Exhibit No. ___(EMA-5T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-150204

DOCKET NO. UG-150205

REBUTTAL TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

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I. INTRODUCTION

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

A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as Manager of Revenue Requirements 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 covered the need for additional rate relief requested in Avista's original filing based on the Company's 2016 electric and natural gas Attrition Studies. I also explained the on-going attrition experienced by Avista, and the importance of rate relief based on the recognition of Attrition in this case.

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

A. In response to the testimony of Staff and intervenors, my rebuttal testimony presents the Company's revised revenue requirements for both electric and natural gas, based on the Company's revised electric and natural gas Attrition Studies. First I explain the Attrition Study results versus that originally filed by the Company and after the Partial Settlement. Next, I explain the final revised Attrition Study results after reflecting corrections and updates that have been identified through the discovery process, as well as changes to Avista's Attrition model assumptions that closely align Avista's Attrition Studies with those proposed by the Staff of the Washington Utilities and Transportation Commission (Staff).

After adjustments to the Company's Attrition Models, the revised revenue requirement for its Washington electric and natural gas services is $3,639,000 and $10,009,000 respectively. The revised base revenue requirement percentage increases for electric and natural gas as a result of the revised revenue requirement requests are 0.73% and 5.86%, respectively.

In addition to the Attrition Model results, I also explain the accounting for the Company's proposed "Hours-Based" Major Thermal Maintenance Deferral (related to the Company's required hours-based major maintenance expense projects in 2016 and beyond), as well as the Company's Electric Meter Regulatory Asset and Amortization proposal related to replacing the Company's existing electric meters with automated meters.

Lastly I provide Avista's response to certain issues raised by Mr. Gorman, the witness representing the Northwest Industrial Gas Users (NWIGU), regarding Avista's natural gas Attrition Study.

Q. Both Staff and the Company have proposed to set rates based on an attrition analysis. Have you made certain revisions to your analysis to bring the two analyses into closer alignment?

A. Yes, as I discuss below, the Company, on rebuttal, begins by accepting Staff's methodology for computing attrition. Except for one material modeling assumption, i.e. the proper percentage (%) increase for the electric O&M trend, the Company and Staff are closely aligned. One other modeling difference, relating to the appropriate starting year for the historical trend analysis (2007 versus 2009), results in a small difference between the Company and Staff's final results. The difference in the electric and natural gas revenue

requirements proposed by Staff and Avista on rebuttal, can be explained significantly by this one item – the electric O&M annual growth rate[1]. Both Staff and the Company rely on attrition analyses to set the proposed retail rates for 2016; both models use a trending approach using historical data; and both models recognize that in order to allow Avista an opportunity to earn the agreed-to 9.5% ROE, it is important to reflect what is expected to happen in the rate year, rather than relying solely on an historical pro forma study with limited pro forma adjustments approach.

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

A. Yes. I am sponsoring Exhibit Nos.____(EMA-6) through ___(EMA-8), which were prepared by me. Exhibit Nos.____(EMA-6) (Electric) and ___(EMA-7) (Natural Gas) present the results of the Company's revised electric and natural gas Attrition Studies, as well as the underlying data supporting the Attrition Studies. These exhibits also show, among other things, the agreed-to rate of return, resulting from the earlier Partial Settlement Agreement in this Docket, the derivation of the net-operating-income-to-gross-revenue-conversion factor, and the proposed revenue requirement and rate base resulting from the Attrition Study analysis. Exhibit No. ___(EMA-8) provides a detail description of the revised Electric and Natural Gas Attrition Models.

[1] On rebuttal, Avista proposes an electric O&M growth rate based on the average over a multi-year period. Staff proposes an electric O&M growth rate based on an average between Avista's originally proposed O&M growth rate and the one-year change in actual O&M from 2013 to 2014. As discussed later in my testimony, the use of a multi-year trend tends to smooth out various abnormalities that may be present from year-to-year. The difference in revenue requirement resulting from Avista's and Staff's proposed O&M growth rates is approximately $7.3 million.

II. SUMMARY OF REVISED ELECTRIC AND NATURAL GAS REQUESTED REVENUE INCREASES

Q. Have you prepared a summary table that shows the Company's revised revenue requirement and rate base for its electric and natural gas services, after reflecting the adjustments agreed to within the Partial Settlement, as well as reflecting the Company's position on the remaining Attrition issues?

A. Yes. In this rebuttal filing, Avista has updated its electric and natural gas revenue requirement calculations in response to the testimony of the parties. For this update, Avista started with Staff's attrition model and methodology, and made a few corrections and adjustments to determine revised revenue requirements. Table Nos. 1 (Electric) and 2 (Natural Gas) below provide a reconciliation of the Company's revised electric and natural gas revenue requirements proposed by the Company after taking into consideration the adjustments agreed to within the Partial Settlement (assuming it is accepted by the Commission). These tables also show additional adjustments incorporated by Avista in its Attrition models, which as discussed below, will show further alignment with Staff's Attrition modeled results. Lastly these tables show the proposed revised percentage increases above current base rates, as well as overall net rate base, by service.

TABLE No. 1 ELECTRIC		Revenue Requirement (000s)
Avista Filed:		**$ 33,229**
A. Partial Settlement Agreement:		
Cost of Capital		$ (3,768)
Net Power Supply Adjustments		$ (12,610)
Revised Per Partial Settlement Agreement		**$ 16,851**
B. Avista Revised Attrition Adjustments (See Section III):		
1) Updated December 2014 Commission Basis Report results:	*Electric*	
a) Net Production/Transmission (P/T) Ratio updated annually in December	*$ (1,600)*	
b) Inclusion of Bonus & Other Depreciation for Tax Purposes approved in Dec. 2014	*$ (3,150)*	
c) Update Actual Capital Transfers and Expenses Through 12/31/2014	*$ (2,064)*	
Subtotal		***$ (6,814)***
Revenue Requirement after inclusion of December CBR results:[1]		**$ 10,037**
2) Removal of Electric Meter Regulatory Asset and Amortization (See Electric Meter Regulatory Asset Proposal)		**$ (4,119)**
3) Net impact of removal of CS2/Colstrip maintenance expense from base power supply costs (See "Hours-Base" Major Thermal Maintenance Deferral Proposal)		**$ (3,026)**
4) Colstrip Refund Non-reoccurring Item Correction		**$ 1,126**
C. Revised Attrition Model Assumptions (See Section V)		
1) Changes in Trended Data & O&M Growth Factor		**$ (8,747)**
2) Add Project Compass After Attrition Adj. (as proposed by Staff) using Total Costs		**$ 8,368**
Rebuttal Proposed Revenue Requirement		**$ 3,639**
Proposed Percentage Increase Above Current Electric Base Rates		**0.73%**
Rebuttal Proposed Net Rate Base		**$ 1,392,858**

(1) Per Staff DR 130-Revised and Exhibit No. __(CRM-4).

TABLE No. 2 NATURAL GAS		Revenue Requirement (000s)
Avista Filed:		**$ 12,021**
A. Partial Settlement Agreement		
Cost of Capital		$ (735)
Revised Per Partial Settlement Agreement		**$ 11,286**
B. Avista Revised Attrition Adjustments (See Section III):		
1) Updated December 2014 Commission Basis Report results:	*Gas*	
a) Inclusion of Bonus & Other Depreciation for Tax Purposes approved in Dec. 2014	*$ (500)*	
b) Update Actual Capital Transfers and Expenses Through 12/31/2014	*$ (1,073)*	
Subtotal		***$ (1,573)***
Revenue Requirement after inclusion of December CBR results:[1]		**$ 11,286**
C. Revised Attrition Model Assumptions (See Section V)		
1) Changes in Trended Data & O&M Growth Factor		**$ (2,112)**
2) Add Project Compass After Attrition Adj. (as proposed by Staff) using Total Costs		**$ 2,408**
Rebuttal Proposed Revenue Requirement		**$ 11,582**
Proposed Percentage Increase Above Current Natural Gas Base Rates		**5.86%**
Rebuttal Proposed Net Rate Base		**$ 284,455**

(1) Per Staff DR 130-Revised and Exhibit No. __(CRM-5).

Q. Prior to the base revenue increases proposed by the Company, what are the Company's 2016 Washington electric and natural gas rates of return?

A. The results of the Attrition Studies show 2016 rate period rates of return ("ROR") for the Company's Washington jurisdictional electric and natural gas operations of 7.13% and 5.11%, respectively, prior to any proposed increase in base rates[2]. Both return levels are below the ROR of 7.29% agreed-to by the Parties per the Partial Settlement agreement. As shown in Table No. 1 and No. 2 above, the incremental revenue requirement, over and above rates currently in effect, that is necessary to give the Company an opportunity to earn the agreed-upon 7.29% ROR in 2016, is $3,639,000 for electric operations, and $10,009,000 for natural gas operations. The overall base electric percentage increase associated with this request is 0.73%. The overall base natural gas percentage increase is 5.86%. Associated proposed electric and natural gas net rate base amounts are approximately $1.393 billion and $284.5 million, respectively.

Details regarding the Attrition model updates and changes summarized above, as well as the "Hours Based" Major Thermal Maintenance Deferral and Electric Meter Regulatory Asset proposals noted in the tables, are discussed further below.

III. AVISTA REVISED ATTRITION ADJUSTMENTS

Q. Table Nos. 1 and 2 in the preceding section provided a listing of the changes proposed by Avista to its electric and natural gas Attrition Studies from that originally filed by the Company. Please explain those changes.

[2] See Exhibit Nos. __(EMA-6) and (EMA-7), page 5, column [M], row 50 and 48, respectively.

A. Below is an explanation of the changes outlined in Table Nos. 1 and 2.

A. Partial Settlement Agreement

A Partial Settlement Agreement was filed on May 1, 2015, resolving all issues pertaining to cost of capital, current power supply, rate spread and rate design, subject to Commission approval. Joint testimony in support of the Partial Settlement was filed on July 24, 2015.

The agreed-to revenue requirement associated with these settled issues lowered the Company's as-filed revenue requirement for electric operations by $16.378 million, and natural gas operations by $735,000, as described below:

1. The Cost of Capital agreed-to by the Parties included: Return on Equity (ROE) of 9.5%; Total Debt/Total Equity Ratio of 51.5%/48.5%; Cost of Debt of 5.2%, with an overall Rate of Return (ROR) of 7.29%. The net impact of the overall cost of capital reduces the overall revenue requirement for electric by $3.768 million and natural gas by $735,000.

2. The Parties agreed to new base power supply costs filed by the Company adjusted 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. The impact of the specified power supply adjustments reduced the overall electric revenue requirement by $12.61 million.[3]

B. Revised Attrition Adjustments

1. Updated Results Based on December 31, 2014 Commission Basis

Q. Staff witness Mr. McGuire uses the December 31, 2014 Commission Basis Report information as the "base case," or "escalation base" to prepare the

[3] 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 2015, is a reduction in net power supply costs of an additional $10 million Washington share.

electric and natural gas Attrition Studies proposed by Staff[4]. Do you agree with this change in Attrition assumptions?

A. Yes, I do. Staff data request Nos. 130 and 131 asked if the Company had analyzed the impact of including December 31, 2014 normalized Commission Basis results (CBR) within its Attrition and Pro Forma Studies, and to provide those Studies and all supporting workpapers. The Company complied with that request[5].

Q. With this change in the "base case," what impact did this have on the Company's Attrition results?

A. For electric, this reduced Avista's revenue requirement by approximately $6.8 million based on the following items:

a) Updating allocation factors, including the Production/Transmission (P/T) Ratio, which is done annually in December, shifted expenses and rate base from the Company's Washington jurisdiction to the Idaho jurisdiction, and reduced the proposed revenue requirement by an estimated $1.6 million.
b) Updating Accumulated Deferred Federal Income Taxes (ADFIT) reduced the proposed revenue requirement by an estimated $3.1 million. These changes were mainly due to the effect of including Bonus Depreciation for tax purposes, approved in December 2014; updating the Washington share of the allocated "Tax Repairs Adjustment" originally recorded in September 2014, as well as other prior period ADFIT true-up adjustments recorded in February 2015, reducing the proposed revenue requirement by an estimated $3.1 million.
c) Updating capital transfers to plant additions and expenses through December 31, 2014, versus actual results filed as of September 30, 2014 and expected capital additions for the months of October through December 2014. This update resulted in reducing the Company's revenue requirement by an estimated $2.1 million.

[4] Exhibit No. __(CRM-1T), page 34, lines 22-23.
[5] Avista's response to Staff data request Nos. 130 (Attrition) and 131 (Pro Forma), with all supporting workpapers, were provided on May 14, 2015 after the December 31, 2014 Commission Basis Reports were filed. Slight revisions to those responses for the electric Attrition and Pro Forma studies were provided on June 18, 2015. Staff included Staff_DR_130-Revised as Exhibit No. __(CRM-4) and __(CRM-5).

For natural gas, the same items related to updates to ADFIT and capital transfer-to-plant additions and expenses through December 2014, resulted in a reduction to natural gas revenue requirement by approximately $500,000 and $1.073 million, respectively. The overall effect of these updates reduced the natural gas revenue requirement by $1.573 million.

Q. Would it have been possible for the Company to include these results in its originally filed case?

A. No, it would not have been possible. The Company included the best information known at the time in determining its revenue requirement in its original filing. Updated and corrected information was provided during the pendency of the case, as is the Company's practice, so that the most current information was available to all parties.

2. Electric Meter Regulatory Asset & Amortization Proposal

Q. What did the Company propose in its direct filed case regarding the regulatory accounting for electric meters, and what is its proposal on rebuttal?

A. As discussed in the Company's direct filed case,[6] the Company had estimated it would have approximately $20 million on its books related to the net book value of its existing electric distribution meters on January 1, 2016. The Company had proposed, effective January 1, 2016, to transfer the net book value of the existing meters from electric distribution plant to a regulatory asset, and amortize the asset balance over a ten-year period starting in January of 2016.

[6] Testimony of Company witness Ms. Schuh, Exhibit No. _(KKS-1T), starting at page 27, line 12.

As discussed by Company witness Mr. Norwood, in response to Staff and intervenor testimony, the Company is proposing on rebuttal to exclude new plant investment or new operating expenses related to AMI in the 2016 revenue requirement, as well as to remove the proposed ten-year amortization of the regulatory asset from the revenue requirement in this case.[7] Excluding this Meters adjustment from the electric Attrition Study has the effect of reducing the Company's rebuttal electric revenue requirement by $4.119 million[8].

However, Mr. Norwood also explains the importance of Commission approval, in these Dockets, of the accounting treatment related to the existing electric meters (not the new AMI meters). As discussed further by Mr. Norwood, once the Company signs a contract with a vendor to provide new AMI meters, Avista will be required to write-off the existing meters on its books, absent an accounting order or approval from the Commission to establish a regulatory asset for this investment.

On rebuttal, Avista proposes that it be allowed, coincident with the signing of the new contract, to transfer the net book value of the existing meters from electric distribution plant, and record it as a regulatory asset in FERC Account 182.3 – Other Regulatory Assets. Avista proposes to amortize this regulatory asset balance in FERC Account 407.3 – Regulatory Debits over a ten-year period beginning January 2017, with a rate of return on the unamortized balance. Amortization of these expenses over the ten-year period would be recorded by debiting Account 407.3 – Regulatory Debits, and crediting Account 182.3 – Other Regulatory Assets. The current estimate of the Regulatory Asset to be recorded is

[7] As explained by Company witness Ms. Smith in her rebuttal testimony, she is also removing these costs within her rebuttal electric Pro Forma Study.
[8] Excludes $2.0 million of amortization expense, a return on the unamortized meter balance, and the net impact of taxes.

approximately $20 million, with an associated ten-year amortization of approximately $2 million annually. A ten-year amortization was chosen to reduce the impact on customers over this time period. However, if a rate of return on the balance is not granted, Avista would incur a write-off based on a present value calculation.

3. "Hours-Based" Thermal Maintenance Deferral Proposal

Q. What did the Company propose in its original filing 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, and track any differences from the base expenses through the Energy Recovery Mechanism (ERM). The incremental power supply expenses were $3.6 million.[9]

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 that 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. In subsequent responses to Staff data request No. 130, the Company removed CS2 and Colstrip maintenance expenses from power supply amounts, and included the incremental amount of CS2 and Colstrip maintenance expense as an After Attrition Adjustment, resulting in a net $0 change. This response was provided as Staff Exhibit No. _ (CRM-4), see page 7, Column AA.

[9] Mr. Johnson Exhibit No. __(WGJ-1T), page 14 line l.7 – page 15 line 21.

As explained by Mr. Norwood, to recognize the concerns by Staff and other intervenors regarding normalization of "overhauls," on rebuttal the Company has removed the incremental CS2 and Colstrip O&M expense (net above the O&M base amount) from its proposed electric revenue requirement, which reduces the Company's proposed revenue requirement as filed by $3.026 million.[10]

However, as also described by Mr. Norwood, in order to address the variability in thermal maintenance costs experienced by Avista, and expected in the 2016 rate year, the Company is proposing to defer only the "hours-based" major maintenance expense required for the Company's CS2, Rathdrum and Boulder Park thermal generation facilities going forward,[11] with a four-year amortization period beginning January 1 of the following year. There would be no carrying charge on the unamortized balance.

The accounting treatment of these project expenses would include deferring Washington's share[12] of the actual major maintenance expenses associated with these projects in the year occurred, the first expected in 2016, as a debit to FERC Account 182.3 – Other Regulatory Assets. Account 407.4 – Regulatory Credits would be credited as the deferrals are recorded. Amortization of these expenses over the four-year period would be recorded by debiting Account 407.3 – Regulatory Debits, and crediting Account 182.3 – Other Regulatory Assets.

[10] Staff witness Mr. McGuire, at Exhibit No. _(CRM-2), page 4, column K, includes an "After Attrition Adjustment CS2/Colstrip Incremental O&M Expense" related to their proposed normalization adjustment within his electric Attrition Model.

[11] The hours of operation maintenance for these projects consist of a "Hot Gas Path" major maintenance for CS2 and Rathdrum Unit #1, which is required every 24,000 hours, as well as an overhaul on Boulder Park required after 12,000 hours of operation.

[12] Washington's allocated share would be based on the Production / Transmission (P/T) allocation percentages in place at the time the deferrals are made.

4. Colstrip Refund Non-Recurring Item Correction

Q. Please explain what this adjustment is and how it impacts the Company's proposed revenue requirement.

A. As Avista explained 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 $1.09 million. The remaining increase in system expenses of $748,000, from $14.257 million in 2014 to $15.005 million in 2016, was due in part to a reduced level of expense in 2014 related to the 2013 Colstrip outage, which extended into the first quarter of 2014.

Table No. 3 below, was provided by Avista in ICNU DR 180C reconciling the actual 2014 expenses to that expected in 2016, per PPL Montana (Colstrip operator):

Table No. 3

COLSTRIP Unit 3 & 4 - Major Maintenance System*	Actual 2014 (000s)	Expected 2016 (000s)
Colstrip Expenses (1)	**$ 99,163**	$ 104,534
Avista 15% Ownership Share	**$ 14,874**	**$ 15,680**
Less:		
Start-up fuel, etc. (2)	$ 617	$ 675
Net Colstrip expenses	**$ 14,257**	$ 15,005
Net actual expenses per Avista GL	**$ 12,979**	
Net difference (3)	**$ 1,278**	
Increase in Expected spend 2016 vs 2014		$ 748

(1) Per 2014 Budget vs Actual Recap Units 3 & 4 Per PPL Montana, see ICNU_DR_180C-Confidential Attachment B. See ICNU_DR_180C Confidential Attachment A for 2016 information.

(2) 15% PPLM Start Fuel Costs, insurance, rents, misc. not recorded to maintenance accounts 500-514.

(3) Variance in 2014 between actual Colstrip maintenance expense and expense recorded in Avista GL, relates to Colstrip Lawsuit refund received in 2014. Refund recorded to account 506 consistent with recording of original expenses for Washington's share. ($1.09 million)

*This summary information is not Confidential.

The revenue requirement associated with removing Washington's portion of the prior period refund of $1.09 million, totals approximately $1.126 million.

For Colstrip, major overhauls occur on Units 3 and 4 every three years, alternating between Units. Therefore, two out of every three years, a major overhaul will occur at Colstrip. There had been a major overhaul in 2014, and an overhaul in 2016 is planned at a similar cost. Therefore, no net material overhaul expense increase is expected to occur in 2016. Colstrip major maintenance projects are not included in the proposed deferral of hours-based major maintenance projects going forward.

C. Revised Model Assumptions Summary

Q. Please summarize the revised model assumptions proposed by the Company.

A. In preparing Avista's Attrition Models on rebuttal, Avista started with Staff's attrition model and methodology, as provided by Staff in Exhibit Nos. _(CRM-2) and _(CRM-3). As shown in Table No. 4 below, Avista accepted many of Staff's Attrition model assumptions (linear regression using historical data, excluded compounding, and accepted Staff's natural gas O&M expense growth escalator). However, Avista used 2007-2014 data versus Staff's use of 2009-2014 data for certain growth escalators. The major difference, however, between Avista and Staff boils down to the appropriate escalation growth factor to use for Avista's electric O&M expenses.

An X in the "Staff" column in Table No. 4 reflects Avista's alignment with Staff:

Table No. 4 - Avista/Staff Attrition Model Alignment

Electric	Staff	Avista
Historical vs 2016 Expected Trending	X	
Linear vs Non-Linear Regression Analysis	X	
Compounding	X	
Use of Years		X
O&M Growth Factor %		X
After Attrition Adj. for Project Compass	X[1]	

Natural Gas	Staff	Avista
Historical vs 2016 Expected Trending	X	
Linear vs Non-Linear Regression Analysis	X	
Compounding	X	
Use of Years		X
O&M Growth Factor %	X	
After Attrition Adj. for Project Compass	X[1]	

[1]Avista used total costs for Project Compass versus Staff's partial disallowance.

As explained later in my testimony, the electric O&M escalation used by Avista accounts for $7.27 million of the electric revenue requirement difference between Staff and Avista. Recovery of 100% of Project Compass versus Staff's proposed disallowance accounts for $1.4 million electric and $374,000 for natural gas between Avista and Staff. The remaining difference, use of 2007 versus 2009 as the starting point for trended data, accounts for an increase of $277,000 electric and a reduction of $670,000 for natural gas, between Avista and Staff.

Details of the changes in model assumptions are explained in further detail below in section V. "Revised Attrition Model Assumptions." In addition, a detail description of the Electric and Natural Gas Attrition Models in Exhibit Nos. _(EMA-6) and _(EMA-7) is provided as Exhibit No. _(EMA-8).

IV. AVISTA PROPOSED VS. STAFF PROPOSED ATTRITION MODELS

Q. Please discuss how the Company's revised model results on rebuttal compare with that of Staff's proposed Attrition model results by service?

A. Prior to correction of errors, the electric and natural gas Attrition Study results filed by Staff witness Mr. McGuire[13] showed an electric revenue requirement reduction of $6.209 million, and a natural gas revenue requirement increase of $9.04 million.

Table No. 5 below provides a reconciliation of Avista's electric and natural gas Attrition model results on rebuttal, versus Staff's model results by service. A more detailed description of revised model assumption changes follow in Section V.

TABLE NO. 5 - Avista versus Staff Attrition Revenue Requirement

	Electric	Natural Gas
Staff Filed:	**$ (6,209)**	**$ 9,040**
Corrections		
a) Benefit of Debt interest on Project Compass	*$ (540)*	*$ (163)*
b) Remove AMI Deferral	*$ (4,119)*	*$ -*
c) Formula errors	*$ 4,406*	*$ -*
d) Include Growth in gas costs to match Staff proposed load growth	*$ -*	*$ 1,428*
Net Corrections	$ (253)	$ 1,265
Corrected Staff Model:	**$ (6,462)**	**$ 10,305**
Avista Proposed Adjustments to Staff's total:		
Data Assumption Changes:		
1) Colstrip Refund Non-Reoccurring Item Correction	$ 1,126	$ -
2) Include Total (100%) Project Compass	$ 1,428	$ 374
Staff revised for Colstrip Refund & Total Project Compass	***$ (3,908)***	***$ 10,679***
Model Assumption Changes:		
3) Use of Years: Avista (2007-2014) versus Staff (2009-2014)	$ 277	$ (670)
4) Annual O&M %: Avista (5.16%) versus Staff (2.41%)	$ 7,270	$ -
Revised Avista Historical Model (Rebuttal)	**$ 3,639**	**$ 10,009**

The largest difference between Staff's corrected electric Attrition model results, and Avista's rebuttal Attrition model results, is the percentage increase (annual growth rate) in

[13] Exhibit Nos.__(CRM-2) and _(CRM-3)

O&M expenses for electric operations. For the natural gas modeled results, Avista and Staff models are closely aligned, with Avista's results showing a slightly lower proposed revenue increase than that based on Staff's corrected Attrition Study results.

Q. Before discussing Avista's Attrition model changes noted in Table No. 5, please describe the specific corrections and other adjustments necessary to Staff's electric and natural gas Attrition models.

A. Regarding Staff's electric Attrition Study (Exhibit No. __(CRM-2), the Company first made the following corrections:

1. In column L, line 27 of page 5, Mr. McGuire failed to include the Restate Debt Interest amount for Project Compass. (Reduces revenue requirement by $540,000)
2. Staff's proposal is to eliminate the regulatory asset and amortization expense related to existing electric meters; however, on pages 4 and 5, column C, Mr. McGuire continues to include the regulatory asset and amortization expense as proposed by the Company. (Reduces revenue requirement by $4.119 million)
3. In column M, lines 32 and 38, the formulas in the total column are incorrect and fail to include the rate base impact of amounts in column L. (Increases revenue requirement by $4.406 million)

The net impact of these corrections produces a Staff revenue requirement that reduces revenues by $6.462 million versus Staff's filed reduction of $6.209 million.

Regarding Staff's natural gas Attrition Study (Exhibit No. __(CRM-3), the Company first made the following corrections:

1. In column K, line 28 of page 5, Mr. McGuire failed to include the Restate Debt Interest amount for Project Compass. (Reduces revenue requirement by $163,000)
2. In column J, page 4, Staff proposed growth in natural gas loads from 2014 to 2016, versus Avista's slight decrease proposed in its direct filing. Avista accepts this change; however, additional natural gas expenses associated with this increased load must also be reflected. See Andrews Exhibit No. _(EMA-7), page 13. (Increases revenue requirement by $1.428 million)

The net impact of these corrections produces a Staff natural gas revenue requirement that increases revenues by $10.305 million versus Staff's filed increase of $9.040 million.

Q. Is the "Colstrip Refund Non-Recurring Item Correction" in Table No. 5 the same correction shown in Table No. 1 above and previously explained?

A. Yes. This adjustment reflects an increase in revenue requirement of $1.126 million associated with the removal of the Colstrip lawsuit refund received in 2014, which was a non-recurring credit to expense that should have been removed in determining the 2016 level of expenses.

Q. Please explain the item in Table No. 5 labeled "Include Total (100%) Project Compass."

A. Staff includes an "After Attrition Adjustment" for Project Compass, albeit at a reduced amount to reflect Staff's proposed write-off.[14] The Company has included Project Compass as an "After Attrition Adjustment", however at the total cost (or 100%) of Washington's share of plant additions and associated expenses for Project Compass. Company witness Mr. Kensok provides rebuttal testimony to Staff witness Mr. Gomez's proposed disallowance.

[14] Exhibit No. __(CRM-1T), page 54, lines 19-22.

V. REVISED ATTRITION MODEL ASSUMPTIONS

Q. Please explain the modeling changes the Company has made from its direct filed case.

A. On Rebuttal, Avista first started with Staff's filed electric and natural gas Attrition Studies (Exhibit Nos. __(CRM-2) and __(CRM-3)). Inherent in Staff's Attrition models, and therefore accepted by Avista in its rebuttal position, are the following model changes compared to that proposed in Avista's direct filed case:

1. Trending data – The Company used historical data (versus trended results including expected 2016 information), combined with an "After Attrition Adjustment" for Project Compass to reflect Washington electric and natural gas capital transfers to plant.[15] The Company proposes to include total (100%) Project Compass costs versus the reduced amounts proposed by Staff. The increase in revenue requirement versus Staff's proposal is $1.428 million electric and $374,000 natural gas.
2. Regression Analysis and Compounding – Based on the changes and updated information since Avista filed its direct case[16], including the "After Attrition Adjustment" for Project Compass, the Company agrees with Staff that a linear regression trending analysis (versus non-linear regression analysis) is appropriate.

[15] Avista accepts Staff's proposed "After Attrition Adjustment for Project Compass," as explained by Mr. McGuire at Exhibit No. __(CRM-1T), starting at page 54, line 17, which reflects Staff's recommendation that Project Compass be accounted for outside of Staff's trending analysis. In particular, Mr. McGuire noted at page 54, lines 1-2, "I determined that this was appropriate because Project Compass appears to be an abnormality with respect to the Company's ongoing capital growth pattern."

[16] E.g., Avista has agreed on rebuttal to remove all revenue requirement for 2016 related to AMI, and the in-service date for the Nine Mile upgrade project has been moved from December 2015 to fourth quarter 2016.

In addition, compounding is inherent in a linear regression approach, and therefore the previous compounding methodology used by Avista in its direct filing is removed.

3. Appropriate Historical Years to Trend – The Company includes 2007-2014 as the appropriate historical years to trend versus Staff's proposal of 2009-2014. The increase in revenue requirement starting with 2007, versus 2009 as proposed by Staff, is an increase in revenue requirement of $277,000 for electric, and a reduction in revenue requirement of $670,000 for natural gas.

4. Annual O&M Growth Rate – The Company includes Staff's average methodology for calculating the natural gas O&M annual growth factor; however, for electric, Avista proposes an alternate calculation for averaging the electric O&M annual growth factor. The increase in electric revenue requirement for this difference is $7.27 million.

As noted above in items 3 and 4, the Company and Staff now only differ on two modeling assumptions: (1) the appropriate starting point for the trend analysis (2007 vs. 2009); and (2) the appropriate growth escalation rate for O&M. Accordingly, there appears to be strong agreement over the modeling parameters for attrition, but for these two areas.

Trending Data

Q. Please explain the data used for trending purposes and annual growth factors used by the Company within its Attrition Studies in its direct filed case.

A. In Avista's direct filed case, Avista explained its use of expected 2016 results in its Attrition Studies when determining the proper growth factors for depreciation and net

plant after DFIT. For example, I explained at page 29, lines 1-9 of my direct testimony Exhibit No. __(EMA-1T):

> As discussed by Mr. Thies and Ms. Schuh, the Company has increased its level of capital spending, and therefore increased its transfers to plant expected through 2016. These increases in capital spending and transfers to plant impact the Company's net rate base to be included during the rate year. Due to this accelerated level of transfers to plant for 2014 to 2016, it is necessary to increase the annual growth rate above the rate experienced from the 2007-2013 historical period. For that reason, the Company used the 2014 to 2016 growth percentages to apply to the historical base period. Otherwise, the use of the historical trend (2007-2013) would significantly understate net plant investment and depreciation expense for 2016. [17]

Dr. Forsyth, in his direct testimony[18] discusses the appropriate methodology to determine annual growth rates and historical trends. In particular, he notes, at page 3, lines 4-8, "The period used for the trend analysis should reflect, as closely as possible, the Company's recent and planned expenditures. Regardless of the methodology for determining expenditure growth rates, using time periods that no longer represent recent and planned expenditures can lead to inaccurate representations of future growth." (emphasis added)

Q. Did Staff witness Mr. McGuire recognize that the use of historical growth factors alone would not properly reflect what is expected to occur in the rate year?

A. Yes. Mr. McGuire recognized his historical growth trends (related to Net

[17] Avista provided support of the expected results related to planned capital additions and related costs through the Pro Forma Cross Check Studies provided by Ms. Smith, and detail descriptions of capital activities provided by Ms. Schuh, as well as, other witnesses such as Mr. Thies, Mr. Kinney, Mr. Cox, and Mr. Kensok.
[18] Exhibit No. __(GDF-1T)

Plant After DFIT and Depreciation Expense) alone, using 2009-2014 data, would not be sufficient to allow Avista an opportunity to earn a fair return, and proposed an "After Attrition Adjustment" related to the Company's Project Compass capital project, which moved into service on February 2, 2015. He explains this and notes his adjustment is appropriate as follows:

> I provide Avista with an after-attrition adjustment for Project Compass. That is, I allow for recovery in rates the capital costs associated with Project Compass beyond what would be implied by use of growth factors. … I determined that this was appropriate because Project Compass appears to be an abnormality with respect to the Company's ongoing capital growth pattern. Consider that the calculated rate of growth for electric net plant between 2009 and 2014 was approximately $50 million per year. Next, consider that the Company's actual electric transfers to plant was $45 million in February 2015 alone (the month Project Compass was placed in service). February transfers will not be the only plant placed in service in 2015 and, so, implying that it will be by only using my $50 million annual growth rate will likely lead to stranded capital costs and a higher probability of earnings attrition. Treating Project compass as an abnormality by including it as an after-attrition adjustment addresses this issue. (emphasis added) See McGuire Exhibit No. _(CRM-1T), page 54 line 19 – page 55 line 10.

Mr. McGuire also used a different growth factor to trend electric and natural gas O&M expenses from that based strictly on Staff's use of 2009-2014 historical data. I will address this later in my testimony.

Regression Analysis and Compounding

Q. Please explain the regression analysis and use of compounding included in Avista's direct filed case.

A. The preceding discussion regarding growth in net plant in investment beyond that reflected by the historical trend had a direct impact on the type of regression analysis used by the Company in its direct filed case. When discussing the Companies use of growth

factor results, Dr. Forsyth explained that "…the expectation is that expenditures will experience accelerated, non-linear growth during the 2014-2016 period from that experienced during 2007-2013."[19] (emphasis added) When asked what the basic analytical approach underlying the trend analysis used by the Company was, Dr. Forsyth noted "The Company's trend analysis uses traditional compounding growth theory to arrive at base-line growth rates for certain expenditure categories, including net plant. In particular, the trend analysis uses the compound growth rate formula (CGF). The CGF has wide applications in finance and economics for modeling values that are not expected to accumulate in a linear fashion over time."[20] (Emphasis added)

Q. What is Avista's position on rebuttal regarding the proper regression analysis?

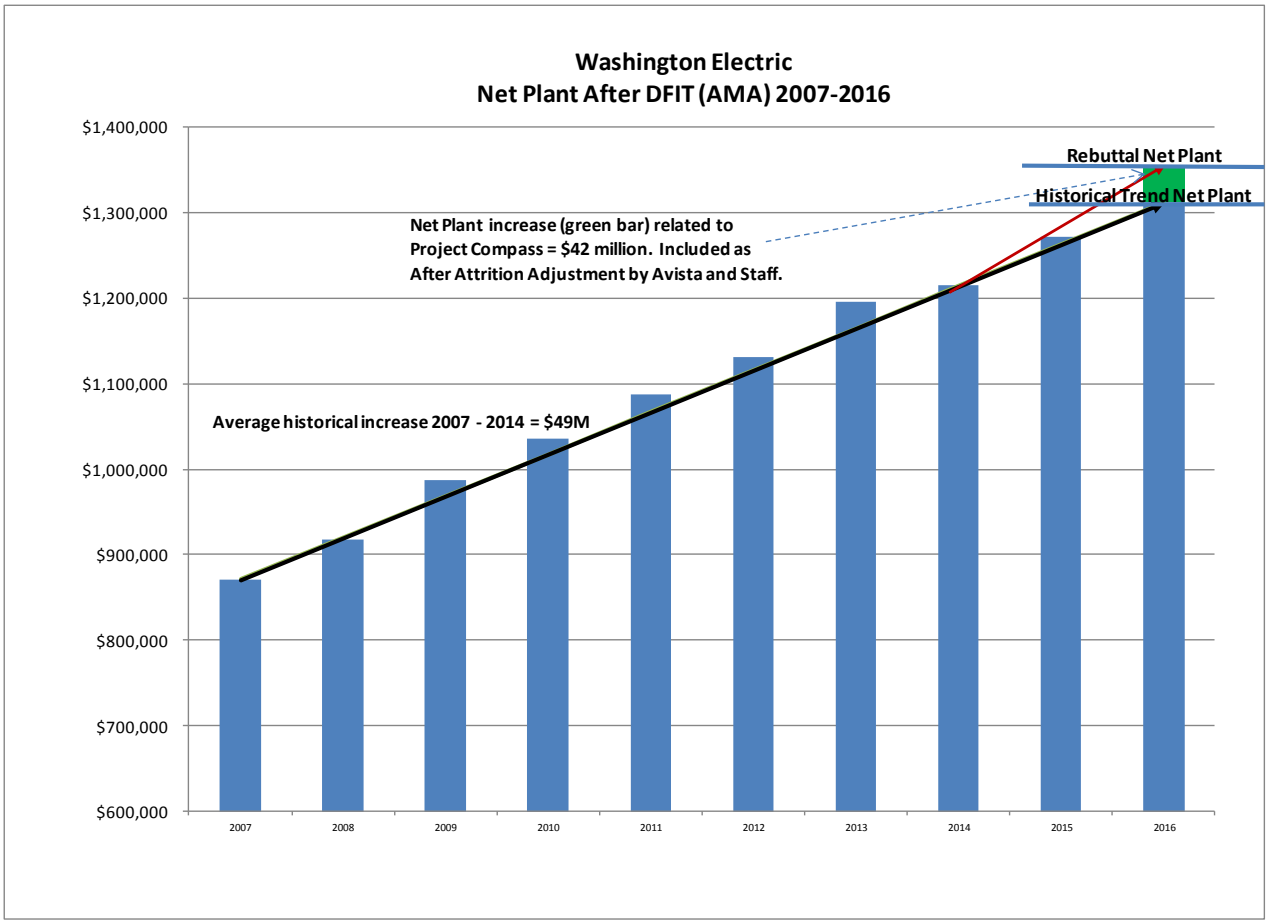
A. Avista's trend analysis proposal on rebuttal for net plant investment is to now use linear regression as proposed by Staff,[21] together with Staff's proposed "After Attrition Adjustment" for Project Compass (adjusted to reflect 100% recovery). Compounding is inherent in a "simple least-squares linear regression," and therefore the need for the previous Company methodology for compounding used in Avista's direct filed case is eliminated.

Illustration No. 1 below shows the Washington electric results as proposed on rebuttal, of Avista's historical net plant on an AMA basis from 2007-2014, including a linear extension of the growth into 2016 (black line). The red line (and green bar) reflect the After

[19] Dr. Forsyth direct testimony, Exhibit No. __(GDF-1T), page 3, lines 13-15.
[20] *id.*, page 3 line 20 – page 4 line 3.
[21] As explained by Mr. McGuire at Exhibit No. _(CRM-1T), page 38, lines 8, he calculated rates of growth for certain cost categories using a "simple least-squares linear regression" across the years of data he selected (2009-2014.) Avista has used the same approach, however, using 2007-2014 years of data. See Andrews' Exhibit Nos. __(EMA-6) and (EMA-7), pages 9-11 for calculations.

Attrition Adjustment for Project Compass. The combination of the linear growth, plus the After Attrition Adjustment, and the updated information in this case[22], provide results that reasonably reflect the net plant investment for the 2016 rate year.

Illustration No. 1



Appropriate Historical Years to Trend

Q. What is Avista's proposal on rebuttal regarding the proper years to use within the Company's Attrition Studies?

A. Avista believes 2007-2014 is the appropriate historical time period to use for the

[22] E.g., Avista has agreed on rebuttal to remove all revenue requirement for 2016 related to AMI, and the in-service date for the Nine Mile upgrade project has been moved from December 2015 to fourth quarter 2016.

Attrition Studies. As explained by Dr. Grant Forsyth in his direct testimony[23]:

> The period used for the trend analysis should reflect, as closely as possible, the Company's recent and planned expenditures. … Annual capital investment for the 2001-2013 period clearly shows a significant shift in the expenditure trend starting in 2007. This is the case for both electric and natural gas operations. Specifically, in 2007, capital investment started increasing at a significantly faster pace compared to the 2001-2006 period… Given current and planned expenditures by the Company, we do not foresee a return to the expenditure trend of the 2001-2006 period in the near-term.

Q. Mr. McGuire, on pages 37 - 38 of his testimony (Exhibit No. __(CRM-1T) stated that he used 2009 as the beginning of his trend analysis "to avoid statistical complications caused by changes in normalization methodology." What is Mr. McGuire referring to?

A. One of the components of Commission Basis reporting is an adjustment to customer usage to reflect revenue and power supply/gas supply costs as if weather conditions had been normal during the period. There are two aspects to the process of normalizing results for weather. The first aspect is determining the impact of weather on customer usage (weather sensitivity). Avista implemented a material change in methodology with regards to weather sensitivity determination in Docket Nos. UE-070804/UG-070805. (The current method uses seasonal factors instead of annual factors, and a ten-year regression analysis instead of a five-year regression analysis.) This methodology has been consistently reflected in Commission Basis results since the 2006 calendar year report.

The second aspect is defining "normal" weather. Normal weather is generally measured in terms of heating degree-days and cooling degree-days (comparison of daily

[23] Dr. Forsyth direct testimony, Exhibit No. __(GDF-1T), page 4, lines 13-15.

average temperature to 65 degrees Fahrenheit, accumulated monthly). The National Oceanographic and Atmospheric Administration (NOAA) publishes 30-year average ("normal") heating and cooling degree-day statistics by weather station every decade. The Company moved away from NOAA published "normal" to rolling averages for normal heating and cooling degree-days in Docket Nos. UE-080416/UG-080417 and UE-090134/UG-090134. The 2008 results reflect 25-year rolling averages, 2009 and subsequent reports reflect 30-year rolling averages. The difference between 25-year versus 30-year averages as the definition of normal weather is relatively minor, and the overall impact to Commission Basis results is minimal.

Q. Does the weather normalization process affect any of the trend analysis that was used in Mr. McGuire's electric and natural gas Attrition Studies?

A. No. The weather normalization process is completely irrelevant to the trended analysis used within Avista's or Staff's Attrition Studies. The weather normalization process affects two things in Commission Basis reporting, namely retail revenue and power supply (electric) / purchased gas (natural gas) expenses. These items are treated independently from the Commission Basis trend factors in both the Company and Staff Attrition Studies. Consequently, no "statistical complications" are associated with the minor changes to the definition of "normal" heating and cooling degree-days that occurred between the 2007 and 2009 Commission accepted weather normalization processes.

Q. Please explain how retail revenue is treated in Staff's attrition study.

A. As Mr. McGuire stated on page 36 of his testimony the electric "revenue escalation factor was calculated using Avista's expected growth rate of individual billing

determinants between September 2014 and December 2016" derived from the Company's 2016 load forecast. This process is independent of the historical Commission Basis trend determination.

Similarly, for natural gas revenue Mr. McGuire utilized the same method as electric for most billing determinant growth assumptions, but adjusted the Schedule 101, 111/112, and 121/122 sales volume growth based on 2014 and 2015 general rate case information.[24] This process is also independent of the historical Commission Basis trend determination.

Q. How are power supply and gas supply expenses treated in the attrition studies?

A. Both the Company and Staff attrition models eliminate Commission Basis normalized power supply (electric) and gas cost (natural gas) expenses from historical Commission Basis results to determine the escalation base. Commission Basis power supply and gas cost expenses are excluded from the historical data utilized to determine the historical trends applied to the escalation base. Finally, pro forma normalized power supply and gas cost expenses are added to the 2016 escalated results to match the retail load's for 2016. The pro forma power supply / gas supply values are independent of the historical Commission Basis trend determination.

Q. What is the overall impact of using a starting point of 2007 as proposed by Avista, versus 2009 as proposed by Staff?

[24] Mr. McGuire's natural gas revenue growth adjustment modified the assumed sales volume based revenue, but failed to account for the associated change in natural gas costs necessary to serve the additional sales. The impact of this error (totaling $1.4 million increase to Staff's revenue requirement) was identified in the discussion at Section II above, and is noted within Table No. 3.

A. The impact of using 2007 as the starting point, versus 2009 as proposed by Staff for certain growth factors[25], is not a particularly material one for the electric Attrition Study, resulting in a $277,000 increase in revenue requirement. However, the use of 2007-2014 for the natural gas Attrition Study actually reduces the proposed revenue requirement by $670,000 versus that proposed by Staff.

O&M Annual Growth Rate

Q. What is Avista's response to Mr. McGuire's proposal regarding the O&M growth rate for the Attrition Study?

A. At page 35, lines 11-15, Exhibit No. _(CRM-1T), Mr. McGuire notes:

> …the Company made several significant changes to its business at the end of 2012 in an effort to reduce operating expenses. As a result, operating expenses ending in 2013 tell us nothing about year-over-year growth subsequent to the institution of the Company's expense reduction programs. Thus, operating expense data for 2014 are critical in evaluating the "new," year-over-year rate of growth in operating expenses.

Although it is true Avista has made significant changes to its business since 2012 in an effort to reduce its expenses,[26] I disagree that Avista's historical data prior to 2013 "tell us nothing about year-over-year growth." As noted, some of the significant changes made by Avista related to VSIP as well as pension and post retirement medical plan changes, but these are not the only expenses incurred by Avista's electric operations – especially in a highly-generation-driven electric business with large maintenance requirements and compliance requirements mandated by various agencies.

[25] Apply to growth factors: Depreciation/Amortization; Net Plant after DFIT; and Taxes Other Than Income. O&M growth factors are treated differently by both Avista and Staff.

[26] Examples include the Voluntary Severance Incentive Plan (VSIP) effective in 2013, and the pension and post retirement medical plan changes effective January 1, 2014, discussed by Mr. Morris in his direct testimony.

Mr. McGuire has proposed to use the one-year change in O&M, from 2013 to 2014, as the basis for his O&M "trend." The use of a multi-year trend tends to smooth out various abnormalities that may be present from year-to-year. Mr. McGuire has used a "one-year" trend without consideration of whether there are unusual circumstances that significantly affect the one-year change. There are such circumstances, which I will explain later.

It is important to note, however, that starting with the 2014 data as the "escalation base" ensures that the reduction related to the Company's VSIP and any other lower expenses are inherent in the starting place. This ensures that the overall savings benefit for customers, related to the Company cost control measures, is inherent in the starting point or "escalation base."

Q. What is Avista's position on rebuttal for both electric and natural gas O&M?

A. Avista has revised its annual growth rate for electric to 5.16%, and accepts Staff's proposed 2.17% annual growth rate for natural gas.

In determining Avista's rebuttal position for the appropriate O&M growth rate that should be used within the Attrition Studies, Avista reviewed many factors:

- What was the actual historical annual growth trend from 2007-2014?
- Was there particular data which was skewing the results significantly between 2007-2014?
- What was the rate of growth in expenses from 2013-2014 which occurred after the reduction in expenses related to the Company's Voluntary Severance Incentive Plan (VSIP) initiated in 2012?
- What is the expected level of expenses in 2016 per the Company's financial forecast?
- What differences impacting Avista's electric versus its natural gas operations should be considered, and the importance of recognizing those differences, given that starting in 2015 the Company is subject to one-way Earnings Tests related to its decoupling mechanism.

The historical data for 2007-2014 using the linear regression analysis proposed by Staff results in a historical annual growth rate of **4.60%** for electric O&M. In reviewing the historical data for the period 2007-2014, the Company noted that employee pension and post-retirement medical benefits (net benefits), in particular, have been very volatile over the years, skewing the historical data significantly at times. To remove this volatility to see the true escalation in other costs over time, Avista removed the net benefit expense from total O&M expenses[27]. Using Staff's proposed linear regression analysis for the period 2007-2014, this produced a slightly reduced result of **4.32%** annual growth rate.[28]

In 2015 net benefits have increased since the drop in 2014 and are expected to remain at the higher level during the 2016 rate year. By removing the net benefits from each historical year, one can see the impact of other expenses impacting O&M expense over time.

Staff's average used the difference between Avista's 2013 and 2014 actual results, which showed an average increase of only **1.82%**. This combined with the Company's originally proposed 3%, resulted in the **2.41%** proposed by Staff for the annual electric O&M growth trend. However, between 2013 to 2014 net benefit costs dropped significantly for this one year (over $4.6 million electric), before returning in 2015 to higher levels, higher than that in 2013. Removing net benefit costs from years 2013 and 2014 to remove the volatility, results in a year-over-year change between 2013 and 2014 of **5.99%.**

Q What is Avista's planned increase in O&M % for the period 2014 to 2016 in its financial forecast?

[27] Net benefits on an annual basis for electric and natural gas was provided in response to Public Counsel data request No. 036.
[28] See Andrews' Exhibit No. __(EMA-6), page 12.

A. Per the Company's current financial forecast the annual increase in O&M from 2014 to 2016 is **4.45%**[29] for the combined electric and natural gas systems.

Q. Please summarize the various O&M electric annual growth rates discussed above.

A. Table No. 6 below summarizes the various electric annual O&M growth rates discussed above, and provides both Avista's rebuttal and Staff's filed positions.

Table No. 6

Summary of Electric O&M Escalation Growth Rates

Rate #	O&M Expense	Growth Rate
1	Avista Direct Case	3.00%
2	Total 2007-2014	4.60%
3	2007-2014 - Excluding Benefits	4.32%
4	Total 2013-2014	1.82%
5	2013-2014 - Excluding Benefits	5.99%
6	Financial Forecasted O&M Expenses 2014-2016	4.45%
A*	Avista Rebuttal Position - (Weighted (3 & 5)	5.16%
S*	Staff Position - Weighted (1 & 4)	2.41%

*Avista on rebuttal and Staff propose 2.17% for the annual natural gas growth rate.

Q. Please explain Avista's proposal on rebuttal to use a 5.16% growth rate for electric O&M.

A. Avista recognizes changes in recent years should be considered in determining the appropriate O&M growth rate; however, the historical period 2007-2014,

[29] Given the Company is proposing to defer the "hours-based" thermal maintenance expense planned in 2016 discussed previously, the overall percentage system increase of 4.45% excludes Washington's portion of the proposed deferred 2016 planned thermal maintenance expense. The actual overall annual increase per the Company's current forecast is 4.8% system.

should not be ignored. Avista proposes an average growth rate result of the 2007-2014 and 2013-2014 (year-over-year changes), both adjusted to remove net benefits, of 4.32% and 5.99%, respectively, resulting in its proposed annual growth rate of **5.16%**

As noted earlier, the difference between Avista's (5.16%) and Staff's (2.41%) electric O&M escalation growth rates and the impact on their proposed revenue requirement for 2016 is significant – approximately $7.27 million. However, revising Staff's average[30], of 3% and the 2013-2014 growth rate of 5.99% (rather than 1.8%), would result in a 4.5% average annual growth rate. This change alone would increase Staff's proposed revenue requirement by $5.65 million, increasing its corrected revenue requirement from a reduction to revenue of a $6.462 million to -$811,000.

Q. As noted earlier, the Company accepts Staff's proposed natural gas O&M increase of 2.17%. Why did the Company accept this % increase?

A. Avista accepts Staff's proposed 2.17% for natural gas operations, because that is a reasonable expectation of increases in costs for natural gas given the expectations in the 2016 rate year, and the overall operations of the natural gas business.

Q. Is it reasonable to assume that Avista's electric operations would experience a higher increase in O&M than that experienced by its natural gas operations?

A. Yes. It is reasonable to expect electric operations would require a higher O&M escalation growth rate than that experienced by the Company's natural gas operations. Electric operations experience higher maintenance and other expenses (mandated

[30] To remove the volatility of benefits in 2013 and 2014.

compliance requirements, river licensing costs, etc.) annually related to the operation of its generation and transmission facilities not experienced by the Company's gas operations.

Q. On rebuttal, Avista is proposing an annual O&M increase of 2.17% natural gas and 5.16% electric. What is the overall weighted average on a system basis, and how do these annual growth rates compare to the various growth rates discussed in Table No. 6 above?

A. The following table shows the weighted average results between the electric and natural gas operations, given that electric operations represent approximately 70% and natural gas operations represent approximately 30%, of the Company's total operations. Avista's proposed O&M annual increase of 2.17% for natural gas and 5.16% for electric results in an overall weighted average of 4.26% as shown below.

Weighted Average Annual O&M Increase			
Natural Gas	**2.17%**	30%	0.65%
Electric	**5.16%**	70%	3.61%
Weighted Average			**4.26%**

This 4.26% growth rate is less than the financial forecast of 4.45% annually between 2014 and 2016. The 4.26% growth rate is also slightly lower than the actual 2007-2014 growth rate of 4.32% (excluding net benefits).

Therefore, in reviewing the multi-year data related to O&M costs, the Company's proposed weighted growth rate of 4.26% is more reasonable than Staff's abnormally low weighted growth rate of 2.34% (weighted growth rate of 2.41% electric and 2.17% natural gas), based on a limited analysis of a one-year change from 2013 to 2014.

Q. Given the <u>one-way</u> Earnings Tests in place related to the Decoupling Mechanism, how important is it to establish the correct O&M growth escalation factors between services?

A. It is very important to establish the correct O&M escalation growth factors for each service. 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, because a low O&M escalation growth factor is used, there is no protection for the Company under these circumstances.

The average growth rate result proposed by Avista of 5.16% annually, as explained above, is reasonable, falling within the range of historical results of 4.32% and 5.99%. Staff's proposed 2.41% for electric, however, would significantly understate Avista's recovery of its planned electric expenses, and Avista's opportunity to earn the agreed-to ROE of 9.5% by the Parties.

VI. NWIGU ATTRITION MODEL

Q. Mr. Gorman, representing the Northwest Industrial Gas Users (NWIGU), provided testimony regarding Avista's natural gas Attrition Study. What is your response to this portion of his testimony?

A. Although there were several areas of clear misunderstanding by NWIGU witness Mr. Gorman regarding Avista's filed natural gas Attrition Study, I will address only

a few specific areas here[31]. In particular, Mr. Gorman at page 13, lines 11-13 of Exhibit No. __(MPG-1T) states:

> Ms. Andrews' attrition methodology adjusts costs to year-end 2016. It would have been more appropriate to have adjusted attrition cost to an average amount rather than a year-end amount.

Mr. Gorman then proceeds for several pages to discuss the unreasonableness of Avista's use of end-of-period (EOP) rate base for 2016, and that Avista's study should have been based on an average-year convention. As I will demonstrate below, Avista presented rate base on an AMA basis for 2016, and not 2016 EOP. Mr. Gorman apparently failed to properly understand the Company's testimony, or its filed Attrition Study exhibits.[32 / 33]

He also arbitrarily reduces depreciation and amortization expense, as well as O&M expense to reflect, what he believes to represent a mid-year 2016 test year. Again, Mr. Gorman failed to recognize what Avista's Study actually represented – net rate base adjusted to a 2016 AMA basis, and expenses adjusted to a calendar-year 2016 level of expenses – a correct level of rate base and expenses for the 2016 rate year.

On page 24, line 8 of my prefiled direct testimony, Exhibit No. __(EMA-1T), I explain how the Company developed its Attrition Studies as follows:

> The end-of-period December 31, 2014 plant and related items such as depreciation and property taxes need to be escalated one and one-half years to

[31] Mr. Norwood and Ms. Schuh within their rebuttal testimonies address certain other statements by Mr. Gorman.
[32] Mr. Gorman also did not ask a single data request regarding Avista's filed natural gas Attrition Study.
[33] Ms. Smith in her direct testimony also discusses how the Company included capital additions and adjusted total net rate base to a 2016 AMA basis to produce a Natural Gas "Cross Check" Study to support Avista's natural gas Attrition Study.

> determine the expected costs for AMA 2016 (i.e., from December 2014 to June 2016).[34] (Emphasis added)

In Avista's original filing it escalated net rate base (total plant-in-service, offset by, accumulated depreciation and accumulated DFIT) at EOP December 31, 2014 by 1.5 years to produce an AMA 2016 net plant result. Since depreciation expense was also adjusted to include annualized depreciation expense for the 2014 period, Avista escalated depreciation expense by 1.5 years as well to ensure it did not overstate depreciation expense during the 2016 rate year, matching plant additions. All other expenses represented by the O&M growth escalation factor, were multiplied by 2.25 to adjust a twelve month level of expenses at September 30, 2014 included in the "base costs," out 2.25 years, to reflect annual expenses for the 2016 rate year[35].

Mr. Gorman's reductions based on his misunderstanding would significantly understate the Company's need for rate relief in this case.

Q. Is there another issue in Mr. Gorman's testimony you wish to address?

A. Yes. Mr. Gorman also states at page 3, lines 4-6, Exhibit No. __(MPG-1T) that Avista "…based on its [Avista's] original filing, this methodology shows that Avista has a revenue surplus at year end 2014 of $215,000 (Column E page 3.)" Again Mr. Gorman misunderstands the results he is referring to. What Mr. Gorman fails to recognize is these

[34] While this is explained within the discussion related to the Company's electric Attrition Study results, I later explain, at page 33, lines 1-2 "The previous explanation of the exhibit pages and analysis for the electric Attrition Study are similar for the natural gas Attrition Study." The 1.5 year increase can also be seen within the natural gas Attrition Study results on page 11 of Exhibit No. __(EMA-3), lines 16A and 18A. Mr. Gorman's own native version provided for Exhibit No. __(MPG-3) shows the 1.5 year escalation growth of net plant after ADFIT and depreciation expense used before multiplying the % increase by .75%.

[35] In Avista's response to Staff Data Request 130, which used December 31, 2014 Commission Basis results, it adjusted both 2014 AMA net rate base by a two-year escalation to produce an AMA 2016 net plant result, as well as, adjusted the 2014 level of expenses by a two-year escalation, to reflect annual expenses in 2016. On rebuttal, this approach was consistently applied by both Staff and Avista to their proposed Attrition Studies.

results include the January 1, 2015 approved revenue increase from Docket No. UG-140189. These revenues are included **as if** they had been in place for the 2014 test period[36], in order to develop a starting point to determine the need for new rate relief. The Company under-earned in 2014 by $6.2 million, with an ROR of 5.76%, on a normalized basis, as shown on page 5 of Exhibit No. __(CRM-3), lines 54 and 48, respectively.

If Avista under-earned this significantly in 2014, it should be no surprise it continues to under-earn in 2015, and will continue to do so unless the revised Attrition Study adjustment, as proposed by the Company on rebuttal, is approved by the Commission in this proceeding.

Q. Does that conclude your pre-filed direct testimony?

A. Yes, it does.

[36] Mr. Gorman also adjusts the Company's net rate base at EOP December 31, 2014 downward to $243.1 million, as shown on page 2 of his Exhibit No. __(MPG-3), Column [E], line 47. This adjusted amount is significantly lower than Avista's actual December 31, 2014 AMA rate base of $250.3 million, as shown on Exhibit No. __(CRM-3), page 5, Column [A], line 47. This significant difference certainly would also impact Mr. Gorman's proposed trended net rate base results.