Exh. DPV-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-22______

DOCKET NO. UG-22______

DIRECT TESTIMONY OF

DENNIS P. VERMILLION

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Dennis P. Vermillion and I am employed as the President and Chief Executive Officer of Avista Corporation (Avista or Company). In that role I also serve as a member of Avista's Board of Directors. I also serve as the Chairman of the Board of Directors for Avista's subsidiary Alaska Electric Light and Power Company. My business address is 1411 East Mission Avenue, Spokane, Washington.

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

A. Yes. I received a Bachelor of Science degree in electrical engineering from Washington State University in 1985. I started working for Avista in 1985 and have held numerous positions in energy trading, marketing, risk management, power transmission contracting, and resource planning and coordination. I was appointed as President and Chief Operating Officer of Avista Energy in 2001. I was appointed Vice President of Energy Resources for Avista Utilities in 2007 at the close of the sale of Avista Energy. In 2009, I was appointed President of Avista Utilities, and later in January 2018 was appointed President of Avista Corporation and began serving on Avista Corporation's Board of Directors. On October 1, 2019, I was promoted to the role of President and Chief Executive Officer.

I currently serve as a board member for Western Energy Institute (WEI) and American Gas Association (AGA) and the Avista Foundation. I formerly served on the board of Spokane County United Way and was a past chairman of the Spokane County Campaign.

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

A. In my testimony I provide an overview of the Company and our focus on the customer. I will then describe what we are calling "Transformational Regulation" - transforming the regulation of natural gas and electrical companies toward multiyear rate plans and performance-based rate making. I summarize the Company's proposal in this filing – a Two-Year Rate Plan - and address our continuing capital investment, which continues to be the primary driver behind the Company's most recent general rate cases. I will also discuss the Company's proposal to offset a portion of the revenue requirement approved in this case with Residual Tax Customer Credits. Later, I discuss our ongoing focus on cost management and cost efficiencies which have been undertaken to help mitigate the overall rate request, as well as our continued focus on communicating with customers, our overall customer satisfaction, and our customer support programs. Finally, I introduce the other Company witnesses who support this general rate case filing.

After reviewing the Company's case, my hope is that the Commission is left with the conviction that Avista is doing its level best to do the right thing for its customers.

A table of contents for my testimony is as follows:

Q. Are you sponsoring exhibits in this proceeding?

A. Yes. I am sponsoring Exh. DPV-2 which provides a diagram of Avista's corporate structure, and maps showing Avista's electric and natural gas service areas, including natural gas fields, trading hubs and major pipelines.

II. OVERVIEW OF AVISTA

Q. Would you please briefly describe Avista Utilities?

A. Yes. Avista Utilities serves approximately 403,000 retail electric and 369,000 retail natural gas customers in a 30,000 square mile service territory covering portions of Washington, Idaho, and Oregon. Of that amount, 263,324 electric and 173,829 natural gas are Washington customers. As of September 30, 2021, Avista Utilities had Net Ratebase (electric and natural gas) of approximately $3.8 billion (on a system basis), with electric retail revenues of $844 million (system) and natural gas retail revenues of $321 million (system). Serving our customers are 1,807 regular and seasonal employees.[1] Exh. DPV-2 provides an illustration of our corporate organization and a map of our service territories.

Q. Please describe Avista's current business focus for its utility operations.

A. Our strategy continues to focus on our energy and utility-related businesses, with our primary emphasis on the natural gas and electric utility business. Our strategic initiatives are now aligned across four focus areas: our customers, our people, performance, and innovation. We are placing emphasis upon our customer focus as being central to all that we do to ensure our services are safe, responsible, and affordable.

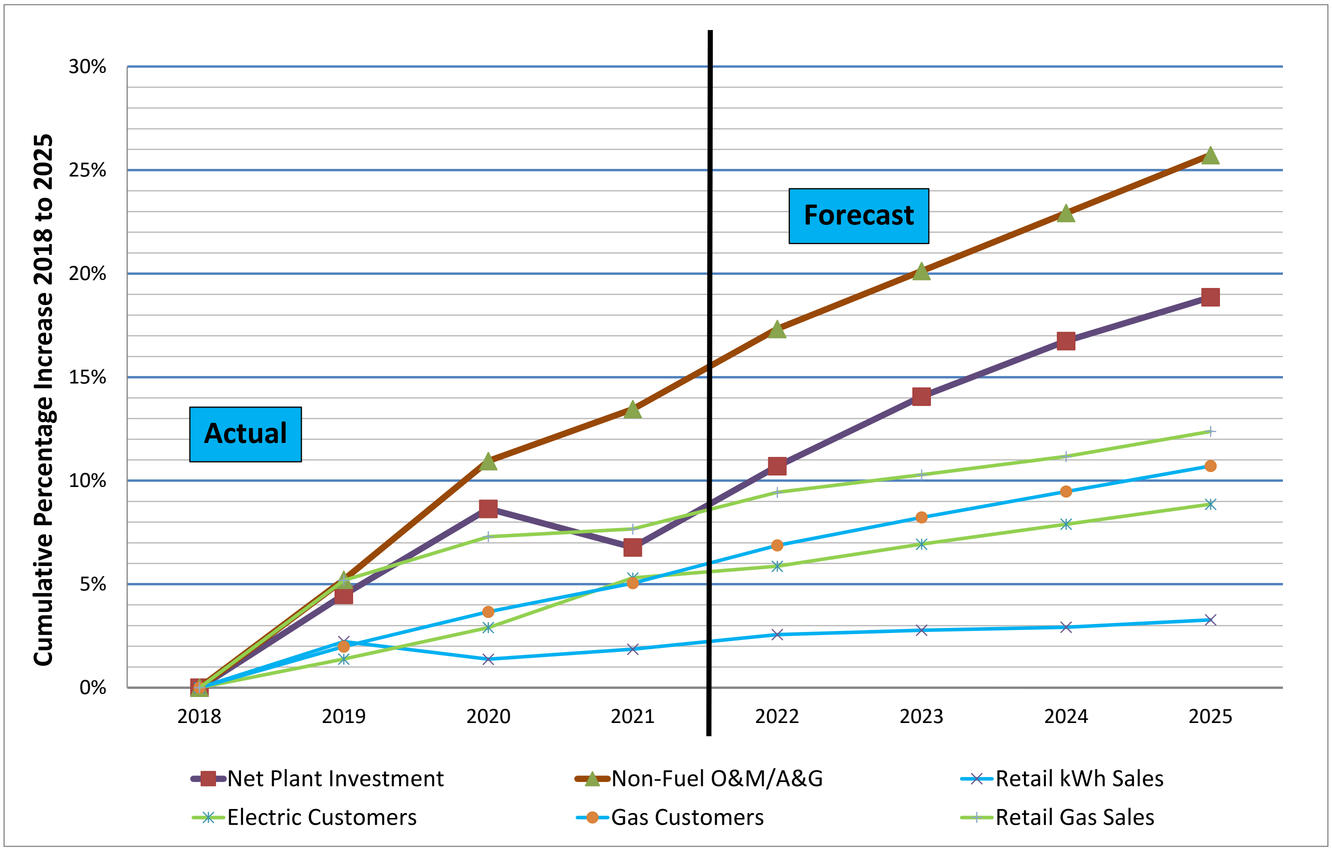
Q. Is the Company still experiencing cost pressures that are not yet addressed through rate recovery?

A. For reasons discussed below and by other Company witnesses, costs continue

[1] The Company has provided data as of September 30, 2021 to match with the test year utilized in this proceeding.

to outstrip revenue. And Avista is not unique in this regard, as utilities struggle to replace aging infrastructure and meet increased compliance obligations. The following "jaws chart" introduced in prior cases and recently updated, captures this gap in revenues and costs over time, showing that the problem persists. Illustration No. 1 below shows actual information for the period 2018 to 2021 and forecast information for 2022 to 2025.

Illustration No. 1 – Growth in Investment, Expense and Usage



The purple line on the graph shows the actual growth in net utility plant investment (electric and natural gas combined) through 2021, and the expected growth for 2022 through 2025. The green and blue lines on the graph show the changes in retail kilowatt-hour (kWh) sales, retail therm sales, and changes in customers served for the same time period. The red line on the graph also shows that non-fuel operations and maintenance (O&M) expenses and administrative and general (A&G) expenses are growing at a faster pace than sales. The graph shows this mismatch – the growth in capital investment and growth in expenses is forecast to continue to the future. Growth in customers and usage simply do not cover the cost pressures we continue to face. Therefore, retail rates must be increased to cover this increase in net plant investment and operating expenses, since revenue growth is not sufficient to cover it.

III. TRANSFORMATIONAL REGULATION

Q. How is regulation being transformed as a result of recent legislation?

A. As the Commission and parties in this proceeding are aware, on May 3, 2021, Governor Inslee signed into law Engrossed Substitute Senate Bill 5295 (SB 5295). SB 5295 relates to "transforming the regulation of gas and electrical companies toward multiyear rate plans and performance-based rate making," and addressed other issues including low-income and intervenor funding.[2]

Q. One of the drivers behind SB 5295, for some parties, was a potential linking of general rate recovery with the investments made by utilities related to complying with Washington's Clean Energy Transformation Act, or CETA. Is that the case for Avista at this time?

A. It is not. In discussions with Commission Staff prior to filing this case, generally there was a request that Avista clearly link the investments included for cost recovery in this case with the projects outlined in our Clean Energy Implementation Plan (CEIP) filed with the Commission on October 1, 2021.[3] For Avista, we simply do not have

[2] https://app.leg.wa.gov/billsummary?BillNumber=5295&Initiative=false&Year=2021
[3] See Docket UE-210628.

the required level of investment that other utilities, like Puget Sound Energy, are facing in the four-year CEIP period.[4] From 2022-2025, Avista's expected incremental costs as a result of CETA are $41.6 million. Of that amount, $25.4 million of that amount is planned for 2025, outside the scope of Avista's proposed Two-Year Rate Plan.[5] Comparing that to PSE's expected incremental cost over the same time period, their expected investment is just over $450 million, with an incremental cost of $45.3 million in 2022 (compared to $2.8 million for Avista), and $72.2 million in 2023 (compared to $3.2 million for Avista). In the end, in this case, compliance with CETA as shown in our CEIP is simply not the driver behind our Two-Year Rate Plan. More information on the drivers of this rate case is included in Section V. of my testimony.

Q. As it relates to CETA, has Avista included equity considerations in this case?

A. Yes, it has. As discussed by Company witness Mr. Bonfield, Avista has proposed modifications to LIRAP in an effort to meet the expectations of both CETA and SB 5295. With regard to CETA, Section 12 codified as RCW 19.405.120, focuses namely on the provision of energy assistance for low-income households and the utility's demonstration of progress towards making such energy assistance funds available to these households. This focus on energy assistance for low-income households is one way the Company will ensure that the benefits of transitioning to a clean energy economy in Washington are broadly shared

[4] Docket UE-210795

[5] Avista's estimated CEIP costs for 2022-2025 are comprised of a potential 100 MW Montana Wind project in 2025, costs associated with the Inland Empire Paper Special Contract that includes 30 MW of demand response, 195.6 gigawatt-hours of energy efficiency, and a Named Communities Investment Fund of $5 million, if approved by the Commission in Avista's CEIP docket that will be resolved during the pendency of this general rate case.

and equitably distributed.

Q. What else is the Company doing to focus on equity?

A. The core of CETA is to ensure that the benefits of the transition to clean energy are broadly shared and equitably distributed amongst all customers, with a specific focus on Named Communities. I am very proud of the activities Avista is undertaking that are focused on equity, including the following:

- Avista developed a CEIP Public Participation Plan outlining Avista's schedule, methods, and goals for engaging the public to participate in the CEIP development process and provide education to customers throughout the 2022-2025 implementation period.

- Formed a new Equity Advisory Group (EAG) to aide in the development of CBIs and the CEIP and to provide insight and perspectives related to equity for customers of Named Communities in utility matters.

- Developed a proposed set of equity focused CBIs in collaboration with the EAG, other advisory groups, and the public. These include Participation in Company Programs, Number of Households with High Energy Burden (>6%), and Investments in Named Communities, to name a few.[6]

- Proposed a Named Communities Investment Fund to be dedicated to the equitable distribution of energy and non-energy benefits and reduction in burdens to Named Communities.

- Provided new targeted energy efficiency projects and programs dedicated to Named Communities beginning in 2022.

- Hosted regularly occurring EAG Equity Lens Sessions, where all interested people are welcome to attend.

- Within 12-months of filing its CEIP, or October 1, 2022, in collaboration with its EAG, Avista committed to developing a communication strategy to identify barriers to customer participation, development of possible solutions, and an implementation strategy.

[6] See Avista's CEIP, Chapter 3, pp. 3-6 to 3-32 (Docket UE-210628).

Q. Given that compliance with CETA as demonstrated in Avista's CEIP is not a major, or even minor, driver in the Company's case, should the CEIP proceeding (Docket UE-210628) be consolidated with this general rate case?

A. No, the Company believes that the CEIP should be resolved outside of this general rate case, as there are limited issues in common, and there are certain items, such as the Named Communities Investment Fund of $5 million per year, where it would be beneficial to have resolution from the Commission earlier in 2022, rather than waiting until the conclusion of this general rate case.

Q. What are Avista's views of what was included in SB 5295?

A. Overall, Avista believes that the regulatory provisions and modifications that were included in SB 5295, if utilized as designed, can be constructive for all parties given the balance of interests that were taken into account in the law's development. Having been actively involved in the development of this legislation, as well as involved in the process and hearings held in the legislature as SB 5295 made its way through the approval process, Avista is well aware of the give-and-take that took place among many constituents and legislators that ultimately led to a transformative law that will help move utility regulation forward for the benefit of all constituents.

Early on in the development of this law, there was a Legislative Intent Statement (Statement) that encompassed the views of some of the parties as to why transformative change is needed in the regulatory arena. That Statement, which Avista supported but which was not ultimately included in the final form of SB 5295, stated that the electric and natural gas industries are each facing transformational changes brought on by new technology, rapidly changing costs, emerging opportunities for customers, and public policy mandates (such as

CETA). It appropriately characterized our view that the traditional regulatory construct is neither adaptable, nor well-suited to adjusting to rapidly changing societal expectations and public policy objectives, and therefore hinders the ability of electric and natural gas companies to effectively evolve to meet new challenges and opportunities.

That is why Avista, for its part, supported the legislation that would require a forward-looking orientation for regulation, consistent with state policy objectives that focus on planning, flexibility, and fair allocation of risks, while fostering and supporting a culture that delivers performance and cost control in this new industry environment. Ultimately, the legislation led to the establishment of multiyear rate plans and the establishment of performance-based rate making to provide certainty and stability to customers and electric and natural gas companies, with those plans focused on ensuring alignment of public policy objectives, investment, safety, and reliability.

Finally, among other reasons, there was a push towards administrative efficiencies that could be gained from requiring multiyear rate plans. Under such plans, the Commission, the parties, and the utilities could get past the seemingly endless cycle of back-to-back rate cases and instead could start working on even more transformational projects, initiatives, and the development of performance-based rate making. We viewed this as a sort of first step in the rate-making model that employs the use of multiyear rate plans that may stagger utility filings over a multiyear period (like for the major utilities in California).

Q. Would you please discuss what some of the key provisions of SB 5295 that Avista has incorporated into this rate filing?

A. Yes, I will provide a brief summary of specific items included in SB 5295 (codified primarily in RCW 80.28.425) and describe, in no particular order, how Avista has incorporated that new law into this general rate case. Those items include:

1. Multiyear Rate Plans – RCW 80.28.425(1).
2. Fair Valuation of Property – RCW 80.28.425 (3)(b)
3. Determination of Expenses and Revenues – RCW 80.28.425 (3)(c)
4. Earnings Test – RCW 80.28.425(6)
5. Performance Based Ratemaking – RCW 80.28.425(7)
6. Low Income Bill Assistance – RCW 80.28.425(2).

Q. Turning to Item No. 1 (see RCW 80.28.425(1)), is Avista proposing a Multiyear Rate Plan in this case?

A. Yes, Avista is proposing a Two-Year Rate Plan in this filing. More information on the filing itself is included in Section IV. below, and in greater detail in the Testimony of Company witnesses Ms. Andrews (Revenue Requirements) and Mr. Miller (Rate Spread/Rate Design).

Q. Did Avista consider a longer rate plan instead of the minimum Two-Year Rate Plan proposed in this case?

A. The Company did consider a 3 or 4 year rate plan, but first wanted to develop more operating experience with the regulatory model and understand how the Commission will ultimately set rates for the first year of a multiyear rate plan (and how that will flow into the subsequent rate years). Key policy items that will be adjudicated in this case includes cost recovery during the rate-effective period, cost recovery in the second year of the rate plan, auditing and reporting on provisional capital investments, and methodologies for inclusion of capital recovery and expenses.

Q. You mention the auditing and reporting for "provisional" capital

investments.[7] What is the Company seeking to learn in this case?

A. As we have demonstrated in many general rate cases over the years, the biggest impact on the Company being able to earn its allowed rate of return in Washington is the regulatory lag associated with capital additions. As the Commission is aware, that was one of the key considerations for our support of SB 5295 – removing that lag. While great progress was made in our last GRC, where the Commission supported inclusion in rates of much of the capital investment included in the case by Avista, there remained challenges in recovering forward-looking investment during the rate effective period.[8] Avista, for its part, has set forth in the testimony of Ms. Andrews what it believes is a balanced approach for the reporting of actual capital investments as a check against the "provisional" level requested in this case, and the auditing process that would help to validate the level of plant investment ultimately that is used and useful during the rate-effective periods.

Q. Does Avista believe there are adequate protections for customers built into this Two-Year Rate Plan?

A. Yes, Avista has included certain protections to assure adequate regulatory oversight that ultimately serves to protect customer interests. Ms. Andrews discusses a new balancing account proposed by the Company to track the actual level of insurance expense, in addition to the wildfire balancing account approved by the Commission in the last rate case. Further, as referenced above, Avista is proposing a robust reporting and auditing program to

[7] "Provisional refers to the nomenclature assigned to capital deployed beyond the test period in the Commissions "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement"), issued January 31, 2020, in Docket No. U-190531.
[8] As discussed later in my testimony, as noted in our last rate case (Dockets UE-200900, et. al.), as of December 31, 2021, Avista left $63.5 million of electric and $38.2 million of natural gas rate base out of that case, and that does not even include all of the capital additions in the 2022 rate effective period.

ensure the level of capital that has been included in rates is supported by actual, used and useful plant. Finally, there is the earnings test that is discussed later in my testimony under Item No. 4.

Q. Item No. 2 above relates to the section of RCW 80.28.425(3)(b) that addresses the fair value of property for ratemaking purposes? What is Avista proposing in this regard in the Two-Year Rate Plan?

A. As discussed by Ms. Andrews, Avista has included the fair value of electric and natural gas property that is or will be used and useful for serving customers in Rate Year 1 and in Rate Year 2. Ms. Andrews testifies the Avista has employed the use of a traditional pro forma study for Year 1 and for Year 2. Avista conducted a trending analysis for Rate Year 2 as well, but is only providing that in this case as support for the pro forma capital included in Rate Year 2. It serves as a reasonableness check, if you will, on the traditional pro forma study used for Rate Year 2. We believe that providing the Commission with the actual planned projects, approved by the Company's Capital Planning Group and approved by the Officers and Board of Directors, in total, would give Staff and the parties an appropriate look into what is planned during the Two-Year Rate Plan. Ultimately, Avista faces refunds of any rate recovery included in this case for capital additions that do not become used and useful. Company witness Mr. Ehrbar provides an overview of the capital approval and budgeting process.

Ms. Andrews will also discuss the Commission's Policy Statement[9] that establishes a "process" for the provisional recovery in rates of rate-effective period property, subject to

[9] Docket U-190531, Policy Statement on Property That Becomes Used and Useful After Rate Effective Date, January 31, 2020.

refund. Under this process, the Commission will revisit rate recovery in a future period after sufficient information about the property in question has become available.[10] This process, per the Policy Statement, does not guarantee recovery of these costs, but gives utilities an opportunity to begin recovering costs sooner, while still ensuring fair, just, and reasonable rates. It is our view that Avista has provided a Multiyear Rate Plan that is in line with the recent legislative changes under SB 5295 and with the Commission's Policy Statement.

Q. Turning now to Revenues and Expenses noted in Item No. 3 above, what has Avista proposed in its Two-Year Rate Plan?

A. The statute (RCW 80.28.425(3)(c) states that the "commission shall ascertain and determine the revenues and operating expenses for rate-making purposes of any gas or electrical company for each rate year of the multiyear rate plan." It further states that the Commission:

> in ascertaining and determining the fair value of property of a gas or electrical company … and projecting the revenues and operating expenses of a gas or electrical company … **may use any standard, formula, method, or theory of valuation** reasonably calculated to arrive at fair, just, reasonable, and sufficient rates. (RCW 80.28.425 (3)(c)) (emphasis added)

This section is one of the most important pieces of the new law, as it allows the Commission flexibility to set a utility's revenue requirement by entertaining new ways of calculating utility need so as to arrive at fair, just, reasonable and sufficient rates. Ms. Andrews addresses the means to derive a revenue requirement that will allow Avista a reasonable opportunity to earn its authorized rate of return.

Q. So, has Avista ultimately included in this Two-Year Rate Plan the costs –

[10] Id. ¶20, p. 7.

both capital and expense – that it expects to incur to serve customers?

A. Yes, Avista has included actual and pro forma capital and expenses that would serve to cover the costs to serve customers. And as noted by Ms. Andrews in the section of her testimony related to reporting, as circumstances change, and capital is redeployed to other new or existing Business Cases during 2022 – 2024, any redeployed capital will be supported as prudent and used and useful, in order to allow for recovery. This recognizes the fact that, during any rate plan, issues arise that must be addressed through the reallocation of capital to a higher purpose, but that such reallocation should not penalize the Company through regulatory lag on such reprioritized investment during the Two-Year Rate Plan.

Q. Why is that fair for customers?

A. It is fair for customers because we have also included in the Two-Year Rate Plan the benefits of new revenue and other substantial offsets. For new revenue, in traditional ratemaking the benefits of new revenue are meant to serve to help offset the growth in costs that occur after new rates go into effect in a general rate case. If the Company included that growth in costs in rates (which we have), but did not also include the growth in revenue, then that would not be reasonable or fair and would violate the "matching principle". So, Avista has included the new revenue estimated to occur in the rate-effective periods, matching the expenses included in the same time period, and matching the growth capital included in the pro forma capital adjustments. This results in a "matching" of revenue, expense, and capital. As discussed in Section VI later in my testimony, Avista has included in the Two-Year Rate Plan $64.8 million of electric offsets, and $17.9 million of natural gas offsets.

Q. <u>Item No. 4</u> you address above is related to the Earnings Test set forth in RCW 80.28.425(6) ("SB 5295 Earnings Test"). Why is Avista addressing that item in

this Multiyear Rate Plan?

A. As addressed by Mr. Ehrbar, Avista has an existing Earnings Test as a part of its electric and natural gas Decoupling Mechanisms. As described by Mr. Ehrbar, the Company is proposing to replace the existing Decoupling Earnings Tests with the SB 5295 Earnings Test. That test is provided below:

> If the annual commission basis report for a gas or electrical company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than .5 percent higher than the rate of return authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of .5 percent higher than the rate of return authorized by the commission for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding.

Q. Would you please provide how the Company has incorporated <u>Item No. 5</u> – Performance Based Ratemaking – into this Multiyear Rate Plan?

A. Yes. As a part of SB 5295, the Commission must:

> (I)n approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan. These performance measures may be based on proposals made by the gas or electrical company in its initial application, by any other party to the proceeding in its response to the company's filing, or in the testimony and evidence admitted in the proceeding.[11]

As discussed in more detail by Company witness Mr. Ehrbar, Avista is actively

[11] RCW 80.28.425(7). The law provides that in developing performance measures, incentives, and penalty mechanisms, the commission may consider factors including, but not limited to, lowest reasonable cost planning, affordability, increases in energy burden, cost of service, customer satisfaction and engagement, service reliability, clean energy or renewable procurement, conservation acquisition, demand side management expansion, rate stability, timely execution of competitive procurement practices, attainment of state energy and emissions reduction policies, rapid integration of renewable energy resources, and fair compensation of utility employees.

engaged in the Commission's proceeding (Docket U-210590) whereby a Policy Statement on Performance Measures will be developed as required by the law. In this case, though, Avista believes that now is the time to take a "first step" with Performance Measures, and is proposing a set of eleven (11) measures, with nine (9) of those measures bundled into "Groups" for purposes of incentives or penalties, for the Commission's consideration. Those measures, in summary are:

Measure 1: Customer Satisfaction with Avista's Customer Service Representatives
Measure 2: Customer Satisfaction with Avista's Field Service Representatives
Measure 3: Customer Complaints made to the Commission
Measure 4: Answering Our Customers' Calls Promptly
Measure 5: Avista's Response Time for Electric Emergencies
Measure 6: Avista's Response Time for Natural Gas Emergencies
Measure 7: Number of Electric System Outages
Measure 8: Average Duration of Electric System Outages
Measure 9: Average Duration of Sustained Interuptions
Measure 10: AMI Performance Measure
Measure 11: Wildfire Resiliency Performance Measure

Avista is then proposing to take those metrics, and bundle them into the following Incentive/Penalty Groups:

a. Group 1 – Measures 1 through 6
b. Group 2 – Measures 7 through 9
c. Group 3 – Measure 10
d. Group 4 – Measure 11

Each Group would have a penalty or incentive potential of $500,000 upside benefit, or downside risk, not to exceed $2 million across all four Groups. Mr. Ehrbar provides more details regarding Performance Metrics, the law, and the Commission's Proceedings in this regard. In my view, these metrics and groupings are a good start on our path towards changing the regulatory model through the inclusion of performance measures.

Q. Avista filed its first Clean Energy Implementation Plan (CEIP) on October 1, 2021, which included a set of proposed Customer Benefit Indicators (CBIs). Should the proposed CBIs be included in the performance-based metrics in this case?

A. No. It is premature to conclude that the Company's first set of proposed CBIs should be included in the performance-based metrics in this case. At the time of the filing of this general rate case, the Commission has not taken action on the Company's CEIP, which by statute they may approve, approve with conditions, or deny. It is unclear of when the Commission may take action and if the proposed CBIs will be the final CBIs approved. Even if the proposed CBIs are approved during the pendency of this case, the Company will need to discuss with stakeholders which of the CBIs, if any, are appropriate as performance-based metrics. This topic of including CBIs as performance-based metrics is ripe for discussion in the Commission's proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making in Docket U-210590.

Q. For <u>Item No. 6</u>, is the Company proposing changes to its Low Income programs as a part of this general rate case?

A. Avista's primary low income program is the Low Income Rate Assistance Program, or LIRAP. The testimony of Mr. Bonfield presents the Company's proposed modifications to LIRAP that will better align Avista's future LIRAP with the expectations of both SB 5295 and CETA. These modifications have been developed in consultation with the Company's Energy Assistance Advisory Group. We believe these changes will better and more effectively serve the Company's low-income customers with energy assistance.

Q. Finally, are there other subjects that the Commission wanted Avista to address in this case, as a result of its last rate case order?

A. Yes. Those included (1) performance measures related to Wildfire Resiliency and AMI (as discussed above), and (2) a demonstration of offsets (benefits) associated with capital investment. Those will be discussed by Ms. Andrews and the other capital witnesses in this case.

IV. SUMMARY OF THE GENERAL RATE CASE

Q. Would you please summarize the Company's proposals included in this electric and natural gas general rate case filing?

A. Yes. In this filing, the Company is proposing a Two-Year Rate Plan, which would begin with new base rates effective December 2022 (Rate Year 1) and December 2023 (Rate Year 2). For Rate Year 1, the proposed increases reflect an electric base rate relief of approximately $52.9 million, or 9.6%, and natural gas base rate relief of $10.9 million, or 9.5%, effective December 2022. This is before the effect of the proposed Residual Tax Customer Credit Tariff discussed below.

For Rate Year 2 of the Two-Year Rate Plan, the proposed increases reflect an electric base rate relief of $17.1 million, or 2.8%, and natural gas base rate relief of approximately $2.2 million, or 1.7%, effective December 2023.

Concurrent with the effective date of this rate case, the Company proposes to return to customers estimated incremental Customer Tax ADIT benefits of approximately $25.5 million for electric and $12.5 million for natural gas, over a two-year amortization period, through separate Tariff Schedules 78 (electric) and 178 (natural gas), titled "Residual Tax Customer Credit" - offsetting in part the Company's requested electric and natural gas Rate Year 1 base rate relief from December 2022 through December 2024. The overall increase for Rate Year 1 on a billed basis, after reflecting the "Residual Tax Customer Credit" offset, would be 7.4% for electric operations, and 2.5% for natural gas operations. The proposed electric and natural gas revenue increases for the Two-Year Rate Plan are shown in Tables No. 1 and 2 below:

Table No. 1 – Two-Year Rate Plan Summary Including Tax Benefits – Electric[12]

Electric	Base % Increase	Billed % Increase w/ Tax Benefits
December 2022	9.6%	7.4%
December 2023	2.8%	3.0%

Table No. 2 – Two-Year Rate Plan Summary Including Tax Benefits – Natural Gas[13]

Natural Gas	Base % Increase	Billed % Increase w/ Tax Benefits
December 2022	9.5%	2.5%
December 2023	1.7%	1.1%

The Company's electric and natural gas requests are based on a proposed rate of return of 7.31%, a cost of debt of 4.54%, with a common equity ratio of 48.5% and a 10.25% return on equity (ROE), as discussed by Company witnesses Mr. Thies and Mr. McKenzie.

Q. The proposed ROE of 10.25% is a departure from requested ROEs in Avista's most recent general rate cases. Why is such a request appropriate at this time?

A. As Mr. McKenzie states in his testimony, expectations for tightening monetary

[12] The "billed" percentage increase includes the revenues associated with other tariff schedules such as demand-side management (DSM) funding, LIRAP funding, the Residential Exchange Credit, and other power supply and tax rate offsets.

[13] The "billed" percentage includes the revenues associated with other tariff schedules such as demand-side management (DSM) funding, LIRAP funding, the Purchased Gas Cost Adjustment, and other tax rate offsets.

policies and higher interest rates support an increase in the Company's allowed ROE, particularly in light of the two-year horizon of the Multiyear Rate Plan. In addition, Avista's market capitalization makes it one of the smallest investor-owned utilities, which heightens the need to support capital attraction relative to its much larger counterparts in the industry. Finally, as discussed later in my testimony and in the testimony of Company witness Dr. Forsyth, uncertainty regarding the course of inflation has become magnified, which heightens concerns over inflationary cost pressures for the Company (above and beyond the cost pressure the Company already faces). Finally, all of this is taking place in an environment that suggests rising interest rates to control inflation.

Q. For both the electric and natural gas operations, the proposed increases are higher for the first year of the Two-Year Rate Plan. Why is that the case?

A. There are a number of reasons why the Company's proposed base rate increases in Year 1 for electric and natural gas are larger than the proposed increases for Year 2. The fundamental reason why is that the Company, in this case, is seeking to close the "regulatory lag" in Year 1 and set the proper base for a Multi-Year Rate Plan. As Avista discussed in our last general rate case, it is extremely important that the Commission approve a revenue requirement that "gets the first year right".[14] If the Commission approved a multiyear rate plan with the first year revenue requirement lacking in terms of recovery of capital investment, expenses, even after inclusion of revenues expected in the first year of a rate plan, the utility would underearn in the first year. By its very nature that impact would carry over into every subsequent rate year. There is just no amount of prudent and reasonable

[14] Dockets UE-200900, et. al, Exh. KJC-1T, p. 19.

cost cutting that would overcome the lag built into a subsequent year of the plan. As such, Avista is seeking to "get the first year right", and has therefore included the revenues, expenses and capital additions that will occur in Rate Year 1.

Q. Did the lack of inclusion of more capital in Avista's last general rate case create a bow wave of sorts?

A. Yes. There is a significant level of unrecovered rate base that is incorporated in our Year 1 revenue requirement.[15] As noted in our last rate case, as of December 31, 2021 Avista left $63.5 million of electric and $38.2 million of natural gas rate base out of the case, and that does not even include all of the capital additions in the 2022 rate effective period. Recovery of this capital would help Avista catch up on the capital investment that will be serving customers in the first rate effective period. If not, this unrecovered capital will continue to be pushed forward into subsequent rate periods. As such, it is important that the Commission approve for inclusion in rates the capital additions serving customers in Rate Year 1, and not "kick the can" to a subsequent proceeding, as that would merely cause a future bow wave in the subsequent rate plan. Inclusion of these costs in Year 1 would more accurately reflect the base for those costs in Year 2 of the Rate Plan.

Q. If the Commission were to approve the Company's case as filed, would such a decision eliminate regulatory lag for Avista, almost ensuring Avista would earn its allowed rate of return?

A. No, it would not. While Avista is seeking recovery of costs in an effort to have the opportunity to earn its allowed rate of return set by the Commission, Avista is still subject

[15] Dockets UE-200900 et. al, Avista Final Brief, ¶11.

to cost pressures that will occur during the pendency of this case, and during the rate effective periods. This is highlighted by the pressures in the overall economy related to inflation. As Company witness Dr. Forsyth, Avista's Chief Economist states, because of the supply chain disruptions caused by the COVID pandemic, markets are experiencing escalating inflation rates at both the consumer and producer (business-to-business) level. Escalating inflation will impact the cost of the goods and services purchased by the Company, as well as labor costs. The size of the current inflation spike through November 2021 suggests that the current inflation "spell" (above average inflation) may be prolonged. This could have a prolonged impact on future expenditure growth as the prices of the goods and services purchased by the Company increase at a faster than the average rate, and wages must keep pace. In short, Avista needs to recover the costs included in this Two-Year Rate Plan to give it a fair chance at earning its allowed rate of return, given these inflationary pressures.

Q. Is filing a Two-Year Rate Plan actually risky for Avista?

A. While we understand that it is the law, and Avista materially supported this law, the Company is in a more precarious position as it relates to earning its allowed rate of return. As I previously mentioned, we need the Commission to support our revenue request in Rate Year 1, given the capital investment that has been made but that is not yet in rates and the prudent capital that is and will be invested prior to the effective date of the first Rate Year in this case. Second, inflationary pressures abound that have not been included in this case. Third, Mr. McKenzie notes that by proposing a Two-Year Rate Plan, the Company is at increased risk of an earnings shortfall if the underlying assumptions are not realized, or the allowed ROE fails to reflect capital market requirements over the duration of the Rate Plan. Finally, as Ms. Andrews notes, Avista has based this rate case off a traditional pro forma set of studies. For Rate Year 2, Avista actually could support a higher revenue requirement using a trended analysis. Avista, in an effort to be conservative and give the Commission a "solid foundation" upon which to set a revenue requirement, instead relied on a pro forma study that provides for a lower revenue increase.

Q. How did the Company develop the proposed increase for Year 2 of the Two-Year Rate Plan?

A. For Rate Year 2, as discussed by Ms. Andrews, the Company's proposed incremental electric and natural gas revenue increases, effective December 2023, were based on a Pro Forma Study, with the inclusion of an expense escalator on limited expenses, and inclusion of pro forma revenues.

Q. As discussed by Ms. Andrews, the Company is again proposing to offset a portion of the Company's base electric and natural gas rate relief requests with Residual Tax Customer Credits. Weren't these credits already fully utilized in the Company's last general rate case (Dockets UE-200900 et. al.)?

A. For the most part, yes, the majority of the Tax Customer Credits were used to mitigate the increases in that rate case for a two-year period. However, not all of the funds were used. The Commission noted at ¶121 of Order 08/05 in the referenced Dockets:

> We also find it appropriate to reexamine in Avista's next GRC (1) the total of the remaining Tax Customer Credit balance at the end of the two-year amortization period plus the incremental annual deferred tax benefit and (2) the appropriate amortization for returning the Tax Customer Credit to customers going forward.

As discussed by Ms. Andrews, the expected remaining Tax Credit balances for Washington electric and natural gas to return to customers is approximately $25.5 million and

$12.5 million, respectively. The Company proposes to return these balances over a two-year amortization. These balances reflect the actual deferred tax credit balances as of December 31, 2020 for Washington electric and natural gas operations, adjusted for annual estimated incremental tax credit deferrals for 2021 – 2023, offset by annual estimated amortizations of the tax credit deferred balances per Order 08/05 in Dockets UE-200900 and UG-200901.

Q. How is the Company proposing to spread the December 2022 and December 2023 electric increases to each of the customer rate schedules?

A. The proposed electric increase to each customer rate schedule is shown in Table No. 3 below.[16]

Table No. 3 – Proposed % Electric Increase by Schedule (December 2022)

Rate Schedule	**Increase in Base Rates**	**Increase in Billing Rates before Offset**	**Increase in Billing Rates with Offsets**
Residential Schedules 1/2	9.6%	10.5%	7.9%
General Service Schedules 11/12	9.6%	9.2%	7.0%
Large General Service Schedules 21/22	9.6%	9.1%	6.9%
Extra Large General Service Schedule 25	9.6%	10.0%	7.6%
Extra Large Special Contract	9.7%	10.0%	7.6%
Pumping Service Schedules 31/32	9.6%	9.2%	7.0%
Street & Area Lights Schedules 41-48	9.6%	9.3%	7.1%
Overall	**9.6%**	**9.8%**	**7.4%**

The proposed electric increase to each customer rate schedule effective December 2023, is shown in Table No. 4 below:

[16] Company witness Mr. Miller provides details of the proposed spread of the increase to each customer rate schedule for each year of the Two-Year Rate Plan.

Table No. 4 – Proposed % Electric Increase by Schedule (December 2023)

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedules 1/2	2.8%	3.1%
General Service Schedules 11/12	2.8%	2.8%
Large General Service Schedules 21/22	2.8%	2.8%
Extra Large General Service Schedule 25	2.8%	3.0%
Extra Large Special Contract	2.9%	3.0%
Pumping Service Schedules 31/32	2.8%	2.8%
Street & Area Lights Schedules 41-48	2.8%	2.8%
Overall	**2.8%**	**3.0%**

Q. Has Avista proposed to update power supply costs as a part of this case?

A. Yes. In Avista's 2017 general rate request (Docket No. UE-170485), the Commission stated in its Final Order 07 that baseline adjustments to power supply costs should only be made "in extraordinary circumstances." More specifically, the Commission stated:[17]

> … the Commission believes the number of recent baseline adjustments is excessive. …Moving the baseline upward or downward in each general rate case results in distorted results. Going forward, the Commission will consider carefully any adjustments to the power cost baseline and change it ***only in extraordinary circumstances***. (emphasis added)

In this case, we believe that power supply costs should, in fact, be adjusted due to "extraordinary" circumstances. Those "extraordinary" circumstances are not, however, necessarily related to power supply cost changes experienced since the last power supply reset, which occurred on October 1, 2021. What is extraordinary in our view is that this is the first Two-Year Rate Plan filed under SB 5295, and we want those costs to be reflected at a level that will be most representative over a Two-Year Rate Plan. It is important, in our view, to

[17] Dockets UE-170485 and UG-170486, Order 07, ¶160.

file a power supply base that is more representative of the rate-effective periods. The power supply base would incorporate power market conditions and pricing that is almost 15 months "fresher" than what is included in embedded power supply costs today. Plus, the new power supply base properly accounts for an annualized amount of EIM benefits (discussed by Company witness Mr. Kinney) and transmission revenues (discussed by Company witness Mr. Schlect), among other changes.

As noted by Company witness Mr. Kalich, Avista is proposing to set a power supply trigger such that, if power supply costs increase or decrease by 10% from the authorized base (approximately $10 million Washington-share), Avista would file a further 60-day update before Rate Year 2. This update would consist of the normal 60-day update components, along with any new PPAs effective in Rate Year 2, and an updated level of EIM benefits, if known. The Company recognizes there is some level of variability which is appropriate in the ERM mechanism. However, the use of the trigger mechanism allows the Company to proactively make adjustments for changes which could, in aggregate, substantially impact power supply expenses from the level included in the final power supply expense for Rate Year 1. Mr. Kalich provides further details on this proposal.

Q. How is the Company proposing to spread the December 2022 and December 2023 natural gas increases to each of the customer rate schedules?

A. The proposed natural gas increase to each customer rate schedule effective December 2022, is shown in Table No. 5 below.[18]

[18] Mr. Miller provides details of the proposed spread of the increase to each customer rate schedule for each year of the Two-Year Rate Plan.

Table No. 5 - Proposed % Natural Gas Increase by Schedule (December 2022)

Rate Schedule	Increase in Base Rates	Increase in Billing Rates before Offset	Increase in Billing Rates with Offsets
General Service Schedules 101/102	9.6%	6.2%	2.7%
Large General Service Schedules 111/112/116	9.6%	4.5%	1.9%
Interrupt. Sales Service Schedules 131/132	9.6%	4.1%	1.7%
Transportation Service Schedule 146	9.6%	10.3%	4.4%
Overall	**9.5%**	**5.8%**	**2.5%**

The proposed natural gas increase to each customer rate schedule effective December 2023, is shown in Table No. 6 below:

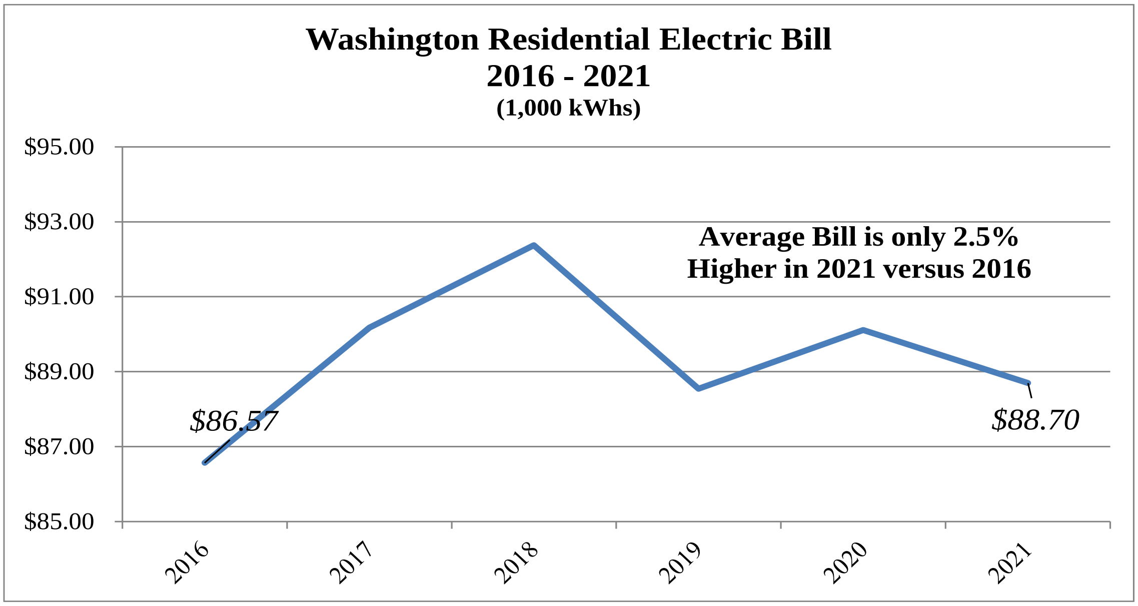
Table No. 6 – Proposed % Natural Gas Increase by Schedule (December 2023)

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
General Service Schedules 101/102	1.7%	1.2%
Large General Service Schedules 111/112/116	1.7%	0.9%
Interrupt. Sales Service Schedules 131/132	1.7%	0.8%
Transportation Service Schedule 146	1.7%	1.9%
Overall	**1.7%**	**1.1%**

Q. How have customers' electric and natural gas bills changed in recent years as Avista has continued to make necessary investments in its utility systems?

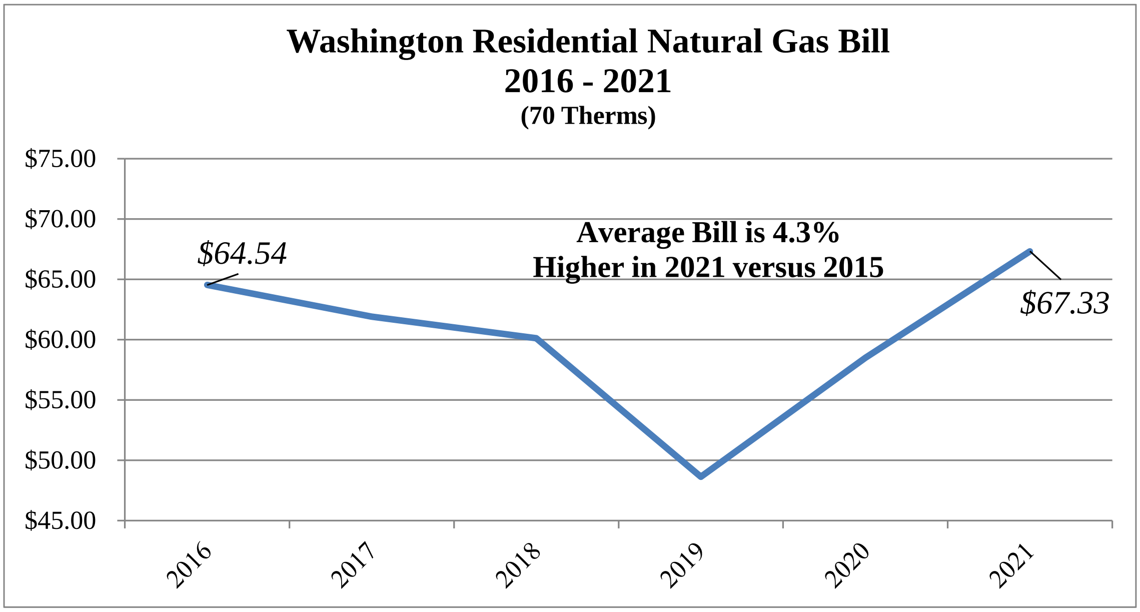
A. The line graph in Illustration No. 2 below shows the change in the monthly bill, from January 2016 through November 2021, for a Washington residential electric customer using an average of 1,000 kilowatt-hours per month. The graph shows that the total increase over that timeframe has only been 2.5% - less than 0.5% per year on average. There are many factors that of course affect the components of a customer's bill. What is important to note, however, is that overall, the average bill for customers has actually trended below the overall rate of inflation.

<u>Illustration No. 2 – Washington Residential Electric Bill (Jan. 2016 – Nov. 2021)</u>



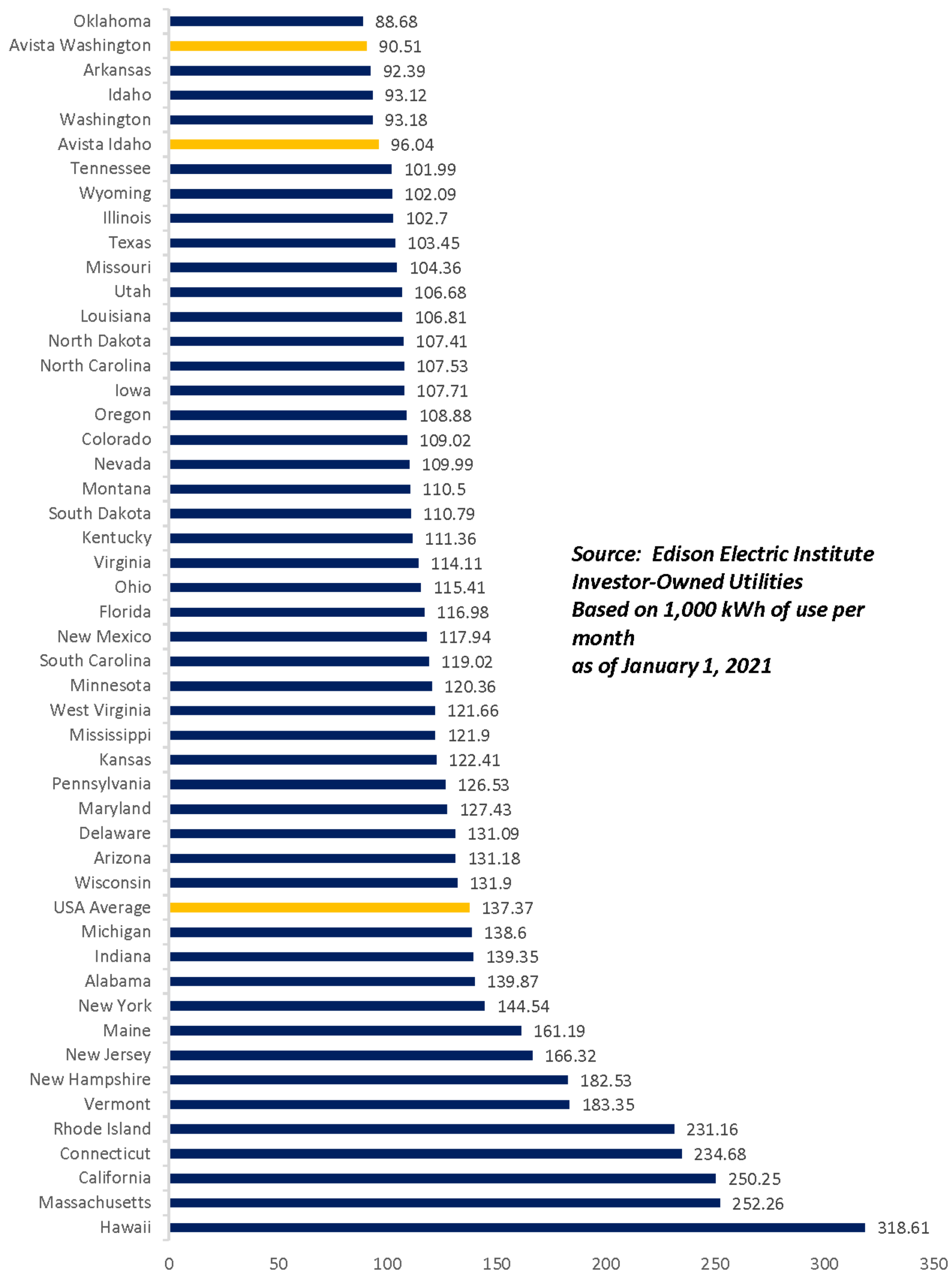
With regard to natural gas, the line graph in Illustration No. 3 below shows the change in the monthly bill, from January 2016 through November 2021, for a Washington residential natural gas customer using an average of 70 therms per month. The graph shows that customer bills have increased from $64.54 per month in 2016, to approximately $67.33 per month in 2021. The graph shows that the total increase over that timeframe has only been 4.3% - less than 1% per year on average. This includes the effects of the recent runup in wholesale natural gas prices, which were reflected in Avista's 2021 annual Purchased Gas Cost Adjustment approved by the Commission in October 2021.

<u>Illustration No. 3 – Washington Residential Natural Gas Bill (Jan. 2016 – Nov. 2021)</u>



With regard to Avista's retail rates compared to other investor-owned utilities, Edison Electric Institute periodically prepares a comparison of residential electric bills for investor-owned utilities across the country. Illustration No. 4 below provides a comparison of an Avista residential customer's monthly bill in Washington and Idaho with utility bills in other States. The illustration shows that Avista's residential customers' rates are among the lowest in the Country for investor-owned utilities.

Illustration No. 4 – Average Residential Monthly Electric Bill



Our relatively low retail rates are due in large part to a history of our Company aggressively pursuing the acquisition and preservation of a diversified portfolio of low-cost resources for the benefit of our customers. While reflective, in part, of our lower cost resource portfolio, they are also a result of Avista's efforts to control its capital investment costs and utility operating costs, in order to keep retail rates as low as reasonably possible.

Q. Do there continue to be protections for Washington customers should the Commission order rates that unintentionally result in the Company earning in excess of its authorized return?

A. Yes. As discussed by Ms. Andrews, even with recent rate relief, the Company continues to <u>substantially underearn</u>, especially in our natural gas operations. Were the Company still somehow to earn in excess of its authorized return, ratepayers will participate in any returns in excess of the authorized rate of return – as discussed earlier in my testimony and in the testimony of Mr. Ehrbar.

V. <u>GENERAL RATE CASE DRIVERS</u>

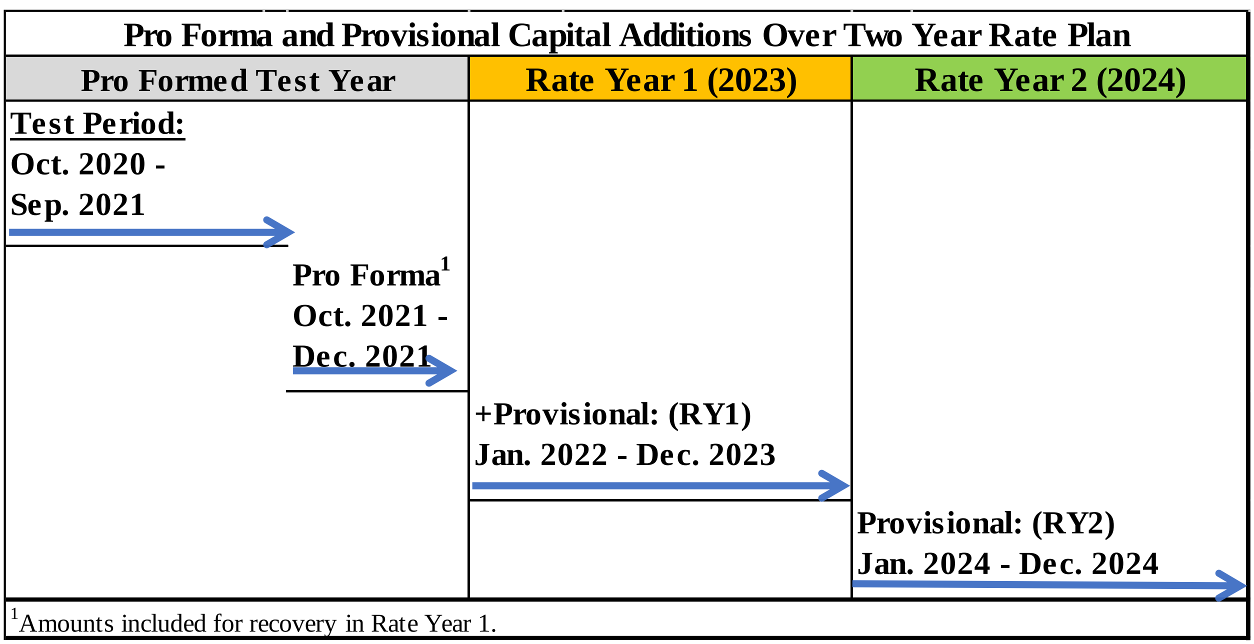
Q. What are the primary factors driving the Company's requested electric and natural gas revenue increases?

A. As discussed by Ms. Andrews, the increase in overall costs to serve customers is driven primarily by the continuing need to replace and upgrade electric and natural gas facilities and technology we use every day to serve our customers[19], while revenue growth remains low. In particular, the Company's request includes the Company's electric and

[19] As discussed by Mr. Thies, for the five-year period ending December 31, 2026, the capital expenditure level is expected to remain constant at approximately $445 million annually, on a system basis, for utility plant investment.

natural gas utility investment completed through December 31, 2021, included in Rate Year 1.[20] The Company has also included total electric and natural gas utility investments for capital additions planned to transfer-to-plant between January 2022 through December 2023 for Rate Year 1, and January 2024 through December 2024 for Rate Year 2. Capital additions for the period 2022 – 2024 are included as "provisional adjustments," subject to further review and refund in future periods. Illustration No. 5 below, also appearing in Ms. Andrews' testimony, depicts the manner of recovering the test year, pro forma, and provisional capital investments included in Rate Year 1 and Rate Year 2.

<u>Illustration No. 5 – Capital Additions Included in Two-Year Rate Plan</u>



Q. What is driving the need for continued capital investment?

A. As explained by Mr. Ehrbar, our capital investment is driven by six key

[20] Per Avista Dockets UE-200900 and UG-200901, approved investments included capital investments through <u>December 31, 2020</u>, plus specific 2021 capital additions limited to the Company's investment in its Automated Meter Infrastructure ("AMI," January 2021 through June 2021 additions), Wildfire Resiliency Plan (January 2021 through September 2021, subject to review and refund in this GRC), and EIM (January 2021 through June 2022 additions, subject to review and refund in this GRC).

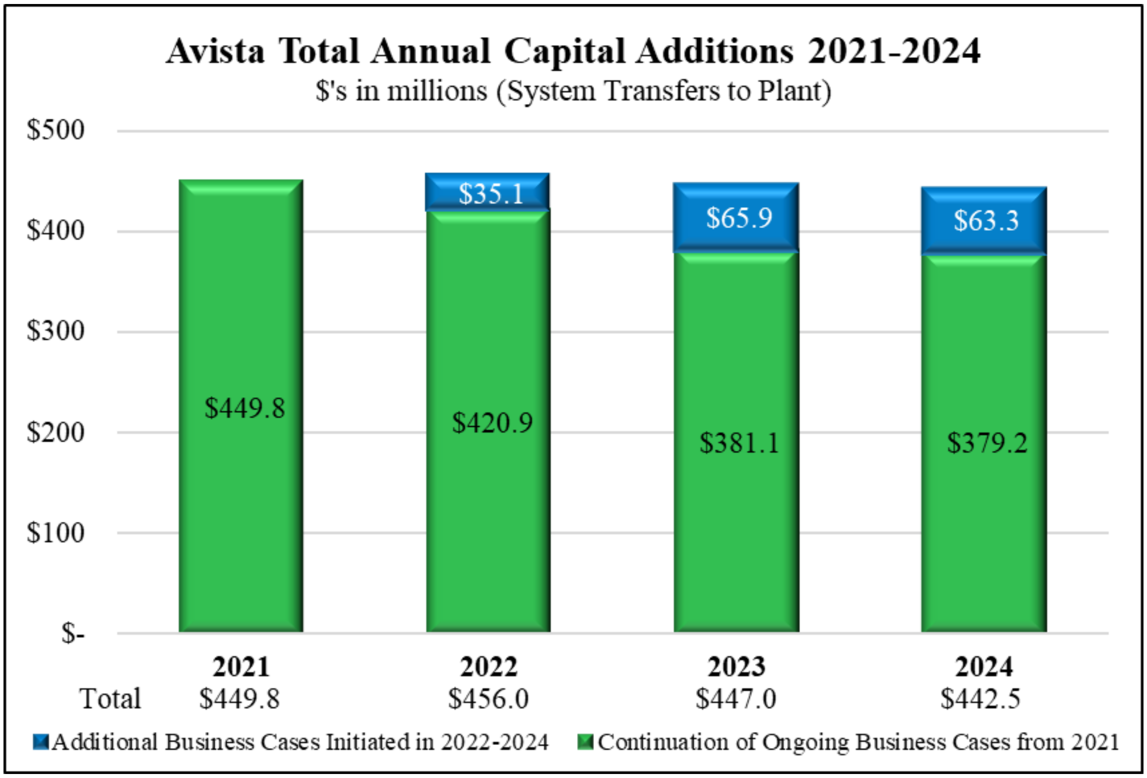
"investment drivers", which are:

1. Respond to customer requests for new service or service enhancements;
2. Meet our customers' expectations for quality and reliability of service;
3. Meet regulatory and other mandatory obligations;
4. Address system performance and capacity issues;
5. Replace infrastructure at the end of its useful life based on asset condition; and
6. Replace equipment that is damaged or fails, and support field operations.

An explanation of these "drivers", as well as examples of specific capital projects under these drivers, is provided by Mr. Ehrbar. He also provides further details on our capital planning process, which is used to identify and prioritize capital investment, in the appropriate time frame, and in a manner that best meets the future needs and expectations of our customers. Company witnesses Mr. Thackston, Ms. Rosentrater, Mr. Kensok, Mr. Howell, Mr. Kinney and Mr. Magalsky provide details of our completed capital projects, including the projects reflected in Company witness Mr. Baldwin-Bonney's and Ms. Andrews' pro forma and "provisional" capital adjustments. Those witnesses address why these capital projects need to be done in the planned time frame, and what the risks and consequences are of not completing the projects in that time frame.

For illustrative purposes, witnesses Ms. Rosentrater, Mr. Kensok and Mr. Thackston, who address most of the capital projects, have included yearly bar charts for 2021-2024 depicting the yearly spend within each existing Business Case versus "provisional" expenditures associated with an entirely new Business Case in 2022-2024. As shown in the aggregate chart below, in excess of 90% of "provisional" in 2022-2024 expenditures have their genesis in existing test period Business Cases.

Illustration No. 6: Avista Total Annual Capital Additions 2021-2024

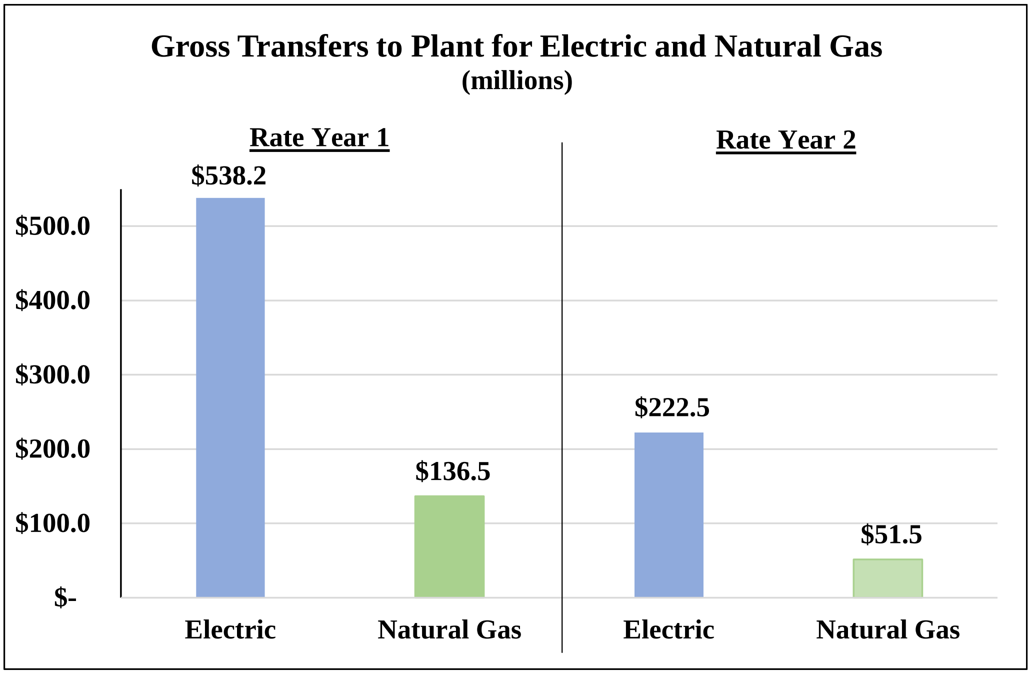


As you can see from this illustration, most of the capital investment relates to ongoing, multi-year efforts that continue over time, at various funding levels. The rationale and justification for these ongoing projects, however, does not change over time, only the funding levels.

Q. Given that annual capital additions year over year are fairly consistent, why are the capital additions included in Rate Year 1 so much higher than in Rate Year 2?

A. As Ms. Andrews discusses in her testimony, Rate Year 1 addresses incremental capital deployed (transfers-to-plant) in 2021 through 2023, which is essentially a 2.5 year period,[21] as compared to Rate Year 2, which covers 2024 capital additions.[22] Illustration No. 7 below, from Ms. Andrews' testimony demonstrates this point:

Illustration No. 7 – Washington Electric & Natural Gas Gross Transfers to Plant



The point to remember is that Rate Year 1 serves to capture (or "catch up") capital deployed since January 1, 2021, not previously included in the most recent general rate case. As should be evident, if that capital is not recognized in rates in Rate Year 1, the levels of requested and approved in Rate Year 2 will be wholly insufficient.

Q. Would you please identify the main changes in expenses impacting the Company's filed request?

A. The Company has a series of increases in expenses, mainly associated with

[21] Capital additions included in 2023 are included on an Average of Monthly Average (AMA) basis, resulting in 2 ½ years additions in Rate Year 1.
[22] The incremental 2023 balance not in Rate Year 1 (since is 2023 AMA) is included in Rate Year 2, with 2024 additions included on an AMA basis, essentially resulting in 1 year of overall capital additions in RY2.

labor and benefits, increases in informational technology costs associated with contractual agreements (necessary to support such costs as cyber and general security, emergency operations readiness, operations support, for example), as well as significant increases in insurance premiums, due to the impact nationally of wildfires.

Q. What were the Company's electric and natural gas earned returns for the test year ending September 30, 2021, and in the rate effective periods?

A. As discussed by Ms. Andrews, there are four different rates of return that she has provided. They are (1) the actual rate of return earned by the Company during the 09.30.2021 test period, (2) the Restated 09.30.2021 results for the historical test period, (3) the adjusted rate of return for Rate Year 1 (effective December 2022) and for Rate Year 2 (effective December 2023), and (4) the requested ROR. The returns for Washington operations are provided below in Illustrations No. 8 (electric) and No. 9 (natural gas):

Illustration No. 8: Two-Year Rate Plan - Electric Rates of Return

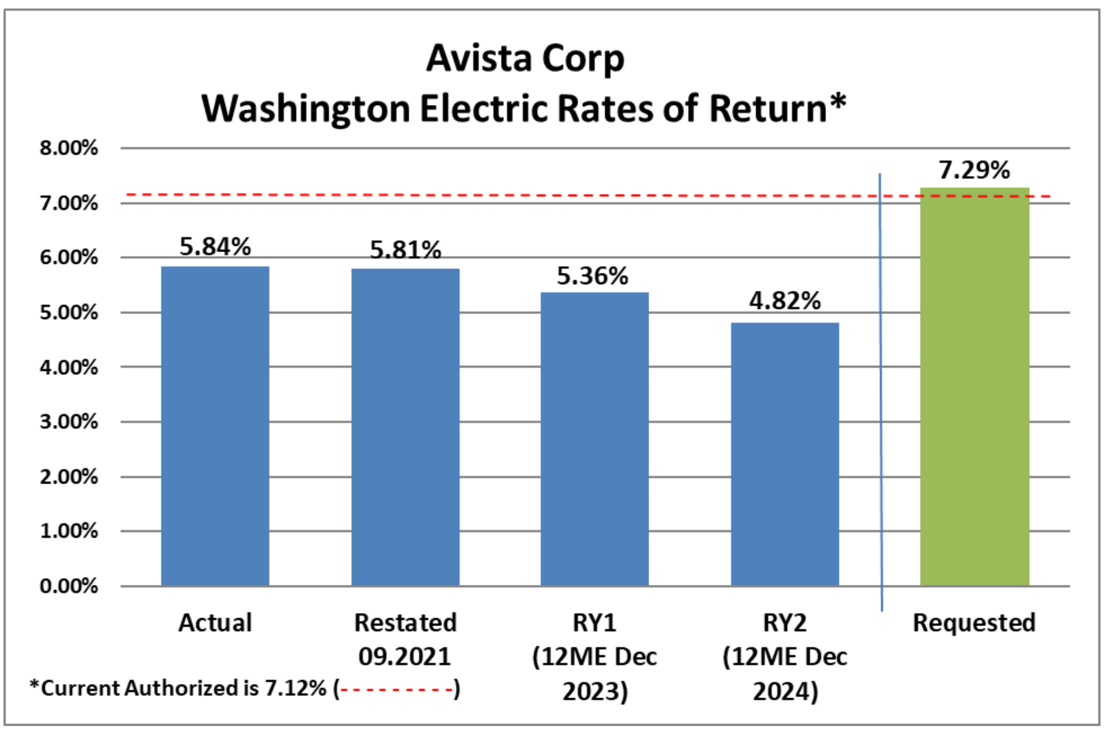
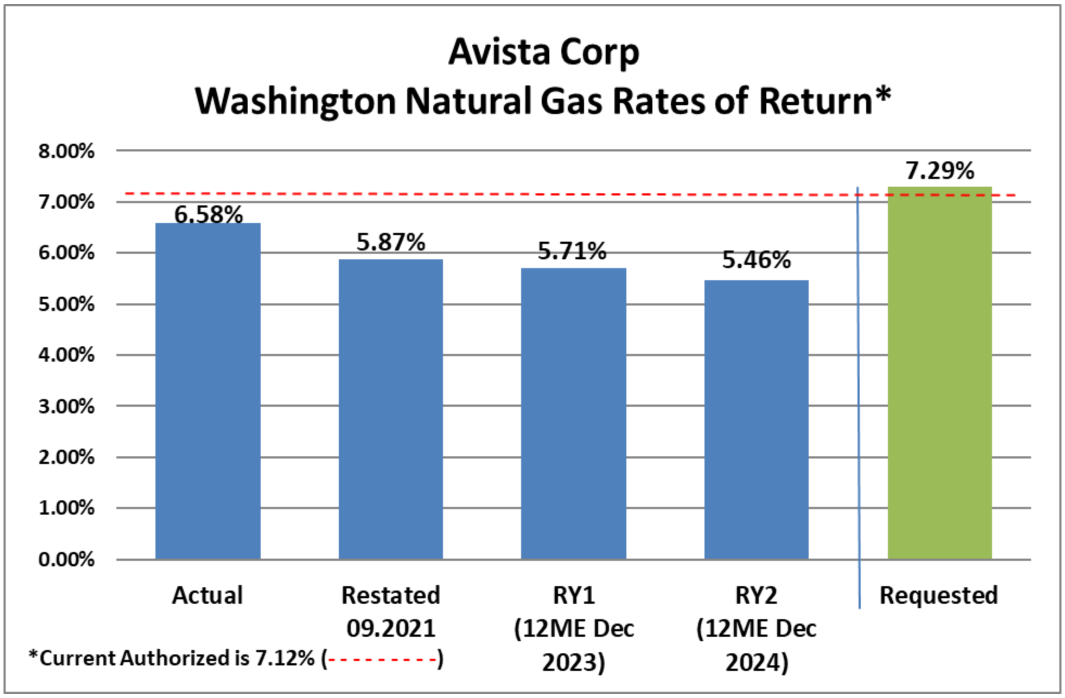


Illustration No. 9: Two-Year Rate Plan - Natural Gas Rates of Return



As shown in Illustrations No. 8 and No. 9 above, after taking into account all standard Commission Basis adjustments, as well as additional normalizing, pro forma and provisional adjustments, the pro forma electric and natural gas rates of return for the Company's Washington jurisdictional operations over the Two-Year Rate Plan are 5.36% and 5.71%, respectively for RY1; and 4.82% and 5.46%, respectively for RY2. These return levels over the Two-Year Rate Plan are well below the Company's requested rate of return of 7.29%.

VI. COST MANAGEMENT AND EFFICIENCIES

Q. Is Avista continuing to pay particular attention to controlling its costs in order to mitigate the level of price increases to its customers?

A. Yes. We recognize that increases in costs will result in bills that will be more difficult for some of our customers to pay. I can assure you that we are not just sitting on the sidelines as our costs go up. We continue to aggressively manage costs to achieve the appropriate balance of providing safe and reliable service at cost-effective rates, along with a high level of customer satisfaction, while preserving the financial health of the utility. We are focused on long-term sustainable savings to continuously improve our service to customers and manage costs into the future. Some of the measures from the last couple of years that we are continuing, are briefly explained below, as well as a number of more recent initiatives.

Q. How is a focus on cost management instilled throughout the organization?

A. I believe that all of us at Avista are committed to providing safe, responsible, and affordable natural gas and electric service. One way to keep our employees focused on these goals is to have a portion of their compensation be at-risk, payable only with the achievement of certain customer-centered metrics. This “pay at-risk” component, in the form of our Short-Term Incentive Plan, keeps our employees focused on:

- O&M Cost per Customer (O&M CPC) - The O&M CPC is a measure that focuses on controlling costs and driving efficiencies in order to keep our costs reasonable for our customers. The metric is based on targeted O&M expense and number of customers. These components are combined to create the O&M CPC metric.
- Customer Satisfaction - This measure is derived from a Voice-of-the-Customer Survey, which is conducted each quarter by an independent agency. The rating measures the customer’s overall satisfaction with the service they received during a recent contact with the Company’s contact center and/or service center.
- Reliability - This measure tracks how quickly the Company restores outages, how frequently customers are affected by outages and what percent of customers experience more than three sustained outages per year. The Company combined three common industry indices in order to balance our focus.[23]
- Response Time – This measure tracks how quickly the Company responds to dispatched natural gas emergency calls. The primary objective is customer and

[23] This index combines Customer Average Interruption Duration Index (CAIDI), System Average Interruption Frequency Index (SAIFI) and Customer Experiencing Multiple Interruptions (CEMI3). CEMI3 measures the percentage of customers that experience more than three sustained outages in the year.

public safety while consistently treating customers the same throughout our service territory.

We believe these metrics are intertwined, in that effective cost management aids in keeping our costs reasonable for our customers, which in concert with reliable service and appropriate response to disruptions in service, results in a positive experience for our customers as measured in the Company's Voice-of-the-Customer survey. In the end, we were very purposeful in choosing metrics we believe incentivize our employees to diligently execute cost management and efficiencies throughout the organization, while keeping our focus on safe and reliable electric and natural gas service.

Q. Earlier you mentioned continuous improvement. What initiatives has the Company employed in this area?

A. Avista is constantly looking for improvements in the way it provides services to its customers, as well as ways to reduce the costs of those services. Beginning several years ago, Avista actively engaged in Business Process Improvement (BPI). The goal of BPI is to give our employees the tools that allow for a mindset of continuous improvement through the elimination of waste. In BPI, waste is defined as defects, overproduction, waiting, nonstandard processes, transportation, inventory, and extra processing. There are many tools taught to those who have gone through BPI, and it is the intent of the program that graduates will continue the use of those tools and incorporate them into their work areas.

Q. Has the Company undertaken an even more recent initiative around transformational business change?

A. Yes, the Company embarked in 2020 on a new "Business Transformation" program. Business Transformation is an enterprise-wide, aspirational effort to create breakthrough, lasting value for our customers, employees, and shareholders by transforming the way we work and becoming a more adaptable organization. In short, we aim to "Aspire, Activate & Adapt for a thriving future." We aspire to create and deliver new value and sustained growth for our customers and shareholders, to activate our people to reimagine how we work, and adapt and perform with agility in a rapidly evolving world.

Q. Ultimately, how will the benefits of Business Transformation affect your electric and natural gas operations and customers in Washington?

A. The aspirations we have set forth under this long-term transformational program will help us make further progress in managing rising costs and help us meet our goal to provide affordable energy service to our customers. We must continue to evolve to become an even more adaptable organization that operates with focus, agility, accountability, and transparency.

Q. What other measures have the Company undertaken in recent years to drive cost efficiencies?

A. First, the Company continues to operate under a hiring policy which requires final approvals by the President and CEO, the Chief Financial Officer, and the Vice President for Human Resources for all replacement or new hire positions. In an effort to keep medical office visits down, we offer access to phone or web-based 24/7 telemedicine and we have an on-site medical clinic. In 2017, Avista began offering a self-insured High Deductible Health Plan ("HDHP") in addition to the current self-insured plan. The HDHP requires plan participants to pay all costs of medical care up to defined deductible limits. Over time, we expect this plan to result in lower overall medical costs to the Company.

In addition, our process to identify and prioritize capital investment is designed to meet the overall need for investment, in the appropriate time frame, in a manner that best meets the future needs and expectations of our customers, in both the short-term and long-term. The Company's practice has been to constrain the level of capital investment each year, such that not all of the prioritized projects and programs will be funded in a given year at the level requested. Avista currently has chosen to stabilize the level of annual capital spending at what can be described as a constrained level of approximately $445 million (system), in an effort to accomplish the objectives described above. This is discussed in more detail by Mr. Ehrbar.

Finally, as discussed by Ms. Andrews, we have incorporated cost savings across the board for all capital projects that are not otherwise related to mandates or growth. Avista has incorporated direct O&M offsets related to certain capital projects, and for others that are not required investment, incorporated a 2% efficiency adjustment, where immediate hard cost savings could not otherwise be identified. In this manner, this will provide additional impetus to drive efficiencies out of our capital investments.

Q. Does the proposed efficiency adjustment lead to an immediate write-off of capital investment?

A. No, it does not. The Company has included the full level of capital investment in its revenue requirement and provided a separate "offsets adjustment" to incorporate both the direct offsets as well as the efficiency adjustment. Again, this is discussed in more detail by Ms. Andrews.

VII. COMMUNICATIONS WITH CUSTOMERS

Q. How is Avista communicating with its customers to explain what is driving

increased costs for the Company?

A. The Company proactively communicates with its customers about a range of subjects through a variety of channels: Avista's website www.myavista.com, electronic and print newsletters, Avista Connect www.myavista.com/Connect, social media, customer forums, one-on-one customer interactions through field personnel and account representatives, bill inserts, direct email, media contacts, group presentations, through our employees' involvement in community, business and civic organizations, and more (of course prior to the pandemic as it relates to in-person meetings). We believe our communications help our customers and the communities we serve to better understand the utility business as well as issues faced by the Company that contribute to their energy rates, such as increased and ongoing infrastructure investment and improvement, environmental and wildfire mitigation and security.

Our employees provide excellent customer service and customer experience, and this focus on communicating with our customers includes providing our employees messaging and new tools and training to make it easier to communicate with friends, family, and customers. We are finding that once a customer talks with our employees and voice their concerns and receive answers to their questions, their satisfaction level increases. We are also continuing our focus on informing customers of the many programs we offer to aid in managing their energy bills and ensuring that our employees are equipped to engage in these conversations.

Q. Would you briefly describe efforts the Company continues to undertake to drive a better customer experience when working with Avista?

A. Yes. I am very proud of the Company's primary focus on putting our customers at the center of our business in order to drive a better customer experience (CX).

CX is how customers perceive their interactions with an organization. A customer's perception starts the moment they become aware of our Company and is made up of the sum of all of the interactions they have with us. There are three dimensions to CX that are components of an experience that increases customer experience and creates customer loyalty, these are:

> **<u>Effective</u>:** effective interactions meet the needs of the customer. The product or service must deliver value to our customers or the experience will fail fundamentally. Effectiveness is critical even though it is less likely to drive customer loyalty than emotion.
>
> **<u>Ease</u>:** easy interactions let customers achieve their goals with minimal effort. When alternative paths to value are harder, ease of doing business creates increased customer experience.
>
> **<u>Emotion</u>:** the best interactions evoke positive customer emotions and avoid provoking negative emotions. Positive customer emotions can lead to customer retention, enrichment, advocacy, and loyalty.

CX creates customer loyalty and loyal customers mean more than retention. Loyal customers become advocates, they are more likely to seek our advice as trusted energy advisors and follow our safety messages. Loyal customers are more likely to be aware of and participate in the variety of products and services we offer such as Comfort Level Billing, energy efficiency programs, or renewable energy programs, to name a few. We also believe that loyal customers are beneficial for the utility and all other customers in the long-term, as competitive forces take hold in our industry.

Illustration No. 10 below provides a summary of how Avista is showing *<u>care</u>* for our customers, the *<u>ease</u>* with which customers can interact with us, how we continue to build *<u>trust</u>*, and the *<u>ownership</u>* each and every employee should have for our customers. Through employee training, this has become essentially our "mantra".

Illustration No. 10 – Customer at the Center

To effectuate this goal and as discussed in great detail in our last general rate case, Avista has been continuing its investment in Customer Facing and Customer Experience technologies and multiyear programs to improve Avista's interaction with all of our customers. Further information about these investments and programs are described by Company witness Mr. Magalsky.

VIII. CUSTOMER SATISFACTION

Q. What kind of feedback are you receiving from customers related to customer satisfaction?

A. Our customer service surveys indicate that customer satisfaction remains high. Our overall customer satisfaction from our Voice-of-the-Customer (VOC) surveys for the month of November 2021 was 98% in our Washington, Idaho, and Oregon operating divisions. Year-to-date through November 2021, overall satisfaction is 96%. The purpose of the VOC Survey is to measure and track customer satisfaction for Avista Utilities' "contact" customers – i.e., customers who have contact with Avista through the Contact Center and/or work performed through an Avista construction office. This rating reflects a positive experience for customers who have contacted Avista related to the customer service or field service they received. These results can be achieved only with very committed and competent employees.

IX. CUSTOMER SUPPORT PROGRAMS

Q. Please briefly summarize the customer support programs that Avista provides for its customers in Washington.

A. Avista Utilities offers a number of programs for its Washington customers, such as energy efficiency programs, the Low-Income Rate Assistance Program (LIRAP), Project Share for emergency assistance to customers, the Customer Assistance Referral and Evaluation Service (CARES) program, level pay plans, and payment arrangements. Some of these programs will serve to mitigate the impact that COVID-19, in particular, is having on our customers and the affordability of their energy bill.

During the 2020-2021 program year,[24] approximately 50,200 grants were awarded to Avista's Washington residential customers, totaling approximately $21.2 million in various forms of energy assistance (Federal LIHEAP program, LIRAP, COVID-19 Debt Relief,

[24] In alignment with heating seasons, the energy assistance "program year" runs from October-September each year; thus, the 2020-2021 program year occurred October 1, 2020 through September 30, 2021.

Project Share, and local community funds). Some of the key programs that we offered during this time, or supported, are as follows:

1. **Low-Income Rate Assistance Program (LIRAP).** Avista's Low-Income Rate Assistance Program in Washington collected approximately $11.4 million through electric and natural gas tariff surcharges during the 2020-2021 program year. The Company, with the assistance of community action agencies, directs these funds to customers struggling to pay for electric and natural gas service. The purpose of the LIRAP program is to reduce the energy cost burden among those customers least able to pay energy bills through energy assistance grants or discounted rates. In the 2020/2021 heating period, for example, the LIRAP funds supplied a total of over $6 million to Avista customers, providing 16,172 energy assistance grants to income-qualified customers and supporting 893 senior or disabled households through its rate discount program. Avista's LIRAP is discussed in further detail in the testimony of Company witness Mr. Bonfield.

2. **Project Share.** Project Share is a community fuel fund that is supported by a partnership of utilities and community action agencies; it provides "emergency" energy assistance to qualified households that have exhausted all other energy assistance resources. Avista employees, customers and community partners voluntarily donate to Project Share; in the 2020/2021 heating season, this group donated $151,243 to the program. Additionally, during the same year the Company contributed $128,060 to Project Share to help individuals stay connected to essential services. $86,841 in total benefits were provided to customers from Project Share during the 2020/2021 season, assisting 314 Avista customers.

3. **COVID-19 Debt Relief.** As part of its efforts to support customers during the COVID-19 pandemic, and in alignment with Order No 01 in Docket No. U-200281, Avista also established a COVID-19 Debt Relief program beginning April 1, 2021. Through this program, Avista provided arrearage forgiveness to 9,393 customers, totaling approximately $6.4 million.

4. **Comfort Level Billing.** The Company offers the option for residential customers to pay the same bill amount each month of the year by averaging their annual usage. Under this program customers can avoid unpredictable winter heating bills.

5. **Multiple Payment Methods.** The Company offers a number of no-cost payment methods for residential customers. In addition to making a payment at pay stations, drop boxes, or paying by cash at pay stations or the Company's office, Avista also offers customers online payment through the Company's website whether it is ACH, credit and debit card and pay-by-telephone payment options which provide almost immediate account

updating and the customer can make these payments without leaving their home.

6. **Energy Efficiency.** Avista began offering energy efficiency programs to its customers in 1978. These programs pursue all cost-effective energy efficiency and operate within the prevailing market and economic conditions. Recent programs with the highest impacts on energy savings include residential and non-residential prescriptive lighting, residential fuel efficiency, site-specific lighting, and small business projects. Avista energy efficiency programs provide conservation and education options to the residential, low income, commercial, and industrial customer segments. Program delivery includes prescriptive, site-specific, regional, upstream, behavioral, market transformation, and third-party direct install options. Prescriptive programs, or standard offerings, provide cash incentives for standardized products such as the installation of qualifying high-efficiency heating equipment. Prescriptive programs work in situations where uniform products or offerings are applicable for large groups of homogeneous customers and primarily occur in programs for residential and small commercial customers.

These programs and the partnerships we have formed with community action agencies have been invaluable to customers who often have nowhere else to go for help.

X. SUMMARY OF WITNESSES

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

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

Mr. Mark Thies, Executive Vice President, Chief Financial Officer and Treasurer, will provide a financial overview of Avista Corporation as well as explain our credit ratings and the Company's proposed capital structure and overall rate of return in this case. In brief, he provides information that shows:

1. Avista's plans call for a continuation of utility capital investments in generation, transmission, electric and natural gas distribution systems and technology to

preserve and enhance service reliability for our customers, including the continued replacement of aging infrastructure. Capital expenditures of $445 million per year (system) are planned for the five-year period ending December 31, 2026. Avista needs adequate cash flow from operations to fund these requirements, together with access to capital from external sources under reasonable terms, on a sustainable basis.

2. We are proposing an overall rate of return of 7.31 percent, which includes a 48.5 percent common equity ratio, a 10.25 percent return on equity, and a cost of debt of 4.54 percent. We believe our proposed overall rate of return of 7.31 percent and the proposed capital structure provide a reasonable balance between safety and economy.

3. Avista's corporate credit rating from Standard & Poor's (S&P) is currently BBB and Baa2 from Moody's Investors Service. Avista must operate at a level that will support a solid investment grade corporate credit rating in order to access capital markets at reasonable rates. A supportive regulatory environment is an important consideration by the rating agencies when reviewing Avista. Maintaining solid credit metrics and credit ratings will also help support a stock price necessary to issue equity under reasonable terms to fund capital requirements.

Mr. Adrien McKenzie, as President of Financial Concepts and Applications (FINCAP), Inc., has been retained to present testimony with respect to the Company's cost of common equity. He concludes that:

- In order to reflect the risks and prospects associated with Avista's jurisdictional utility operations, his analyses focus on a proxy group of 16 utilities with comparable investment risks.
- Because investors' required return on equity is unobservable and no single method should be viewed in isolation, he applies the DCF, CAPM, ECAPM, and risk premium methods to estimate a fair ROE for Avista, as well as referencing the expected earnings approach.
- Based on the results of these analyses, and giving less weight to extremes at the high and low ends of the range, he concludes that the cost of equity for the proxy group of utilities is in the **9.5% to 10.9%** range.
- As reflected in the testimony of Mark T. Thies, Avista is requesting a fair ROE of **10.25%**, which is equal to his recommended ROE after making a flotation cost adjustment. His conclusion that a 10.25 percent ROE for Avista is a reasonable, even conservative, estimate of investors' required return is also reinforced by the greater uncertainties associated with Avista's relatively small size

Ms. Elizabeth Andrews, Senior Manager of Revenue Requirements, will generally cover accounting and financial data in support of the Company's electric and natural gas Two-Year Rate Plan and the need for the proposed increases in base rates effective December 2022 (Rate Year 1) and December 2023 (Rate Year 2). She explains pro formed operating results, including expense and rate base adjustments made to actual operating results and rate base, and she incorporates certain adjustments sponsored by other witnesses into the proposed revenue requirements.

In addition, Ms. Andrews describes the Company's proposed future reporting of "provisional" capital adjustments pro formed in this case, as well as the Company's request in this case to create a certain balancing account to track insurance costs, thereby protecting both customers and the Company with respect to those costs expected during the Two-Year Rate Plan. Finally, she discusses the Company's proposal to return remaining deferred tax credit balances to customers to mitigate, in part, the Company's requested increase effective December 2022 over a two-year period.

Mr. Patrick Ehrbar, Director of Regulatory Affairs, covers three distinct areas in his testimony. First, he provides an overview of the Company's capital planning process – from the ideation of a capital project through to the approval of capital, in aggregate, by the Company's Board of Directors. Second, he discusses the performance metrics that Avista is proposing for inclusion in the Two-Year Rate Plan, beginning in December 2022. Finally, he discusses the modifications to the new Earnings Test that was included in the Senate Bill 5295 legislation, and how that impacts the Company's electric and natural gas Decoupling Mechanisms.

Dr. Grant Forsyth, Chief Economist for Avista, describes the methodology used to generate growth rates for certain regulatory balances. In future Washington cases, the Company expects to use this growth rate methodology for the purpose of escalating certain regulatory balances in the determination of future revenue requirements, during multi-year rate cases, beyond first year pro forma study levels. As discussed by Ms. Andrews, however, Dr. Forsyth's current calculated growth rates will only be used to produce the electric and natural gas revenue requirement for Rate Year 2 of the Company's Two-Year Rate Plan, as a cross-check or statistical analysis for comparison to the Company's Rate Year 2 pro forma analysis. As discussed by Ms. Andrews, the Company is not relying on his testimony and analysis for its proposed Rate Year 2 revenue requirement. Rather, it is simply meant to demonstrate that using his statistical analysis, Avista could actually support an even higher revenue requirement.

Mr. Jason Thackston, Senior Vice President of Energy Resources and Environmental Compliance Officer, provides an overview of Avista's resource planning and power supply operations, including summaries of the Company's current and future resource plans, as well as an overview of the Company's Energy Resources Risk Policy. He addresses the generation-related capital projects included in this case, including capital additions associated with the Company's investment in Colstrip Unit Nos. 3 and 4 for the periods 2021-2024. He concludes with a discussion of the 2024 Chelan County PUD Power Purchase Agreement.

Mr. Scott Kinney, Director of Energy Supply, provides an update on Avista's Western Energy Imbalance Market (EIM) integration efforts and plan to join the market on March 2, 2022, Avista's participation in the Western Resource Adequacy Program (WRAP) trial, an update on Avista's natural gas resource procurement plan, and an overview of the Company's 2021 Natural Gas Integrated Resource Plan (IRP).

Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, provides an overview of the current Power Supply methodology as developed collaboratively in workshops completed as part of Order No. 07 in Docket UE-170485 et. al. The final agreements reached through these workshops are reflected in the proposed authorized level of power supply expense included in this case. His testimony will describe key inputs and assumptions driving power supply costs, including loads, natural gas and electricity prices, and provides a comparison to the current level of authorized power supply expense. Finally, he will identify and explain the proposed pro forma adjustments to the 12-month ended September 30, 2021 test period power supply revenues and expenses, including the Retail Revenue Credit used in Energy Recovery Mechanism (ERM) deferral calculations.

Mr. Jeff Schlect, Senior Manager, FERC Policy and Transmission Services, presents Avista's transmission revenues and expenses included in the Company's request for rate relief effective in December 2022.

Ms. Heather Rosentrater, Senior Vice President of Energy Delivery and Shared Services, provides an overview of the Company's electric and natural gas energy delivery facilities, distribution planning efforts, and explains the factors driving our continuing investment in electric distribution infrastructure. She explains how our efforts to maintain the asset health and performance of our electric transmission system, including compliance with mandatory federal standards for transmission planning and operations, is driving a continuing demand for new investment. Further, she describes why our investments in natural gas distribution are necessary in the time frames completed and why each capital investment in our operations facilities and fleet operations is needed to support the efficient delivery of service to our customers, today and into the future. Finally, she provides information as to how Avista is ensuring it gets the most value and benefits of our Advanced Metering Infrastructure system for its customers.

Mr. David Howell, Director of Electric Operations and Asset Maintenance, discusses the status of the Company's Wildfire Resiliency Plan, reiterate its goals and objectives, and summarize the technical and operational aspects of the Plan. As discussed in Avista's last general rate case, Avista's Wildfire Plan reflects the Company's 130-year operating history combined with recent efforts to quantify and respond to the financial, safety-related, and service reliability risks associated with wildfires.

Mr. James Kensok, Vice President and Chief Information and Security Officer, provides an overview of, and discuss costs associated with, the Company's Information Service/Information Technology (IS/IT) programs, projects and security. These costs are comprised of the capital investments for a range of IS/IT projects that support systems used by the Company, as well as cyber and physical security projects and costs. He explains why our information technology and security investments are necessary in the time frames indicated and why investments in technology are necessary. Finally, he provides an overview of the IS/IT expenses that Avista is pro forming into this general rate case.

Mr. Kelly Magalsky, Director of Products, Services, and Customer Technology, provides an overview of the Company's Transportation Electrification (TE) Programs and addresses the rationale for the projects that we have included in this rate case. He also provides an overview of the Company's "Customer at the Center" initiative and discusses the capital projects that we have included in this rate case.

Mr. Justin Baldwin-Bonney, Regulatory Affairs Analyst, describes the Company's restating, pro forma, and provisional capital related adjustments over the Company's Two-

Year Rate Plan, that adjust the historical test period net plant at 12-months ended September 30, 2021 average-of-monthly-averages (AMA) to a December 31, 2023 AMA basis, for Rate Year 1, and to a December 31, 2024 AMA basis, for Rate Year 2.

Mr. Marcus Garbarino, Manager of Regulatory Affairs, covers the Company's electric cost-of-service study performed for this proceeding. Additionally, he is sponsoring the electric revenue normalization adjustments to the test year results of operations.

Mr. Joel Anderson, Regulatory Analyst, covers the Company's natural gas cost-of-service study performed for this proceeding. Additionally, he is sponsoring the natural gas revenue normalization adjustments to the test year results of operations.

Mr. Joseph Miller, Senior Manager of Rates and Tariffs, covers the spread of the proposed December 2022 (Rate Year 1) and December 2023 (Rate Year 2) increases for both electric and natural gas. He describes the changes to the rates within the Company's electric and natural gas service schedules, and the proposed rate spread, rate design, and implementation of the new Residual Tax Customer Credit Rate Schedules 78 and 178. Further, his testimony discusses the proposed modification to the annual effective date of the Renewable Energy Credit Revenue Tariff Schedule 98 from July 1 to August 1, and he provides a status update on the Pricing Pilots approved as part of the Settlement Stipulation in the Company's prior general rate case proceeding.

Mr. Shawn Bonfield, Senior Manager of Regulatory Policy and Strategy, discusses Avista's Low-Income Rate Assistance Program (LIRAP), as well as the Company's proposed CETA Labor Adjustment. Specifically regarding LIRAP, he provides an overview of our existing LIRAP program design and funding structure. He then presents the Company's proposed modifications to LIRAP that will better align Avista's future LIRAP with the expectations of both CETA and Senate Bill 5295, which will more effectively serve the Company's low-income customers with energy assistance. The intention of Mr. Bonfield's testimony as a whole is to discuss how we intend to ensure future energy assistance offerings are delivered in a more equitable manner.

Mr. Patrick Everitt, Human Resources Analytics and Compliance Manager, describes the drivers related to the increase in labor costs experienced by the Company. He provides a brief overview of the Company's total compensation philosophy, discusses Executive Officer compensation, followed by Non-Executive labor for both non-bargaining and bargaining unit employee compensation. Finally, he provides a Confidential update regarding the on-going Bargaining Unit contract negotiations.

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

A. Yes.