,000 Electric and \$964,000 Natural
7 Gas respectively.

8

9 **C. 2016 Capital Additions**

10

11 **Q. Avista includes two 2016 capital additions adjustments, called “Pro Forma 2016**
12 **Limited Capital Addition” (Electric-3.10, Gas-3.09) and “Cross Check Capital**
13 **Addition for 2016” (Electric-4.00, Gas-4.01). What is the difference between**
14 **these two adjustments?**

15 A. Avista placed “major” projects in its “Pro Forma 2016 Limited Capital Addition”
16 adjustment and other minor projects in its “Cross Check Capital Additions 2016”
17 adjustment.

18

19 **Q. How does Staff treat the 2016 capital additions?**

20 A. Staff reviewed and accepted the 2016 capital additions that meet the definition of
21 “major” plant additions and were placed into service by July 31, 2016⁴. Staff does
22 not accept the remainder of Avista’s 2016 capital additions because they are

⁴ Huang, Exh. Nos. JH-5 and JH-6. Staff relies on Avista’s supplemental responses to UTC Staff Data Request No. 12 for the actual in-service 2016 capital additions.

1 forecasts of possible capital investment. By their nature, forecasted capital
2 investments are not known and measurable.

3

4 **Q. Please define “major” capital addition.**

5 A. Major capital additions are projects that are greater than one-half of one percent of
6 the Company’s net utility plant⁵ using the most current CBR.

7

8 **Q. Does this definition of “major” rate base addition comport with State rules?**

9 A. Yes. The relevant portion of WAC 480-140-040, Commission general—Budgets,
10 reads as follows:

11 Major construction projects will be determined for water, gas, and electrical
12 companies, as all projects where the Washington-allocated share of the total
13 project is greater than five-tenths of one percent of the company's latest year-
14 end Washington-allocated net utility plant in service, but does not include
15 any project of less than three million dollars on a total project basis. This
16 determination for companies providing combined industry services will be
17 done on an industry-specific basis.

18

19 Consistent with the rule, Staff has calculated a “one-half of one percent” threshold.

20 None of the projects at issue are less than three million dollars on a total project
21 basis.

22

23 **Q. Do previous decisions of the Commission provide guidance on the definition of a
24 “major” rate base addition?**

25 A. Yes. Staff relied on the Commission’s guidance for major plant additions both in the
26 Pacific Power & Light Company general rate case, Docket UE-140762, Order 08,

⁵ “Net utility plant” is defined as the original cost of utility property minus any accumulated depreciation.

1 Section III.F.2, and in the last Avista general rate case, Docket UE-150204/UG-
2 150205, Order 05, paragraph 40.

3
4 **Q. Which Commission Basis Report did Avista use to delineate “major” capital
5 additions?**

6 A. Avista used 2014 Washington-allocated net utility plant from the electric and natural
7 gas CBRs. This was the most recent report at the time Avista filed this case.

8
9 **Q. Which Avista Commission Basis Report did Staff use to calculate its threshold
10 for major rate base additions?**

11 A. Staff used 2015 Washington-allocated net utility plant (utility plant in service
12 reduced by accumulated depreciation) from the Company’s electric and natural gas
13 CBRs on file in Dockets UE-160454 and UG-160455.

14
15 **Q. What are the appropriate cut-off amounts that should be used to delineate
16 “major” capital additions in this general rate case?**

17 A. Staff calculates that the “major” capital addition thresholds for Avista’s electric and
18 natural gas operations in this case are \$7,947,430 for Washington-allocated electric
19 additions, and \$1,547,880 for Washington-allocated gas additions, per the
20 Company’s 2015 electric and natural gas CBRs in Docket UE-160454 and UG-
21 160455.

22 Avista calculated different thresholds, but the “cut-offs” that Staff calculated
23 are the appropriate thresholds to apply because they are consistent with WAC 480-

1 140-040. Consistent with the precise language of the rule, Staff used Avista’s “net
2 utility plant in service” to calculate the thresholds. And Staff based its calculations
3 on Avista’s 2015 CBRs, which reflect the Company’s “latest year-end Washington-
4 allocated” plant figures.

5
6 **Q. How many projects did Avista propose as “major” for 2016 according to its
7 threshold?**

8 A. Avista proposed treating eight electric Expenditure Requests (“ERs”) and six natural
9 gas ERs as major according to the threshold that the Company calculated.

10

11 **Q. Which 2016 projects meet Staff’s threshold for “major” capital additions?**

12 A. Six electric ERs and five natural gas ERs qualify as “major” under Staff’s approach
13 to calculating the threshold for major capital additions. One of these ERs, ER 5005,
14 applies to both industries. These ERs are listed in the table below. Note that the
15 values below represent the Washington-allocated share for each ER. The figures
16 Staff is supporting as 2016 transfers to plant are reflected in the amount that the
17 Company actually expensed, per Avista’s supplemental responses to UTC Staff Data
18 Request No. 12.

1

Table 3

2

Electric Major 2016 Pro Forma Transfers to Plant, Avista vs. Staff proposed

ER	ER Title	Avista Proposed	Staff Proposed
4140	Nine Mile Redevelopment	\$ 47,363,423	\$ 38,781,228
4152	Little Falls Powerhouse Redevelopment	\$ 14,813,348	\$ 10,458,243
4161	CG HED U#1 Refurbishment	\$ 9,513,881	\$ 10,855,734
4162	PF S Channel Gate Replacement	\$ 9,119,089	\$ 9,952,363
5005	Information Technology Refresh Program	\$ 8,744,730	\$ 4,277,263
4116	Colstrip Capital Additions	\$ 7,954,153	\$ 3,611,852
7139	Netwk Bldg Purchase and Renovation	\$ 7,559,424	Excluded
2532	Noxon 230 kV Substation - Rebuild	7,441,651	Excluded
Total: Listed ERs		\$ 112,509,698	\$ 77,936,682

3

4

Table 4

5

Natural Gas Major 2016 Pro Forma Transfers to Plant, Avista vs. Staff proposed

ER	ER Title	Avista Proposed	Staff Proposed
3008	Aldyl A Replacement	\$ 11,473,303	\$ 5,976,039
5005	Technology Refresh to Sustain Business Process	\$ 2,515,648	\$ 1,197,576
3007	Gas Isolated Steel Replacement Program	\$ 2,460,079	\$ 224,108
3005	Gas Non-Revenue Program	\$ 2,442,037	\$ 954,632
7139	Netwk Bldg Purchase and Renovation	\$ 2,040,576	\$ 579,079
7126	Long term Campus Re-Structuring Plan	1,334,655	Excluded
Staff Total; Listed ERs		\$ 22,266,025	\$ 8,931,433

6

7

8 **Q. What is Staff’s proposed amount for 2016 transfers to plant?**

9 A.

Staff’s amount for 2016 transfers to plant for electric and natural gas operations is \$77,936,682 and \$8,931,433, as shown above in Tables 3 and 4. The figures Staff supports as 2016 transfers to plant represent capital costs that the Company actually incurred for plant placed into service by July 31, 2016. In contrast, not all ERs that

1 Avista proposes transferring to plant in 2016 actually occurred and incurred
2 expenses.

3

4 **D. 2017 and 2018 Capital Additions**

5

6 **Q. How does Staff treat Avista’s 2017 and 2018 forecasted capital additions?**

7 A. Avista’s Cross Check Capital Addition for 2017 (Electric-4.01, Gas-4.02) and its
8 Cross Check Capital Addition for 2018 (Electric-18.04, Gas-18.05) are not intended
9 for specific approvals by the Commission. Staff replaces these adjustments with its
10 attrition adjustment for the 18-month period ending in June 2018.

11

12 **Q. Is Staff’s treatment of Avista’s capital additions for 2016, 2017, and 2018
13 consistent with prior rate cases and approved by the Commission?**

14 A. Yes. Staff’s treatment of Avista’s capital additions is the same as in Avista’s last
15 general rate case in Dockets UE-150204 and UG-150205. The Commission
16 accepted Staff’s approach, which applies the known and measurable criterion.

17

18 **V. PROPERTY TAX ADJUSTMENTS**

19

20 **Q. Please describe the Company’s “Restate Property tax” adjustment
21 (Adjustments 2.02 Electric, 2.02 Gas).**

1 A. This adjustment restates the accrued property tax during the test period to actual
2 property tax paid during 2015. The actual plant balances of December 31, 2014, are
3 the basis for the calculation of 2015 property tax expense.⁶
4

5 **Q. Please describe the Company’s “Pro Forma Property tax” adjustment**
6 **(Adjustments 3.06 Electric, 3.04 Gas).**

7 A. This adjustment is to restate the 2015 level of property tax expense included in
8 “Restate Property tax” (Adjustments 2.02 Electric, 2.02 Gas) to the 2016 level of
9 expense. The 2015 property tax is the basis for the calculation of the 2016 property
10 tax expense.⁷
11

12 **Q. What was included in the Company’s calculation of “Restate Property tax” and**
13 **“Pro Forma Property tax”?**

14 A. Avista included the estimated property tax rate to calculate its “Restate Property tax”
15 for 2015 and “Pro Forma Property tax” for 2016. Using the estimated property tax
16 rate is inappropriate because it produces estimated property taxes for 2015 and 2016,
17 which are not known and measurable.
18

19 **Q. What is Staff’s proposed “Restate Property tax” adjustment (Adjustments 2.02**
20 **Electric, 2.02 Gas)?**

⁶ Smith, Exh. No. __ (JSS-1T) 21:5-6.

⁷ Smith, Exh. No. (JSS-1T) 21:8-9.

1 A. Staff used the updated actual property tax rate to calculate its “Restate Property tax”
2 adjustment for 2015.⁸ The impact of restating the property tax adjustment reduces
3 Washington restated property tax expense for 2015 by approximately \$767,000
4 electric and \$163,000 natural gas.

5
6 **Q. What is Staff’s proposed “Pro Forma Property tax” adjustment (Adjustments**
7 **3.06 Electric, 3.04 Gas)?**

8 A. The 2016 property tax is based on a “flow-through” of the 2015 property tax. Since
9 Staff used the updated actual property tax rate to calculate its “Restate Property tax”
10 adjustment for 2015. Staff’s 2016 property tax adjustment reflects Staff’s 2015
11 figures.⁹ The impact of restating the property tax adjustment reduces Washington
12 restated property tax expense for 2015 by approximately \$38,000 electric and
13 increases the expense by approximately \$35,000 for natural gas.

14

15 **VI. PRO FORMA O & M OFFSETS ADJUSTMENTS**

16

17 **Q. Please describe the Company’s “Pro Forma O & M Offsets” (Adjustments 3.11**
18 **Electric, 3.10 Gas).**

19 A. This adjustment is to adjust any specific maintenance costs incurred in the test period
20 that could be reduced or eliminated by including the investment for in-service major
21 2016 capital projects (contained in Avista’s “Pro Forma 2016 Limited Capital
22 Additions” Adjustment 3.10-Electric and 3.09 Gas).

⁸ Huang, Exh. No. JH-7 (Avista’s Response to UTC Staff Data Request No. 95).

⁹ Huang, Exh. No. JH-8 (Avista’s Response to UTC Staff Data Request No. 96).

1 **Q. What projects were included by the Company as “Pro Forma O & M Offsets”**
2 **(Adjustments 3.11 Electric, 3.10 Gas)?**

3 A. Avista included ERs 7139 and 7126 both for electric and natural gas operation in the
4 calculations for these adjustments.

5
6 **Q. What projects were included in Staff’s “Pro Forma O & M Offsets”**
7 **(Adjustments 3.11 Electric, 3.10 Gas)?**

8 A. According to Staff’s calculation of “major” projects, neither ER 7139 nor 7126
9 qualify as “major” projects for electric operation as discussed above in my
10 testimony. Staff includes only ER 7139 for natural gas operation as a “Pro Forma
11 2016 Limited Capital Addition” (Adjustment 3.09 Gas). Therefore, Staff has not
12 included any of Avista’s proposed O & M offsets from the electric operation and has
13 included only the O & M offset related to ER 7139 for natural gas operations in this
14 calculation.

15
16 **Q. What is the effect of Staff’s “Pro Forma O & M Offsets” adjustment**
17 **(Adjustments 3.11 Electric) on electric operations?**

18 A. “Pro Forma O & M Offsets” (Adjustments 3.11 Electric) is eliminated. Therefore,
19 the effect of this adjustment on Washington net operating income to the electric
20 operation is zero. This results in a revenue requirement of zero.

21
22 **Q. What is the effect of Staff’s “Pro Forma O & M Offsets” adjustment**
23 **(Adjustments 3.10 Gas) on natural gas operations?**

1 A. The effect of this adjustment on Washington net operating income to the natural gas
2 operation is an increase of \$22,000. This results in a revenue requirement decrease
3 of \$36,000.

4

5 **Q. Does this conclude your testimony?**

6 A. Yes.