**AVISTA CORP.**
**RESPONSE TO REQUEST FOR INFORMATION**

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| JURISDICTION: | WASHINGTON | DATE PREPARED: | 05/26/2015 |
| CASE NO: | UE-150204 & UG-150205 | WITNESS: | Elizabeth Andrews |
| REQUESTER: | WUTC Staff - McGuire | RESPONDER: | Liz Andrews |
| TYPE: | Data Request | DEPT: | State & Federal Regulation |
| REQUEST NO.: | Staff – 142 | TELEPHONE: | (509) 495-8601 |
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**REQUEST:**
Please provide supporting work papers for the forward-looking 3.0% annual growth rate for operating expenses used for Avista's attrition studies for both electric and natural gas operations.

**RESPONSE:**
As noted at page 27, lines 3 – 9 of Exhibit No. __(EMA-1T):

> Avista lowered the annual growth rate escalation factor for O&M expenses to reflect the recent cost-cutting measures implemented by the Company, and the expectation that Avista will manage the growth in these expenses to a lower level in future years. (See "Adopted Operating Expenses" factor shown on page 9, row 7A.) Although Avista's O&M/A&G costs have grown at an annual rate of approximately 5.7% per year for the past six years (2007-2013), we have used a lower annual growth rate of 3% per year for our Attrition Study.

Please see Avista's response to ICNU_DR_003 for examples of cost management efficiencies and decisions by senior management to take steps to reduce the growth in expenses. Examples discussed in ICNU_DR_003 include resource-related decisions, the Voluntary Severance Incentive Plan (VSIP) to reduce employee complement and the changes to pension and post-retirement medical programs. These changes attest to Avista's efforts to control our costs, improve efficiency, and focus on long-term sustainable savings to continuously improve our service to customers and manage costs into the future.

Although not all examples of cost management efficiencies or reductions to costs are specifically quantified and provided in Avista's response to ICNU_DR_003, as explained above, the Company has reflected the reduction to its O&M and A&G costs in its requested revenue requirement through its use of a lower "Adopted Operating Expenses" factor used within its electric and natural gas Attrition Studies. (See page 9 of Exhibit Nos. _(EMA-2) and _(EMA-3).)

Per the Company's 5-year financial forecast provided in Avista's response to ICNU_DR_040C, the Company expects its operating expenses to increase approximately 9.7% from 2014 to 2016, or an average of 4.85% annually. A portion of this increase is due to the planned major maintenance on the Company's Colstrip and Coyote Springs 2 (CS2) plants. In the Company's direct filing the Company proposed to include the Colstrip and CS2 major maintenance costs within the Power Supply base, excluding these costs from the O&M total operating expense in 2014 and expected 2016, thus also reducing the required "Adopted Operating Expenses" factor needed within the Company's electric attrition study. Excluding the increase expected in 2016 related to the Colstrip and CS2 major maintenance removed $5.45 million from the 2016 expected total, revising the expected O&M expense increase between 2014 and 2016 to approximately 7.6%, or an average of 3.8% annually. The Company's use of 3% to trend O&M costs from 2014 to 2016 represents a conservative trend increase from that expected.