Exhibit No. __(KKS-6T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-150204

DOCKET NO. UG-150205

REBUTTAL TESTIMONY OF

KAREN K. SCHUH

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Karen K. Schuh. I am employed by Avista Corporation as a Senior Regulatory Analyst. My business address is 1411 East Mission, Spokane, Washington.

Q. Have you previously provided direct testimony in this case?

A. Yes. My direct testimony and exhibits in this proceeding covered the Company's capital investments in utility plant through the 2016 rate year. As explained by Company witnesses Mr. Norwood and Ms. Andrews, the Company based its electric and natural gas revenue increases requested in this case on its electric and natural gas Attrition Studies. However, as a "cross check" to the Company's request, Company witness Ms. Smith also prepared electric and natural gas Pro Forma Cross Check Studies, which incorporated Washington's share of the 2016 rate year adjustments for expenses and capital additions.

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

A. In response to the testimony of Staff and other parties[1], I will address the Company's updated capital investments in utility plant through 2016, which have been incorporated into the revised Pro Forma Cross Check Studies included in Ms. Smith's rebuttal testimony. Additionally, my testimony will demonstrate that the "pro forma studies" prepared by Staff and other parties do not reflect the balance of plant-in-service for the 2016 rate year. Finally, I will address the capital reporting and filing requirements proposed by Staff.

[1] I will refer to the other parties in the case as follows: Staff (The Washington Utilities and Transportation Commission Staff), ICNU (Industrial Customers of Northwest Utilities), NWIGU (Northwest Industrial Gas Users) and Public Counsel (Washington Office of Attorney General).

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit No. __(KKS-7) through Exhibit No. __(KKS-11), which were prepared by me or under my direction, and have been included to provide supporting information for this testimony.

Q. Why did Avista prepare its Pro Forma Cross Check Studies?

A. Avista prepared its Pro Forma Cross Check Studies in order to provide a second analysis to compare with the Company's electric and natural gas Attrition Studies. The Cross-Check Studies incorporate all capital additions[2] that are expected to be in-service during the 2016 rate year on an average monthly averages ("AMA") basis. All plant additions through the 2016 rate year were included in order to provide a reasonable basis for comparison of plant to the Attrition Studies.

Q. How were the capital additions through the 2016 rate year developed in the Company's original case?

A. As in prior rate cases, Avista started with rate base for the historical test year, which, for this case, is the AMA for the twelve months ended September 30, 2014. An adjustment was made to restate plant-in-service at September 30, 2014 to an end of period ("EOP") basis at December 31, 2014. Adjustments were also made to include additions for the period October 1, 2014 through December 31, 2014 on an EOP basis, together with the

[2] The only exception is capital additions to hook up new customers. Since revenue from new customers is not incorporated in the Pro Forma Study, the capital additions associated with the new customers are also excluded.

associated accumulated depreciation ("A/D") and accumulated deferred federal income taxes ("ADFIT").[3/4] These adjustments included annualizing the associated depreciation expense on the plant-in-service at September 30, 2014 and the additions through December 31, 2014. These adjustments were made to determine rate base at December 31, 2014. My direct filed testimony also included 2015 capital additions[5], together with the associated A/D and ADFIT at a 2015 EOP basis. This included associated depreciation expense for the capital additions. In addition, the plant-in-service at December 31, 2014 was adjusted to a 2015 EOP basis. Finally, my direct filed testimony also included 2016 capital additions[6], together with the associated A/D and ADFIT at a 2016 AMA basis. This included associated depreciation expense for the capital additions. In addition, the plant-in-service at December 31, 2015 was adjusted to a 2016 AMA basis.

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[3] The revenue-producing capital for the period ended September 30, 2014, was adjusted separately to a December 31, 2014 EOP basis in Ms. Andrews Attrition Analysis as shown in Exhibit Nos.___(EMA-2) and (EMA-3), because the Attrition Analysis reflects the growth in customers and growth in revenue from the test year to the rate year. The revenue-producing distribution plant for the twelve-months-ended September 30, 2014 for the Pro Forma Cross Check Analysis was not adjusted for EOP growth, because the Pro Forma Cross Check Analysis does not include growth in customers and revenue beyond the historical test year.

[4] For each of the periods October-December 2014, as well as 2015 and 2016, distribution-related capital expenditures associated with connecting new customers to the Company's system were excluded. The Pro Forma Cross Check Analysis did not include the increase in revenues from growth in the number of customers from the historical test year to the 2016 rate year, and therefore, the growth in plant investment associated with customer growth should also be excluded.

[5] Id.

[6] Id.

Q. Since Avista's original filing, there have been changes to the expected plant-in-service during the 2016 rate year. Can you address how this impacts the comparison of results with the Attrition Studies?

A. Yes. Even though there have been overall decreases to the expected electric and natural gas plant-in-service since the Company's original filing, the expected transfers-to-plant are comparable with the updated results shown in the Attrition Study prepared by Ms. Andrews. My rebuttal testimony addresses the overall level of plant-in-service during the 2016 rate year, which are at levels well above the "pro formed" levels of plant proposed by the other parties.

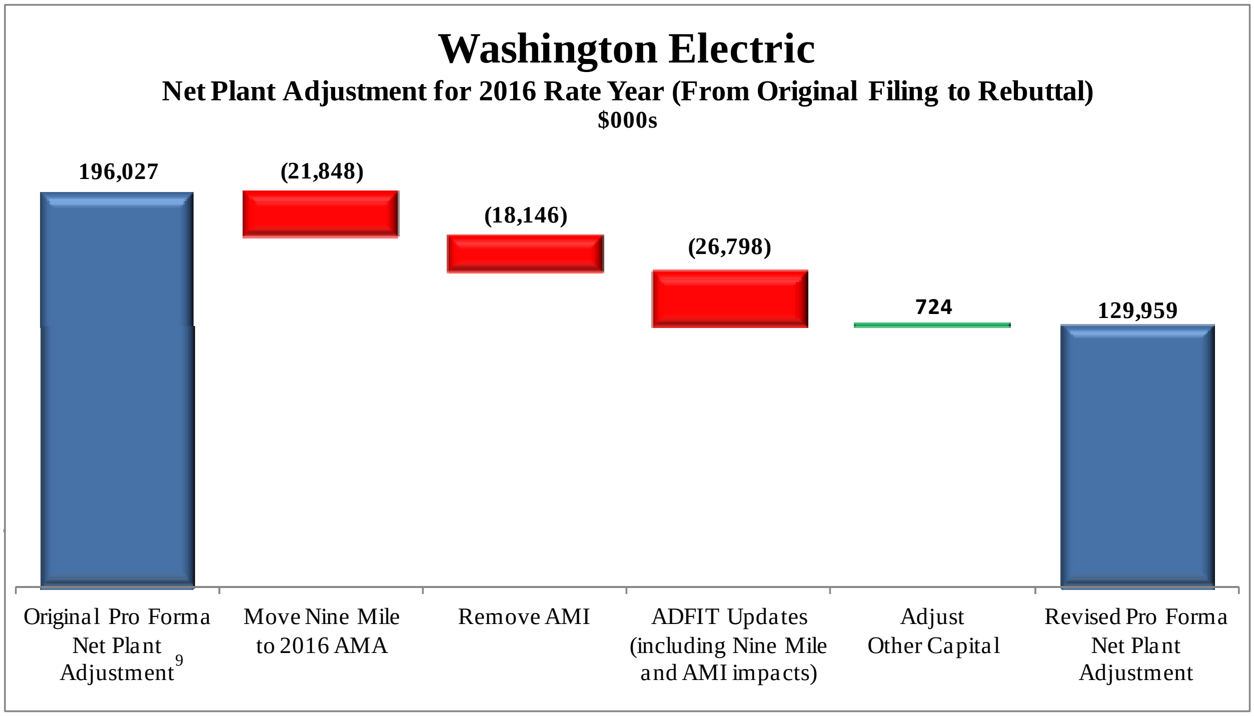
Q. What are these changes in expected plant-in-service?

A. There are three main reasons for the decrease to the Washington net electric plant adjustment from what was initially presented in my direct testimony. First, decreases resulted from removing the new investment related to the AMI Project from the 2016 AMA balance, as discussed by Mr. Norwood. The second reason is the result of shifting the Nine Mile Project[7] from a December 2015 in-service date to a fourth quarter 2016 in-service date. Third, there were adjustments to ADFIT relating to the tax repairs deduction and bonus depreciation, that I will discuss later in my testimony. Also, there were some other additional capital adjustments at the end of 2014 and during 2015. The impact of all of these changes on electric net plant represents

[7] This capital program is necessary to rehabilitate and modernize the four unit Nine Mile HED. The program includes projects to replace the existing 3 MW Units 1 and 2, which are more than 100 years old and worn out, with two new 8 MW generators/turbines. The new units will add 1.4 aMW of energy beyond the original configuration and 6.4 MW of capacity above current generation levels.

an overall decrease in adjustment to net plant of $66.07[8] million. This combined effect of all the changes is best shown in the following illustration:

<u>Illustration No. 1:</u>



Turning now to natural gas plant additions, the main reason for the decrease to the Washington natural gas net plant adjustment is the removal of new investment related to the AMI Project from the 2016 AMA balance, as discussed by Mr. Norwood. Also, there were some other additional adjustments at the end of 2014 and during 2015. The impact of all these changes

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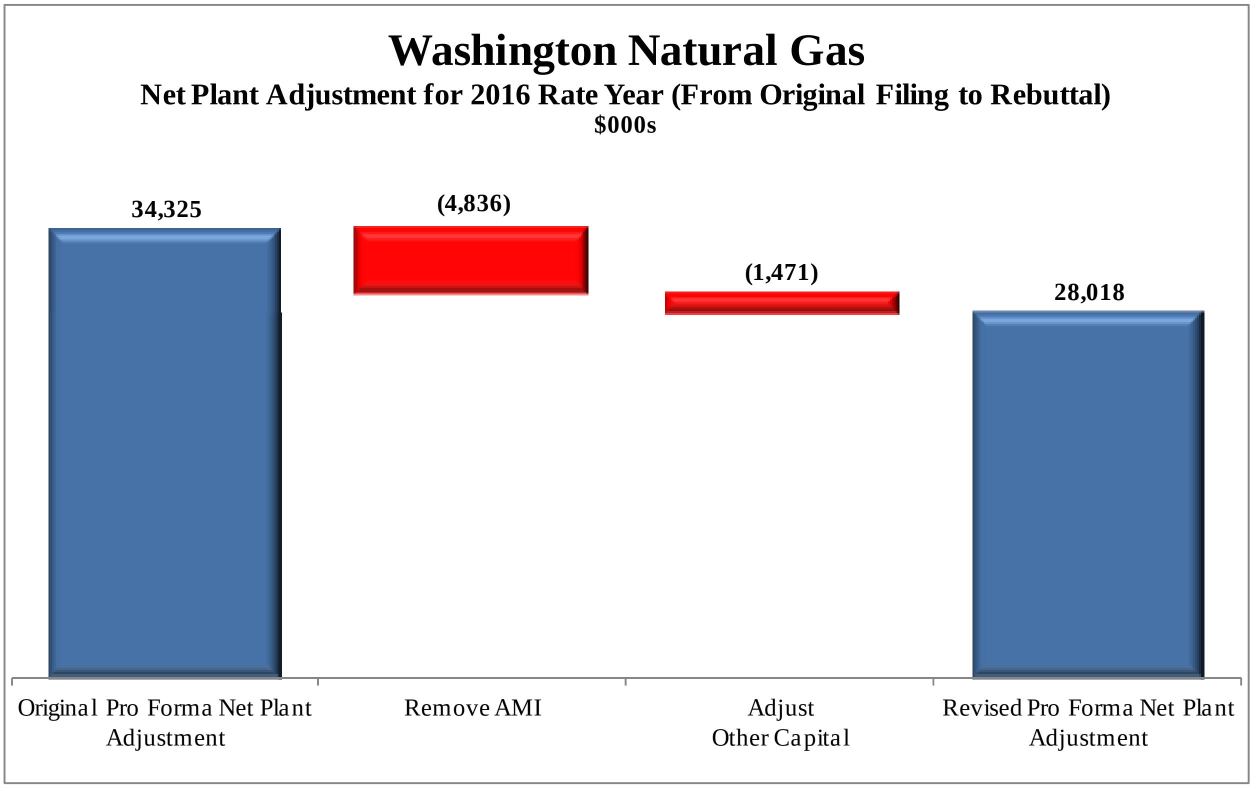
[8] For purposes of the Pro Forma Cross Check Studies, the Company has included updated information as of July 10, 2015 that was provided to Staff in response to Data Request 143. On rebuttal, Avista used the same approach as in the Company's direct filing. Avista started with AMA rate base for the twelve months ended December 31, 2014 adjusting AMA December 2014 through AMA December 2016, updated with current information. It moved the Company's Nine Mile Project to the fourth quarter of 2016 and removed the Company's AMI project. This also included the associated AD and ADFIT at 2016 AMA basis. This includes associated depreciation expense for the capital additions. In addition, the plant-in-service at December 31, 2015 was adjusted to a 2016 AMA basis.

[9] This amount includes the net plant balance (after ADFIT) associated with Avista's existing AMI meters ($20.3M), to reflect the net impact to rate base for the removal of the project costs associated with AMI.

on natural gas net plant results in a decrease in net plant of $6.31 million.[10] The illustration below shows the combined effect of these changes:

<u>Illustration No. 2:</u>



Q. How is the revised electric pro forma net plant adjustment of $66.07 million and the natural gas pro forma adjustment of $6.31 million shown in the above illustrations, reflected in Ms. Smith's Pro Forma Cross Check Study?

A. Ms. Smith's updated Pro Forma Cross Check Study starts with electric net plant after ADFIT of $1.223 billion and then adds $129.959 million in net plant additions to arrive at a total level of Washington electric plant for the 2016 rate year of $1.353 billion. For natural gas, Ms. Smith's updated Pro Forma Cross Check Study starts with natural gas net plant after ADFIT

[10] Please see footnote 8.

of $221 million and then adds $28.02 million of net plant to arrive at a total level of Washington natural gas net plant for the 2016 rate year of $249 million.

Q. How then do these Pro Forma Cross Check Studies ultimately compare with the Attrition Studies?

A. Ms. Andrews' revised electric and natural gas Attrition Studies show total net plant after ADFIT of $1.341[11] billion and $260[12] million, respectively. By way of comparison, Ms. Smith's revised electric and natural gas Pro Forma Cross Check Studies show total net plant after ADFIT of $1.353 billion and $249 million, respectively. The balances of net plant after ADFIT included in Ms. Andrews' Attrition Studies are comparable with plant balances in Ms. Smith's Pro Forma Cross Check Studies for the 2016 rate year.

Q. Please describe your understanding of how the other parties to the case arrived at their pro forma revenue requirement proposals?

A. As discussed on page 18 of Mr. Norwood's rebuttal testimony, Staff ultimately used an Attrition Study to determine its revenue requirement; however, it also prepared an analysis using a historical test period with limited pro forma adjustments. ICNU and Public Counsel determined net plant using a historical test period with limited pro forma adjustments to arrive at their proposed revenue requirements. NWIGU argues that no change in natural gas rates is justified. NWIGU provides no pro forma study to support its recommendation.

Q. Please summarize your understanding of the Parties' proposals relating to the electric and natural gas capital additions.

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[11] The Attrition Study amounts represented above are from Exhibit No.__(EMA-6) page 5, line 46, column M, for electric, and Exhibit No.__(EMA-7) page 5, line 42, column M for natural gas and grossing it down by the revenue growth factor of 1.013115 and 1.011566, respectively.
[12] Id.

A. Staff recommended rejection of the Company's capital Pro Forma Cross Check Studies. Instead, Staff started with Avista's actual Commission Basis AMA results as of December 31, 2014, and narrowed its scope to only include 14 major capital projects from January 1, 2015 through June 30, 2015. Staff excluded the remaining July through December 2015 additions, as well as the entire adjustment for 2016 AMA additions included in the Company's Pro Forma Cross Check Studies.[13]

ICNU proposed the use of an AMA basis for the 12 months ended September 30, 2014 as originally filed by the Company, with an additional adjustment for ADFIT. However, ICNU proposed the exclusion of all post-test year pro forma capital additions, with the exception of Project Compass. For Project Compass, ICNU proposed that the undepreciated plant balance associated with Project Compass be included in rate base in the test year; however, ICNU proposes excluding the depreciation expense and deferred federal income taxes accrued for this project in 2015 from the test year.[14]

Lastly, Public Counsel proposed that the electric adjustment for plant-in-service from the test year (AMA 12 months ended September 30, 2014) to EOP December 31, 2014, be rejected. Public Counsel proposed that an AMA to EOP adjustment for natural gas for the test year be approved; however, Public Counsel rejects the extension of the EOP adjustment to December 31, 2014.

Additionally, Public Counsel proposed the exclusion of post test year capital adjustments, with the exception of capital additions for three projects: (1) implementation of the Clark Fork Protection, Mitigation, and Enhancement (PM&E) Agreement (electric operations); (2) Project

[13] Testimony of Staff witness Mr. Gomez, Exhibit No.__(DCG-1T) page 9, line 12 through page 11 line 18.
[14] Testimony of ICNU witness Mr. Mullins, Exhibit No.__(BGM-1CT) page 18, line 8 through page 29, line 20.

Compass (electric and natural gas operations); and (3) Aldyl-A pipe replacement (natural gas operations). For the Clark Fork and Aldyl-A Projects, Public Counsel proposed that capital additions through May 31, 2015 be included in rate base for the 2016 rate year. For Project Compass, Public Counsel proposed that capital additions through April 30, 2015 be included in rate base for the 2016 rate year. [15]

Q. What are the impacts of each Parties' adjustments?

A. Staff's proposed Pro Forma adjustments increase net plant from 2014 to 2016 by $47.72 million[16] and $16.42 million for electric and natural gas, respectively. ICNU's adjustment is an increase of $35.09 million to Avista's historical test period electric rate base. Public Counsel's adjustment is an increase of $27.58 million to Avista's historical electric rate base, and $8.5 million for natural gas rate base.

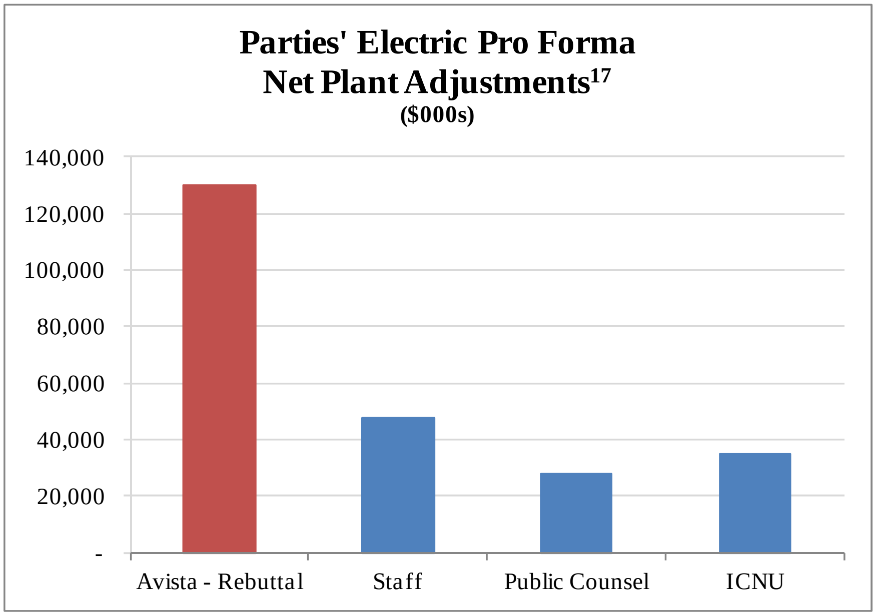
Q. How do these adjustments compare with the plant-in-service during the rate year, as shown by the Company?

A. The following illustration shows this comparison for electric net plant adjustments:

[15] Testimony of Public Counsel witness Ms.Ramas, Exhibit No.__(DMR-1CT), page 54, line 1 through page 61, line 3.

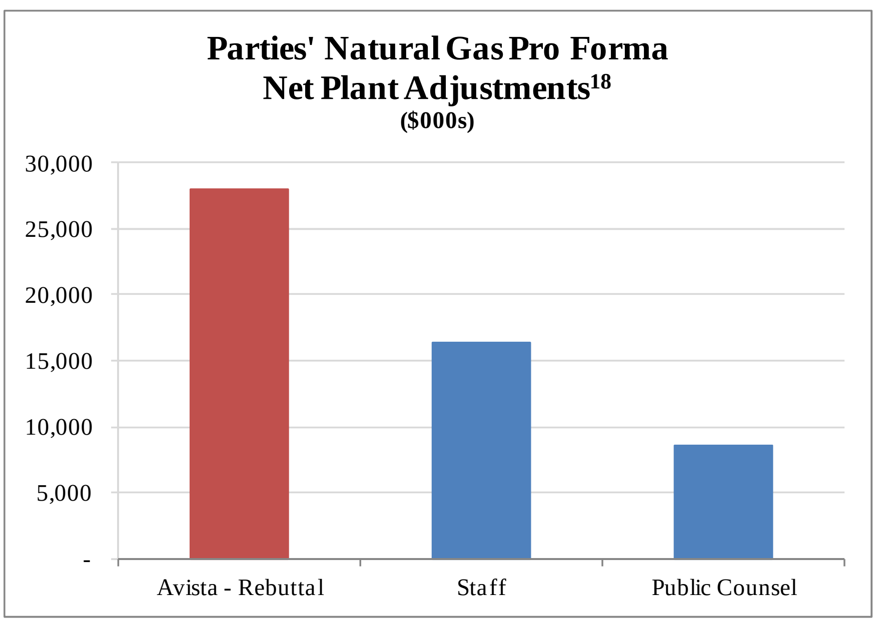
[16] This number represents Staff's Pro Forma Adjustments and does not reflect Staff's overall position that includes an attrition adjustment.

<u>Illustration No. 3:</u>



The following illustration shows a similar comparison for natural gas net plant adjustments:

<u>Illustration No. 4:</u>



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[17] Certain parties' direct testimony discuss adjustments relative to a base number other than the originally filed case - in these instances, we have imputed the adjustment shown in the table above based on their net rate base for the rate year.
[18] Id.

These illustrations show that the net plant adjustments, as pro formed by other parties, fall well below the Company's adjustments to arrive at plant-in-service during the 2016 rate year. Clearly, the "pro forma" analyses performed by the other parties will not address the level of rate base attrition that will be experienced by the Company during the 2016 rate year. This was recognized by Staff witness Mr. McGuire and the Company which proposed a revenue requirement based on Attrition Studies instead.

Q. Do the Parties refer to a recent Order in the PacifiCorp Case as a basis for their positions?

A. Yes. The Parties' positions related to capital adjustments are predicated, at least in part, on their reading of the UTC's recent Order 08 in *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company (PP&L).*[19] Company witness Mr. Norwood has addressed this recent Order in his Rebuttal testimony. Moreover, the pro forma proposals of Staff and the other parties would result in net plant-in-service balances for both electric and natural gas service that are substantially below the level shown by both the Company and Staff's own Attrition calculations and are well below the Company's Pro Forma Cross Check Studies.[20] In short, they do not reflect the level of net plant that will be in service during the 2016 rate year.

Q. Please discuss your understanding of Staff's concern over whether sufficient evidence was provided by the Company in regard to its capital additions.

A. Staff suggested that the Company did not provide sufficient evidence to support projects in both its direct case and through discovery.[21] As discussed by Company witness Mr.

[19] Docket No. UE-140762, Order 08.
[20] The purpose of which is discussed in detail by Company witness Mr. Norwood in his testimony. Please see Exhibit No.___(KON-1T) page 19 line14 through page 22 line 13.
[21] Testimony of Staff witness Mr. Gomez, Exhibit No.__(DCG-1TC) Page 61, lines 20-22.

Norwood, Avista provided extensive evidence in these Dockets supporting its proposed revenue adjustments, especially with regard to current and planned capital additions.[22] The Company's direct case included four witnesses who covered numerous capital projects, descriptions and dollar amounts (See Exhibit Nos.__(JMK-1T), ___(JMK-2)-(JMK-5), ___(SJK-1T), ___(BAC-1T),__(KKS-1T)-(KKS-4)). Business cases were also included for all projects in our direct filing in Exhibit No.___(KKS-5), totaling more than 300 pages of information. The business cases also gave further detail such as O&M offset information, timing of projects and internal rates of return.

In addition, the Company answered over 60 data requests related to capital projects, containing more than 90 subparts, from Staff and intervenors, as well as responded to many informal e-mails and phone calls. The Company provided extensive evidence for capital projects included in the Pro Forma Cross Check Analysis.

Q. Why did ICNU propose the inclusion of Project Compass in rate base, but the exclusion of the associated depreciation expense and deferred federal income tax accruals for the test year?

A. ICNU states "Depreciation and ADFIT did not begin to accrue until after the end of the test period. Accordingly, it would be inconsistent to include in September 2014 test period results the depreciation expense accrued for this project in 2015, as doing so has the potential to result in double counting of depreciation expense."[23]

[22] Norwood, Exhibit No.__(KON-1T) Page 11 line 1 through page 12, line 11.
[23] Testimony of ICNU witness Mr.Mullins, Exhibit No.__ (BGM-1CT) page 29, lines 10-14.

Q. Does Avista agree with this proposed treatment of the depreciation expense and deferred federal income taxes associated with Project Compass?

A. No. The inclusion of an item in rate base for the test year requires that the associated impacts, such as depreciation expense and ADFIT impacts, <u>also be included</u> in order to satisfy the matching principle.

Q. It appears that Public Counsel has selected different cut-off dates for the inclusion of post-test year capital additions for major projects. Has Public Counsel provided justification for this disparate treatment?

A. No, it did not. Public Counsel proposes the inclusion of the capital additions related to the Clark Fork PM&E agreement and Aldyl-A pipe replacement between October 1, 2014 and May 31, 2015, while Public Counsel only proposes the inclusion of capital additions related to Project Compass between October 1, 2014 and April 30, 2015.[24] Further, Public Counsel did not provide any justification for the disparate treatment of the period considered for the "major" post-test year capital additions. Avista had provided updated information on actual transfers of capital additions to plant-in-service, with information through June 30, 2015, on July 10, 2015.[25] Public Counsel's determination that actual capital additions should be considered for different projects over different periods, without consideration of the most current capital additions to plant in service, appears arbitrary. Moreover, in the case of the Aldyl-A Project, given that we provided actual transfers-to-plant in service, Public Counsel contradicts it's own position, whereby Public Counsel supports the reasonableness of including "additional known

[24] Testimony of Public Counsel witness Ms. Ramas, Exhibit No.__(DMR-1CT) page 59, line 7 through page 60 line 12.
[25] Staff_DR_143 REVISED 2.

and measureable amounts closed to plant in service in rate base…if such amounts are fully supported by the Company.”[26]

Q. After reviewing Staff’s, ICNU’s, and Public Counsel’s direct testimony, does Avista still believe the method used in its direct case to determine the Pro Forma Cross Check Studies associated with capital investment is the appropriate approach?

A. Yes. The Pro Forma Cross Check Studies provide a second, comparable analysis against which to compare the results of the Attrition Studies. Both analyses include the best, and most recent information available to determine the need for rate relief for the 2016 rate year. The Cross Check Studies confirm that the Company is continuing to experience attrition now, and into the 2016 rate year. Using an historical test year with limited pro forma adjustments for capital investment severely understates the capital investment that will occur through the rate year, resulting in considerable attrition.

Q. Staff and Interveners made a number of observations about estimates and errors in the Company’s filing. What is your response?

A. As Mr. Norwood discusses in his rebuttal testimony, some of the changes since our original filing are corrections of errors, while some changes are due to known changes and updated information subsequent to the filing, in an effort to provide the most current information. The Company has made every effort to be transparent and to keep Staff and other parties informed of any updated information and to otherwise correct any errors.

[26] Testimony of Public Counsel witness Ms. Ramas, Exhibit No.__(DMR-1CT) page 60, footnote 40.

Q. What is your response to Mr. Gomez's testimony on transfers-to-plant associated with the Nine Mile Project?

A. Mr. Gomez states in his testimony, that with regards to the Nine Mile Generation Project, "Oddly, and without a word of explanation (emphasis added), the Company, in Attachment B of this revised response of June 8, 2015, to Staff Data Request No. 143, Avista reduced its Washington-allocated 2015 forecasted transfer to plant amount for the Nine Mile project."[27] The Company kept Staff and other parties informed of the Nine Mile status throughout the case. The Company also hosted two different on-site visits with Staff to review capital projects, neither of which Mr. Gomez took the opportunity to attend. The first visit, on May 7th, was to review with project managers the capital projects that Staff selected. At the time of the May 7th visit, the Company was going through the process of revising the in-service date of Nine Mile and made this known to the Staff in attendance. During a second visit on July 8th, Staff performed an audit on the projects previously selected. In these meetings, the Company was open and transparent with Staff regarding the status, timing, and costs known at that time. Exhibit No.___(KKS-7) includes slides that were used to aid the discussion and provided as an overview of the Nine Mile Generation project.

Also, on June 3, 2015 the Company responded to ICNU Data Request 198, which was also provided to Staff. This response specifically discussed the delay to the Nine Mile Project and the reasons for the delay. Exhibit No.___(KKS-8) includes a copy of this response.

Finally, on July 14, 2015 the Company also had direct e-mail communications with Mr. Gomez regarding the Nine Mile in-service date, which is provided in Exhibit No.__(KKS-9).

[27] Gomez, Exhibit No.__ (DCG-1TC) page 17, line 3-6.

Q. On page 13 of NWIGU's witness Mr. Gorman's testimony, he discusses how "Avista's plant additions are inconsistent with the Company's claimed capital expenditures."[28] Do you agree with this statement?

A. No. Mr. Gorman goes on to discuss how he used a report to shareholders showing a chart of capital expenditures by functional group (attached as Exhibit KKS-10) on a system level, that purports to show that almost 100 percent of the system capital additions were being allocated to Washington customers in Ms. Andrews' natural gas Attrition Study.

Mr. Gorman is incorrect. He asserts that the Company had $23 million of capital expenditures in 2014 on a <u>system</u> basis for natural gas, while Ms. Andrews showed $22.8 million in the fourth quarter of 2014 for natural gas in <u>Washington</u>.[29] When looking at the chart used to make this correlation, he simply used the wrong number. The $23 million number referred to by Mr. Gorman relates to the "Other" category of plant, which includes the Company's facilities and fleet operations. Mr. Gorman's reference should have been the $43 million in the <u>natural gas category</u>. In addition, the natural gas category on the chart only reflects Natural Gas Distribution Plant, and does not reflect the allocated balances from the Enterprise Technology, Growth and Other categories. This is also true for the 2015 and 2016 amounts that were being compared to Ms. Andrews' Attrition Study.

Q. Did NWIGU witness Mr. Gorman make any other incorrect conclusions in his testimony?

A. Yes. Mr. Gorman stated "Ms. Andrews' projected additions for 2016 are overstated because they should have been based on an average year convention not an end of

[28] Gorman Exhibit No___(MPG-1T), page 13, lines 14-16.
[29] Gorman, Exhibit No.__(MPG-1T) page 13 line 14 through page 14 line 10.

year convention."[30] This statement is incorrect. In both Ms. Andrews and my direct filed testimonies, the Company discussed how the 2016 rate year proposed in this case was based on an AMA balance and not an EOP or end of year balance.[31]

Q. Are there any other changes or updates to numbers you would like to address, that are not accurately reflected in Staff and intervenor testimony?

A. Yes. The Company had recorded the $50 million (system) reduction to rate base to reflect the estimated "Repairs Allowance" allowed for tax purposes in September 2014, which was included in the Company's original filing.

ADFIT increased by $26.798 million (which is a reduction to rate base) between the originally-filed amount and the rebuttal amount. A summary of the changes is provided in the table below.

Table 1

Accumulated Deferred Federal Income Taxes Washington Electric 2016 AMA $(000's)	
ADFIT, as orignally filed	$ (288,064)
Updates to ADFIT:	
Repairs adjustment	(3,192)
Bonus depreciation for Federal taxes	(17,249)
Other, including allocations, pro forma estimates and true-up of general ledger to power tax records	(6,357)
Total updates to ADFIT	(26,798)
ADFIT, rebuttal position	$ (314,862)

[30] Gorman, Exhibit No.__(MPG-1T) page 14 lines 11 through line 21.
[31] Schuh, Exhibit No.__(KKS-1T) page 4, lines 1-8, Andrews, Exhibit No.___(EMA-1T) page 24, lines 8-10.

There were several reasons for this change to ADFIT:

In December 2014, the Company received additional detail regarding the Repairs Deduction from the accounting firm assisting Avista with the tax change. This update increased Washington's electric ADFIT approximately $3.2 million for its share of the Repairs Deduction above the estimated amount recorded in September 2014.

The Company recorded an additional $17.249 million in ADFIT in December 2014 due to new information the Company received in December 2014. Congress passed legislation on December 16, 2014, which included an extension of 50% bonus depreciation through the end of 2014. This information was not available at the time the revenue requirements for this case were completed.

An additional $6.357 million in ADFIT over the originally-filed ADFIT balance was due to new or revised information the Company obtained in early 2015. Updates to allocation factors, updates to planned capital additions in 2015 and 2016, and other true-up adjustments also impacted the ADFIT balance.

In summary, there were material changes between the Company's originally-filed ADFIT balance and the ADFIT balance included in the Company's rebuttal position. These changes were primarily due to the Company receiving new information and providing updates to reflect this new information after the case was filed. This information was provided to Staff and all Parties in response to Staff DR 131, on May 14, 2015, which was provided to update the Attrition Studies using the 12 months ended December 31, 2014 information, as requested by Staff.

II. CAPITAL COMPLIANCE REPORTING

Q. Please describe Staff's proposal regarding the Company's capital compliance reporting.

A. In the following excerpt from Mr. Gomez's testimony[32] he proposes to expand the reporting and filing requirements:

> "Staff recommends the Commission order in this case a further expansion of Avista's current compliance reporting requirements for capital. Along with reporting of capital expenditures, CWIP balances and transfers to plant, Staff recommends the Commission require Avista to file supporting documentation and work papers for its planned and ongoing major capital additions. The documentation and work papers should be sufficient for Staff to complete an analysis and report to the Commission Avista's status and progress of its major capital addition ERs. Staff would provide its analysis and report to the Commission and other interested parties in a recessed open meeting. Staff also recommends that the Commission require Avista to evaluate its capital expenditure and transfer to plant forecasts from the previous period's report and account for variances in its current period compliance report.
>
> Finally, Staff recommends that the Commission require Avista to limit the scope of its pro forma capital additions in future rate cases to be consistent with the Pacific Order. The Company's approach in this case is too broad and, as a result, Avista's testimony and exhibits are largely inadequate in both substance and detail to meet Staff's needs in making its recommendation to the Commission."

Q. What does the Company currently provide to the Commission regarding capital additions?

A. The Company started providing capital reports on a quarterly basis as a result of the Commission's Order in the Company's 2012 general rate case[33]. In that case, the Commission ordered the Company to file quarterly progress reports showing budget-to-actual

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[32] Gomez, Exhibit No.__ (DCG-1TC) page 64, line 8 through page 65, line 7.
[33] Docket No. UE-120436 & UG-120437 (Consolidated), Order No. 09.

information on capital expenditures, including updates or changes to the overall capital expenditure plan. The five quarterly reports started in September of 2013 and continued through 2014.

Following the Company's next general rate case[34], the Company conferred with all parties to the case regarding additional details for reporting, and it was agreed by all parties that the capital reporting would be expanded to include more detailed information by expenditure request, including transfers-to-plant, budget vs. actual information and construction work in progress, all to be reported twice a year instead of quarterly. The first semi-annual report was filed on February 26, 2015, and is attached as Exhibit No.___(KKS-11).[35] On September 1, 2015, the Company filed its second semi-annual report.

Q. What is Avista's response to Staff's proposal regarding Capital Compliance Reporting?

A. As discussed above, the Company already provides extensive data surrounding capital projects, both in its rate case filings and through periodic Compliance Reports. The Company has been cooperative in providing additional information on specific projects or programs, and would continue to do so without an additional layer of formal reporting. As shown in Exhibit No.__(KKS-11), Avista already provides extensive capital reporting; this reporting was developed after discussions with the parties as recently as January of 2015. Avista requests that the Commission not approve the additional reporting requested by Staff.

[34] Docket No. UE-140188 & UG-140189 (Consolidated).

[35] The Company has provided in Exhibit No.__(KKS-11) Attachments 1 and 2 of this report. The third Attachment was provided in the Company's original filing as Exhibit No.__(KKS-5) and therefore, is not provided here.

Q. Do you think the Commission should require Avista to limit the scope of its pro forma capital additions in future rate cases to be consistent with the PP&L order, as suggested by Staff witness Mr. Gomez?

A. No I do not. As discussed earlier in my testimony, the Company prepared the Pro Forma Cross Check Studies including <u>all</u> capital through the 2016 rate year as a second analysis to compare with the results of the Attrition Studies sponsored by Ms. Andrews. Both Avista and Staff witness Mr. McGuire have demonstrated that the sole use of a historical test period with limited pro forma adjustments will not provide sufficient revenues for the Company in the 2016 rate year.

As explained by Mr. Norwood, the cross check analysis represents important evidence that demonstrates that the Company will continue to experience attrition into the 2016 rate year, and the Company should not be precluded from presenting evidence that supports its need for rate relief.

<u>III. CONCLUSION</u>

Q. Please summarize your rebuttal testimony.

A. The purpose of the Company's proposed Pro Forma Cross Check Studies is to provide a second analysis or cross check to compare with the results of the Attrition Studies. Both Avista and Staff witness McGuire have determined that the historical test period with only limited pro forma adjustments would not allow Avista to earn a fair return. That is why Staff also proposes to set rates based on an attrition study.

The primary difference between Avista's Pro Forma Cross Check and the Parties pro forma studies is that the Parties are using a historical test period with <u>limited</u> pro forma adjustments. The historical test period with limited pro forma adjustments proposals provided by Staff, Public Counsel and ICNU severely understate the capital investment that will be used to serve customers in the 2016 rate year. If the Commission were to accept Staff's and other Parties' proposed reductions to rate base, it would result in insufficient revenues for Avista during the 2016 rate year.

The revised Pro Forma Cross Check Studies presented by Ms. Smith on rebuttal, including the adjustments listed above for pro forma capital investments, confirm that the revised Attrition Study revenue requirements presented by Ms. Andrews are reasonable and appropriate.

The Company requests that the Commission reject Staff's proposal for additional capital reporting and Staff's proposal to limit the scope of the Company's pro forma capital additions in future rate cases.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.