approved by the Company is provided in Table No. 1 below. The dollar amounts for projects that were delayed (not approved) are also shown:

Table No. 1: Capital Project Requests/Approvals ($ millions)

Year	Requested	Approved	Delayed	% Capital Delayed
2012	$269	$250	$19	8%
2013	$320	$250	$70	28%
2014	$386	$331	$55	17%
2015	$404	$355	$49	14%
2016	$451	$375	$76	20%
2017	$461	$405	$56	14%
2018	$455	$405	$50	12%
2019	$531	$405	$126	31%
2020	$556	$405	$151	37%

In the end, the constrained level of capital spend will not otherwise materially cause Avista to reduce its capital expenditures in the future, as the need is real.

III. RECENT EARNED RETURNS

Q. Does Avista's recent earnings show that Avista is far from needing any sort of rate relief, as suggested by Mr. Mullins' testimony?[5]

A. No. [redacted]. Avista's historical earned returns on equity ("ROE") for the periods 2013-2016 confirm that the revenue increases granted by the Commission, when the Commission utilized certain regulatory methods to address regulatory lag in

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[5] Exh. BGM-IT, p. 6-7

For the period 2013 forward, these earnings by the Company do not militate against the use of regulatory adjustments; instead, they point to the fact that the use of a regulatory adjustment (an "attrition allowance" in those cases) in determining the Company's rate relief approved for 2013-2016 allowed the Company a better <u>opportunity</u> to earn at or close to its authorized returns. Said another way, attrition is precisely the regulatory adjustment that made it possible for the Company to actually earn at or close to its allowed returns, rather than continue to chronically under-earn as it had prior to 2013.

Q. Turning now to 2017, what was the expected impact of receiving no rate relief on January 1, 2017?[7]

A. The Company expected we would significantly under-earn in 2017 for our Washington jurisdiction.

Q. Where does the Company now expect its electric 2017 normalized ROE to be?

A. [redacted]

Q. With regard to Avista's expected normalized return on equity [redacted] for its electric operations, what has occurred during the year that caused the return to be better than originally expected?

A. There were several unanticipated items that occurred in 2017 which are contributing to better earnings this year. Examples of some unusual and unexpected items include reductions in pension and medical expenses, credit and collection expenses, and software licensing expenses.

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[7] Order No. 06 Docket Nos. UE-160228 and UG-160229

Pension expenses unexpectedly decreased due to changes in asset allocation and favorable returns on the fund balance. The Company has a self-insured medical plan. Claims under the plan for 2017 have been coming in lower than projected which has resulted in lower medical expenses. The accrual for bad debt expenses (write-offs of delinquent customer accounts) decreased during the year because of process improvements in the credit and collections processes. The Company planned to incur certain software licensing expenses in 2017, but that did not occur due to the timing of certain information technology projects. These unexpected decreases also affected natural gas operations.

[redacted]

Absent the unexpected and unusual decreases in costs, the Company would be significantly under-earning.

Q. <u>Are 2017 expected earnings</u> or prior year actual results <u>relevant</u> to Year 1 of the Company's Three-Year Rate Plan?

A. No. This general rate case filing is based on an initial rate year from May 1, 2018 through April 30, 2019.[8] Costs continue to rise from 2017 through the initial rate year. Additionally, the Company continues to invest the necessary and appropriate capital to maintain a safe and reliable system. Further deterioration of earnings will occur absent the requested amount of rate relief in our rebuttal case. As Ms. Andrews demonstrates, absent rate relief, the Company will not have a reasonable opportunity to earn its allowed rate of return in Year 1 of the Three-Year Rate Plan. As Ms. Andrews shows in Exh. EMA-10T (footnote 7), absent rate relief in this case, the rates of return for Rate Year 1 (May 1, 2018 – April 30, 2019) would be 5.61% (electric) and 6.47% (natural gas).

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[8] Where appropriate, the cost reductions in 2017 noted above have been reflected in the Company's costs in this case.