

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-150204

DOCKET NO. UG-150205

EXHIBIT NO. \_\_\_\_ (EMA-8)

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REPRESENTING AVISTA CORPORATION

1                    **Explanation of Electric and Natural Gas Attrition Models**

2            **Q.    Please describe the Company’s proposed electric and natural gas**  
3 **Attrition models as provided in Exhibit Nos. \_\_ (EMA-6) and \_\_ (EMA-7).**

4            A.    As discussed in my rebuttal testimony, Avista began with Washington UTC  
5 Staff’s electric and natural gas Attrition Studies provided as Exhibit Nos. \_\_ (CRM-2) and  
6 \_\_ (CRM-3). The results of Avista’s Attrition Studies, after correcting staff errors, including  
7 updated information and adjustments, as well as adjusting for certain modifications to Staff  
8 proposed attrition methodology (i.e. using 2007-2014 data versus Staff’s use of 2009-2014  
9 data, including total Project Compass transfer to plant costs, rather than Staff’s reduced  
10 balances, as well as using an alternate average for the O&M escalation factor) produces the  
11 electric and natural gas Attrition Study results as described below:

12            **Electric Attrition Study**

13            **Q.    Please explain what is shown on page 1 of the Electric Attrition Study**  
14 **provided as Exhibit No. \_\_\_\_ (EMA-6).**

15            A.    Exhibit No. \_\_\_\_ (EMA-6), page 1, shows the calculation of the electric  
16 general revenue requirement, based on the Company’s Washington electric Attrition Study  
17 analysis, to earn the 7.29% rate of return agreed-to by the Parties in the Partial Settlement  
18 filed with the Washington UTC on May 1, 2015. Page 1 shows the 2016 electric revenue  
19 requirement of \$3,639,000 (column (c))<sup>1</sup>.

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<sup>1</sup> The Company provided Avista’s twelve-months-ended December 31, 2014 electric and natural gas Commission Basis results and associated workpapers to the parties in response to Staff Data Request 130.

1 Column (a) of page 1, labeled **Attrition Balances**, shows the electric Attrition Net  
2 Operating Income and Attrition Rate Base balances, from page 5 of Exhibit No. \_\_\_\_ (EMA-  
3 6), column [K], lines 31 and 49.

4 Column (b) of page 1, labeled **Revenue Growth Factor**, shows the revenue growth  
5 factor of 1.013115, as reflected from page 5 of Exhibit No. \_\_\_\_ (EMA-6), column [K], line  
6 55. In the case of retail revenue, my Attrition Study uses the Company's forecast of loads  
7 and customers for 2016 to determine revenue in 2016. Since the rate increase in this  
8 proceeding will be applied to the twelve-months-ending September 30, 2014 test period  
9 billing determinants<sup>2</sup>, I have divided my rate year attrition-adjusted revenue requirement by  
10 the revenue growth factor to reflect the amount needed to be recovered from the test period  
11 level of retail loads and customers. This is shown on page 5, line 54 to 56 of Exhibit No.  
12 \_\_ (EMA-6).

13 Column (c), labeled **Attrition Adjusted Balances and 2016 Revenue**  
14 **Requirement**, shows the calculation and final result of the \$3,639,000 revenue requirement  
15 at the agreed-to 7.29% rate of return. The revenue requirement is based on the electric  
16 Attrition Study "Attrition Rate Base" and "Attrition Net Operating Income" balances in  
17 column (a) adjusted for the revenue growth factor from column (b). The resulting  
18 percentage revenue increase above 2015 total revenues is 0.73%.

19 **Q. Would you please explain page 2 of Exhibit No. \_\_\_\_ (EMA-6)?**

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<sup>2</sup> This is true even though the Attrition Study is based on results using December 31, 2014 Commission Basis Reports. The rate spread and rate design agreed to by the Parties in the Partial Settlement was based on the twelve months ended September 2014 Billing Determinants included with the Company's direct filing. Similarly, the pro forma power supply agreed to by the Parties in the Partial Settlement, subject to update, was based on twelve months ended September 2014 normalized loads.

1           A.     Yes. Page 2 shows the agreed-to Cost of Capital and Capital Structure per  
2 the Partial Settlement agreement resulting in the weighted average cost of capital of 7.29%.

3           **Q.     What does page 3 of Exhibit No. \_\_\_\_ (EMA-6) show?**

4           A.     Page 3 shows the derivation of the electric net-operating-income-to-gross-  
5 revenue conversion factor. The conversion factor takes into account uncollectible accounts  
6 receivable, Commission fees and Washington State excise taxes. Federal income taxes are  
7 reflected at 35%.

8           **Q.     Please summarize pages 4 through 13 of Exhibit No. \_\_\_\_ (EMA-6)?**

9           A.     Yes. Pages 4 and 5 provide Avista's 2016 electric attrition revenue  
10 requirement calculation; pages 6 and 7 provide electric cost and revenue trend data used for  
11 the period 2001-2014 per historical Commission Basis results of operations; page 8 provides  
12 summary data and adjustments to the historical data; 2007 through 2014 balances for each  
13 trend category used in the development of the escalation factors are shown on pages 9  
14 through 12; and the final page, page 13, shows the development of the electric weighted  
15 revenue growth rate from the September 2014 original test period to the 2016 rate period.

16           **Q.     Please describe in more detail what can be found on pages 4 and 5 of**  
17 **Exhibit No. \_\_\_\_ (EMA-6).**

18           A.     Pages 4 and 5 present the normalized income statement and rate base for  
19 Washington electric operations, with the full cost, revenue and rate base detail that is found  
20 in Avista's December 2014 CBR. This report also provides the final result of the  
21 Company's electric attrition adjusted revenue requirement proposed in this filing.

22           **Q.     What is shown in column [A] on pages 4 and 5?**

1           A.       The first column, labeled **[A] 12.2014 Commission Basis Report Restated**  
2 **Totals**, provides the results of the December 31, 2014 Commission Basis Report (CBR) that  
3 includes normalized cost and revenue data for Avista’s Washington electric operations for  
4 the period twelve-months-ended December 31, 2014. This column shows that on a CBR,  
5 normalized basis for this historical test period, the Company’s earned ROR for its  
6 Washington electric operations was 7.96%.

7           The next column, labeled **[B] 12.2014 Normalized Net Power Supply**, is subtracted  
8 from column [A], removing all CBR normalized energy related costs and revenues (*e.g.* fuel,  
9 purchased power, sales for resale revenues) from the December 31, 2014 CBR totals. Pro  
10 forma level net power supply costs are added back later, as discussed further below. This  
11 removal ensures that only non-energy costs are trended to the 2016 rate period.

12           The next column, labeled **[C] 12.2014 Deferred Debit/Credit & Regulatory**  
13 **Amortizations Adjustment**, is an addition to column [A] and includes various adjustments  
14 to regulatory deferred debit and credit rate base balances and regulatory amortizations as  
15 follows:

16           a) The regulatory deferred debits and credits rate base balance was reduced to  
17 reflect the asset balance expected in 2016, resulting in a reduction to rate base  
18 of \$6.25 million<sup>3</sup>.

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<sup>3</sup> Ms. Smith discusses further in her testimony this reduction in rate base at Exhibit No.\_\_(JSS-1T), pages 8-11, which reduces the following deferred debit asset balances to their appropriate 2016 level: Settlement Exchange Power; Restating CDA Settlement Deferral; Restating CDA/SRR (Spokane River Relicensing) CDR Deferral; Restating Spokane River Deferral; Restating Spokane River PM&E Deferral; Restating Montana Riverbed Lease; and Restating Lancaster Amortization.

1           b) Regulatory amortization expense was reduced by \$3.7 million to remove  
2           expiring regulatory amortization expenses relating to various deferral  
3           amortizations<sup>4</sup>.

4           c) Adding to regulatory amortization expense is an adjustment to reflect the  
5           Lake Spokane Deferral amortization (reflecting the three-year amortization  
6           expense, or an increase of \$291,000, of the deferred costs related to  
7           improving dissolved oxygen levels in Lake Spokane, approved in Docket No.  
8           UE-140188<sup>5</sup>).

9           The net impact of these regulatory adjustments is a net reduction of \$3.4 million in  
10          amortization expense and a net reduction in regulatory rate base balances (or deferred debits  
11          and credits) of \$6.25 million. The resulting regulatory amortization and regulatory rate base  
12          balances as adjusted, represent the balances expected during the 2016 rate year, therefore, no  
13          escalation occurs for these balances as can be seen in column [C], page 4, row 10, and page  
14          5, row 47.

15           **Q.     Please continue with your explanation of pages 4 and 5 of Exhibit No.**  
16          **\_\_(EMA-6).**

17           A.     The next column, labeled **[D] Pro Forma Revenue Normalization**  
18          **Adjustment**, is an addition to column [A], adjusting December 2014 Commission Basis  
19          normalized retail revenue to the revenue produced by the twelve months ended September

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<sup>4</sup> Regulatory Amortizations expiring prior to the 2016 rate year include: Lancaster Deferral, 2011 Colstrip and Coyote Springs 2 Thermal Maintenance Expense Deferral, BPA Settlement Deferral, Canada to Northern California (CNC) Transmission Project Deferral, LiDAR O&M Expense Deferral and the Wartsila Generator (Small Gen) Expense Deferral. Ms. Smith discusses further in her testimony these amortizations at Exhibit No.\_\_(JSS-1T), pages 10, 22 and 23.

<sup>5</sup> Settlement Stipulation, Docket No. UE-140188, Section III. 8, page 5.

1 2014 billing determinants including Avista's 2015 electric revenue increase granted in its  
2 last general rate case, Docket No. UE-140188 as if it had been in place for the whole 12-  
3 month period. This adjustment, discussed further by Company witness Ms. Knox in the  
4 Company's direct filing, is necessary to include revenues at the 2015 approved base rate  
5 level. This adjustment allows the same rate design model from the Company's direct filing  
6 and the Partial Settlement to be used as the starting place for the revenue growth factor  
7 analysis.

8 The next column, **[E] December 2014 Escalation Base**, is the sum of the previous  
9 columns [A] through [D], providing the December 2014 escalation base costs and rate base  
10 excluding net energy costs. This escalation base provides the balances from which the  
11 escalation factors, discussed below, are applied to determine the 2016 final attrition revenue  
12 requirement.

13 **Q. Please now explain columns [F] through [H].**

14 A. The 2014 average-monthly-average (AMA) plant balances and related items  
15 such as depreciation and property taxes need to be escalated two years to determine the  
16 expected costs for AMA 2016 (i.e., from 2014 AMA to 2016 AMA). O&M also is escalated  
17 two years to determine the expected costs for calendar year 2016. Column **[F] Escalation**  
18 **Factor** shows the 2-year escalation rates for all categories (Net Plant After DFIT,  
19 Depreciation/Amortization, taxes other than income, O&M and other revenues). The  
20 determination of each of these factors is explained below.

21 The escalation factors are multiplied by the 2014 base amounts from column [E],  
22 producing column **[G] Non-Energy Cost Escalation Amount**.

1 Adding column [G], the non-energy cost escalation amount to column [E], the 2014  
2 base amounts, produces column **[H] Trended 2016 Non-Energy Cost**, which provides the  
3 2016 trended amounts, prior to including the impact of 2016 pro formed net power supply,  
4 2016 revenue growth and the proposed After Attrition Adjustments for the Colstrip Refund  
5 Correction and Project Compass.

6 **Q. Please continue your discussion, describing the final columns [I] through**  
7 **[M].**

8 A. Column **[I], 12.2014 Pro-Formed Net Energy Cost**, adds the energy costs  
9 and sales for resale revenue, per the Partial Settlement filed with the Washington UTC on  
10 May 1, 2015. These values reflect fuel prices and market conditions for the 2016 rate year,  
11 but do not include the costs associated with incremental load growth from the twelve months  
12 ended September 2014 historical test year to the 2016 rate year. The December 2014  
13 production/transmission ratio is used to determine the Washington share of these electric  
14 system costs.

15 The next column, **[J] Revenue Growth**, reflects Avista's revenue growth between  
16 the twelve months ended September 2014 test year and the 2016 rate year, by multiplying  
17 the retail revenue in column [E] times the weighted revenue growth **Escalation Factor** in  
18 column [F]. The weighted revenue growth escalation factor is determined on page 13 of  
19 Exhibit No. \_\_\_\_(EMA-6).

20 The incremental cost of power for the load change from the test year to 2016 was  
21 determined by re-running the pro forma power supply modeling process using 2016 loads.  
22 The Washington share of this result was compared to the Washington share of the pro forma



1 power supply with normalized test year loads. Column [J] includes the revenue growth as  
2 well as the resulting change to net power supply costs. Incremental revenue related expenses  
3 are computed on the incremental revenue using the components of the revenue conversion  
4 factor provided on page 3 of Exhibit No. \_\_\_\_(EMA-6).

5 The next column, **[K] Colstrip Refund Non-Reoccurring Correction**, reflects the  
6 removal of the one-time, non-reoccurring Colstrip lawsuit refund received in 2014 and  
7 credited to FERC account 506, (miscellaneous generating expenses). The refund was  
8 credited to FERC account 506 consistent with recording of the original expense (debit) for  
9 Washington's share of the cost. In order to reflect the proper amount of Colstrip O&M  
10 expense in the 2016 attrition rate year, the refund must be removed, increasing O&M above  
11 that shown in the 2014 "escalation base." This adjustment adds \$1.089 million to row 7  
12 "Operating Expenses" on page 4.

13 The next column, **[L] After Attrition Adjustment – Project Compass**, reflects  
14 Washington's electric share of the Company's Customer Information System (Project  
15 Compass) capital project costs placed into service on February 2, 2015, as proposed by Staff.  
16 As explained by Mr. McGuire at Exhibit No. \_\_\_\_(CRM-1T), starting at page 54, line 17, Staff  
17 recommends that Project Compass be accounted for outside of Staff's trending analysis. In  
18 particular, Mr. McGuire noted "I determined that this was appropriate because Project  
19 Compass appears to be an abnormality with respect to the Company's ongoing capital  
20 growth pattern." Avista agrees with this determination and thus includes this adjustment in  
21 its electric Attrition model; however, at the total (100%) Washington electric share amount  
22 rather than the reduced amount as proposed by Staff.

1 Adding columns [I], Pro-Formed Net Energy Cost, through [L], After Attrition  
2 Adjustment – Project Compass, to column [H], Trended 2016 Non-Energy Cost, produces  
3 the final column [M], 2016 Revenue and Cost. This column is the final column of the 2016  
4 electric Attrition Study calculation, providing the 2016 attrition net operating income  
5 (\$100,585,000) and attrition total rate base (\$1,411,125,000), at lines 31 and 49,  
6 respectively. These totals are brought forward to page 1, column (a), of Exhibit No.  
7 \_\_\_(EMA-6).

8 **Q. Would you please explain what is shown on lines 54 to 56 of page 5 of**  
9 **Exhibit No. \_\_\_(EMA-6)?**

10 A. Yes. **Line 54** on page 5 of Exhibit No. \_\_\_(EMA-6), shows the **Revenue**  
11 **Requirement** of \$3,687,000 necessary for the Company to earn the agreed-to 7.29% rate of  
12 return (ROR) in 2016, prior to the application of the growth factor.

13 **Line 55** on page 5, provides the **Revenue Growth Factor** of 1.013115. Since the  
14 rate increase in this proceeding will be applied to the twelve-months-ended September 30,  
15 2014 test period billing determinants, it is necessary to divide the 2016 rate year, attrition-  
16 adjusted revenue requirement by the revenue growth factor to reduce the revenue  
17 requirement to be applied to the test period level of retail loads and customers. The  
18 1.013115 is produced by dividing the sum of the retail revenues on lines 1 and 2 in column  
19 [M] by the sum of the retail revenues on lines 1 and 2 in column [E].

20 Dividing line 54 (2016 revenue requirement) by the electric revenue growth factor of  
21 1.013115, produces the amount shown on **line 56, Attrition Adjusted Revenue**  
22 **Requirement**, of \$3,639,000, used by the Company in this proceeding.

1           **Q.     Please explain pages 6 and 7 of Exhibit No. \_\_\_\_(EMA-6).**

2           A.     Pages 6 and 7 provide data from the annual normalized Commission Basis  
3 Reports, showing Washington electric expenses and rate base for the periods 2001 through  
4 2014. The 2007 through 2014 data are used to analyze the annual growth rates in rate base  
5 and expenses, and were used as the starting point for the growth rates used in the Attrition  
6 Adjustment.

7           **Q.     What is included on page 8 of Exhibit No. \_\_\_\_(EMA-6)?**

8           A.     Page 8 shows the development of electric adjusted data and balances for the  
9 period 2001-2014 used to calculate the growth rates and escalation factors on page 9 through  
10 12. The escalation factors are intended to be used only on non-energy costs. Therefore it is  
11 necessary to remove the energy-related costs and revenues from the historical data. The  
12 Washington share of the normalized power supply costs and revenues from each year's  
13 Commission Basis Report (CBR) filing are deducted from the O&M and Other Operating  
14 Revenue in the historical reports. Similarly, adder schedule revenues and related expenses  
15 such as the DSM Tariff Rider and the Residential Exchange Credit that were included in the  
16 CBRs are also deducted from the historical results to create equivalent values for our trend  
17 analysis. (For the years 2004 and 2006, and beginning in 2013, the CBR data already  
18 excluded DSM, residential exchange and other adder schedule revenue and expense  
19 adjustments, so additional adjustments were not required.)

20           Results are presented for the following aggregated subtotals: Adjusted Operating  
21 Expenses; Total Depreciation/Amortization; Adjusted Regulatory Amortization; Adjusted

1 Taxes Other Than Income Taxes; Net Plant After Deferred Income tax; Total Rate Base; and  
2 Adjusted Other Revenues. These are used in the trend calculations shown on pages 9-12.

3 **Q. Please explain pages 9 through 12 of Exhibit No. \_\_\_\_(EMA-6).**

4 A. Page 9 through 12 shows the calculation of the growth rate and 2-year  
5 escalation growth factors for each escalation category, using 2007 – 2014 data provided on  
6 page 8, based on rates of growth for certain cost categories using a “simple least-squares  
7 linear regression” across the years of data (2007-2014). (Staff used 2009-2014 data for its  
8 trended data.) The categories used and corresponding page showing the escalation  
9 calculations are as follows:

- 10 Page 9 – Net Plant after DFIT
- 11 Page 10 – Depreciation/amortization
- 12 Page 11 – Taxes Other than Income
- 13 Page 12 – Adjusted Operating Expenses
- 14

15 Each page 9 – 12, shows Avista’s calculation using 2007-2014 data. The bottom half  
16 of each page shows Staff’s original calculation proposed using 2009-2014 data for  
17 comparison purposes.

18 Page 12, Adjusted Operating Expenses, shows Avista’s calculated average escalation  
19 factor, which includes the average of 1) 2007-2014 data (excluding benefits) annual growth  
20 rate and two-year escalation, and 2) 2013-2014 data (excluding benefits) annual growth rate  
21 and two-year escalation. Page 12 also shows Staff’s calculated average escalation factor,  
22 which includes the average of 1) 2009-2014 data annual growth rate and 2) 3%, Avista’s  
23 original annual growth rate, escalated two-years.

24 **Q. Please explain the final page of Exhibit No. \_\_\_\_(EMA-6), page 13.**

1           A.     The final page of Exhibit No. \_\_\_\_(EMA-6), page 13, shows the calculation of  
2 the growth in Avista’s electric billing determinant index from September 2014 to 2016.  
3 Column [A] shows the billing determinants from the September 2014 revenue model  
4 supporting the Incremental Revenue Normalization Adjustment on pages 4 and 5, column  
5 [D], discussed previously. These same billing determinants from the 2016 revenue forecast  
6 are shown in column [B], then the percentage growth in the billing determinants from  
7 September 2014 to 2016 is calculated in column [C]. Column [D] shows the associated  
8 revenues from the September 2014 revenue model that were used to determine the weighting  
9 in column [E]. Finally, the weighted growth for each billing determinant is calculated in  
10 column [F] and the sum on line 19 is the 2016 escalation factor for retail revenue growth,  
11 showing 1.31%.

12     **Natural Gas Attrition Study**

13           **Q.     Before moving on to the Company’s Natural Gas Attrition Study as**  
14 **provided in Exhibit No. \_\_\_\_(EMA-7), are there similarities between the electric and**  
15 **natural gas studies?**

16           A.     Yes. The previous explanation of the exhibit pages and analysis for the  
17 electric Attrition Study are similar for the natural gas Attrition Study. I will describe briefly  
18 what can be found within Exhibit No. \_\_\_\_(EMA-7), and any differences between various  
19 exhibit pages and analysis.

20           **Q.     Please explain what is shown on page 1 of the Natural Gas Attrition**  
21 **Study provided as Exhibit No. \_\_\_\_\_(EMA-7).**

1           A.     Exhibit No. \_\_\_\_ (EMA-7), page 1, shows the calculation of the natural gas  
2 general revenue requirement, based on the Company's natural gas Attrition Study analysis,  
3 required to earn the agreed-to 7.29% ROR proposed by the Company for its State of  
4 Washington natural gas operations. Page 1 shows the 2016 natural gas revenue requirement  
5 of \$10,009,000 (column (c)).

6           Column (a) of page 1, labeled **Attrition Balances**, shows the natural gas Attrition  
7 Net Operating Income and Attrition Rate Base balances, from page 5 of Exhibit  
8 No. \_\_\_\_ (EMA-7), column [M], lines 31 and 47.

9           Column (b) of page 1, labeled **Revenue Growth Factor**, shows the revenue growth  
10 factor of 1.011566, from page 5 of Exhibit No. \_\_\_\_ (EMA-7), column [M], line 55. As  
11 explained in the electric Attrition Study discussion above, my Attrition Study uses the  
12 forecast of loads and customers for 2016 as adjusted by Staff<sup>6</sup> to determine the revenue in  
13 2016. I have divided my rate year, attrition-adjusted revenue requirement by the revenue  
14 growth factor to adjust the revenue requirement to be applied to the test period level of retail  
15 loads and customers.

16           Column (c), labeled **Attrition Study Results**, shows the calculation of the  
17 \$10,009,000 revenue requirement at the agreed-to 7.29% rate of return based on the natural  
18 gas Attrition Study "Attrition Rate Base" and "Attrition Net Operating Income" balances in  
19 column (a) adjusted for the revenue growth factor from column (b). The resulting  
20 percentage revenue increase above 2015 total general business revenues is 5.86%.

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<sup>6</sup> Commission Staff imputed higher loads for Schedule's 101, 111/112, and 121/122 than the Company's forecast. See natural gas revenue growth discussion.

1           **Q.     Would you please explain page 2 of Exhibit No. \_\_\_\_ (EMA-7)?**

2           A.     Yes. Page 2 shows the proposed Cost of Capital and Capital Structure  
3     agreed-to by the Parties per the Partial Settlement, providing a weighted average cost of  
4     capital of 7.29%.

5           **Q.     What does page 3 of Exhibit No. \_\_\_\_ (EMA-7) show?**

6           A.     Page 3 shows the derivation of the natural gas net-operating-income-to-gross-  
7     revenue conversion factor. The conversion factor takes into account uncollectible accounts  
8     receivable, Commission fees and Washington State excise taxes. Federal income taxes are  
9     reflected at 35%.

10          **Q.     Would you now please explain pages 4 through 13 of Exhibit**  
11 **No. \_\_\_\_ (EMA-7)?**

12          A.     Yes. Pages 4 and 5 provide Avista's 2016 natural gas attrition revenue  
13     requirement calculation; pages 6 and 7 provide natural gas cost and revenue trend data for  
14     the period 2001-2014 per historical Commission Basis results of operations; page 8 provides  
15     summary data used for the development of the escalation factors shown on page 9 through  
16     12; pages 9 through 12 presents the annual natural gas growth rate analysis, and includes the  
17     escalation factors used in the Attrition Study on pages 4 and 5; and the final page, page 13,  
18     shows development of the natural gas weighted growth rate for the retail revenue proposed  
19     by UTC Staff per Exhibit No. \_\_\_\_ (CRM-3) from the September 2014 to the 2016 rate

1 period.<sup>7</sup>

2 **Q. You stated before that the natural gas Attrition Study is very similar to**  
3 **the electric Attrition Study. Please point out any conceptual differences on pages 4**  
4 **through 13 of Exhibit No. \_\_\_\_(EMA-7) compared to the same pages of Exhibit**  
5 **No.\_\_(EMA-6).**

6 A. Gas costs are treated somewhat differently in the Company's natural gas rates  
7 compared to electric rates because of the Purchased Gas Adjustment (PGA) process. The  
8 cost of gas provided to natural gas customers is tracked through a deferral process, which  
9 means that, to the extent actual costs of gas are higher or lower than the amount included in  
10 customer revenue, the difference is set aside to be examined in the annual PGA filings,  
11 where updated gas costs are determined. The gas cost portion of rates is now entirely  
12 included in Schedule 150, which will not be changed as part of this general rate case, and  
13 there is no proposed change to gas costs through the Attrition Study.

14 Pages 4 and 5 include the **Regulatory Amortization Adjustment** in column **[B]**,  
15 **Pro Forma Revenue Normalization Adjustment** in column **[C]**, and the exclusion of  
16 **Normalized Gas Costs and Revenues** is in column **[D]**. The weighted revenue growth  
17 escalation factors on page 13 include PGA revenue, therefore in order to determine the

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<sup>7</sup> Avista's original filed weighted revenue growth percentages used for general business and transportation revenues on page 4 of Exhibit No. \_\_\_\_(EMA-3) was -0.24% and -.014%, respectively. The negative growth rates were mainly due to a reduction in sales volumes expected for Schedule 101 (General Services); and Schedules 146 (Transportation Services) and 148 (Special contracts). Staff has proposed an increase of 1.19% general business revenues. In its rebuttal natural gas Attrition Study Avista accepts the general business revenues. However, Avista included in its natural gas Attrition Study a correction to Staff's proposed revenue adjustment by including gas costs on the imputed load increase associated with the increased revenues excluded by Staff in error. The value of this correction was an increase to the natural gas Attrition Study revenue requirement of approximately \$1.4 million.



1 correct Revenue Growth in column [J] (pages 4 and 5), the gas cost related retail revenue  
2 was added back to the base before multiplying it by the **Escalation Factor** in column [F]<sup>8</sup>.  
3 Transportation revenue growth was treated as a separate category, resulting in two revenue  
4 growth escalation factors: one for sales and one for transportation. Otherwise, in all material  
5 respects, the process is the same as in the electric Attrition Study.

6 **Q. Please explain the Regulatory Amortization Adjustment included in**  
7 **column [B].**

8 A. Column [B] includes the regulatory amortization expense associated with the  
9 proposed two-year amortization of the deferred natural gas revenue requirement associated  
10 with the Company's Project Compass Customer Information System (CIS) for calendar year  
11 2015. The effect of this adjustment increases regulatory amortization expense by \$1.14  
12 million.<sup>9</sup> The resulting regulatory amortization represents the balance expected during the  
13 2016 rate year; therefore, no escalation occurs for this balance as can be seen in column [C],  
14 page 4, row 22.

15 After the Trended 2016 Non-energy Cost in column [H], are columns (similar to the  
16 electric Attrition Study), for Pro Formed Gas Costs and Revenues [I] and Revenue Growth  
17 [J]. Prior to the final 2016 Revenues and Cost column [M], are two additional, "After  
18 Attrition" columns: column [K] After Attrition Adjustment Project Compass (similar to the

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<sup>8</sup> Therefore, the revenue growth shown in column [J] includes the revenue associated with the cost of gas.

<sup>9</sup> As discussed by Ms. Smith in her direct testimony, Exhibit No. \_\_\_\_(JSS-1T), per the Settlement Stipulation in Docket No. UG-140189, Section III, paragraph 7, page 4-5, the Company was allowed to defer for recovery in a future proceeding the natural gas revenue requirement amount associated with the Project Compass Customer Information System for the calendar year 2015, based on the actual costs of the Project at the time the Project goes into service. The carrying charge on the deferral balance was set at 3.25%. As discussed further by Company witness Mr. Kensok, this project was moved into service in February of 2015.

1 electric Attrition Study), which includes the total Washington gas share of Project Compass;  
2 and column [L] After Attrition Adjustment Atmospheric Testing, which includes \$707,000  
3 of operating expenses to reflect atmospheric testing expenses not reflected in the December  
4 31, 2014, normalized Commission Basis results used as the starting point of the Company's  
5 Attrition Analysis.<sup>10</sup>

6 The final column, column [M] shows the 2016 natural gas Attrition Study  
7 calculation, providing the attrition net operating income (\$14,696,000) and attrition rate base  
8 (\$287,745,000), at lines 31 and 47, respectively. These totals are brought forward to page 1,  
9 column (a), of Exhibit No. \_\_\_\_(EMA-7).

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<sup>10</sup> As discussed by Ms. Smith in Exhibit No. \_\_\_\_(JSS-1T), Atmospheric testing is an inspection program which tests for conditions in the Company's system that could lead to corrosion issues on customer meter sets. This program is a federally-mandated program that requires the Company to inspect all above ground steel pipe at a frequency not to exceed three-years. This expense includes the cost of transitioning the Atmospheric Corrosion (AC) inspection cycle from a three-year rotation between the Company's jurisdictions (Washington, Idaho, and Oregon) to an inspection cycle that will be completed one third of each jurisdiction per year. The last inspection cycle in the Washington jurisdiction occurred in 2012. This adjustment includes \$707,000 of additional expense.