AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	WASHINGTON	DATE PREPARED:	04/18/2016
CASE NO:	UE-160228 & UG-160229	WITNESS:	Elizabeth Andrews
REQUESTER:	ICNU	RESPONDER:	Liz Andrews
TYPE:	Data Request	DEPT:	State & Federal Regulation
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REQUEST:
Refer to 32:3-36:1. Please provide a narrative response explaining how the Company's electric O&M escalation proposal differs from the methodology approved by the Commission in Order 05, ¶¶ 137-39.

RESPONSE:
The electric O&M escalation and methodology approved by the Commission in Order 05 in Docket No. UE-150204 was approved based on facts presented in that proceeding.

When discussing the use of attrition and escalation factors, the Commission noted at paragraph 113 "…an attrition study should use multiple years of historical data to arrive at a stable, non-volatile projection of revenue, expenses and rate base."

At paragraph 115 of Order 05 the Commission noted it may vary its determination "depending on the specific factual circumstances":

> The use of escalation factors from attrition studies to set rates is also a matter of informed judgment. Here, we accept Staff's use of a weighted average escalation factor for O&M expense. It is supported with sound reasoning, as it recognizes and reflects recent reductions in O&M expense. However, as described below, we decline to use the recommended 3 percent escalation rate. We do not reject this escalation rate out of hand, but find the Company and Staff do not present sufficient evidence to support their recommendation to modify the result of their studies.[1][170] <u>The Commission has accepted the modification of escalation rates derived from attrition studies in the past, and may do so again in the future depending on the specific factual circumstances and recognizing that the Company carries the burden to make its case.</u> (emphasis added)

Based on the facts of this case and the guidance in Order 05 from the Commission on "what is the appropriate methodology for an attrition study," the Company has used actual historical data for the period 2007 through September 2015 consistently for all cost categories (Net Plant After Deferred Income Tax; Total Depreciation/Amortization; Taxes Other Than Income; and O&M/A&G) to determine the appropriate growth trends.

As explained within Ms. Andrews' testimony starting at page 31, line 3 of Exhibit No. _(EMA-1T), in determining the data used for a trend analysis for the purpose of an attrition study, it is important the data should reflect, as closely as possible, the Company's recent and planned expenditures. In reviewing the appropriate O&M growth trend, Avista looked at both its historical trend and changes in O&M expenses, as well as that expected during the specified rate

[1] *Id.* at 484:14 – 485:11.

periods. For the impact of changes in expenses over time both historically and into the 2017 and January to June 2018 rate periods, see Avista's response to ICNU_DR_017.

As shown within Exhibit Nos. _(EMA-2) (electric) and _(EMA-3) (natural gas), page 12, the O&M annual growth escalation trend proposed by the Company in its electric and natural gas Attrition Studies (using 2007-2015 CBR data) is 4% and 2.28%, respectively. For comparison purposes, the following table shows the weighted average results between the electric and natural gas operations, given that electric operations represent approximately 81% and natural gas operations represent approximately 19%, of the Company's total operations[2]. Avista's proposed O&M annual increase of 4.0% for electric and 2.28% for natural gas results in an overall weighted average of 3.67% as shown below.

Weighted Average Annual O&M Increase			
Electric	**4.00%**	81%	3.22%
Natural Gas	**2.28%**	19%	0.44%
Weighted Average			**3.67%**

This 3.67% growth rate is less than the financial forecast of 4.36% annually between 2015 and 2017, and shows that the proposed 4.00% electric and 2.28% natural gas growth rates included in the Company's Attrition Models are reasonable, and if anything, understated.

Further, given the one-way Earnings Tests in place related to the Decoupling Mechanism, it is very important to establish the correct O&M escalation growth factors for each service as Avista is subject to separate one-way earnings tests for each of its Washington electric and natural gas operations. If Avista over-earns, for example, in its natural gas operations because a higher O&M escalation growth factor is used, it would be required to return half of its overearnings, protecting customers. However, if Avista under-earns in its electric operations, as a result of a low O&M escalation growth factor being used, there is no protection for the Company under these circumstances; Avista simply would not have the opportunity to earn its authorized rate of return.

[2] 81% electric / 19% natural gas split based on current Results of Operations Utility Four Factor Allocation analysis for electric and natural gas factor "direct non-labor O&M and A&G".