Exhibit No. __(KON-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-150204

DOCKET NO. UG-150205

REBUTTAL TESTIMONY OF

KELLY O. NORWOOD

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Kelly O. Norwood. I am employed by Avista Utilities as the Vice-President of State and Federal Regulation. My business address is 1411 E. Mission Avenue, Spokane, Washington.

Q. Would you please briefly describe your educational background and professional experience?

A. Yes. I am a graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. I joined the Company in June of 1981. Over the past 34 years, I have spent approximately 23 years in the Rates Department with involvement in cost of service, rate design, revenue requirements and other aspects of ratemaking. I spent approximately 11 years in the Energy Resources Department in a variety of roles, with involvement in resource planning, system operations, resource analysis, negotiation of power contracts, and risk management. I was appointed Vice-President of State & Federal Regulation in March 2002.

Q. Please provide an overview of your rebuttal testimony, and the rebuttal testimony of Avista in this proceeding?

A. After reviewing the testimony and exhibits of Staff and intervenors,[1] the Company considers the issues identified below to be the "core" issues remaining in these Dockets:

[1] The Company will refer to each of the parties in these Dockets as follows: the Staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Unit of the Washington Office of Attorney General (Public Counsel), the Industrial Customers of Northwest Utilities (ICNU), the Northwest Industrial Gas Users (NWIGU), and The Energy Project.

- **Use of attrition vs. the sole use of a modified historical test period with limited pro forma adjustments to determine revenue requirements,**

- **Updated electric and natural gas revenue requirements,**

- **Approval, in principle, of Advanced Metering Infrastructure (AMI), together with deferred accounting for retired meters,**

- **Recovery of "hours-based" major thermal maintenance that do not occur every year,**

- **Full recovery of Project Compass costs, and**

- **LIRAP funding.**

Although there are other issues that remain in these Dockets, these threshold or core issues are of significant importance to the outcome of this case. The manner in which they will be addressed in the Company's rebuttal filing is as follows:

<u>Attrition vs. Modified Historical Test Period with Limited Pro Forma Adjustments</u>

My rebuttal testimony will explain why an attrition analysis, as proposed by Avista and Staff, should be used to determine the electric and natural gas revenue requirements in these Dockets. I will also demonstrate why the sole use of a modified historical test period with limited pro forma adjustments, as proposed by Public Counsel, ICNU and NWIGU, will not produce revenue requirements that are sufficient to allow the Company an opportunity to earn the rate of return agreed to by the parties, and presented to the Commission, in the May 1, 2015, Multiparty Settlement Stipulation.

<u>Updated Revenue Requirements</u>

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. Avista and Staff are currently using essentially the same attrition model. Avista's updated natural gas revenue requirement is $10.0 million, as compared to Staff's proposal of $9.0 million. Avista's updated electric revenue requirement is an increase of $3.6 million, as compared to Staff's proposed decrease of $6.2 million. The primary difference between Avista and Staff's electric revenue requirements is Staff's use of an unreasonably low escalation factor for operations and maintenance (O&M) expense based on developing a "trend" of O&M for the <u>one-year</u> period from 2013 to 2014. I will provide an overview of the corrections/adjustments made by the Company and the resulting revenue requirements, and Company witness Ms. Andrews will provide additional details.

Advanced Metering Infrastructure (AMI)

In response to Staff and intervenor testimony related to Advanced Metering Infrastructure (AMI), I will explain the Company's proposal on rebuttal to agree to remove new plant investment and new operating expenses related to AMI in the determination of the electric and natural gas revenue requirements for the 2016 rate period. However, Avista plans to move forward with the implementation of AMI, absent a Commission order in these Dockets to the contrary. Avista is requesting, therefore, Commission approval of the Company's decision, in principle, to move forward with AMI, but with the understanding that Avista would present a showing in its next general rate case on the prudence of any new investment dollars and operating costs associated with AMI. I will also explain the significance and importance of Commission approval, in these Dockets, of the proposed accounting treatment related to the existing electric meters (not the new AMI meters). Absent this accounting treatment as part of this case, the AMI project would be delayed or terminated.

"Hours-Based" Major Thermal Maintenance

The testimony of Staff and ICNU address the "normalization" of certain major maintenance of thermal plants. For example, Avista's Coyote Springs 2 thermal generating plant requires a major overhaul every 24,000 hours, which occurs approximately every four years. Staff and ICNU propose to normalize, or smooth, this cost to customers by spreading the cost equally over a multi-year period. Their proposal, however, normalizes these costs for customers, but does not normalize it for the Company. Under their proposal, the Company would experience the full expense in the year it occurs, without cost recovery, which would cause it to under-earn its allowed return. My testimony will present a solution to normalize these costs for both customers and the Company, at no additional cost to customers.

Project Compass

Staff witness Mr. Gomez recommends a disallowance of a portion of the implementation costs of Avista's new Customer Care and Billing System (Project Compass). In Company witness Mr. Kensok's rebuttal testimony, he responds to the testimony of Mr. Gomez, and demonstrates that Avista's investment in Project Compass was prudently incurred and should be fully recovered.

Low Income Rate Assistance Program (LIRAP) Funding

The Staff, Public Counsel and the Energy Project proposed variations of a multi-year increase in funding for Avista's Low Income Rate Assistance Program (LIRAP). Company witness Mr. Ehrbar will explain Avista's support for a multi-year increase in funding for LIRAP, with certain modifications to the proposals presented by these parties.

In addition to the core issues identified above, I will offer some initial comments in response to the testimony of Staff and intervenors. I will also respond to testimony related to Avista's efforts to control costs. I will close with an introduction of other witnesses sponsoring rebuttal testimony on behalf of Avista, including identification of the topic areas each will cover.

A table of contents for my testimony is as follows:

Q. Are you sponsoring any exhibits that accompany your testimony?

A. Yes. I am sponsoring Exhibit Nos.___(KON-2) and (KON-3). Exhibit No.___(KON-2) is a copy of the January 2014 Standard and Poor's Ratings Services "Utility Regulatory Assessments for U.S. Investor-Owned Utilities". Exhibit No.___(KON-3) is a tabulation of a sample of the hundreds of compliance and reporting requirements of Avista. These exhibits will be discussed later in my testimony.

II. INITIAL COMMENTS

Q. What initial comments do you have in response to the testimony filed by Staff and intervenors?

A. At the outset, I would like to address three areas where there are statements or representations by the Staff and intervenors that are either incorrect or misleading, and which may cause the readers of their testimony to draw incorrect conclusions. The three areas are as follows:

1. **Correction of errors and changes in numbers since Avista originally filed its case.**

2. **The sufficiency of evidence provided by Avista in its initial filing, and through discovery.**

3. **Avista's earned returns for 2013 and 2014, and related conclusions to be drawn.**

Correction of Errors and Changes in Numbers Since Avista Originally Filed its Case

Q. What is the Company's response to Staff and intervenor testimony regarding errors[2] in the original filing, and other changes to numbers?

A. Some of the changes in numbers since our original filing are indeed corrections of errors. Other changes are due to known changes and updated information subsequent to the filing. And other changes represent updated information specifically requested by one or more of the parties to this case through discovery.

Staff and intervenor testimony references to errors may lead one to believe that Avista's original filing was plagued with errors. It was not. Our regulatory filings are prepared and/or reviewed by experienced Avista staff with attention to detail. In spite of

[2] E.g., Testimony of Staff witness Mr. McGuire, Exhibit No.___(CRM-1T), page 44, line 14, and Testimony of Public Counsel witness Ms. Ramas, Exhibit No.___(DMR-1T), page 6, line 9.

efforts to create a "clean" filing, errors can and do occur, but there are not an inordinate number of errors by the Company in these Dockets – and, indeed, they do not account for the majority of items otherwise reducing the revenue requirement. Nor are we surprised to see errors in the testimony and exhibits filed by Staff and intervenors. As an example, pages 4 and 5 of Staff McGuire's Exhibit No. _____ (CRM-2) include multiple errors as follows:

1. Staff proposed 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.

2. In column L, line 27 of page 5, Mr. McGuire failed to include the Restate Debt Interest amount for Project Compass.

3. And in column M, lines 32 and 38, the formulas in the total column are incorrect and fail to include amounts in column L.

We know these errors are not intentional and simply need to be identified and corrected so that all parties and the Commissioners have accurate information upon which to make decisions. As Avista discovered errors on its own, subsequent to the filing, or became aware of them through the discovery process, we notified the parties and provided corrected information, irrespective of whether the corrections increased or decreased revenue requirement.

With regard to other changes in numbers during the pendency of the case, our practice is to be transparent with any known changes or updated information. The Commission has previously expressed its desire to base its decisions on the best available information. In its Order No. 04 in Dockets UE-080416 and UG-080417, at paragraph 7, the Commission stated as follows:

> In the PSE proceeding, PSE's motion to file supplemental testimony was granted with the presiding officer concluding that "[T]he commission's paramount interest is

> in having a full record with the best available evidence upon which to base its decisions." The presiding officer went on to consider PSE's motion by application of a balancing test considering the Commission's interest in having current information against the parties' needs to have an adequate opportunity to conduct discovery and prepare their own testimony and exhibits.

Throughout this case we have continued to provide updated information for any material changes that would affect revenue requirement, up or down. Two examples include 1) the decrease in power supply costs, both as reflected in the May 1, 2015, Multiparty Settlement Agreement, as well as subsequent to that date, and 2) the update to our Production/Transmission Allocation Formula, which occurred in late January 2015, after completing our revenue requirement, and which shifted costs from our Washington jurisdiction to the Idaho jurisdiction, and reduced our Washington electric revenue requirement.

Q. Beginning on page 44, line 14 of his testimony, (Exhibit No.___(CRM-1T)), Mr. McGuire describes the reduction in Avista's electric revenue requirement from $33.2 million to $10.0 million, and the reduction in the natural gas revenue requirement from $12.0 million to $9.7 million. He goes on to say on page 45, line 2 that these lower revenue requirement amounts "represent what Avista should have provided in its direct case." This same statement is repeated by UTC witness Mr. Hancock on page 6, line 2 (Exhibit No.___(CSH-1T)). Is this an accurate statement?

A. No. The majority of the reduction to revenue requirement was the result of updated information subsequent to Avista's February 9, 2015 filing, or the result of negotiations related to the May 1, 2015 Multiparty Settlement Agreement. Therefore, these lower numbers clearly do not "represent what Avista should have provided in its direct case."

Q. Mr. Gomez expresses concerns regarding changes in the dollar amounts of the costs to complete individual projects, and changes in the timing of the completion of capital projects.[3] What is your response to this testimony?

A. The changes in numbers and changes in timing that Mr. Gomez is expressing concerns about is a reflection, in large part, of the actions taken by Avista to do precisely what the Commission would expect the Company to do. As Company witness Mr. Thies explained in his testimony,[4] Avista has limited its annual capital spend to a specific total dollar amount, which has been consistently less than the total capital spend requested by the departments. Avista provided the overall level of capital investment and the total amount of capital requests for 2011-2014 in its response to ICNU Data Request No. 109, which is provided in Table No. 1 below:

Table No. 1 – Capital Investment and Capital Requests[5]

Year	Actual Capital Investment	Total Requests	Funded Requests	Unfunded Requests
2011	$247	$291	$230	$61
2012	$262	$269	$250	$19
2013	$296	$320	$266	$54
2014	$352	$386	$331	$55

As a result of this constrained capital spend level, capital projects must be prioritized so that the dollars flow where they are most needed. As unexpected, high-priority capital projects arise, the capital projects for the year must be reprioritized to limit the total spend to

[3] E.g., Testimony of Staff witness Mr. Gomez, Exhibit No.___(DCG-1T) page 12, line 13, and page 38, line 3.
[4] Testimony of Avista witness Mr. Thies, Exhibit No.___(MTT-1T), page 9, lines 17-23.
[5] Actual capital investments include productivity and strategic capital projects in which funding decisions are made throughout the year and are not included in the initial requests for funding. Capital investments in 2013 and 2014 also include spend in excess of the original request for customer hook-ups due to actual customer hook-ups exceeding the original forecasted number.

the amount established by the Company and approved by the Board of Directors. This can cause some projects to be delayed so that higher-priority projects can be completed.

In addition, some scheduled capital projects will encounter unexpected delays due to such things as permitting issues, delays in receipt of materials and equipment, etc. A delay in one project may allow another project to be accelerated in time as part of managing the availability of our workforce and to continue to make progress on projects next in the "queue" that need to be done. This reprioritization occurs within the Capital Planning Group, which meets monthly to review the status of capital projects, and is charged with ensuring that the total capital spend for the year stays within the limit established by the Company's Board of Directors. The role of the Capital Planning Group was explained in Company witness Ms. Schuh's direct testimony beginning on page 4 (Exhibit No.___KKS-1T)), and additional details of the capital planning and reprioritization process were provided by Avista in response to Public Counsel's Data Request No. 072 as follows:

> The Business case summary documents provide support and analysis for a capital project or program. They are created at the beginning or planning phase of the project, are a summary of the projects for project review and approval, and do not reflect updates or changes throughout the project life unless there are significant changes to the dollars or scope of the project. The Capital Planning Group (CPG) reviews the status of projects when the project owners submit funding changes (requests for additional funds or release of funds) based on the timing of equipment, permits, available crews, priorities of projects, etc. The CPG approves or declines the requests based on managing a total budget amount. Therefore, as timing, project priorities and other changes discussed above occur throughout the project, project funding may change, or one project may be funded while another is removed or delayed to allow higher priority projects to be funded, while remaining within the total approved capital budget amount. This is shown in the Company's response to ICNU_DR_202 where the Company has an average actual spend of 101% of the planned capital expenditures.

Q. Has the Company provided evidence that it manages the total capital spend for each year to the planned dollar limit?

A. Yes. Page 6 of Ms. Schuh's direct testimony (Exhibit No.___KKS-1T)) includes a table showing both the planned capital spend and the actual spend for each year from 2006 to 2014. An updated table was provided by the Company in response to ICNU Data Request No. 202, which is provided below. Table No. 2 below shows the Company's average actual spend for this period was 101% of the planned spend, and ranged from 88% to 108%.

Table No. 2 - Planned vs. Actual Expenditures

	Planned Expenditures ($ millions)	Actual as a Percentage of Planned
2006	$160.00	99%
2007	183.10	108%
2008	190.00	108%
2009	220.00	91%
2010	235.00	88%
2011	260.00	95%
2012	255.00	103%
2013	275.00	108%
2014	336.00	105%
Nine Year Average	$234.90	101%

These data demonstrate that, although individual project timing and dollar amounts will vary within a year, and will sometimes carry over from one year to the next, the Company manages its overall spend to be close to the overall planned amount.

Q. Did the Staff and intervenors identify any completed or planned capital projects that the Company either should not have done, or should not do, other than AMI?

A. No. To my recollection, in reading all the testimony, the parties did not express opposition to any specific capital projects other than AMI.

<u>The Sufficiency of evidence provided by Avista in its initial filing, and through discovery</u>

Q. In its testimony, Staff expressed concerns about "inadequate documentation" and supporting evidence provided by Avista related to its planned capital additions.[6] Do you agree that Avista was deficient with its supporting evidence?

A. No. Avista provided extensive evidence in these Dockets supporting its proposed revenue adjustments, especially with regard to current and planned capital additions. Company witness Mr. Kinney provides details related to generating plant capital additions, Company witness Mr. Cox for transmission plant, Mr. Kensok for information technology, and Ms. Schuh for common plant and other capital investment.[7] We provided a significant amount of supporting information in our pre-filed case, and provided even more detail in response to discovery requests by the parties.

In fact, this is one instance where I agree with Mr. Mullins' testimony on page 23, line 3, (Exhibit No.___(BGM-1T)) where he states:

> While the Company presented <u>a voluminous amount of data</u> for the 150 capital projects proposed for 2015 and 2016, it would be impractical within the scope of the evidentiary record in this proceeding for the Commission to evaluate the merits of each and every pro forma capital project proposed by the Company. (emphasis added)

Later in my testimony I will address the issue of "pro forma adjustments" and the purpose for the Pro Forma Cross Check Study, but with regard to the evidence in these

[6] Exhibit No.___(CRM-1T) page 12, line 17; and page 23, line 10.
[7] The Company's direct case included four witnesses who covered numerous capital projects, descriptions and dollar amounts (See Exhibit Nos.__(JMK-1T), ___(JMK-2)-(JMK-5), ___(SJK-1T), ___(BAC-1T),__(KKS-1T)-(KKS-4). Business cases were also included for all projects in our direct filing in Exhibit No.___(KKS-5), totaling more than 300 pages of information.

Dockets related to the capital projects that will occur during 2015 and 2016, the Company clearly provided extensive documentation.

With regard to the parties opportunity to review this information during the pendency of a case, a review by the Staff and other parties normally involves an "audit." An audit would entail drawing a sample of projects and conducting a review of these projects. This sample could include some of the larger dollar projects, and/or some of the projects for which Staff may be less familiar from their prior reviews of Avista's capital projects.

In the five and one-half months from Avista's February 9th filing to the Staff and intervenor filing date of July 27th, there was a significant amount of time to audit a meaningful sample of the capital projects, especially given the extensive supporting information the Company provided in its original filing to assist in identifying the sample.

Avista's Earned Returns for 2013 and 2014 and Related Conclusions to be Drawn

Q. Please explain your response to Staff and intervenor testimony regarding Avista's earned returns for 2013 and 2014, and the conclusions that can be drawn from those results.

A. Staff and intervenors claim that Avista over-earned during 2013 and 2014, and then suggest that conclusions can be drawn from those results that directly affect the proposed revenue adjustments for 2016.[8] It is important that the record be clear on this topic, especially with regard to the conclusions that should, and should not, be drawn related to the ultimate electric and natural gas revenue adjustments that are approved in these Dockets.

[8] Exhibit No.___(CRM-1T) page 10, line 3, Exhibit No.___ (DMR-1T) page 25, line 1, and Exhibit No.___ (BGM-1T), page 8, line 12.

For 2013 and 2014, Avista's normalized returns on equity for its electric and natural gas operations were as shown in the table below. Actual earned returns are affected by temperature impacts on retail sales, storms and their impact on operation and maintenance (O&M) expenses, and the impact of varying hydro-electric generation on power supply costs (that fall within the deadband of the Energy Recovery Mechanism), etc. All of these abnormal conditions are normalized out for ratemaking and for the Company's Commission Basis Reports filed annually with the Commission, therefore normalized results are the appropriate measure.

Table No. 3 – 2013 and 2014 Earned Return on Equity

	Electric ROE	Natural Gas ROE	Total Utility (Weighted)
2013	9.9%	7.2%	9.5%
2014	10.6%	6.4%	9.9%
Two-Year Rate Plan Wtd ROE	10.3%	6.9%	9.7%

Table No. 3 shows that Avista over-earned for its electric operations and under-earned for its natural gas operations. But for Avista's Washington utility operations as a whole, the results were 9.5% for 2013 and 9.9% for 2014, as compared to the authorized ROE of 9.8%. In December 2012 the Commission approved a two-year rate plan for 2013 and 2014. Avista's average ROE for the two-year period was 9.7% as compared to the authorized return of 9.8%. These results indicate that the revenue adjustments approved for Avista by the Commission for 2013 and 2014 were very close to what they should have been in order to allow Avista an opportunity to earn its allowed return. In fact, the numbers show that, on a normalized basis, shareholders slightly under-earned during the two-year rate plan approved by the Commission. Although Avista would prefer to achieve an earned return opportunity that matches its allowed ROE for both the electric and natural gas operations separately, whether through settlement or litigation, it is sometimes difficult to achieve in the give and take and complexity of the ratemaking process.

Q. Beginning on page 9, line 18 of his testimony, NWIGU witness Mr. Gorman, (Exhibit No.___MPG-1T)), addresses the recent comments of rating agencies (Standard & Poor's and Moody's), and on page 18 Mr. Gorman states that, "They both acknowledge that Avista's last rate settlement was constructive for the utility, . . . " Do you agree that the recent rate case settlements approved by the Commission for Avista were constructive and were viewed positively by the rating agencies?

A. Yes. And it is important to recognize <u>why</u> they were viewed positively. With regard to the most recent rate case settlement filed with the Commission on August 18, 2014, Moody's had the following comments in its August 21, 2014 report:

> The rate settlement, if approved, would also indicate improved regulatory support for Avista since traditional rate making in Washington has made limited use of special cost recovery mechanisms and has incorporated <u>the use of historical test years (i.e., setting future rates to recover historical cost levels). The historical regulatory treatment frequently resulted in Avista having revenue levels that lagged real-time cost recovery and resulted in the Company achieving returns on equity (ROE) below those allowed by the WUTC. For example, Avista was often allowed ROE of around 10%, but would only be able to achieve an actual ROE of 7%-8% because of cost inflation</u>.[9] (emphasis added)

The rating agencies have recognized that the revenue increases granted in Avista's last two general rate cases took into consideration the impacts of attrition, i.e., that investment and operating costs are growing faster than revenue growth. Although the settlement agreement in the last case, with rates effective January 1, 2015, did not include agreement on an attrition methodology or a specific attrition adjustment, increased revenues

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[9] Moody's Investors Service, Issuer Comment, August 21, 2014, "Avista's Rate Case Settlement is Credit Positive."

associated with the effects of attrition were embedded in the final "black box" revenue requirement numbers.

And in the prior settlement with a two-year rate plan for 2013 and 2014, increased revenues associated with the effects of attrition were embedded in the end result. In its order approving that settlement agreement, the Commission stated as follows:[10]

> Here, both the Company and Staff performed attrition studies to project 2013 rates. We agree with the Company and Staff that the proposed 2013 rate increase is based significantly on attrition.

And in paragraph 72 of the same Order the Commission stated:

> While the Company and Staff have each submitted attrition studies that justify the 2013 increase, they did not submit such studies for the 2014 increase, which also is justified substantially on anticipated continued attrition. Rather, they argue that the trends of attrition from 2013 will continue through 2014, thereby justifying a further rate increase. For the purposes of this Settlement, we accept the trending analysis from both Staff and Avista.

The earned ROEs for Avista for 2013 and 2014 of 9.5% and 9.9%, respectively, are an after-the-fact confirmation that the revenue increases granted based on recognition of attrition provided earned returns very close to the authorized ROE of 9.8%. Without the recognition of attrition, Avista's earned returns for 2013 and 2014 would have been substantially below its authorized return, as noted by Moody's in their comments above.

Q. What were the earned returns for Avista's utility operations in Washington prior to 2013, where the revenue adjustments approved by the Commission did not factor in the attrition being experienced by Avista?

A. The bar chart in Illustration No. 1 below shows Avista's earned ROE each year from 2008 to 2014 for our combined electric and natural gas operations in the State of Washington, on a normalized basis from the Company's annual Commission Basis Reports.

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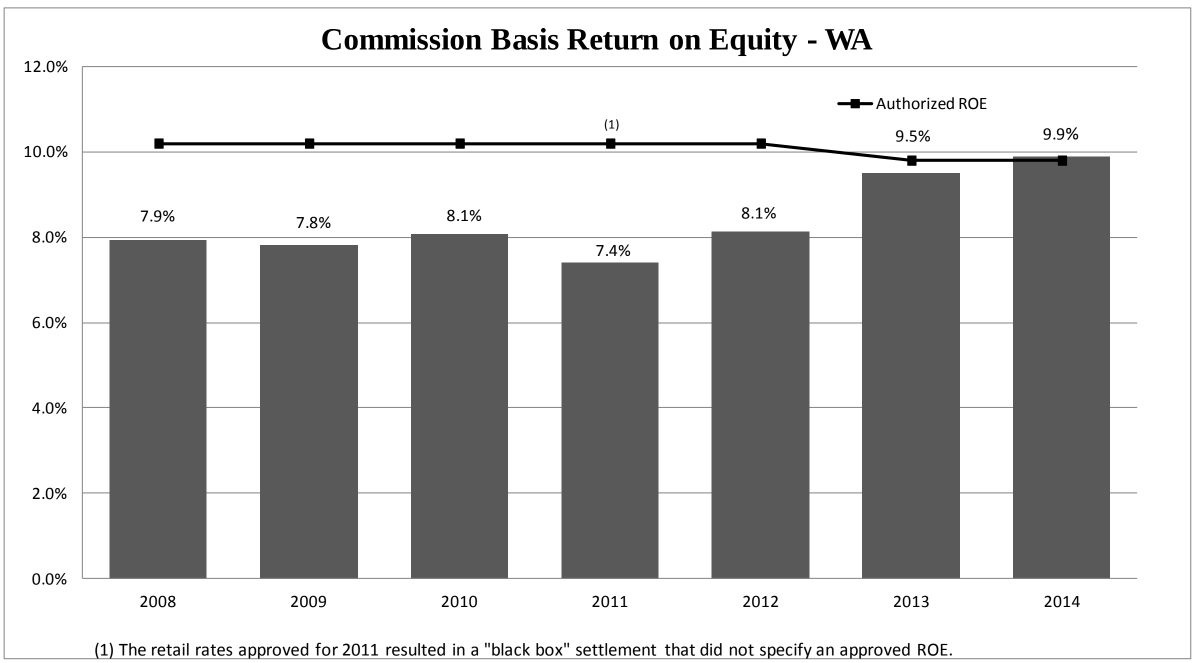
[10] Paragraph 70 of Order 14, dated December 26, 2012, in Dockets UE-120436 and UG-120437.

In developing these reports, which are filed on or before April 30th each year, Avista normalizes the operating results to determine what its ROE would have been if the Company had experienced normal operating conditions, including, among other things, normal temperatures, normal hydroelectric conditions and wholesale electric prices, removal of prior period adjustments, etc.

The bar chart shows that all of the normalized ROEs for 2008 to 2012 were well below the ROEs approved by the Commission as being reasonable. The earned returns in 2013 and 2014 represent a marked improvement over the prior years, and are very close to the ROE approved by the Commission.

Illustration No. 1:



Both Avista and Staff have provided substantial evidence in these Dockets that the Company will continue to experience attrition from the 2014 test period to the 2016 rate year. In order for Avista to have a reasonable opportunity to earn a fair return in 2016, the effects of attrition must be included in the determination of the electric and natural gas revenue requirements.

Q. On page 11 of his testimony, (Exhibit No.___MPG-1T)), Mr. Gorman presents Standard & Poor's (S&P's) assessment of the level of credit support provided by the Washington Commission as follows:

> **For example, S&P in a report titled "Utility Regulatory Assessments for U.S. Investor-Owned Utilities," categorizes the Washington Commission in the "Strong/Adequate" assessment of the regulatory environment in Washington. Based on S&P's view, Washington falls into the second most investor supportive category, where a majority of the state jurisdictions fall.**

Q. Do you agree with his representation of this S&P report?

A. No. Mr. Gorman's presentation is misleading. Although S&P has chosen to place all 50 states within three categories, with the majority of the states in the "Strong/Adequate" category, S&P was also clear that the states were listed <u>in rank order from most credit supportive to least credit supportive</u>, with 1 being most credit supportive and 50 being least credit supportive. In this S&P report referenced by Mr. Gorman, Washington is listed as 45th out of the 50 states, and therefore, at the time of this report, Washington was viewed by S&P as being one of the least credit supportive regulatory jurisdictions in the United States. A copy of this S&P report is attached as Exhibit No. ___ (KON-2).

It is noteworthy, however, that the date of this report is January 2014. I believe the flexibility of the Washington Commission in the last couple of years to respond to the attrition being experienced by Washington utilities, and to provide revenue adjustments to address this attrition, is not fully reflected in this ranking. S&P has not issued an updated Regulatory Assessment Report since January 2014.

If, however, the Commission were to adopt the recommendations of Public Counsel, ICNU and NWIGU to base the revenue requirements in this case solely on the historical test period with limited pro forma adjustment, it would represent a reversion to the 2008 to 2012 period shown in Illustration No. 1 above, where the Company would suffer, in Staff's words, "significant attrition" and Avista's earned return would be well below the authorized level.

Later in my testimony I will illustrate the significant shortfall in earnings that Avista would experience using the revenue requirement recommendations of Public Counsel, ICNU and NWIGU.

III. ATTRITION VS MODIFIED HISTORICAL TEST PERIOD WITH LIMITED PRO FORMA ADJUSTMENTS

Q. Please briefly summarize the revenue requirement proposals by the Company, Staff and intervenors, and how each party arrived at their proposals.

A. The revenue adjustments proposed by each party are summarized below, along with a brief description of the ratemaking approach used.

Avista

Electric:	$3.6 million revenue increase (rebuttal proposal)
Natural Gas:	$10.0 million revenue increase (rebuttal proposal)
Method:	Attrition analysis, with Pro Forma Cross Check Study to confirm the reasonableness of the attrition study

Staff

Electric:	($6.2) million revenue decrease
Natural Gas:	$9.0 million revenue increase
Method:	Historical test period with limited pro forma adjustments, plus attrition adjustment

Public Counsel

Electric:	($29.7) million revenue decrease
Natural Gas:	$3.3 million revenue increase
Method:	Historical test period with limited pro forma adjustments

ICNU

Electric:	($17.4) million revenue decrease
Method:	Historical test period with limited pro forma adjustments

NWIGU

Natural Gas:	No revenue adjustment
Method:	Recommended $0 revenue requirement, but no pro forma case presented; in the alternative, an attrition adjustment of $3.6 million.

As indicated by the summary above, Avista and Staff support the use of attrition, and Public Counsel, ICNU and NWIGU recommend the sole use of a historical test period with limited pro forma adjustments.

Q. Why should the electric and natural gas revenue adjustments in these Dockets be approved by the Commission based on an attrition analysis as proposed by Avista and the Staff, instead of based solely on a historical test period with limited pro forma adjustments?

A. **First**, the after-the-fact earned returns from 2013 and 2014 confirm that incorporating attrition in setting retail rates for 2013 and 2014, as proposed by Avista and Staff, was necessary in order for Avista to have the opportunity to earn its allowed return. The rating agencies recognized this positive change in ratemaking, as noted earlier. Staff presented analyses and sponsored testimony supporting revenue increases for 2013 and 2014 that incorporated the impacts of "significant attrition," in Docket No. UE-120436 and stated that attrition for Avista "is present and ongoing." [11] Staff testimony presented in that Docket stated:

> Q. Please explain why Staff believes the rate increases in 2013 and 2014 are reasonable.

[11] Docket Nos. UE-120436 et. al, Joint Testimony, page 26, lines 14-16.

A. First, Staff's attrition analysis shows Avista is experiencing significant attrition in its utility operations. This is not a one-time phenomenon, because the historical trends demonstrate attrition is present and ongoing. (Id.)

Second, both Avista and Staff have presented substantial evidence in these Dockets that Avista continues to experience attrition, and if attrition is not reflected in the rates established in this case, revenues will not be sufficient for Avista to earn its allowed return. On page 9 of his direct testimony, Exhibit No.___(CRM-1T), beginning on line 14, Mr. McGuire states as follows:

> For this case, Staff determined that the revenue requirement calculated using a modified historical test period was insufficient for both electric and natural gas service.[12] Therefore, Staff recommends the Commission exercise its discretion in setting rates and provide an attrition allowance for both electric and gas service.

And on page 28, line 8 Mr. McGuire stated:

> Given that the rates calculated using a modified historical test year generate revenues that fall short of those necessary to provide Avista with a reasonable opportunity to earn a fair rate of return, Staff recommends the Commission provide Avista with an attrition allowance of $14.7 million for electric operations and $5.4 million for natural gas operations. This dollar amount corresponds to the difference between Staff's pro forma revenue requirement and the revenue requirement calculated using Staff's attrition analysis.

Third, the Commission has not limited itself, or the parties, to a single method to determine revenue requirements. RCW 80.28.010(1) (Duties as to Rates, Services, and Facilities) provides that "all charges made, demanded or received by any gas company, electrical company . . . shall be just, fair, reasonable and sufficient." (See also RCW 80.28.020) As the Supreme Court explained in the Hope Natural Gas case, the requirement that rates be "fair, just and reasonable" does not define a method by which rates are to be

[12] [Referenced Footnote] "Staff witness Mr. Hancock prepared Staff's pro forma revenue requirement analysis. Holding to the Commission's longstanding practice of using a modified historical test period with limited pro forma adjustments, his analysis generated a reduction in electric revenue requirement of $20.9 million and an increase in natural gas revenue requirement of $3.6 million."

calculated; instead, the fixing of fair, just and reasonable rates involves a balancing of investor and consumer interests.[13] The "end result" must be reasonable.

In its Order 08, dated May 7, 2012, in Dockets UE-111048 and UG-111049, the Commission stated as follows related to the use of an attrition adjustment:

> We nevertheless find it appropriate to discuss the subject because an attrition adjustment is one among the several possible responses the Commission could make to address a demonstrated trend of under earning due to circumstances beyond the Company's ability to control. This form of adjustment was available to utilities during the early 1980's in an environment of exceptional inflation and high interest rates; it is equally available today if shown to be a needed response to the challenges posed by PSE's current intensive capital investment program to replace aging infrastructure.

As noted earlier, in Order 14, dated December 26, 2012, in Avista Dockets UE-120436 and UG-120437, the Commission approved a settlement agreement that included revenue increases that were based, in large part, on attrition:

> Here, both the Company and Staff performed attrition studies to project 2013 rates. We agree with the Company and Staff that the proposed 2013 rate increase is based significantly on attrition. (Paragraph 70)

An example of another method recently approved by the Commission, in Docket Nos. UE-130137 and UG-130138, the Commission approved, through a Puget Sound Energy Expedited Rate Filing (ERF Filing), a "K-Factor" Mechanism. This K-Factor Mechanism is designed to accomplish the same thing as an attrition adjustment. In general terms, in the ERF Filing the historical test year is initially reviewed to determine whether the utility under-earned or over-earned on a normalized basis during that historical period. The revenue adjustment necessary for the utility to earn its authorized rate of return for the historical test period is calculated.

[13] Fed. Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944)

Next, trends in the growth rates of rate base, expenses, and revenues over time are assessed to determine a K-Factor. The historical test year normalized revenue-per-customer is escalated by this K-Factor for the number of years from the historical test year to the prospective rate year, which provides increased revenues to the utility. This K-Factor is representative of the difference in the annual growth rates of rate base and expenses versus revenues. For example, if the costs associated with rate base and expenses (weighted together) are growing at an annual rate of 4% per year, and revenues are growing at 1% per year, revenues would need to increase by the difference between the two, which is 3% per year, i.e., a K-Factor of 3%.

Similar to the attrition adjustment produced by the attrition study, the K-Factor Mechanism determines the revenue increase necessary to provide the utility with the opportunity to earn the allowed rate of return during the prospective rate year, accounting for the fact that rate base and expenses will grow at a faster pace than revenue.

Fourth, the use of an attrition analysis is fully consistent with the principles of ratemaking. In her direct testimony, Ms. Andrews presented some of the principles included in the Rate Case and Audit Manual prepared by the NARUC Staff Subcommittee on Accounting and Finance.[14] The following principles, among others, directly address the attrition Avista is experiencing, and support the use of appropriate adjustments (including an attrition adjustment) to ensure that new retail revenues resulting from a general rate case provide the utility with a reasonable opportunity to earn a fair return.

> In looking at the months beyond the end of the test year, have the growth rates for rate base, expenses, and revenues all remained fairly close and constant, maintaining the test year relationship among these three elements, or has one element changed dramatically, making the test year out of kilter with current operations? If so, can this

[14] Testimony of Elizabeth M. Andrews, Exhibit No.___ (EMA-1T), page 10.

situation be resolved through adjustments to the test year? (Page 10 of the Audit Manual) (emphasis added)

Whether using a future or historic test year, the auditor should judge the <u>appropriateness</u> of the test year that has been proposed. <u>Is it representative, after adjustments, of the period in which rates take effect?</u> (Page 10 of the Audit Manual) (emphasis added)

In these Dockets, both Avista and Staff have found that with the sole use of the traditional pro forma adjustments, the revenues will not be sufficient during "the period in which rates take effect." Again, Mr. McGuire in Exhibit No.___(CRM-1T) stated on page 9, line 14:

For this case, Staff determined that the revenue requirement calculated using a modified historical test period was insufficient for both electric and natural gas service. Therefore, Staff recommends the Commission exercise its discretion in setting rates and provide an attrition allowance for both electric and gas service.

The use of an attrition analysis and attrition adjustment is also fully consistent with the matching principle. Through the attrition analysis, changes in rate base, operating expenses and revenues between the historical test period and the prospective rate year are all captured in the analysis, and provide for a matching during the prospective rate period.

Q. There are a number of references in intervenors' testimony to the recent March 2015 UTC order in the Pacific Power & Light (PP&L) rate case, and more specifically, Mr. Mullins on page 21, line 12 of his testimony, (Exhibit No.___(BGM-1T)), states that, "the facts in this case are not materially different than in the 2014 Pacific Power general rate case." Do you agree with Mr. Mullins?

A. No. The facts in this case are <u>very different</u> than in the PP&L case. In the PP&L case the Commission found that the Company did not present evidence demonstrating that it was experiencing attrition. In paragraph 146 of Order 08 in Docket UE-140762, the Commission found:

> The Company did not present persuasive evidence that it is suffering attrition in earnings. In particular, the Company did not present an attrition study. Moreover, the fact that the Company failed in the past to earn its authorized return cannot justify use of EOP absent a showing that, due to factors beyond the Company's control, the Commission can expect this condition to continue into the future. There is no such evidence in the record of this case. (emphasis added)

In contrast to the PP&L case, both Avista and Staff have presented substantial evidence in these Dockets that Avista has been and will continue to experience attrition, and that an attrition adjustment is necessary and appropriate for Avista.

In addition, Commission approval of an attrition adjustment for Avista in this case is fully consistent with the Commission's statements in paragraph 19 of the same Order:

> Although "not bound to the use of any single formula or combination of formulae in determining rates"[15] we must find on the basis of the record three things:
> - What levels of prudently incurred expenses the Company will experience during the rate year.
> - The amount of the Company's "rate base."[16]
> - An appropriate rate of return on that rate base. (emphasis added)

And with regard to the determination of retail rates on a prospective basis, the Commission stated in the PP&L Order as follows:

> In statutory parlance, whenever the Commission finds, after a hearing, that a utilities rates are "unjust, unreasonable, unjustly discriminatory or unduly preferential," or that its rates "are insufficient to yield a reasonable compensation" to the utility, the

[15] *Hope*, 320 U.S. at 602. Expanding on this point, the Court said:

> Under the statutory standard of 'just and reasonable' it is the result reached not the method employed which is controlling. It is not theory but the impact of the rate order which counts. If the total effect of the rate order cannot be said to be unjust and unreasonable, judicial inquiry under the Act is at an end. The fact that the method employed to reach that result may contain infirmities is not then important.

Id. This language, embodying the familiar "end result" test, is universally recognized as an important guiding principle in utility ratemaking throughout the United States.

[16] Footnote omitted.

Commission must "determine the just, reasonable, or sufficient rates" to be effective prospectively. (emphasis added) (Order 08, paragraph 18, Docket UE-140762)

Q. On page 15 of her testimony (Exhibit No.___(DMR-1T)), beginning on line 4, Ms. Ramas suggests that Avista could file an ERF filing to address attrition and states: "Additionally, it is my understanding that Avista could request an Expedited Rate Filing (ERF). Use of an ERF would reduce regulatory lag if Avista does end up experiencing attrition in future periods." What is your response to this testimony?

A. As I explained earlier, there are two steps or components to Puget's ERF filing. The first step is to review the historical test year to determine whether the utility under-earned or over-earned on a normalized basis during that historical period. The revenue adjustment necessary for the utility to earn its authorized rate of return for that historical period is then calculated. Setting prospective rates through use of historical costs through these ERF calculations would not address the attrition problem in an environment where, as we have demonstrated, annual costs and investment are growing at a faster pace than revenues.

If, however, Ms. Ramas' intention in her testimony was that the second component of Puget's ERF Filing, the K-Factor, would then be applied prospectively to the historical test period numbers, then that would lead us right back to an attrition analysis. As explained earlier, trends in the growth rates of rate base, expenses, and revenues over time are assessed to determine a K-Factor. The historical test year revenue per customer is escalated by this K-Factor for the number of years from the historical test year to the prospective rate year, which provides increased revenues to the utility. Similar to the attrition adjustment produced by the attrition study, the K-Factor analysis determines the revenue increase necessary for the utility to earn the proposed rate of return during the prospective rate year, accounting for the fact that rate base and expenses will grow at a faster pace than revenue.

Q. On page 9 of his testimony (Exhibit No.___(BGM-1T)), beginning on line 14, Mr. Mullins states that, "by filing annual rate cases, the Company is mitigating the impact of regulatory lag and the need for extraordinary relief through an attrition adjustment." Do you agree?

A. No. Mitigating attrition has less to do with the timing and frequency of general rate case filings, and more to do with the effectiveness of the methods used to establish retail rates for the prospective rate period. As explained immediately above, irrespective of the frequency of the rate cases, if <u>prospective rates</u> are established using <u>historical costs with limited pro forma adjustments</u>, it will result in insufficient revenues for the Company in the current and future environment where annual costs and investment are growing at a faster pace than revenues. The analysis presented in these Dockets by Avista and the Staff confirm this.

Q. On page 22 of her testimony (Exhibit No.___(DMR-1T)), beginning on line 12, Ms. Ramas suggests that decoupling, the Purchased Gas Adjustment (PGA), and the Energy Recovery Mechanism (ERM) will "offset the impacts of attrition and potential regulatory lag." Do you agree?

A. No. Ms. Ramas apparently does not understand what decoupling, the PGA and the ERM are designed to do. <u>None</u> of the mechanisms have anything to do with new rate base investment, which is the primary driver of Avista's attrition. No rate base items are tracked through decoupling, the PGA or the ERM.

A secondary driver to attrition are the increases in utility operating costs, excluding power supply costs and natural gas commodity costs. None of these utility operating costs are tracked through decoupling, the PGA or the ERM. The PGA mechanism operates independently of base natural gas retail rates, and has no mitigating effect on attrition. The ERM tracks differences in power supply costs (fuel, power contract costs, wholesale market price impacts, etc.) between rate cases, and is independent of the drivers of attrition.

The decoupling mechanism tracks changes in revenue directly related to variances in use-per-customer following a general rate case. The decoupling adjustments true-up the actual retail revenues, after-the-fact, to what was originally approved in the general rate case. If the retail revenues established in the general rate case are, for example, set too low (i.e., excluding the impacts of attrition), the decoupling mechanism will simply true-up the actual revenues to the originally-established revenues set in the rate case, which are too low. Decoupling does not mitigate attrition.

Q. On page 11 of his testimony (Exhibit No.___(BGM-1T)), Mr. Mullins presents data showing the downward trend in natural gas commodity costs and suggests that this commodity cost trend is relevant to the attrition analysis in these Dockets. He makes reference to the "potentially illogical results that can occur by blindly relying on historical trends to establish a forecast." What is your response to this testimony?

A. First, the trend in <u>commodity costs</u>, up or down, has nothing to do with the attrition Avista is experiencing. As stated earlier, the primary driver of attrition is new capital investment and increases in utility operating costs, excluding power supply commodity costs and natural gas commodity costs. Therefore, Mr. Mullins commodity cost trend is completely unrelated to the attrition issue.

Second, as is evident in the pre-filed testimony and exhibits of Avista and the testimony and exhibits of the Staff, neither Avista nor the Staff engaged in "blindly relying on historical trends." Significant analysis went into the determination of the appropriate attrition adjustments.

Q. Staff and intervenors expressed criticism of Avista's Pro Forma Cross Check Study.[17] What is your response to this testimony?

A. With regard to Avista's Pro Forma Cross Check Study it is important to recognize both what it is, and what it is not. As Avista explained in its pre-filed case,[18] and Mr. Hancock recognized on page 7, line 8 of his testimony (Exhibit No.__(CSH-1T)), "The Company's pro forma case is only intended to support the 'reasonableness of the electric and natural gas Attrition Study results.'" (emphasis added) Avista's requested revenue requirements in these Dockets are not based on the Pro Forma Cross Check Study, but based on the attrition analysis.

Mr. McGuire described Staff's analysis to "bend and whittle the Company's pro forma case to conform to the parameters of the Commission's standard modified historical test year."[19] Through Staff's "bending and whittling," they removed a significant amount of capital investment for 2015 and 2016, much of which is either in progress or completed, and removed various increases in utility operating expenses for 2015 and 2016.

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[17] Examples include Exhibit No.___ (CRM-1T) page 5, line 21, Exhibit No.___ (BGM-1T) page 10, line 15, and Exhibit No.___ (DMR-1T), page 31, line 7.
[18] Testimony of Jennifer S. Smith, Exhibit No.___ (JSS-1T), page 3, lines 15-16.
[19] Exhibit No.___ (CRM-1T), page 14, line 21.

After completing its "bending and whittling", the Staff concluded that a pro forma study, which conforms to the parameters of the Commission's standard modified historical test year, will not provide revenues sufficient for Avista to earn its allowed return. In this case, as well as in the last two rate cases, Staff has acknowledged the presence of significant attrition being experienced by the Company, and has supported revenue adjustments to compensate for attrition.

Avista's Pro Forma Cross Check Study was prepared as a "cross-check" and a second analysis to compare with the attrition analysis. The Cross Check Study includes a comprehensive set of adjustments for the prospective rate year, based on the best and most recent information available, to determine the revenues sufficient for Avista to earn its allowed return. The Cross Check Study confirms that there will be a continuation of attrition through the prospective rate year for Avista.

Rating agencies have recognized the recent changes in ratemaking in Washington to allow utilities an improved opportunity to earn returns closer to the allowed returns. The after-the-fact earned returns for 2013 and 2014, presented earlier, confirm that incorporating the effect of attrition in setting retail rates for 2013 and 2014 were necessary in order for Avista to have the opportunity to earn its allowed return.

The revenue requirement proposals of Public Counsel, ICNU, and NWIGU, based solely on a modified historical test period with limited pro forma adjustments should be rejected, because they will not result in revenues sufficient for Avista to have the opportunity to earn its allowed return.

Q. On page 65 of his testimony (Exhibit No.___(DCG-1T)), beginning on line 3, Mr. Gomez states: "Finally, Staff recommends that the Commission require Avista

to limit the scope of its pro forma capital additions in future rate cases to be consistent with the Pacific Order." Does Avista agree with this recommendation?

A. No. Staff's recommendation essentially amounts to a request of the Commission to limit the evidence that Avista may present in its pre-filed case. As stated earlier, Mr. McGuire has concluded that a pro forma study based on a historical test period with limited pro forma adjustments will not provide revenues sufficient for Avista to earn its allowed return in 2016.

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

Q. Based on Avista's updated electric revenue requirement of $3.6 million, and its updated natural gas revenue requirement of $10.0 million, what would Avista's estimated earnings shortfall be if the Commission were to adopt the recommendations of Public Counsel, ICNU and NWIGU?

A. Table No. 4 below illustrates the earnings shortfall for Avista for 2016 if the Commission were to adopt the recommendations of Public Counsel, ICNU and NWIGU.

Table No. 4

	$Millions		
	Public Counsel Electric[20]	**ICNU Electric**	**NWIGU Natural Gas**
Intervenor Proposed Revenue Rqmt	($29.7)	($17.4)	$0
Avista Updated Revenue Rqmt	$3.6	$3.6	$10.0
Shortfall from Intervenor Proposals	($33.3)	($21.0)	($10.0)
After-Tax Shortfall[21]	**($20.6)**	**($13.0)**	**($6.2)**
Rate Base	$1,393.0	$1,393.0	$284.5
Equity Portion of Rate Base (48.5%)	**$675.6**	**$675.6**	**$138.0**
May 1, 2015 Stipulated ROE	9.50%	9.50%	9.50%
ROE Shortfall	**(3.05%)**	**(1.92%)**	**(4.49%)**
ROE Earnings Opportunity	**6.45%**	**7.58%**	**5.01%**

As can be seen from the table above, Public Counsel and ICNU's electric rate decrease recommendations of $29.7 million and $17.4 million, respectively, would result in Avista under-earning significantly in 2016: 6.45% ROE with Public Counsel's recommendation, and 7.58% ROE with ICNU's recommendation, as compared to the Stipulated ROE of 9.50%. Avista's natural gas earnings opportunity in 2016 with NWIGU's recommendation is 5.01% ROE.

Q. On page 12 of his testimony, (Exhibit No.___(BGM-1T)), beginning on line 1, Mr. Mullins raises concerns regarding whether Avista is actively controlling costs. What is your response to this testimony?

A. Avista has presented evidence in this case that demonstrates that it is actively taking measures to control its costs, beginning with the testimony of Company witness Mr. Morris on page 12. (See Exhibit No.___(SLM-1T)) With regard to utility operating

[20] Public Counsel's recommendation for natural gas service of ($3.4) would also cause Avista to substantially under-earn during 2016, with an ROE of 6.53%.

[21] The Company used revenue conversion factors of 0.62018 for electric and 0.63032 for natural gas to compute the after-tax shortfall.

expenses, Mr. Morris explained, among other things, the reduced complement in 2013 from the Voluntary Severance Incentive Plan, the elimination of the defined benefit pension plan for non-union new hires beginning in 2014, and the transition, beginning in 2014, away from providing medical coverage for non-union retirees.[22] Mr. Thies, beginning on page 11 of his testimony (Exhibit No.___(MTT-1T)), refers to Avista's asset management programs, which are designed in part to focus on capital projects that will decrease O&M costs. And a portion of all employees' pay-at-risk is dependent on achieving cost-saving targets each year for O&M and A&G.

As Avista continues to work to control costs, it is also experiencing a continuing increase in various compliance and reporting requirements. In this case alone there are recommendations by Staff for, 1) a significant increase in reporting requirements related to capital projects, 2) extensive econometric modeling and analyses to compare Avista's electric reliability with other utilities across the country, and 3) future workshops related to AMI. Avista has literally hundreds of compliance and reporting requirements spread across a wide variety of agencies. A sampling of 85 of these requirements are summarized in the attached Exhibit No. ___(KON-3).

My reference to these compliance and reporting requirements is not to express a view on the necessity or importance of each of these requirements, or that they are unnecessary, but to emphasize that each of them involves people and systems and costs to complete, which is putting upward pressure on our O&M costs. And this is one of the reasons that Mr. McGuire's electric O&M escalator, in particular, in his attrition analysis is unrealistically low. Our interest is to provide the information that all of our stakeholders need, while keeping costs as low as reasonably possible for our customers.

[22] These changes for the bargaining unit will be subject to future negotiations.

With regard to capital spending, as I explained earlier, the Capital Planning Group reprioritizes capital spending on a regular basis to where it is most needed, and limits the overall capital spending each year to the amount approved by senior management and the Board of Directors.

IV. UPDATED REVENUE REQUIREMENTS

Q. Please summarize Avista's current proposed electric and natural gas revenue requirements in these Dockets, including all updated information since the original filing?

A. Table No. 5 below summarizes the changes in electric and natural gas revenue requirements since the original filing in February 2015. A brief explanation of the changes follows the table.

Table No. 5 – Electric and Natural Gas Revenue Requirement Reconciliation

		$Millions	
Line		**Electric**	**Natural Gas**
1	**Original Requests**	**$33.2**	**$12.0**
2	**Multi-Party Partial Settlement**		
3	Cost of Capital	($3.8)	($0.7)
4	Power Supply Adjustments	($12.6)	
5	**Subtotal May 1, 2015**	**$16.8**	**$11.3**
6	Additional Updates/Revisions[23]	($6.8)	($1.6)
7	**Revised Revenue Requirement -- July 2015**	**$10.0**	**$9.7**
8	**Avista Proposal on Rebuttal**		
9	Delay Amortization of Existing Meters (AMI)	($4.1)	
10	Normalize "Hours-Based" Thermal Maintenance[24]	($3.0)	
11	Other[25]	$0.7	$0.3
12	**Subtotal -- Avista Proposal on Rebuttal**	**$3.6**	**$10.0**
13	**Proposed Additional LIRAP Funding**	**$0.3**	**$0.3**
14	**Avista Proposal on Rebuttal**	**$3.9**	**$10.3**
15	**Estimated Power Supply Update – Nov 2015**	**($10.0)**	
16	**Expiration of ERM Rebate 12/31/15**	**$8.3**	
17	**Estimated Rate Adjustment**	**$2.2**	**$10.3**

Lines 1-5 of Table No. 5 above show the original revenue proposals filed by the Company, and the reductions to revenue requirement resulting from the May 1, 2015, Multi-Party Partial Settlement filed with the Commission. The revisions on Lines 6 reflect updated information provided to the parties. The reductions to revenue requirement are driven primarily by updated allocation factors which shift costs from the Washington jurisdiction to

[23] Tax adjustments, state allocations, and changes to net plant investment, as explained by Ms. Andrews.
[24] If Avista's proposal on rebuttal to defer and amortize (normalize) the "hours-based" thermal maintenance is rejected by the Commission, then Avista's electric revenue requirement on rebuttal would increase from $3.6 million to $6.6 million in order to provide cost recovery for these increased costs in 2016.
[25] Ms. Andrews explains the adjustments in her rebuttal testimony that add up to $0.7 million.

Idaho, and updated information related to tax adjustments and the timing of net plant investment in service. Ms. Andrews provides additional details on these adjustments.

These revised revenue requirement numbers for July 2015, on line 7 of the Table, essentially represent the starting point for Staff and intervenor testimony and exhibits, and represented the most current information available at that time.

Lines 8 to 12 of Table No. 5 represent adjustments proposed by Avista in response to the testimony filed by Staff and intervenors on July 27, 2015. With regard to Line 9 (Delay Amortization of Existing Meters (AMI)), as I will explain later in my testimony, Avista is proposing on rebuttal to exclude new plant investment and new operating expenses related to AMI in the determination of the electric and natural gas revenue requirements for the 2016 rate period. Avista plans to move forward with the implementation of AMI, however, absent a Commission order in these Dockets to the contrary. Avista would agree to present a showing in its next general rate case related to the prudence of new investment dollars and operating costs associated with AMI to be included in retail rates.

Avista is also proposing on rebuttal to delay the beginning of the amortization of the investment in existing meters from 2016 to 2017, which reduces the revenue requirement as shown on Line 9 of Table No. 5 above.

With regard to Line 10 of Table No. 5, Staff and ICNU propose to normalize certain major maintenance for thermal plants scheduled for 2016, and spread the cost over a multi-year period until the major maintenance is required again. Later in my testimony I will explain Avista's proposal to normalize these costs (spread the costs over multiple years) for both customers and the Company, which would reduce Avista's electric revenue requirement in this case.

For Line 11, Avista started with Staff's attrition model and methodology, and made a few corrections and adjustments to determine revised revenue requirements. The primary adjustments, other than corrections, to Staff's attrition model include reflecting 100% recovery of Project Compass costs, and adjusting the operations and maintenance (O&M) index to be more representative of the year-to-year change in O&M. Ms. Andrews explains these corrections and adjustments in her rebuttal testimony. Line 12 represents Avista's proposed electric and natural gas revenue requirements in these Dockets in this rebuttal filing, prior to the proposed increase in LIRAP funding.

In response to Staff and intervenor testimony, Avista is proposing a multi-year funding program for LIRAP, which Mr. Ehrbar explains in his rebuttal testimony. The proposed increase in electric and natural gas LIRAP funding is shown on Line 13. Avista's LIRAP proposal starts with Staff's recommendation, and includes a few minor changes.

In the May 1, 2015 Multi-Party Settlement Agreement the parties proposed that power supply costs be updated in November 2015, to become effective in January 2016. Line 15 represents Avista's estimate of the power supply update based on the most recent information. Net power supply costs have continued to decline since the May 1, 2015 Multi-Party Settlement, and the most recent information shows a further reduction of approximately $10 million (WA share). Line 16 reflects the current ERM-related rebate in place for electric customers that will expire on December 31, 2015. This rebate was approved by the Commission in our last general rate case for the one-year period January 1, 2015 to December 31, 2015.

Line 17 reflects the estimated rate adjustments to customers beginning January 2016 proposed by the Company, based on the most current and best information available.

Q. What are the proposed rate adjustments by rate schedule based on the revenue requirements in Table No. 5 above?

A. The average percentage change by rate schedule based on Line 14 of Table No. 5 above, including the proposed increase in LIRAP funding, is as shown in Table Nos. 6 and 7 below. The individual components by rate schedule are provided by Mr. Ehrbar.

Table No. 6 – Percentage Change – Electric Excluding ERM Rebate Expiration and Power Supply Update

		$000s	%
Electric			
Residential	1	$1,705	0.8%
General Service	11/12	$570	0.8%
Large General Service	21/22	$1,036	0.8%
Extra Large General Service	25	$501	0.8%
Pumping Service	30/31/32	$91	0.8%
Street & Area Lights		$56	0.8%
Total		$3,959	0.8%

Table No. 7 – Percentage Change – Natural Gas

		$000s	%
Natural Gas			
General Service	101	$7,996	6.4%
Large General Service	111/112	$1,788	4.6%
LGS – High Annual Load Factor	121/122	$165	3.8%
Interruptible Service	131/132	$28	3.7%
Transportation Service	146	$342	13.1%
Total		$10,320	5.9%

The average revenue change by rate schedule based on Line 17 of Table No. 5 above, including the estimated power supply update and the expiration of the ERM rebate is as shown in Table No. 8 below. The individual components by rate schedule are provided by Mr. Ehrbar.

Table No. 8 – Percentage Change – Electric Including ERM Rebate Expiration and Power Supply Update

		$000s	%
Electric			
Residential	1	$952	0.5%
General Service	11/12	$320	0.4%
Large General Service	21/22	$561	0.4%
Extra Large General Service	25	$270	0.4%
Pumping Service	30/31/32	$52	0.5%
Street & Area Lights		$31	0.4%
Total		$2,187	0.4%

Q. What rate effective date is the Company proposing?

A. The current ERM rebate in place expires on January 1, 2016. In order to minimize the number of bill changes for customers, the Company requests that the base rate increase, inclusive of the Power Supply Update, as well as the increase in LIRAP funding, occur on January 1, 2016 in order to match the expiration of the ERM rebate.

V. ADVANCED METERING INFRASTRUCTURE (AMI)

Q. Please briefly summarize the Staff and intervenor recommendations related to AMI?

A. Staff and intervenors express concerns regarding the uncertainties surrounding the costs and benefits associated with AMI, and do not support the inclusion of the new investment and operating costs for AMI in the 2016 revenue requirement.[26]/[27] In addition, Staff and intervenors do not support the proposed accounting treatment associated with the existing electric meters, which will be removed when the new electric AMI meters are installed.

[26] Testimony of David Nightingale, Exhibit No.___ (DN-1T), page 4, lines 3-8.
[27] Testimony of Barbara R. Alexander, Exhibit No.___ (BRA-1T), page 9, line 15 - page 10, line 5.

Q. Do you agree with Staff and intervenors that Avista has not supported the decision to move forward with the deployment of AMI?

A. No. Avista's explanation of its plans for AMI and the expected benefits associated with deployment, as presented in the direct testimony and exhibits of Mr. Kopczynski[28], support the decision to move forward with AMI. Mr. La Bolle[29] sponsors rebuttal testimony in response to the specific concerns presented by Staff and intervenors.

As with many major projects, there will be uncertainties associated with the expected costs and benefits, especially a project such as AMI that will "touch" so many aspects of our business. Public Counsel witness Ms. Alexander captured the complexity of the AMI project in her brief summary of Avista's planned deployment:[30]

> The project will include replacing all current electric meters with a new digital "smart" meter, and installing a module (called an "Encoder Receiver Transmitter") on existing natural gas customer meters. In addition, the project includes a new two-way communication system that will enable Avista to receive data from and send signals to the new meters, as well as technology and software to integrate the new metering data to a customer web portal and Avista's billing and customer care systems.

The AMI project, together with the recent completion of Avista's customer care and billing system (Project Compass) <u>is the platform for the future</u> to further assist our customers with energy efficiency, installation and management of distributed resources at the customers' premise, real-time data related to outages, interval data to assist customers with information and education regarding actual energy use, and many other opportunities.

If the threshold for moving forward with a project such as AMI requires a high level of certainty of all costs and benefits in advance of deployment, no project of this nature would move forward. As Mr. La Bolle explains in his rebuttal testimony, Avista has

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[28] Exhibit Nos.___(DFK-1T) and (DFK-5)
[29] Exhibit No.___(LDL-1T)
[30] Exhibit No.___(BRA-1T), page 4, lines 12-17.

provided sufficient evidence that warrants support from the Commission of Avista's decision, in principle, to move forward with deployment of AMI. Avista is not requesting approval by the Commission at this time, of the prudence of any dollars associated with the new investment or operating costs of AMI.

Q. What is Avista proposing on rebuttal, in response to the testimony of Staff and intervenors, and what is Avista's specific request of the Commission?

A. Avista's proposal and specific requests of the Commission related to AMI are explained below.

Plan to Move Forward with AMI

Avista plans to move forward with the implementation of AMI, absent a decision from the Commission in these Dockets to the contrary. Avista has solicited and received bids for a Meter Data Management (MDM) system through a Request for Proposals (RFP) process. The Company has also issued an RFP seeking a vendor for the new electric meters, and will continue to issue RFPs for other components.

In response to the testimony of Staff and intervenors, Avista would agree to exclude the new investment and operating costs associated with AMI from the revenue requirement calculations for 2016. In its next rate case filing, Avista will present information supporting the prudence of the new AMI investment dollars and operating costs that will be in service during 2017.

With regard to Commission decisions, Avista requests an order in these Dockets that supports Avista's decision to move forward, in principle, with the deployment of AMI. Avista understands that in future proceedings, the Company will need to support the prudence of the dollar amounts of investment and operating costs associated with AMI, i.e., the prudence of the decision to move forward with the deployment of AMI would occur in these Dockets, and the prudence of the dollars spent on AMI would occur in future dockets.

Accounting for Existing Electric Meters

In Avista's original filing, the Company proposed specific accounting treatment associated with the existing electric meters. This accounting treatment was proposed in order to prevent a one-time upfront write-off of the net investment in electric meters currently providing service to customers. The current net investment in Washington electric meters is approximately $21 million. Under Generally Accepted Accounting Principles (GAAP) accounting, once Avista selects a vendor and signs an agreement to replace its electric meters, absent an accounting order from the Commission, Avista would be required to write-off its existing $21 million net investment in electric meters.

In Avista's initial filing, in the testimony of Ms. Schuh, the Company proposed that the investment in existing electric meters be transferred to a regulatory asset in January 2016, with the balance being amortized over a ten-year period beginning January 2016, with a rate of return on the balance. If a rate of return on the balance is not granted, Avista would incur a write-off based on a present value calculation.

On rebuttal, Avista proposes that, in this case, the regulatory asset be established coincident with the month in which it signs a contract with a vendor to provide new AMI meters. Avista proposes that the amortization of the balance occur over a ten-year period beginning January 2017, with a rate of return on the unamortized balance. Under this proposal, the costs associated with accelerating the amortization of the existing electric meters would begin in 2017 instead of 2016, and the Company would not incur a write-off of

$21 million. Ms. Andrews provides additional explanation and details associated with the proposed accounting treatment.

Absent this accounting treatment, the AMI project would be delayed or terminated. The Company would not move forward facing a $21 million write-off.

VI. NORMALIZATION OF "HOURS-BASED" THERMAL MAINTENANCE

Q. What did the Company propose as it relates to the operation and maintenance expenses for its Colstrip and Coyote Springs II thermal generating plants in its direct case?

A. The Company had proposed including total operations and maintenance (O&M) expense at Colstrip and Coyote Springs II (CS2) as part of base power supply expense used for the Energy Recovery Mechanism (ERM) in its direct filing. This resulted in incremental power supply expenses of $3.6 million. The difference between the authorized level of O&M expense and actual O&M costs would then be tracked in the ERM and subject to the deadband and sharing bands.[31]

Q. Were these O&M costs addressed in the Partial Settlement filed with the Commission?

A. Yes. As a part of the Partial Settlement Stipulation, the Parties agreed that O&M costs related to CS2 and Colstrip will be removed from the base power supply costs, would not be tracked through the ERM, and that the revenue requirement related to these costs will be addressed during the remainder of this case. This resulted in a reduction in power supply expense of $3.6 million, and a continuing need to address recovery of these costs.

[31] Testimony of Mr. Johnson, Exhibit No.___(WGJ-1T), page 14, line 7 – page 15, line 21.

Following the Partial Settlement Stipulation, 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. This information was provided in response to Staff Data Request No. 130, which is attached to Mr. McGuire's testimony as Staff Exhibit No. ___(CRM-4); see page 7, Column AA.

Avista also explained in various discovery requests that the increase in CS2's major maintenance in 2016 is related to the required "Hot Gas Path" (HGP) project. This required HGP major maintenance is dependent on fired-run hours on the gas turbine, occurring every 24,000 hours, or approximately on a four-year cycle. The last occurred in 2012 at a cost of approximately $3.9 million. It is expected that the CS2 turbine will reach 72,000 hours of run time in 2016, requiring the HGP at an expected cost of approximately $3.5 million (system).[32]

With regard to Colstrip, as discussed further by Ms. Andrews, the Company has explained in recent discovery requests[33] that the incremental $2 million (system) increase in expected major maintenance in 2016, above the 2014 test period expense, is mainly due to a non-recurring Colstrip Settlement Refund credited to expense in 2014 of $1.3 million (Washington's share is approximately $1.1 million). The remaining difference in system expenses of $0.7 million is due, in part, to reduced level of expenses in 2014 related to the 2013 Colstrip outage, which extended into the first quarter of 2014. 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 was a major overhaul in 2014, and an overhaul is planned in 2016. With the adjustment to remove the

[32] Avista response to ICNU Data Requests 173C and 177C.
[33] Avista response to ICNU Data Request 180C Revised

prior period Colstrip Settlement Refund amount, we do not expect a major change in the normalized expense from 2014 to 2016.

Q. What did Staff and ICNU propose related to the major maintenance expenses for Colstrip and Coyote Springs 2?

A. Staff testified that "overhauls should be normalized over the expected maintenance cycle" and that normalization of those costs "provides for consistent matching of revenues and expenses with their appropriate time period".[34] Further, Staff states that the "Colstrip and CS2 overhauls in this adjustment occur regularly, but not annually. By using the normalization process, the annual recognized expenses are aligned with the expected period of the benefits provided by the expenditures. This is the essence of the matching principle".[35]

Mr. Mullins for ICNU recommends "that the Commission require the Company to normalize these major maintenance expenses by spreading this cost over the maintenance cycle of the respective plants".[36] He testified that the "normalized level of expense" should be included "in rates that is the average expense over the maintenance cycle".[37] / [38]

Q. What is your response to Staff and ICNU's proposed normalization of these costs?

A. The proposed normalization of major maintenance expenses by Staff and ICNU normalizes the costs <u>for customers</u>; however, their proposals do not take into account the effect the major maintenance costs on <u>the Company</u>. Without Commission approval to

[34] Testimony of Jason L. Ball, Exhibit No.___(JLB-1T), page 13, lines 11-15.
[35] Exhibit No.___(JLB-1T), page 14 lines 6-9.
[36] Exhibit No.___(BGM-1T), page 5, lines 24-27.
[37] Exhibit No.___(BGM-1T), page 36 lines 19-21.
[38] Ms. Ramas also indicated at Ramas page 50, ll 2-5 "Given the cyclical nature of the major maintenance projects at the generating facilities, it may be appropriate to normalize the costs if it can be demonstrated that the historic test year cost level is not reflective of normal operations."

defer these major maintenance expenses, and amortize them over the appropriate time period, Avista would be required to recognize the entire expense in the year the expenses are incurred. While customers would pay for the expenses over a number of years through normalization of the expenses, Avista would bear the full expense in the year the maintenance occurs. For example, as mentioned earlier, Avista will be required to complete a HGP major maintenance on its CS2 generating facility in 2016 at a cost of $3.5 million (system). Under Staff's approach, the Company would recover revenues from customers over a four-year period, collecting approximately $875,000 annually over four years. The cost to customers would be a normalized over a four-year period to match the benefit of the major maintenance that will last for four years. However, the Company would record net expenses of $2.6 million in year one ($3.5 million - $875,000) and revenues in years two through four of $875,000, which would result in a mismatch of costs and benefits for the Company. There should be a proper matching of costs and benefits for both customers and the Company.

Q. What is the Company's proposal related to the normalization of the major maintenance costs for its thermal plants?

A. To recognize Staff's and ICNU's concerns regarding normalization of "overhauls" and address the variability in thermal maintenance costs experienced by Avista, the Company is proposing to defer only the "hours of operation based" major maintenance expense required for the Company's CS2, Rathdrum and Boulder Park thermal generation facilities going forward.[39] These are major maintenance expenses that the Company will incur when these generators hit a specific number of operating hours.

The Company is proposing that Washington's share of the actual major maintenance expenses associated with these projects be deferred in the year they occur; with the first expected in 2016. The balance would be amortized over a four-year period beginning January 1st of the following year.[40] There would be no carrying charge on the unamortized balance, which means there would be no additional costs to customers to normalize these costs for both the Company and customers. Ms. Andrews provides further details related to the accounting for these maintenance expenses.

Deferred accounting (normalization) treatment for these "hours of operation based" maintenance costs is appropriate because of the variability in their maintenance schedules, which are based on operating hours. By deferring and amortizing the variability in these maintenance expenses, and recovering them over a four-year period, these cost swings can be smoothed, or normalized, <u>for both the Company and for customers</u> (smoothing the "lumpiness" of these expenses over time) – a win-win for both customers and the Company. The net effect of the Company's proposal is that there would be no net increase in costs to customers in this Docket, for rate year 2016, through the deferral and amortization of these costs. The <u>actual</u> expenses for the HGP projects for CS2 and Rathdrum, and the 12,000 hour based overhaul for Boulder, would be deferred in 2016, with amortization to start January 1, 2017. This would ensure the costs in the year deferred, and the amortization in the following year, would be known and based on actual expenditures.

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[39] 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.

[40] The deferral would be allocated to the Washington jurisdiction based on the Production / Transmission allocation percentages in place at the time the deferrals are made.

Q. What are the expected system costs associated with the hours-based major maintenance projects proposed for deferral in 2016?

A. As noted above, the CS2 Hot Gas Path is planned in 2016 at a cost of $3.5 million. For Rathdrum, the Hot Gas Path planned level of expense is $0.7 million, and the overhaul of Boulder Park is $0.2 million. A four-year amortization of these costs starting January 1, 2017 would be approximately $705,000 (Washington share).

Q. Did Staff recognize that the Rathdrum and Boulder Park major maintenance projects discussed above are hours-based and therefore are similar in nature to CS2's HGP major project?

A. Yes. Mr. Ball notes, starting at page 10, line 3 of his testimony (Exhibit No.___(JLB-1T)):

> If the Commission wishes to include Rathdrum and Boulder Park maintenance in the revenue requirement, then Staff recommends that the projects be normalized in the same manner as Staff's proposal for Colstrip and CS2 overhauls … That is, the expenses should be normalized over the length of the maintenance lifecycle. The Rathdrum and Boulder Park maintenance is based on run hours and is therefore similar in principle to the planned overhaul for CS2.

Q. Has Staff or ICNU been supportive of the deferral of these types of costs in prior proceedings?

A. Yes. In Docket UE-110876, Avista's 2011 general rate case, the Commission approved a deferred accounting mechanism related to thermal generating plant maintenance costs[41]. During the evidentiary hearing held on November 8, 2011, UTC

[41] As a condition of the approval in Docket UE-110876, the Commission required the Parties to examine the mechanism in Avista's next general rate case. As a part of the agreed-to Settlement in Docket UE-120436 (as the deferral amount would have been minimal for the following 2013 rate year) the Parties agreed to eliminate the deferral mechanism effective January 1, 2013. However, similar to the 2016 HGP project proposed in this instance, the $3.9 million CS2 HGP had been a part of the amount deferred in 2012 and is currently being amortized over the four-year period 2013-2016.

Chairman Goltz asked why this mechanism was in the public interest, and Mr. Schoenbeck, the witness representing the Industrial Customers of Northwest Utilities (ICNU), replied:

> I actually think, staying with just the test period values as adjusted is wrong. I actually do think you need to normalize the fact that the maintenance is occurring over four years, and smooth it over four years. So you basically have to either use some sort of a four-year average for the maintenance or come up with a benchmark, and then give a deferral balance either above or below that benchmark. So we're supportive of the maintenance deferral we came up with [in] this in case for several years. … So in my mind it was a win-win for the -- for the customers. And by levelizing the rates, normalizing the rates, it would be a more constant level as opposed to year-to-year fluctuations provided by the test period guidance,… (emphasis added) (Schoenbeck, TR 169:5 – 170:2)

Staff witness Mr. Schooley also expressed support for the mechanism, when he observed:[42]

> The amounts deferred are for maintenance only, no carrying charges accrue, and Avista will amortize the deferred amounts over a four-year period, thereby creating an acceptable "smoothing effect" for these costs.

VII. OTHER COMPANY WITNESSES

Q. Would you please provide a brief summary of the rebuttal testimony of the other witnesses representing Avista in this proceeding?

A. Yes. The following additional witnesses are presenting rebuttal testimony on behalf of Avista:

Ms. Elizabeth Andrews, Manager of Revenue Requirements, will explain the Company's revised revenue requirements for both electric and natural gas, based on the Company's revised electric and natural gas Attrition Studies. After adjustments to the Company's Attrition Models, the revised revenue requirement for its Washington electric and natural gas services is $3,639,000 (0.73%) and $10,009,000 (5.86%) respectively. The

[42] Docket No. UE-110876, Joint Testimony (Exhibit No.__(T)), page 24, lines 18-20.

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, Ms. Andrews explains 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 Ms. Andrews provides a response to certain issues raised by Mr. Gorman regarding Avista's natural gas Attrition Study.

Ms. Jennifer Smith, Senior Regulatory Analyst, will first explain the Company's revised Pro Forma Cross Check Studies for both electric and natural gas after taking into consideration the agreed-to components of the Multiparty Settlement, and corrections and adjustments to costs that have been identified since Avista originally filed its case. Ms. Smith will then address each of the major adjustments incorporated into the updated Cross Check Studies. Finally, she will address the pro forma studies presented by other parties and certain adjustments proposed by the parties which Avista does not support.

Ms. Karen Schuh, Senior Regulatory Analyst, will first discuss the purpose of the Company's Pro Forma Cross Check Studies. Ms. Schuh will address the Company's correction of errors and changes in numbers, as well as briefly summarize the Company's updated capital investments in utility plant through 2016, being used in the updated Pro Forma Cross Check Study.

Ms. Schuh will also address why the proposed pro forma methods and adjustments put forth by other parties to this case do not fairly state costs and rate base for the 2016 rate year. Finally, she addresses the Capital Reporting Requirements and Filing Requirements proposed by Staff, and why the Company does not believe these are necessary or appropriate.

Mr. James Kensok, Vice President and Chief Information Officer, will demonstrate that, contrary to the claims of Staff witness Mr. Gomez, the overall timeline and costs to complete Project Compass were reasonable, and the Company made prudent decisions in managing the challenges it faced, including the performance of its many contractors. In the end, the Company successfully and cost-effectively delivered these new systems to our customers, and should receive full recovery of its costs.

Mr. Larry La Bolle, Director of Federal and Regional Affairs, will address the questions and concerns raised by Staff and Public Counsel relating to the implementation of advanced metering infrastructure ("AMI"). His testimony will explain that the information provided in Avista's business case, and as supplemented through discovery, provides a reasonable basis to support the Company's decision, in principle, to move forward with AMI.

Mr. La Bolle will also explain why Avista believes that additional "econometric" models of reliability are not needed at this time to assess reliability.

Mr. Patrick Ehrbar, Manager of Rates and Tariffs, provides the summary of the electric and natural gas rate spread of the revised revenue requirement, including the effects of other revenue changes. Mr. Ehrbar will also provide the Company's response to Staff and Public Counsel/The Energy Project's funding proposals related to LIRAP, and presents an alternative proposal that would provide a multiyear increase in funding that is in line with Staff's proposal.

Q. Does this conclude your rebuttal testimony?

A. Yes.