

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of AVISTA CORPORATION for an Order Authorizing the
Company to Revise its Electric and Natural Gas Book Depreciation and Authorizing Deferred
Accounting Treatment for the Difference in Depreciation Expense

DOCKETS UE-180167 and UE-180168 (*Consolidated*)

Exhibit DJG-1T

TESTIMONY IN SUPPORT OF SETTLEMENT

DAVID J. GARRETT

ON BEHALF OF PUBLIC COUNSEL

FEBRUARY 15, 2019

- 1 **Q. Please state your name and business address.**
- 2 A. My name is David J. Garrett. My business address is 101 Park Avenue, Suite 101,
3 Oklahoma City, Oklahoma 73102.
- 4 **Q. By whom are you employed and in what capacity?**
- 5 A. I am the managing member of Resolve Utility Consulting, PLLC.
- 6 **Q. On whose behalf are you testifying?**
- 7 A. I am testifying on behalf of the Public Counsel Unit of the Washington Attorney
8 General’s Office (“Public Counsel”).
- 9 **Q. Please describe your professional qualifications.**
- 10 A. I received a B.B.A. degree with a major in Finance, an M.B.A. degree, and a Juris
11 Doctor degree from the University of Oklahoma. I worked in private legal practice
12 for several years before accepting a position as assistant general counsel at the
13 Oklahoma Corporation Commission in 2011, where I worked in the Office of
14 General Counsel in regulatory proceedings. In 2012, I began working for the Public
15 Utility Division as a regulatory analyst providing testimony in regulatory
16 proceedings. In 2016, I formed Resolve Utility Consulting, PLLC, where I have
17 represented various consumer groups and state agencies in utility regulatory
18 proceedings, primarily in the areas of cost of capital and depreciation. I am a
19 Certified Depreciation Professional with the Society of Depreciation Professionals.
20 I am also a Certified Rate of Return Analyst with the Society of Utility and
21 Regulatory Financial Analysts. A more complete description of my qualifications
22 and regulatory experience is included in my curriculum vitae.

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to give my recommendation to the Washington
3 Utilities and Transportation Commission (“Commission”) regarding certain
4 provisions in a Full Settlement Stipulation (“Stipulation”) entered into by parties to
5 this proceeding, including Public Counsel, Avista Corporation (“Avista” or the
6 “Company”), the Staff of the Washington Utilities and Transportation Commission
7 (“Staff”), Alliance of Western energy Consumers (“AWEC”), and Sierra Club
8 (collectively, the “Parties”).

9 **Q. Please summarize your recommendation regarding the provisions of the**
10 **settlement you address?**

11 A. With regard to the settlement provisions discussed further in my testimony, I
12 recommend the Commission adopt these settlement provisions as proposed, as they
13 are fair and reasonable as presented therein.

14 **Q. Please summarize the provisions of the settlement provision you are addressing**
15 **in your testimony.**

16 A. My testimony addresses the reasonableness of the service life, net salvage rate and
17 depreciation rate proposals for several of Avista’s common transmission, electric
18 distribution, and natural gas distribution accounts. My testimony also addresses a
19 proposal in the Stipulation that Avista use vintage year accounting for its
20 communication equipment (FERC Account No. 397).

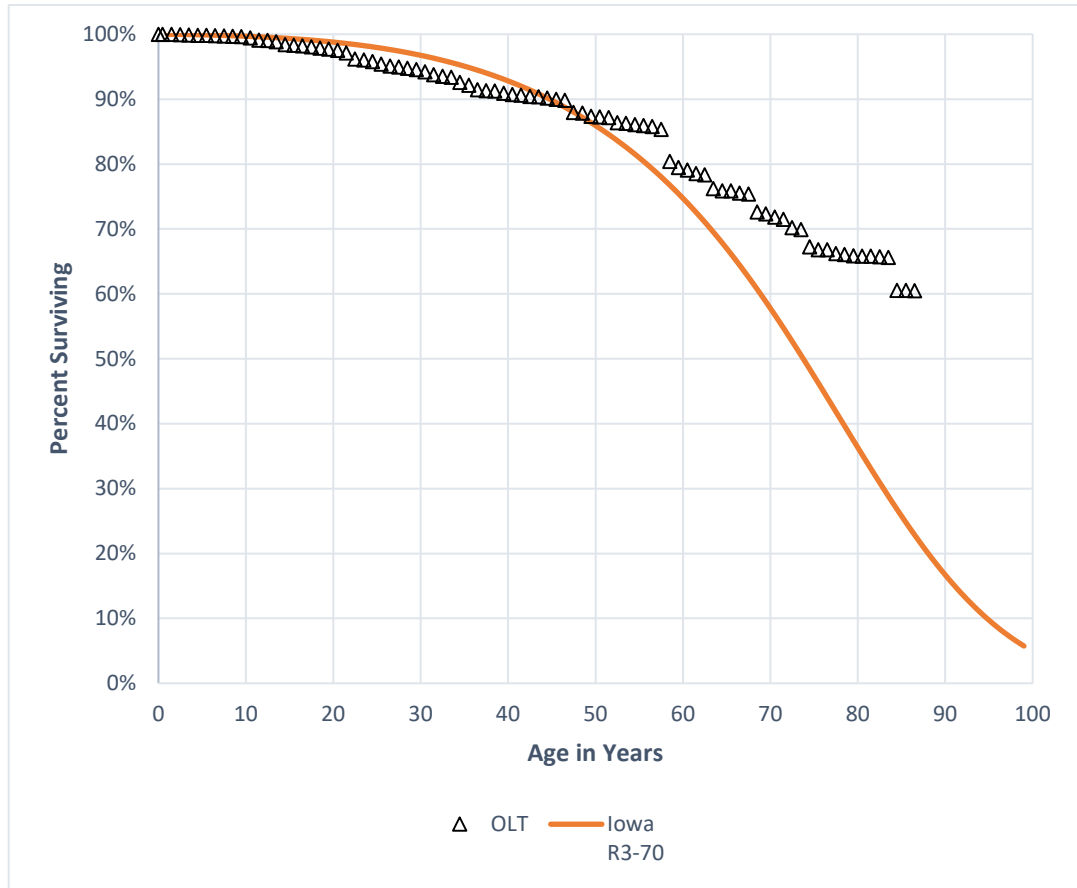
1 **Q. Please generally describe the process you employed to analyze the service lives**
2 **of depreciable accounts in this case.**

3 A. I obtained and reviewed the same historical plant data that were used to conduct
4 Avista's depreciation studies for its electric, gas, and common plant as of
5 December 31, 2016. I organized and interpreted the data under a straight-line,
6 average-life, remaining-life depreciation system, which is a commonly used and
7 accepted depreciation system. I used the data to develop observed life tables and
8 observed retirement curves in order to visually and statistically analyze the
9 historical retirement rates and patterns in each of the Company's grouped asset
10 accounts. I then employed a combination of visual and mathematical Iowa curve-
11 fitting techniques and professional judgement to assess reasonable service life
12 estimates for each account. This is an approach that is generally employed by many
13 depreciation analysts and is generally accepted by utility commissions.

14 **Q. Using one of the accounts from the Stipulation, please illustrate the process you**
15 **used to estimate the proposed service lives.**

16 A. The following shows the survivor curve obtained by organizing and analyzing the
17 Company's historical plant data through the retirement rate method for Account
18 356. This observed survivor curve is derived from the observed life table (OLT) for
19 this account. The graph also shows the Iowa R3-70 curve agreed upon by the
20 Parties in this case.

Account 356 – Overhead Conductors and Devices



1 The Iowa R#-70 curve is illustrated in the solid line. The purpose of Iowa curve
2 fitting is to use a smooth, complete curve that considers the historical retirement
3 pattern in a particular account in order to estimate the retirement pattern going
4 forward. The average life is determined by calculating the area under the Iowa
5 curve. In the graph above, the Iowa R3-70 curve provides a good fit to the observed
6 survivor curve (black triangles). In this particular account, attempting to find an
7 Iowa curve that fits exactly through all of the data points on the OLT curve would
8 likely run the risk of being unreasonably long. Thus, the selection of the R3-70

1 curve for this account by the Parties represents an acknowledgment of Iowa curve
2 fitting techniques, but also of professional judgment and reasonableness.

3 **Q. Are the other service lives and Iowa curves proposed in the Stipulation**
4 **reasonable in your opinion?**

5 A. Yes. Using the same process illustrated above for account 356, I analyzed all the
6 depreciable mass property accounts in the depreciation study. Based on the same
7 type of analysis discussed above, I found the service lives, Iowa curves, and
8 depreciation rates proposed for the accounts in the Stipulation to be reasonable.

9 **Q. Describe the process you used to analyze the proposed net salvage rates in this**
10 **case.**

11 A. As with service life analysis, net salvage analysis involves looking at historical data
12 in order to make reasonable estimations of future net salvage rates, however, no
13 Iowa curve analysis is used.

14 **Q. What is your opinion regarding the net salvage rates proposed by the Parties in**
15 **the Stipulation?**

16 A. Based on analysis of the historical net salvage data in each account as well as a
17 consideration of industry norms and professional judgement, the net salvage rates
18 proposed for each account in the Stipulation are reasonable.

19 **Q. What is your opinion regarding the specific accounts addressed in the**
20 **Stipulation regarding service life, net salvage, and depreciation rate estimates?**

21 A. The Parties propose depreciation parameters for several of the Company's
22 depreciable accounts in the Stipulation as follows:

Stipulated Depreciation Parameters

Account	Iowa Curve	Net Salvage %	Depr Rate
Common - Transportation			
392.2 Light Trucks	S1.5-13	10	3.55%
392.4 Heavy Trucks	R3-18	5	7.04%
392.5 Other	L2-15	9	5.38%
396.5 Power Operated Equip.	S0-15	10	2.06%
Common - Transmission			
356.0 OH Conductors & Devices	R3-70	-30	1.90%
Electric Distribution			
364.0 Poles, Towers & Fixtures	R2.5-67	-60	2.47%
365.0 OH Conductors & Devices	R3-68	-50	2.27%
366.0 UG Conduit	R1.5-75	-30	1.56%
Natural Gas Distribution			
376.0 Mains	R3-60	-23	2.22%
380.0 Services	R3-50	-25	2.30%
385.0 M&R Industrial Equipment	R1.5-69	-15	1.36%

1 Using the approach I discussed above regarding the analyses for service life and net
 2 salvage, I analyzed each of these accounts. In my opinion, the service lives, Iowa
 3 curves, and net salvage rates stipulated by the Parties are reasonable based upon
 4 analyses of the Company’s historical data, a comparison of typical industry ranges,
 5 and professional judgment.

6 **Q. Is the purpose of service life or net salvage analysis in the context of a**
 7 **depreciation study to find a “right” answer?**

8 A. No, not necessarily. Service life and net salvage analyses are processes of
 9 estimation rather than determination because they necessarily involve attempts to

1 predict future retirement rates and net salvage rates. Thus, it is more accurate to say
2 that service life and net salvage analyses should yield a range of reasonableness for
3 the ultimate outcome. In my opinion, all of the service lives (i.e., Iowa curves) and
4 net salvage rates proposed in the Stipulation fall within a range that is reasonable
5 for each account. My opinion is based upon analysis of the historical data, an
6 understanding of commonly-accepted industry ranges based on my experience in
7 other jurisdictions, and professional judgment.

8 **Q. Describe the provision of the Stipulation regarding the use of vintage year**
9 **accounting for Account 397 – Communication Equipment.**

10 A. According to the Stipulation, Avista has utilized vintage year accounting for all
11 general plant accounts, except Account 397. The Stipulation also states that the
12 Company meets the requirements as detailed in the FERC Accounting Release
13 (FERC AR-15) to use vintage year accounting for Account 397. Utilization of
14 vintage year accounting would eliminate the unitization and record keeping
15 requirements associated with individual items of property and allow Avista to
16 record only the total cost of plant additions for the year as a vintage group.

17 **Q. Is this proposal reasonable in your opinion?**

18 A. Yes. Although I am not an accountant, I am not aware of any rule that would
19 prevent Avista from utilizing vintage year accounting for Account 397. In addition,
20 it would allow the Company to treat Account 397 as it does its other general plant
21 accounts. I am aware of other utilities who have utilized vintage year accounting for
22 Account 397. This proposal is reasonable in my opinion.

1 **Q. What is your recommendation to the Commission?**

2 A. With regard to the settlement provisions discussed in my testimony, I recommend
3 the Commission adopt these settlement provisions as proposed. These provisions
4 are fair, reasonable, and in the public's interest.

5 **Q. Does this conclude your testimony?**

6 A. Yes.