Exhibit No.__(JSS-4T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-150204

DOCKET NO. UG-150205

REBUTTAL TESTIMONY OF

JENNIFER S. SMITH

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Jennifer S. Smith. I am employed by Avista Corporation as a Senior Regulatory Analyst in the State and Federal Regulation Department. My business address is 1411 East Mission, Spokane, Washington.

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

A. Yes. My testimony and exhibits in this proceeding covered the overall methodology and results of the Company's electric and natural gas Pro Forma Cross Check Studies, which were prepared as a cross check for the attrition analysis presented by Company witness Ms. Andrews' testimony.

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

A. My testimony will address the revenue requirements proposed by other parties and certain adjustments proposed by the parties which Avista does not support; primarily the Staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Section of the Washington State Attorney General's Office (Public Counsel) and the Industrial Customers of Northwest Utilities (ICNU) in their direct testimony. I will also explain the Company's revised Pro Forma Cross Check Studies for both electric and natural gas after taking into consideration the agreed to components of the Multiparty Partial Settlement (Partial

Settlement)[1], and to reflect corrections and adjustments to costs that have been identified through the discovery process. After these adjustments, the Company's revised Pro Forma Cross Check Study revenue requirements for its Washington electric and natural gas services are $3,639,000 and $10,009,000, respectively. The revised rate base for the Company's electric service is $1,392,858,000, while the natural gas rate base is $284,455,000.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit Nos.__(JSS-5) through (JSS-7), which were prepared under my direction. Exhibit Nos. __(JSS-5) (Electric) and (JSS-6) (Natural Gas) consist of worksheets showing the calculation of the revised Pro Forma Electric and Pro Forma Natural Gas Cross Check Studies including each adjustment as proposed by the Company on rebuttal. Exhibit No.___(JSS-7), (see page 1 for electric and page 2 for natural gas), provides a detailed listing of each adjustment proposed by Staff, Public Counsel, and ICNU and compares the revenue requirement and rate base changes from the Company's direct filed case.

A table of contents for my testimony is as follows:

Description **Page**

[1] On May 1, 2015 the Company filed a Multiparty Settlement Stipulation in these Docket Nos. UE-150204 and UG-150205 (consolidated) agreeing to capital structure, power supply adjustments, and rate spread/rate design.

II. REVISED PRO FORMA CROSS CHECK STUDIES SUMMARY

Q. Have you prepared a summary table that shows the Company's revised Pro Forma Cross Check Study for its electric and natural gas services after reflecting the adjustments agreed to within the Partial Settlement, as well as the Company's position on rebuttal of the remaining issues?

A. Yes, I have. Table No. 1, below, provides a summary of the Company's revised electric Pro Forma Cross Check Study, after taking into consideration the adjustments agreed to within the Partial Settlement (assuming it is accepted by the Commission), and other adjustments reflecting the Company's rebuttal position on the remaining issues.

Table No. 1: Pro Forma Cross Check Study – Electric

SUMMARY OF ADJUSTMENTS TO ELECTRIC PRO FORMA CROSS CHECK STUDY 000s of Dollars	Revenue Requirement	Rate Base
Cross Check As Filed by Avista	$ 33,229	$ 1,464,296
Agreed Upon Adjustments: (1)		
Cost of Capital:		
ROE = 9.50% Cost of Debt = 5.20% Common Equity = 48.5%	(3,768)	-
Net Power Supply Adjustments	(12,610)	
Summary Total of Avista Settlement Agreement (1)	16,851	1,464,296
Summary Total of Avista Updated and Rejected Adjustments (2)	(13,212)	(71,438)
Avista Rebuttal (revised) Pro Forma Cross Check	**$ 3,639**	**$ 1,392,858**

(1) Per Partial Settlement Stipulation filed on May 1, 2015
(2) See Exhibit No.__(JSS-7) page 1 for detail listing of adjustments.

Table No. 2 below provides a similar summary for the Company's revised natural gas Pro Forma Cross Check Study after reflecting similar adjustments.

Table No. 2: Revised Pro Forma Cross Check Study – Natural Gas

SUMMARY OF ADJUSTMENTS TO NATURAL GAS PRO FORMA CROSS CHECK STUDY 000s of Dollars	Revenue Requirement	Rate Base
Cross Check As Filed by Avista	$ 12,021	$ 286,086
Agreed Upon Adjustments: (1)		
Cost of Capital:		
ROE = 9.50% Cost of Debt = 5.20% Common Equity = 48.5%	(735)	-
Summary Total of Avista Settlement Agreement (1)	11,286	286,086
Summary Total of Avista Updated and Rejected Adjustments (2)	(1,277)	(1,631)
Avista Rebuttal (revised) Pro Forma Cross Check	**$ 10,009**	**$ 284,455**

(1) Per Partial Settlement Stipulation filed on May 1, 2015
(2) See Exhibit No.__(JSS-7) page 2 for detail listing of adjustments.

Q. In Table Nos. 1 and 2, above, you have shown items agreed to in the Partial Settlement. Could you please briefly explain their impact on the revised Pro Forma Cross Check revenue requirement?

A. Yes. Within the Partial Settlement, the parties agreed to a revised cost of capital including a 9.50% return on equity, a 48.5% common equity layer, an average cost of debt of 5.20%, for an overall rate of return of 7.29%. This agreed-to cost of capital reduced the Company's electric revenue requirement by $3,768,000 and its natural gas revenue requirement by $735,000. The Partial Settlement also established the current base power supply costs, adjusting that filed by the Company for corrections, updates and agreed-upon adjustments to power supply costs, as well as the removal of the Colstrip and Coyote Spring II (CS2) Thermal O&M costs from base power supply costs. (The revenue requirement related to the CS2/Colstrip O&M costs were to be addressed during the remainder of the case). The net impact of the specified power supply adjustments reduced the overall electric revenue requirement by $12.61 million.[2]

II. PRO FORMA STUDIES OF OTHER PARTIES

Q. Each party has provided testimony regarding the revenue requirement increase or decrease based on a pro forma study. Please summarize the proposals by each party.

[2] The Parties also agreed that Avista would file with the Commission an updated Power Supply adjustment two months before new electric retail rates from this electric Docket go into effect. The current estimate, based on information available as of August, is that net power supply costs may be reduced by an additional $10 million (Washington share).

A. Below is a summary of the other parties' proposed revenue requirement decreases, using a pro forma study[3]. I have also prepared Exhibit No.___(JSS-7) which summarizes Avista's rebuttal proposal, and the proposals for each of the intervening parties (see page 1 for electric and page 2 for natural gas).

While Staff proposes to set rates based on its attrition study, it also sponsored a "pro forma" study. In that pro forma study, Staff proposed a total electric revenue requirement of $479,047,000, as shown in Mr. Hancock's Exhibit No.___(CSH-2), page 2, line 7, which is a decrease in revenue requirement of $20,935,000. For natural gas, Staff proposed a total revenue requirement in its pro forma study of $174,519,000, as shown in Mr. Hancock's Exhibit No.___(CSH-3), page 2, line 7, which is an increase in revenue requirement of $3,605,000. Staff arrived at these numbers using a pro forma study analysis, using a modified historical test period approach with limited pro forma adjustments.

Public Counsel proposed a decrease in total electric revenue requirement of $29,680,000 electric and an increase of $3,337,000 for the natural gas revenue requirement, using a pro forma study, accepting and rejecting various pro forma adjustments in the Company's Pro Forma Cross Check Study.

ICNU also proposed a decrease to the electric revenue requirement of $17,404,000, by accepting or rejecting various adjustments in the Company's Pro Forma Cross Check Study.

[3] NWIGU for its part, proposed no rate change for natural gas services, as they do not support the use of an attrition methodology; however they did not prepare a Pro Forma Study. They did, however, suggest that if the commission approved an attrition methodology, that the revenue requirement proposed by the Company should be reduced.

Q. Are these pro forma levels reasonable, and will they provide Avista the opportunity to earn the agreed-to rate of return as proposed by the parties for the 2016 rate year?

A. No. Most of the adjustments proposed by intervenors are simply removing various increases in operating expenses and capital investmentsexpected for the 2016 year. As discussed by Company witness Mr. Norwood, Avista's Pro Forma Cross Check Studies were prepared as a "Cross Check" and a second analysis to compare with the attrition analysis. The Cross Check Studies include a comprehensive set of adjustments for the prospective rate year, based on the best and most recent information available, to determine the revenues sufficient for Avista to earn its allowed returns. The Cross Check Studies confirm that there will be a continuation of attrition through the prospective rate year for Avista.

Each intervening party falls significantly short of providing a reasonable revenue requirement using their respective pro forma studies. Staff, through Mr. McGuire, however, recognizes this by then including an attrition adjustment to reflect the earnings attrition experienced by Avista. As discussed further by Mr. Norwood and supported by Company witness Ms. Andrews' Attrition Studies, the parties' proposals would provide insufficient revenues for 2016.

III. AVISTA REVISED PRO FORMA CROSS CHECK STUDY ADJUSTMENTS

Q. Avista provided updated information and accepted certain adjustments as proposed by Staff and Intervening Parties. Please describe each of these adjustments.

A. The adjustments updated by shown in Table Nos. 3 and 4 below, Avista are described in detail below. Please also see Exhibit No. __(JSS-5) and (JSS-6) for the Company's revised Pro Forma Cross Check Studies.

Table No. 3: Summary of Adjustments to Pro Forma Cross Check – Electric

Avista Utilities
Docket Nos. UE-150204

ELECTRIC
Pro Forma Cross Check Study (000s of Dollars)

		Revised on Rebuttal	
		Revenue Requirement	**Rate Base**
	Cross Check As Filed by Avista	$ 33,229	$ 1,464,296
	Agreed Upon Adjustments: (1)		
	Cost of Capital:		
	ROE = 9.50%, Cost of Debt = 5.20%, Common Equity = 48.5%	(3,768)	-
	Net Power Supply Adjustments	(12,610)	-
	Summary Total of Avista Settlement Agreement (1)	$ 16,851	$ 1,464,296
	Avista Updated Adjustments to Original Filing		
A	Restate Excise Taxes	(138)	-
B	Restate Net Gains / Losses	(9)	-
C	Pro Forma Power Supply / Colstrip & Coyote Springs 2 Operations and Maintenance Expense	(3,774)	
D	Pro Forma Transmission Revenue and Expenses	(25)	-
E	Pro Forma Employee Benefits	850	-
F	Pro Forma Insurance	(91)	-
G	Pro Forma Major Maintenance - Hydro Thermal, Other	(1,528)	-
H	Pro Forma Capital Additions	(8,370)	(45,792)
I	Electric Meter Retirement Regulatory Asset and Amortization Expense	(4,199)	(20,276)
J	O&M Offsets	(98)	-
K	Colstrip Refund Non-Recurring	1,142	-
L	Reconcile Pro Forma to Attrition	3,028	(5,370)
	Total Avista Updated Adjustments to Original Filing	$ (13,212)	$ (71,438)
	Avista Rebuttal (revised) Pro Forma Cross Check	**$ 3,639**	**$ 1,392,858**

(1) Per Partial Settlement Stipulation filed on May 1, 2015

Table No. 4: Summary of Adjustments to Pro Forma Cross Check – Natural Gas

	Avista Utilities		
	Docket Nos. UG-150205		
	NATURAL GAS		
	Pro Forma Cross Check Study (000s of Dollars)		
		Revised on Rebuttal	
		Revenue Requirement	**Rate Base**
	Cross Check As Filed by Avista	$ 12,021	$ 286,086
	Agreed Upon Adjustments: (1)		
	Cost of Capital:		
	ROE = 9.50%, Cost of Debt = 5.20%, Common Equity = 48.5%	(735)	-
	Summary Total of Avista Settlement Agreement (1)	$ 11,286	$ 286,086
	Avista Updated Adjustments to Original Filing		
A	Restate Excise Taxes	(344)	-
E	Pro Forma Employee Benefits	258	-
F	Pro Forma Insurance	(32)	-
H	Pro Forma Capital Additions	(2,186)	(6,307)
J	O&M Offsets	2	-
M	Reconcile Pro Forma to Attrition	1,025	4,676
	Total Avista Updated Adjustments to Original Filing	$ (1,277)	$ (1,631)
	Avista Rebuttal (revised) Pro Forma Cross Check	**$ 10,009**	**$ 284,455**
	(1) Per Partial Settlement Stipulation filed on May 1, 2015		

A. Restate Excise Taxes (Electric & Natural Gas)

Q. Avista adjusted its Restate Excise Taxes adjustment from that originally filed. Please explain the purpose of this adjustment.

A. The purpose of the adjustment filed by the Company is to remove the effect of a one-month lag between the collection and the payment of taxes. In the Company's calculation of the adjustment in its direct filing, the Company inadvertently recorded the same revenue amount as collected in April and May 2014 for both its electric and natural gas adjustments. During the process of the case, Staff notified Avista of this error. Avista agrees with Staff that an adjustment is necessary to correct both the electric and natural gas operations. However, Staff's calculation of its natural gas adjustment is incorrect.

The adjustment originally filed by the Company reduced electric excise tax expense by $63,000. The correction to this adjustment reduces excise tax expense by $195,000, reducing the Washington electric direct filed cross check revenue requirement by $138,000.

For natural gas, the adjustment originally filed by the Company increased natural gas excise tax expense by $328,000. As noted above there was an error in the Company's calculation. The corrected calculation should have reduced the natural gas operations excise tax expense by $63, which is essentially zero, so no adjustment should have been made by the Company. The effect of removing this adjustment decreases Washington natural gas expense by $328,000, and reduces the Washington natural gas cross check revenue requirement by $344,000.

In the process of adjusting the natural gas excise tax expense, Staff inadvertently reduced the expense by $63,000, rather than $63.

B. Restate Net Gains / Losses (Electric)

Q. Staff proposed an adjustment to reduce the Company's amortization of the electric Net Gains/Losses adjustment. Do you accept this adjustment?

A. Yes, Avista accepts Staff's adjustment. The adjustment filed by the Company reflects a ten-year amortization of net gains realized from the sale of property disposed of between 2005 and September 30, 2014, however, in the calculation the Company inadvertently excluded certain cells from the calculation in error.

The effect of Staff's adjustment reduces the Washington electric net gains/loss amortization expense by $9,000, which reduces the direct filed cross check revenue requirement for Washington electric operations by $9,000.

C. Pro Forma Power Supply / Colstrip & Coyote Springs II Operations and Maintenance Expense (Electric)

Q. What did the Company propose in its direct filed case regarding Colstrip and CS2 O&M expenses, and what is its proposal on rebuttal?

A. In the Company's direct filed case, the Company proposed including total operations and maintenance (O&M) expense at Colstrip and Coyote Springs II (CS2) as part of base power supply expense used for the Energy Recovery Mechanism (ERM). This resulted in incremental power supply expenses of $3.6 million.[4]

However, as a part of the Partial Settlement Stipulation, the Parties agreed that O&M costs related to CS2 and Colstrip would be removed from base power supply costs, and the revenue requirement related to these costs would be addressed during the remainder of the case. This resulted in a reduction in power supply expense of $3.6 million.

As more fully explained by Mr. Norwood and Ms. Andrews, to recognize the concerns by Staff and other intervenors regarding normalization of "overhauls," the Company has removed the incremental CS2 and Colstrip O&M expense from its electric Pro Forma Cross Check Study. These expenses have been removed from Pro Forma Power Supply adjustment No. 3.00 on page 8 of Exhibit No. ___(JSS-5). On rebuttal, Avista is proposing to normalize these costs for both customers and the Company, as explained by Mr. Norwood and Ms. Andrews

D. Pro Forma Transmission Revenue and Expenses (Electric)

Q. Please describe the Company's filed Pro Forma Transmission Revenues/ Expense adjustment.

[4] Exhibit No.___(WGJ-1T), page 14, line 7 – pages. 15, line 21

A. The Company's filed pro forma transmission-related revenues and expenses adjust the 2014 test year level amount to reflect the expected amount for the twelve-month period January 1, 2016 through December 31, 2016. The adjustment filed by the Company increased net electric transmission expenses for the rate year by $109,000, on a Washington allocated basis, increasing the electric revenue requirement by $114,000.

Q. Are there any updates to the Company's filed Pro Forma Transmission Revenues/ Expense adjustment?

A. Yes. The Company has updated the 2016 test year level of transmission expense, for the three line items below based on updated information.

> BPA Power Factor Penalty - The "Power Factor Penalty" is a published rate by which BPA recovers the cost of a portion of its fixed transmission assets based upon real and reactive power flow over an interconnection. The Company proposed to increase the expense from the 2014 test year level expense of $43,000 to the expected 2016 level expense level of $80,000, which is an increase of $37,000. On July 23, 2015, BPA released the Administrator's Final Record of Decision on the most recent rate case. The decision on the rate case excludes the Power Factor Penalty charge, so the Company is adjusting the expected 2016 level of expense to reflect no expenses associated with the Power Factor Penalty expense. This adjustment decreases the Company's direct filed expense by $80,000.[5]
>
> PEAK Reliability - PEAK is a new organization that was bifurcated from WECC and provides the Reliability Coordination function that is required under national reliability standards. The Company is required to pay PEAK reliability fees, based upon a ratio involving the entire PEAK footprint. The Company has no control over these expenses. The large increase in fees is attributable to the FERC requirement that the WECC reliability coordination function be corporately and physically separated from the remaining WECC requirements and obligations. This "bifurcation" is primarily the result of a transmission system outage in the Pacific Southwest on September 8, 2011[6], as well as the additional overheads associated with PEAK and its duties and responsibilities given its new creation. The Company proposed to increase the expense from the 2014 test year level expense of $116,000 to the expected 2016 level expense level of $621,000. The increase of $505,000, was calculated based on the known 2015 assessment of

[5] Staff recommended adjusting to 2014 test period levels, however the Company is updating to reflect $0 as the appropriate level of 2016 expense, based upon the outcome of the BPA rate case that was finalized on July 23, 2015.
[6] Exhibit No.___(BAC-1T), page 7, line 9-23

$41,356,225 and Avista's pro rata share of 1.2750 percent[7], increased by 18% to adjust for the 2016 expected level of expense per discussions with PEAK. However, the Company has since had further discussions with the Director of Finance and Accounting for PEAK Reliability, that has now stated Avista's PEAK reliability fees will be approximately $715,000.[8] This increases expense an additional $94,000 from the Company's direct filing. [9]

WECC Loop Flow - Loop Flow charges are spread across all transmission owners in the West to compensate utilities that make system adjustments to eliminate transmission system congestion throughout the operating year. WECC Loop Flow charges can vary from year to year since the costs incurred are dependent on transmission system usage and congestion.[10] The Company proposed an increase to the 2014 test year expense level of $34,000 by $16,000. As a result of the PEAK "bifurcation", the Company has since determined the expected 2016 level of expense for the WECC Loop Flow charges will be $0.[11] This adjustment reduces the Company's direct filed expense by $50,000.

Q. What is the net effect of the Company's updates to the filed Pro Forma Transmission Revenues/Expense adjustments discussed above?

A. The net effect of the revisions noted above, reduces the direct filed system electric transmission revenues/expenses expense by $36,000, and $24,000 on a Washington allocated basis, reducing the cross check revenue requirement by $25,000.

Q. On pages 16 through 18 of Staff witness Mr. Ball's direct testimony, Staff proposed to adjust four additional items included in the Company's Pro Forma Transmission Revenue and Expense adjustment. Do you agree with these additional four Staff Pro Forma Transmission Expense adjustments?

[7] Avista response to Staff Data Request No. 38

[8] Avista response to Staff Data Request No. 38 Supplemental

[9] Staff recommends recalculating the expected 2016 level of expense, based on the known 2015 assessment of $41,356,225 and Avista's pro rata share of 1.2750 percent, which is approximately $530,000.

[10] Exhibit No.___(BAC-1T), page 7, line 9-23

[11] Staff recommended keeping the expense at the 2014 test period level of $34,000; however, the Company is proposing to reduce further to a level of $0.

A. No, the Company does not agree. The three items, explained below, are the expected 2016 level of expense, as provided to the Company by third parties. These expenses should be included at the 2016 levels as proposed by the Company.

1. Colstrip Transmission (O&M/500kV Line) – Avista does not agree with Staff's proposal to set the expense at the test period level. As noted in Company witness Mr. Cox testimony, Avista is required to pay its portion of the O&M costs associated with its joint ownership share of the Colstrip transmission system pursuant to the Colstrip Transmission Agreement. Under this agreement, NorthWestern Energy (NWE) operates and maintains the Colstrip transmission system. In accordance with NWE's proposed Colstrip transmission plan provided to the Company, NWE will bill Avista an estimated $303,000 for Avista's share of the Colstrip O&M expense during the 2016 rate year period.[12] In the adjustment filed by the Company, we proposed an increase in Colstrip transmission O&M expense by $36,000, to adjust the 2014 test year level expense to $303,000, which is the expected 2016 level of expenses based on information provided to the Company by Colstrip.

2. ColumbiaGrid Development/RTO - Avista does not agree with Staff's proposal to set the expense at the test period level. As noted in Mr. Cox testimony, ColumbiaGrid's purpose is to enhance transmission system reliability and efficiency, provide cost-effective coordinated regional transmission planning, develop and facilitate the implementation of solutions relating to improved use and expansion of the interconnected Northwest transmission system, and support effective market monitoring within the Northwest and the entire Western interconnection. Avista supports ColumbiaGrid's general developmental and regional coordination activities under the ColumbiaGrid Fourth Funding Agreement, signed July 1, 2010, and supports specific functional activities under the Planning and Expansion Functional Agreement and the FERC Order 1000 Functional Agreement[13]. The Company is responsible for a portion of ColumbiaGrid general funding expense as designated by ColumbiaGrid. The Company proposed an increase in expense of $39,000, to adjust the 2014 test year level expense to the expected 2016 level expenses based on information provided to the Company by ColumbiaGrid.

3. ColumbiaGrid Planning - Avista does not agree with Staff's proposal to set the expense at the test period level. The ColumbiaGrid Planning and Expansion Functional Agreement (PEFA) was accepted by the Federal Energy Regulatory Commission (FERC) on April 3, 2007, and Avista entered into the PEFA on April

[12] Exhibit No.__(BAC-1T). page 4, line 4-10
[13] Exhibit No.__(BAC-1T), page 4, line 12-21

4, 2007. Coordinated transmission planning activities under the PEFA allow the Company to meet the coordinated regional transmission planning requirements set forth in FERC's Order 890 issued in February 2007, and outlined in the Company's Open Access Transmission Tariff. Additional FERC Order 1000 requirements are implemented under the Order 1000 Functional Agreement, which was executed by Avista on December 13, 2013, followed by the Amended, and Restated Order 1000 Functional Agreement, signed on November 11, 2014 (Order 1000 Agreement). [14] Avista is required to pay funding under the PEFA and Order 1000 Agreement. The Company proposed to increase this expense item from $162,000 to $248,000, an increase of $86,000, to support the expected 2016 level of expensed, based on the formal budget and plans provided to the Company by ColumbiaGrid.

Q. What is Avista's response to Staff's proposal related to the fourth item; Oasis expenses?

For item number 4, OASIS Expenses (Columbia Grid Travel), although travel costs vary based upon the availability of employees and their ability to attend training based upon work demands, beginning in 2015 one of Avista's employees became the Secretary for the organization and will travel to attend all quarterly meetings. The current level of expense for these travel costs through July of 2015 are currently over the expected 2016 level of expense of $8,000 and there is still at minimum one additional quarterly meeting that will be attended during 2015.

4. OASIS Expenses (Columbia Grid Travel) – Staff proposed a three-year average of this item's actual expense, which is $1,500. These Open Access Same-time Information System (OASIS) expenses are associated with travel and training costs for transmission pre-scheduling and OASIS personnel. This travel is required to monitor and adhere to NERC reliability standards, regional criterion development, and FERC OASIS requirements. During the 2014 test year, the travel amount of $17 in the test year was abnormally low in large part because Avista hosted an OASIS schedulers meeting in Spokane instead of traveling to the meeting. [15] Travel costs vary based upon the availability of employees and their

[14] Exhibit No.__(BAC-1T). page 5, line 1-10
[15] Avista Response to Data Request No. 36

ability to attend training based upon work demands. Beginning in 2015 one of Avista's employees became the Secretary for the organization and will travel to attend all quarterly meetings. The Company proposed to increase this expense by $8,000 to reflect the expected 2016 test year level expense.

E. Pro Forma Employee Benefits (Electric & Natural Gas)

Q. Please describe the Benefit adjustment proposed by the Company?

A. The Company's direct filed case included an adjustment to increase Pension and Medical costs by approximately $2.385 million electric and $717,000 natural gas. Test period Pension expenses are adjusted from the test period to the 2016 rate year in order to reflect the most recent estimate provided to the Company by its independent actuarial company, Towers Watson. Medical costs are adjusted from the test period medical expenses to reflect the 2015 annual premium estimate provided by Meridian. In May, in response to Staff_DR_131 when new actuarial estimates became available, the Company updated the pension and medical expenses, to reflect an increase over the 2014 test period of $3.257 million electric and $980,000 natural gas. This information was provided to all parties.

The Company inadvertently double-counted the administration fees associated with medical benefits and overstated expenses by approximately $220,000 (system) or $60,000 Washington Electric and $18,000 Washington Gas. Correcting for this error, the total pension and medical increase above the test period adjustment is $3.196 million electric and $963,000 natural gas.[16]

Q. Please describe Staff's proposal for this adjustment as it relates to Pension Costs.

[16] Exhibit No.__(JSS-5) and ___(JSS-6), page 8, columns 3.4 and 3.2, respectively

A. In testimony Staff agrees with the Company's updated numbers, however, notes a double-counting in relation to administration fees, and therefore recommends a reduction of Avista's proposed number of $268,000 for electric and $82,000 natural gas.

Q. Does the Company agree with this adjustment?

A. Yes, in part. The Company agrees with Staff that administration fees were inadvertently double-counted. However, the correct amount of double counting on a Washington-allocated basis is approximately $60,000 electric and approximately $18,000 natural gas. Therefore the net change proposed by Avista increases expense by $3,196,000 electric and $963,000 natural gas, and revenue requirement by $3,351,000 and $1,009,000, respectively.

Q. ICNU proposes the entire benefit adjustment be rejected. Does the Company agree with ICNU's recommendation?

A. No. Towers Watson provides actuarial services related to Avista's defined benefit plan. Wurts & Associates provides investment-consulting services related to the Avista's defined benefit plan. Each advisor has a group that projects expected capital market returns. Avista takes into consideration the information from both of its advisors to determine the expected return on assets related to benefit plans. We believe this results in a better estimate of future costs for the plan. Although the Company provides the return on assets utilized by Towers Watson, it is a metric that is informed by third-party information.

Finally, regarding ICNU's assertion that updating information during the pendency of the case is not appropriate, as Mr. Norwood states in his rebuttal testimony, it is our practice to be transparent with any known changes or updated information. The Commission has previously expressed its desire to base its decisions on the best available information. In its Order No. 04 in Dockets UE-080416 and UG-080417, at page 4, the Commission stated as follows:

> In the PSE proceeding, PSE's motion to file supplemental testimony was granted with the presiding officer concluding that "[T]he commission's paramount interest is in having a full record with the best available evidence upon which to base its decisions." The presiding officer went on to consider PSE's motion by application of a balancing test considering the Commission's interest in having current information against the parties' needs to have an adequate opportunity to conduct discovery and prepare their own testimony and exhibits.

The Company anticipated the update to the pension amounts and noted this in my direct testimony (Exhibit No.___(JSS-1T) on page 27, that states, "(d)ue to the timing of this report, additional information may become known during the course of these proceedings that may require a modification to this adjustment." Parties were made aware of the updated pension adjustment, based on the updated actuarial report on May 14th, which is over two months prior to the due date of the Staff and Intervener testimony. This should be sufficient time to evaluate the changes in pension and post-retirement medical, which Staff ultimately was supportive of as described above.

F. <u>Pro Forma Insurance (Electric & Natural Gas)</u>

Q. What was the total insurance expense included in the Company's Pro Forma Insurance Expense adjustment?

A. The filed Pro Forma Insurance Expense adjustment adjusts the 2014 test year level insurance expense related to the utility for general liability, directors and officers ("D&O") liability, and property to reflect the expected 2016 level of insurance. In addition, Avista has removed a total of 10% of the total Directors' and Officers' insurance expense as ordered in

Docket No. UE-090134.[17] This net of this adjustment reduced Washington electric expense by $259,000 and Washington natural gas expense by $77,000, reducing the revenue requirement by $272,000 and $81,000, respectively.

Q. Are there any updates to the filed Pro Forma Insurance Expense adjustment?

A. Yes. The Company has updated the 2014 test year level of insurance expense for a correction to the general liability continuity credit. The Company filed a test year level expense of $4,917,693, however the continuity credit included in this calculation was not appropriately prorated for the test period. The corrected test year level expense is $4,940,196.

The Company also updated the expected 2016 level of insurance expense to reflect actual data for 2015, which was provided to all parties. The direct filed, expected 2016 level of insurance expense was $5,575,651; the revised expected 2016 insurance expense level is $5,388,270. The net effect of the revisions noted above, is an increase to the Company filed Washington electric net operating income by $56,000 and an increase to Washington natural gas net operating income by $20,000 which is a reduction to the Company direct filed electric revenue requirement of $91,000 and natural gas revenue requirement of $32,000.

Q. Staff and Public Counsel both included adjustments regarding the Company's Insurance Expense adjustment. Do you agree with either of their proposed adjustments?

[17] The increase in insurance expense noted above is net of the offset to reduce D&O insurance expense for the 10% portion charged to non-utility, based upon the 2014 survey of Directors. However, the Company should have updated the 10% to reflect the most current allocation of only 3% based on the 2015 survey. Each year the Directors estimate the time they spend on utility versus non-utility duties and responsibilities, based on their actual experience. The responses from the Directors indicated that, in the aggregate, approximately 97% of the Directors' time is dedicated to utility matters, and approximately 3% to non-utility. This reduction was mainly due to the 2014 sale of Ecova.

A. No. At pages 23 and 24 of Staff witness Mr. Ball's direct testimony, Exhibit No. ___(JLB-1T), he proposed an adjustment to eliminate the total effect of the Company's Pro Forma Insurance Expense adjustment, keeping the insurance expense at the Company's 2014 test year level of expense. The net effect of Staff's adjustment is an increase to Washington electric and natural gas net operating income by $168,000 and $50,000, respectively, which reduces the revenue requirement by $272,000 for electric and $81,000 for natural gas.

At pages 40 through 42 of Public Counsel witness Ms. Ramas' direct testimony, Exhibit No. ___(DMR-1CT), Public Counsel proposed an adjustment to eliminate the total effect of the Company's Pro Forma Insurance Expense adjustment, keeping the insurance expense at the Company's 2014 test year level of expense, then reducing the Company's 2014 test year expense to remove 10% of the 2014 test year level of D&O insurance. The net effect of Public Counsel's adjustment is an increase to Washington electric and natural gas net operating income by $225,000 and $66,000, respectively, which reduces the revenue requirement by $328,000 for electric and $97,000 for natural gas.

Q. Please explain why you do not agree with Staffs and Public Counsel's adjustments.

A. Staff witness Mr. Ball states at page 24, line 3, Exhibit No. ___(JLB-1T):

> Staff analyzed insurance expense from 2009 through 2014 and found that the test year increase of 3.3 percent is in line with the average 4.6 percent increase since 2009.

Table No. 5 below shows the actual paid insurance premiums for 2013 through 2015. The actual increase of 4.6% from 2014 to 2015 is in line with the 4.6% historic annual average increase which Staff stated they calculated above. Table No. 5 below also shows the Company's increase for 2016 is only 3.6%, which is below the 4.6% historic annual average increase that the Company has been experiencing on a historical basis. Therefore, the Company's expected 2016 level of insurance expense is appropriate, and more conservative than using the historic annual average.

Table No. 5

Insurance Type	Actual Amount 12/31/2014	Actual (1) Amount 12/31/2015	% Change from 2014 to 2015	Estimated Amount 12/31/2016	% Change from 2015 to 2016
General Liability	$2,353,426	$2,563,472	8.9%	$2,691,645	5.0%
D & O	$1,155,778	$1,200,327	3.9%	$1,154,624	-3.8%
Property	$1,493,093	$1,469,191	-1.6%	$1,573,503	7.1%
Totals	**$5,002,297**	**$5,232,990**	**4.6%**	**$5,419,772**	**3.6%**

(1) Property policy premium for 2015 is actual through 12/1/15 ($1,338,837). The additional $130,354 is a one month prorated total based on the total projected premium of $1,469,191 for the 12 month policy period beginning 12/1/15.

Public Counsel also argues that insurance expense should be kept at the Company's 2014 test year level of expense, then reducing the Company's 2014 test year expense to remove 10% of the 2014 test year level of D&O insurance for the portion of insurance allocated to shareholders. Avista's 2016 proposed level of insurance expense already excludes 10% of D&O insurance related to shareholders. The remainder of Public Counsel's recommendation should be rejected for the same reasons explained above.

G. <u>Pro Forma Major Maintenance-Hydro, Thermal, Other (Electric)</u>

Q. What was the total maintenance expense included in the Company's Pro Forma Major Maintenance-Hydro, Thermal, Other adjustment?

A. The filed Pro Forma Major Maintenance-Hydro, Thermal, Other, adjustment includes the incremental increase in major maintenance expense planned for 2016 above that included in the 2014 test year period on the Company's hydro, thermal and other generating plants. Examples of major planned maintenance included the Rathdrum hot gas path maintenance planned on Unit #1, Noxon Rapids runner repair on Turbine Unit #5, Long Lake spillgate and Crescent Dam concrete repair, Kettle Falls Combustion Turbine fire system and controls upgrade, Boulder Park required 12,000 hour operation and maintenance, to name a few. The effect of this adjustment increased Washington electric maintenance expense by $2,415,209 in the Company's direct filing.

Q. Are there any updates to the filed Pro Forma Major Maintenance-Hydro Thermal, Other adjustment?

A. Yes. The Company included a correction to these numbers in response to Staff Data Request No. 44, removing operations expense inadvertently included in its original filing, resulting in a reduction to expense of $882,000. The Company also revised its 2016 non-major expense to reflect the updated production/transmission ratio to allocate these costs between Washington and Idaho. In addition, the Company has reduced major maintenance expense to remove the "Hours-Based" Rathdrum hot gas path and Boulder Park overhauls. As discussed by Mr. Norwood and Ms. Andrews, the Company on rebuttal, is proposing to defer these "Hours-Based" projects in 2016, and amortize these over a four-year period beginning January 1, 2017. The net effect of the above reductions to expense reduces maintenance expense by $1,457,629.

Q. Do you agree with Staff's proposed adjustments regarding the Company's Pro Forma Major Maintenance-Hydro Thermal, Other adjustment?

A. No. At pages 7 and 10 of Staff witness Mr. Ball's direct testimony, Exhibit No. ___(JLB-1T), Staff proposed an adjustment to eliminate the total effect of the Company's Pro

Forma Major Maintenance-Hydro Thermal, Other adjustment, to keep the expense at the 2014 test year level. The major maintenance identified above is planned for 2016, and this expense should be included at the revised 2016 expected level of expense as proposed by the Company.

H. Pro Forma Capital Additions (Electric & Natural Gas)

Q. The Commission Staff, Public Counsel and ICNU rejected the Company's pro forma capital additions adjustment and each proposed different adjustments. Does the Company agree with the proposals of these parties?

A. No. Ms. Schuh specifically addresses the adjustments related to capital additions proposed by Staff, Public Counsel and ICNU and why their methods do not fairly state costs and rate base for 2016. The adjustments as proposed by Staff, which reduced the Company's electric revenue requirement by $23,786,000 and rate base by $128,036,000, and the Company's natural gas revenue requirement by $4,964,000 and rate base by $17,904,000, should be rejected. The adjustment proposed by Public Counsel, which reduced the Company's electric revenue requirement by $29,341,000 and rate base by $148,170,000, and the Company's natural gas revenue requirement by $5,303,000 and rate base by $25,806,000, should also be rejected. Likewise, the revenue requirement and rate base adjustments as proposed by ICNU, which reduced the Company's electric revenue requirement by $15,690,000 and rate base by $235,051,000, should also be rejected.

I. Electric Meter Regulatory Asset and Amortization Expense (Electric)

Q. What did the Company propose in its direct filed case regarding the existing electric meters that will be replaced with the deployment of Advanced Metering Infrastructure, and please explain Avista's revised proposal on rebuttal?

A. As discussed in the Company's direct filed case,[18] prior to the installation of the new Advanced Metering Infrastructure (AMI) meter replacement project, the Company will have approximately $20.2 million on its books related to the net book value of its existing electric distribution meters. The Company had proposed to transfer the net book value of the existing meters from electric distribution plant to a regulatory asset for regulatory purposes, effective January 1, 2016, and amortize the asset balance over a ten-year period starting in January of 2016, or approximately $2.0 million in amortization expense per year.

As discussed by Mr. Norwood, in response to Staff and intervenor testimony the Company is proposing on rebuttal to agree to not include new plant investment or new operating expenses related to AMI in the 2016 rate year, and delay the beginning of the amortization of the regulatory asset balance from January 2016 to January 2017. These adjustments to the electric Pro Forma Cross Check Study reduce the Company's rebuttal electric revenue requirement by $4.199 million.

J. <u>O&M Offsets (Electric & Natural Gas)</u>

Q. Please describe the Company's O&M Offset adjustment.

A. The Company reviewed the 2015 and 2016 capital additions to identify any O&M offsets or O&M expense increases that are expected to occur in those years. Specific expenses and savings identified were included as an increase or reduction to O&M cost in the adjustment. The effect of this adjustment on Washington net operating income was an increase of $127,000 for electric operations and $51,000 for natural gas operations.

[18] Exhibit No. _(KKS-1T), page 27, line 12.

Q. Did any parties propose modifications to the Company's O&M Offset adjustment?

A. Yes, both Staff and Public Counsel proposed modifications to the Company's O&M Offset adjustment. In Exhibit No.___(CSH-1T) beginning on page 29, Staff witness Mr. Hancock provided testimony related to their proposed modification. Public Counsel's proposed modification to the adjustment is found in Exhibit No.___(DMR-1CT), beginning on page 71.

Q. Please describe the proposed modifications made by Public Counsel and Staff.

A. Public Counsel proposed that the majority of the post-test year additions to capital be removed and thus, the associated O&M offsets should also be removed (Exhibit No._DMR-1CT, page 72, lines 16-17.) The impact of this modification increases the Company's revenue requirement by $205,000 electric and $82,000 natural gas.

Staff's proposed modification has three components. First, Staff removed the estimated O&M offsets for 2016. Second, Staff updated the adjustment to reflect the comments in Exhibit No.___(KKS-5) which identified additional O&M offsets that were discovered by the Company after the revenue requirement had been determined. Third, Staff included the additional O&M offsets dollars, related to Avista's Wood Pole business case, that the Company had identified in its response to Staff Data Request No. 182. The Company agrees with the additional O&M offsets identified after the Company filed its direct case, as well as the offsets identified in Staff Date Request No. 182. The total effect on Washington net operating income from these updates is an increase to Washington electric of $60,000 and a decrease to Washington natural gas of $1,000.

Q. Why do you not agree with Staff's proposed removal of O&M offsets that occur in 2016?

A. The Company has explained in Ms. Schuh's testimony the level of capital additions expected to be added to plant in 2016. As noted earlier, the purpose of the Cross Check Study is to provide a second "cross check" analysis to compare with the attrition analysis, and, as such, should include all planned capital additions. The Company believes it has provided adequate documentation to support these additions, and thus the offsets derived from those additions should not be removed.

Q. Do you agree with Public Counsel's modification to the O&M Offset adjustment?

A. No. Although it is consistent with Public Counsel's removal of rate year capital additions, the Company disagrees with the removal of the capital items. Because the O&M Offsets are derived from the projects included in the capital adjustment, the O&M offset adjustment should not be removed.

K. Colstrip Refund Non-Recurring (Electric)

Q. Please explain the adjustment in column (4.06N), Colstrip Refund Non-Recurring, shown on page 6 of Exhibit No. ___(JSS-6).

A. As discussed in, Ms. Andrews' testimony, in its response to ICNU data request 180C – Revised, when reviewing the changes from 2014 to 2016, Avista discovered it failed to remove a non-recurring (one-time) Colstrip Settlement Refund of $1.278 million credited to expense in 2014. Washington's portion of this refund totaled $1.074 million. The increase in the cross check revenue requirement associated with this adjustment totals $1.126 million.

L. <u>Reconcile Pro Forma to Attrition (Electric & Natural Gas)</u>

Q. Please explain the purpose of the Reconcile Pro Forma to Attrition adjustment.

A. The Reconcile Pro Forma To Attrition adjustment represents the difference between the Pro Forma Cross Check Study and the Attrition Study. In the Company's direct filed case, this adjustment recorded the increase in expense of $707,000 electric and $552,000 natural gas, and decreases to net rate base of $5,535,000 and $7,915,000, respectively, necessary to equate with the total level of attrition deficiency as determined by the Company's Attrition Study sponsored by Ms. Andrews.[19]

Q. What is the Company's revised "Reconcile Pro Forma to Attrition adjustment" in the Company's rebuttal filing?

A. The revised adjustment records an increase in expense of $4,123,000 electric and $1,072,000 natural gas, and decreases electric net rate base by $10,905,000 and increases natural gas net rate base by $12,591,000 necessary to equate with the total level of attrition deficiency as determined by the Company's revised Attrition Studies sponsored by Ms. Andrews.

IV. ADDITIONAL STAFF AND INTERVENOR ADJUSTMENTS REJECTED BY AVISTA

Q. Staff, Public Counsel, and other intervenors proposed several other adjustments. Please identify each of these adjustments and explain why Avista is rejecting their proposals.

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[19] The Pro Forma Cross Check revenue requirement is reconciled to the Attrition Study revenue requirement in order to establish revenue, expenses and rate base numbers that can be used as inputs to the Company's cost of service study prepared by Ms. Knox.

A. Exhibit No.___(JSS-7) summarizes Avista's cross check proposal on rebuttal compared with Staff, Public Counsel, and ICNU. Section IV, page 1 for electric and page 2 for natural gas, show the additional adjustments proposed by the parties. Each of these adjustments, which are rejected by Avista, are identified below and then described in detail.

Additional Staff & Intervenor Proposed Adjustments Rejected by Avista	
A	Long Term Incentive Plan
B	Corporate Aircraft
C	Pro Forma Labor - Non-Executive
D	Pro Forma Labor - Executive
E	Pro Forma Property Taxes
F	Pro Forma Information Technology Services
G	Project Compass Deferral, Regulatory Amortization

A. <u>Long Term Incentive Plan (Electric & Natural Gas)</u>

Q. Please describe the Long Term Incentive Plan and what portion is included in the Pro Forma Cross Check Studies.

A. The executive Long Term Incentive Plan (LTIP) is comprised of two components, which serve two different purposes. Performance Shares account for 75% of the plan with metrics related to Cumulative Earnings-Per-Share (CEPS) and Total Shareholder Return (TSR). The purpose of this portion of the plan is to provide a direct link to the long-term interests of shareholders, by assuring that performance shares will be paid only if the Company attains specific financial performance levels. This portion of the plan was excluded from the Company's filing with the costs paid for by shareholders.

Restricted Stock Unit awards (RSU) account for 25% of the LTIP and vest based on continued service. The purpose of this portion of the plan is to provide an incentive for executives and other key employees to remain employed by the Company. This portion of the plan is included in the Company's Pro Forma Cross Check Studies for approximately $325,000 electric ($341,000 revenue requirement) and $97,000 natural gas ($102,000 revenue requirement).

Q. Staff, Public Counsel and ICNU oppose the recovery of costs associated with Restricted Stock Units. What is your response to this testimony?

A. Restricted Stock Unit awards provide an incentive for employees to remain employed by the Company, because the award does not vest unless the employee remains employed by the Company at the end of the three-year period. This component of compensation is part of the overall compensation package to remain competitive in the market place. It does not represent compensation over and above the amount necessary to remain competitive. Customers benefit from long-term leadership who have a vested interest in the efficient operation of the Company and high customer satisfaction. The long-term nature of large-scale transmission, generation and distribution projects spanning multiple years are completed more efficiently with experienced, consistent leadership.

The fact the Company has not included RSU awards in previous rate cases does not preclude the inclusion in the current year's filing. As with all other components of compensation, the Company has been reviewing expenses to ensure appropriate utility/non-utility allocation. The RSU's are no exception to this review. In the process of such review, the Company determined it was appropriate to include the RSU portion of the LTIP expense in a utility operations account, because it is not based on a financial performance standard, is a key retention tool, and is therefore appropriate to be recovered from customers.

Restricted Stock Units provide a vehicle for the employee to maintain ownership in the Company. While the value is tied to the stock price at the time the award settles, the award itself is granted on time vesting only and is not specific to any performance criteria. The incentive is to remain employed by the Company in order to receive this portion of compensation. Participation in the LTIP is a *continuous* cycle, such that each year the participant remains employed additional RSUs are granted, providing the incentive to remain employed year after year. The incentive does not go away after three years as suggested by Staff.

The amount of RSU awards included in the Company's Pro Forma Cross Check Studies is based on the value of Restricted Share Units (RSU) in accordance with Financial Accounting Standards Board Statement 123 (SFAS 123), with valuation at the market price on the grant date and expense recognition over the three-year vesting period. To clarify, this is an award of a Restricted Stock Unit and not a dividend. ICNU witness Mr. Mullins states, "the very nature of a dividend is a return of shareholder capital."[20] RSUs are not a dividend.

The Performance Shares portion of the LTIP, however, does provide a direct link to shareholder value, and the trigger is related to financial performance levels. For this reason, the Company has excluded the Performance Share portion of the LTIP from the Pro Forma Cross Check Studies, and all costs associated with this portion are borne by shareholders.

[20] Exhibit No.___(BGM-1CT) page 39, lines 5-6

B. Corporate Aircraft (Electric)

Q. ICNU proposed to remove $744,000 from the Washington electric revenue requirement related to the company aircraft.[21] What is Avista's response to this testimony?

A. ICNU has disregarded other avoided costs by utilizing the Company Aircraft. First, ICNU's analysis only includes the cost of commercial airfare. This fails to consider the working hours lost by employees flying commercial, reimbursements for meals, hotels for overnight stay, additional drive time and additional airport time.

Second, many of the destinations traveled to by the Company do not have commercial airports and the proposed adjustment fails to recognize the lost time incurred in traveling to these locations. In addition, many trips are subject to timing constraints that cannot be dealt with effectively by utilizing commercial airline schedules, or the meeting/hearing is of a critical nature.

Third, ICNU determines the average cost of a one-way flight to be based on travel to Seattle (Olympia), Portland (Salem), and Boise. These account for only 5 of the 33 destinations traveled to by the Company. In addition, the Company had 124 flight legs during the test year. Of that total, only 61 legs were to Seattle, Olympia, Portland, Salem or Boise. The Company recognizes that ICNU attempted to apply a risk adjustment to account for travel outside the

[21] Testimony related to this adjustment is located in Exhibit No.___(BGM-1CT) and identifies the modification on pages 5-6 and adds additional detail beginning on page 40.

region, however, the 100% gross up factor was 1) applied to an unrealistic $79 per flight figure, and 2) was an arbitrary assumption of travel costs to destinations outside our region.

Q. How does the Company determine the use of the Company plane?

A. Each flight undergoes a cost analysis, which compares the cost of traveling on commercial airlines to the direct (variable) costs associated with corporate aircraft use. These costs include airfare plus any meals, hotels, ground transportation, work time lost due to airline schedules, check-ins, ticketing, security, boarding and drive time. The results of this analysis are compared to the direct cost of using the corporate aircraft, and if it is the most cost effective option, the plane is reserved, subject to Executive approval. In certain cases, use of the aircraft is based on other factors such as situations where the trip is to a city with little or no airline service, timing issues cannot be dealt with effectively with commercial schedules, the scheduling commitments and workload of passengers, or the meeting/hearing is of a critical nature.

Q. Should the Commission accept ICNU's proposed modifications to the expenses included in the test period related to the company aircraft?

A. No. ICNU's analysis fails to include the avoided costs that the Company would experience had it utilized commercial forms of travel. In addition, ICNU has understated the cost of commercial airfare by only including in their analysis regional flight costs which account for only half of the travel during the test period.

C. <u>Pro Forma Labor Non-Executive (Electric & Natural Gas)</u>

Q. Please describe the labor adjustments proposed by the Company in its direct filed case regarding Non-Executive Labor?

A. For <u>non-union</u> employees, test period wages and salaries are restated to include the March 2014 overall actual increase of 3.0%, on an annualized basis, the March 2015 overall increase of 3.0% and 10 months of the approved March 2016 increase of 3%.[22] For union employees, test period wages are restated to include contract increases for 2014 (effective March 26, 2014) and 2015 for 3% each year, and a planned increase of 3% for 2016. In addition, the Company made an adjustment to reclassify a portion of the capital labor expenses related to the employees who previously worked on the Compass project to O&M expense accounts.[23] With the completion of the project, certain employees have returned to their previous positions and resumed charging O & M accounts.

In total, the Company's adjustment for non-executive labor is approximately $3,850,000 electric (revenue requirement $4,037,000), and $1,153,000 natural gas (revenue requirement $1,209,000)

Q. Staff, Public Counsel and ICNU propose that the 2016 increase be rejected, and ICNU proposes that the 2015 increase also be rejected. What is the Company's response to these proposals?

A. With the exception of 2016 union increases (the current contract expires on March 27, 2016), all increases are known and measureable based on either a union contract or approval by the Compensation Committee of the Board of Directors. Non-union wage increases for 2016 were approved in the May 7, 2015 Compensation and Organization Committee of the Board minutes.[24] The Commission has previously held that board approved union and non-union wage

[22] A minimum increase of 3% was approved by the Compensation Committee of the Board of Directors in May 2015. This information was provided in the Company's response to Staff_DR_156C Confidential Attachment A.
[23] Information supporting this adjustment was provided in my work papers.
[24] Provided in the Company's response to Staff_DR_156C Confidential Attachment A.

increases fulfill the "known and measurable" standard in WUTC rules. The Commission stated in Order 10, in Dockets UE-090134 and UG-090135, page 44, paragraph 105, that:

> *"Staff and Public Counsel generally agree that known and measurable company obligations, such as union wage increases resulting from collective bargaining agreements or non-union wage increases approved by the board of directors, are proper adjustments."*

Along the same lines as stated above, Staff witness Ms. LaRue stated in that Docket's hearing transcripts (TR. Vol. IX, p.685, ll. 5-11) that union and non-union wage increases approved by the board are obligations of the Company:

> ***Q. [Company]:*** *So the only non-executive wage expense that you've recognized as being an obligation, if you will, of the company is the union, the increases approved in the union collective bargaining agreement which has been approved by the board as well?*
>
> ***A. [Ms. LaRue]:*** *Correct, and the non-union increases that were approved by the board.*

Q. Public Counsel and ICNU propose to reject the Project Compass labor expense adjustment due to alleged lack of evidence and need for an FTE model. What is the Company's response to this testimony?

A. The Company typically does not pro-form in any additions to headcount from the test period in its labor adjustment. However, due to the number of employees that worked on Project Compass, and the fact we know employees returned to their previous positions, it is appropriate to include an adjustment to capture the costs associated with the reclassification of the employees from capital to O&M. At the conclusion of the project, most of the employees returned to their normal utility roles and resumed charging O&M expense. The Company's adjustment reflects a return to a more normal method of operation, and is therefore appropriate to include as an adjustment to test period expenses.

D. <u>Pro Forma Labor – Executive (Electric & Natural Gas)</u>

Q. Please describe the labor adjustments proposed by the Company in its direct filed case regarding Executive Labor?

A. The Company's Pro Forma Labor Executive adjustment annualized the 2014 actual level of allocated executive officer salaries (effective March 2014) and updated the utility and non-utility allocation percentages planned for 2016. No additional increase in executive salaries was included. The net result of these changes increased executive compensation expense approximately $220,000 ($231,000 revenue requirement) electric and $50,000 natural gas ($52,000 revenue requirement) from that included in the Company's historical test period.

Q. Staff witness Mr. Ball recommends a change in labor allocation between utility and non-utility from the 89% utility/11% non-utility, to 87% utility/13% non-utility. What is Avista's response to this testimony?

A. The basis for Staff's adjustment (the 12 months ended September 2014 time period) is not representative of the 2016 rate period. As noted in the Company's responses to PC_DR_006 and ICNU_DR_211, the Company sold its largest subsidiary (ECOVA) and acquired Alaska Energy and Resources Company (AERC) and its subsidiary Alaska Electric Light & Power (AEL&P) in 2014. The complex nature of these transactions required additional time and oversight by the Company's executives, which resulted in a higher level of their salaries being allocated to non-utility operations during 2014. This level of oversight will not be required in the rate year, and therefore, the Company's proposed allocation, based on the informed judgment of each executive officer is appropriate.

Q. ICNU proposes an individual salary cap of $325,000 for all executive officers based on an analysis of executives at public utility districts in the Pacific Northwest. Do you agree with ICNU's Recommendation?

A. No, I do not. Public Utility Districts are traditionally electric-only and typically operate in one jurisdiction, and often only one County. Avista, by contrast, is a vertically integrated utility, that owns and operates not only an electric distribution system like our consumer-owned counterparts, but also owns and operates extensive generation and transmission facilities, all of which are used to serve customers in its multiple service areas in Washington, Idaho and Montana. Avista must manage and optimize its generation assets daily, keep existing assets operational and licensed for our customers, and develop future resources to meet needs. Avista also serves approximately 325,000 natural gas customers in Washington, Idaho and Oregon.

In addition, as management of a publicly traded investor-owned utility, the Company's officers have responsibilities to a broader constituency than our consumer-owned counterparts. Publicly-traded companies such as Avista answer not only to customers, but also to a broader investment community, including shareholders, as well as multiple state and federal regulatory agencies. This requires management to have knowledge of reporting and compliance requirements of multiple jurisdictions (FERC, SEC, UTC, etc.) and multiple services (electric and natural gas), as well as increased accounting and other financial reporting requirements.

In order to attract and retain the executive officers who have the requisite experience and knowledge in this very complex industry, the Company offers an overall compensation package including base salaries, performance-based award programs and benefits that are competitive in the marketplace as benchmarked against other similar-sized companies in regional and national markets. The Compensation Committee of the Board of Directors works with an independent compensation consultant to conduct an annual competitive review of total compensation. The following key factors must be considered in peer group selection criteria:

1. Relative Peer Company Scope – Revenue and Market Capitalization
2. Industry Focus and Operational Focus
3. Organizational Structure
4. Statistical Valid Sample
5. Compensation Committee Selection approval

The peer group compiled by Mr. Mullins consists of entities that do not meet many of the criteria listed above. For instance, Snohomish PUD, with annual revenues of $682 million does not fall within a typical benchmarking standard of $1.0-$3.0 billion in annual revenues. In addition, as noted previously, Public Utility Districts do not fall within the same organizational structure.

Finally, it is also important to note that peer group benchmarking is only one of many factors taken into consideration in the development of an overall compensation package. Individual and Company performance goals, succession planning, job complexity, experience and breadth of knowledge must also be considered in the development of an overall pay structure. Developing an overall structure and sufficiently monitoring and evaluating goals is a very difficult, complex and dynamic process. It is not always a process based on a scientific step-by-step approach, but often is attributed to factors, which cannot directly be quantified, such as the value inherent in the "investment" in an executive who has been with the Company for a long period of time, or the value in preserving company culture by promoting from within. The Compensation Committee of the Board of Directors is charged with making these difficult decisions in an independent capacity. Simply taking one factor – benchmarking base salary – does not take into consideration the complexity inherent in the overall process.

E. Pro Forma Property Taxes (Electric & Natural Gas)

Q. What did the Company propose in its direct filing related to Pro Forma Property Tax?

A. The Company included in its Pro Forma Cross Check Studies the 2016 level of tax. The Pro Forma Property Tax adjustment restates the 2014 level of property tax expense to 2016 levels. The property on which the tax is calculated is the property value as of December 31, 2015 reflecting the 2016 level of expense the Company will experience during the rate period. For determining future levy rates, an escalation factor of 2% is applied to existing average levy rates. The escalation factor was derived based on the Company's estimates of overall increases to individual county tax rates.

Q. How did the Company use the escalation factor in its Pro Forma Property Tax Adjustment?

A. The escalation factor was multiplied by the existing average levy rate to determine the estimated increase in the tax rate applicable to 2015 property values. The same process was used to determine the 2016 average levy rates.

Q. Both Public Counsel and ICNU proposed modifications to the filed Pro Forma Property Tax Adjustment.[25] Do you agree with their proposed adjustments?

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[25] In Exhibit No._(DMR-1CT) beginning on page 42, Public Counsel provided testimony for their modification. ICNU provided their proposed modification to the adjustment in Exhibit No._(BGM-1CT) beginning on page 29.

A. No. Mr. Mullins proposed to remove the 2016 level of property tax expenses, which are based on the December 2015 plant values. As stated on page 30 of Exhibit No.___(BGM-1CT), Mr. Mullins adjusted pro forma property tax to make it "consistent with the ultimate level of capital approved by the Commission in this proceeding, as well as calculating it over the rate base period used in this proceeding." Like ICNU, Public Counsel also removed the 2016 level of property tax expenses but in addition removed the escalation factor used by the Company to estimate future average levy rates.

As explained in my direct testimony (JSS-1T), Page 31, the property on which the tax is calculated is the property value as of December 31, 2015, reflecting the 2016 level of expense the Company will experience during the rate period. These are costs that the Company will occur in the rate effective period and are appropriate to include in the Cross Check Study.

Q. Do you agree with Public Counsel's removal of the escalation factor used by the Company in determining estimated future levy rates?

A. No. From 2009 to 2013, the average levy rate increased 3.8% in 2009, 6.3% in 2010, 2.1% in 2011, 2.5% in 2012 and decreased -0.94% in 2013. This demonstrates an increase overtime in average levy rates as shown in Table No. 6 below.

<u>Table No. 6</u>

Year	State Average Levy (WA) (1)	Rate Increase / (Decrease)	Percentage Increase / (Decrease)
2008	0.0221180	-	-
2009	0.0229600	0.0008420	3.8%
2010	0.0244120	0.0014520	6.3%
2011	0.0249190	0.0005070	2.1%
2012	0.0255420	0.0006230	2.5%
2013	0.0253010	(0.0002410)	-0.9%

(1) Electric and Natural Gas

F. <u>Pro Forma Information Technology/Services (Electric & Natural Gas)</u>

Q. Please describe the Pro Forma Information Technology/Services adjustment proposed by the Company in its direct filed case?

A. The Pro Forma Information Technology/Services adjustment, adjusts the 2014 test year expense to the expected 2016 level of expense including the incremental costs associated with software development, application licenses, maintenance fees, and technical support for a range of information services programs. As discussed by Company witness Mr. Kensok's direct testimony, these incremental expenditures are necessary to support Company cyber and general security, emergency operations readiness, electric and natural gas facilities and operations support, and customer services. The effect of this adjustment decreased Washington net operating income by $1,091,000 electric and $268,000 natural gas, which is an increase to the Company filed revenue requirement of $1,760,000 and $432,000, respectively.

Q. At pages 24 and 27 of Staff witness Mr. Ball's direct testimony, Exhibit No. ___(JLB-1T), Staff proposed an adjustment to reduce the expected 2016 level expense for those expenses they believe were not supported by contracts. At pages 45 through 47 of Public Counsel witness Ms. Ramas' direct testimony, Exhibit No.___(DMR-1CT), Public Counsel proposed an adjustment to eliminate the total effect of the Company's Pro Forma Technology/Services adjustment, keeping this expense at the Company's 2014 test year level of expense. Do you agree with the adjustments proposed by either Staff or Public Counsel?

A. No. At the time of the Company's filing, these Information Technology and Services costs had been determined to be expenditures that the Company would start to incur sometime during 2015, and were expected to continue at the annualized level during the rate period (2016) forward, as most of these expenses are ongoing expenses necessary to maintain systems. During the discovery process, the Company provided various additional contracts to support the expected 2016 level of expense.[26]

G. <u>Project Compass Deferral, Regulatory Amortization (Natural Gas)</u>

Q. What was the total expense included in the Company's Project Compass Deferral adjustment?

A. The filed Project Compass Deferral includes the amortization expense associated with a proposed two-year amortization of the deferred natural gas cross check revenue requirement amount associated with the Company's Project Compass Customer Information System (CIS) for calendar year 2015. The effect of this adjustment decreases Washington natural gas net operating income by $743,000, which increases revenue requirement by $1,198,000.

Q. Staff proposed an adjustment regarding the Company's Project Compass Deferral adjustment. Could you please explain?

A. Yes. At pages 28 and 29 of Staff witness Mr. Hancock's direct testimony, Exhibit No. ___ (CSH-1T), Staff accepts the Company's proposed adjustment with a reduction to the natural gas revenue of $208,000 from the Company's direct filed Cross Check Study, in order to reduce the deferral to reflect the overall reduction to Project Compass as discussed by Staff witness, Mr. Gomez.[27]

[26] This information was provided in the Company's response to Staff Data Request No. 180 Confidential.
[27] Exhibit No. ___ (DCG-1T), pages 44-48.

Q. Does the Company agree with this proposed adjustment?

A. No, it does not. Company witness Mr. Kensok provides rebuttal testimony to the testimony of Mr. Gomez, and supports full recovery of the Company's investment in Project Compass.

Q. Does this conclude your rebuttal testimony?

A. Yes.