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March 31, 2023

Amanda Maxwell  
Executive Director & Secretary  
Washington Utilities and Transportation Commission  
621 Woodland Square Loop SE  
Lacey, Washington 98503

**RE: Compliance Filing (Provisional Capital for 2022) - Dockets UE-220053, UG-220054 and UE-210854 (consolidated)**

Avista Corporation, dba Avista Utilities (Avista or the Company), hereby submits its 2022 Washington Annual Provisional Capital Report, per Order 10/04, in Dockets UE-220053, UG-220054 and UE-210854 (consolidated).<sup>1</sup>

Per Order 10/04, Dockets UE-220053, et. al., page 28, para. 79, the Commission summarized the Full Multiparty Settlement Stipulation (“Settlement”) with regards to Provisional Capital Reporting as follows:

The Settling Parties agree to the reporting process for reviewing capital projects outlined in Avista witness Andrews’s testimony, with certain changes. Avista’s provisional capital reporting will include assurance that the “provisional capital included prior to the rate effective period (for 2022 capital) and during [Rate Year 1] (2023 capital) and [Rate Year 2] (2024 capital) is in service for customers during the rate effective periods, or will be subject to refund.” The Settling Parties’ proposed changes extend the review period from three to four months to allow parties to review and respond to Avista’s annual capital report filing.<sup>2</sup> Within 30 days of completing the capital projects review, Avista would be required to file with

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<sup>1</sup> Washington Annual Provisional Capital Reports are due annually on March 31<sup>st</sup> during the Company’s approved Multi-Year Rate Plan in effect from December 21, 2022 through December 20, 2024. These annual reports will provide support for actual Provisional Capital Additions occurring in 2022, 2023 and 2024 versus the total level of plant approved by the Commission in Dockets UE-220053, et. al.

<sup>2</sup> Per the Settlement (see UE-220053-Appendix A to Order 10/04 -Settlement-Stipulation-6-28-22, page 10, para. 20), Parties must complete their review and file any response no later than four months (on or before July 31<sup>st</sup> annually).

the Commission an accounting petition to provide refunds, and create a separate tariff through which rate refunds to customers will be returned and spread to schedules based on an equal share of base rate revenues, exclusive of tax credit refunds. For the purposes of the Capital Projects Review only (*i.e.*, for the comparison of provisional capital additions included in Rate Year 1 and Rate Year 2), the Settling Parties further agree that Rate Year 1 and Rate Year 2 capital additions and rate base are adopted as initially filed by Avista except with the exclusion of the Dry Ash Disposal System.

The Commission approved the Settlement's capital project review and process at page 30, para. 85 of Order 10/04, adding the following "Condition" related to the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA):

**Condition.** We condition our approval of the Settlement on the modification of the capital projects review, requiring that Avista must demonstrate all offsetting benefits received or for which it has applied for through the IRA and IIJA for all retrospective review of provisional plant (capital projects). Further, we require Avista's reporting to include all funding for which it has applied and the reasons justifying any decision not to pursue IRA and IIJA funding options for which it may be eligible. Subject to this condition, we determine that the Settling Parties' agreement regarding capital projects review is in the public interest and should be approved.

## **ANNUAL PROVISIONAL CAPITAL REPORTING**

In accordance with Order 10/04 in Dockets UE-220053 et. al., Avista has provided, in this compliance filing, a review of all capital additions for year-end 2022, and incremental information for capital additions with a "significant cost variance" greater than ten percent and \$500,000<sup>3</sup> from the pro-formed amount, containing evidence (either directly or by reference to previously-filed evidence) as described below. This report serves to validate that such plant is, in fact, in-service, is used and useful, and at what final investment amount (after any offsetting benefits). This report will provide the Commission with assurance that the capital included prior to the rate effective period (for 2022 capital) is in service for customers.

As outlined in Company witness Ms. Andrew's direct testimony (Exh. EMA-1T, starting at page 46), in compliance with the Multi-Party Settlement approved by the Commission with regards to Provisional Capital Reporting over the Company's Multi-Year Rate Plan, the Company agreed to provide the following:

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<sup>3</sup> By using the \$500,000 and +/- 10% threshold, the Company is providing additional explanation and support for 99% of the variance in capital additions for 2022. See Attachment A.

Each annual report will provide evidence as follows:

- a) Final actual “Net Plant after ADFIT” balances versus Commission Authorized “Net Plant after ADFIT” balances, for each calendar year. This will ensure final rates represent all actual additions, retirements, offset by Accumulated Depreciation (A/D) and Accumulated Deferred Federal Income Taxes (ADFIT) – representing final net plant balances that are used and useful, serving customers, and reflect associated costs (net of any benefits).
- b) The justification for the Business Cases, including supporting information, if different than what was included in the Company’s direct filed case;
- c) Actual in-service date(s);
- d) Actual final costs, as well as explanations for significant cost variances;
- e) Any changes to the Business Cases themselves, (for example, deviations from the scope and descriptions provided in the initial filing in this case);
- f) Evidence that any significant cost overruns and the decision to continue to invest in the project under any relevant changed circumstances was prudent;
- g) Updated information (if any) on offsetting factors presented in this case specific to the Business Cases;
- h) In responding to items (a) – (g) above, the Company will provide a listing of the Business Cases as filed in this proceeding for the calendar year, with updated information, and an explanation for any changes. 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.
- i) Recovery of capital investment, therefore, will be capped at the total overall net plant after ADFIT and resulting revenue requirement balances, by calendar year, approved by the Commission, in its initial Order approving the Two-Year Rate Plan. The Company, however, reserves the right to seek a deferral for additional costs not recovered through this review process.

To meet the above requirements, as discussed below, the Company is providing the following attachments as part of this report:

- **Attachment A:** Provides a summary including a list of all Business Cases filed in Dockets UE-220053, et. al., including the calendar 2022 as-filed gross plant additions and the actual 2022 gross plant additions transferred into plant on a system basis. This summary includes the variance amount and percent between the 2022 as filed and actual gross transfers to plant, as well as identification of meeting the “significant cost variance” threshold established by Avista to provide additional support for project variances. Additionally, Attachment A points to where all capital addition support for each individual Business Case can be found.
- **Attachment B:** Provides detailed actual transfers to plant data by Business Case, by month, with amounts and in-service dates on a system basis, as well as Washington electric and Washington natural gas basis.

- **Attachment C:** Provides Capital Variance Explanation Forms, new or revised Business Cases, and other supporting documentation as justification for each Business Case that has demonstrated a variance greater than the \$500,000 and +/- 10% “significant cost variance” threshold on a system basis. The Capital Variance Explanation Forms include an explanation of the variance, discussion of management approval for cost overruns and discuss any changes to offsets for 2022.
- **Attachment D:** Provides a description for any Business Case not included in the original filing with actual 2022 additions below the \$500,000 and +/- 10% “significant cost variance” threshold.
- **Attachment E:** Provides the Company’s capital additions native excel file supporting the additions by adjustment updated with 2022 monthly actual transfers to plant, net of revised Accumulated Depreciation (A/D) and Accumulated Deferred Federal Income Taxes (ADFIT), resulting in the updated 2022 “Net Plant after ADFIT” used for comparison to the as-filed 2022 “Net Plant After ADFIT”, (excluding Colstrip Units 3 and 4 pro formed/provisional capital investment).
- **Attachment F:** Provides a listing of the grant opportunities available through the Infrastructure Investment and Jobs Act and the Inflation Reduction Act, that the Company is monitoring for applicability to Avista directly, or which might benefit Avista indirectly by partnering with other entities.

**a) 2022 Actual Transfers-To-Plant and Final Actual “Net Plant after ADFIT” Balances**

The Company has updated its as-filed transfers-to-plant additions for 2022 to reflect monthly actual transfers-to-plant data, resulting in actual transfers to plant of \$214,330,000 for Washington electric (excluding Colstrip Units 3 and 4 investments) and \$54,698,000 for Washington natural gas, for calendar year 2022. Table No. 1 summarizes the Washington electric and Washington natural gas results of actual 2022 transfers-to-plant, as well as the overall Net Plant After ADFIT balances, versus that as-filed and approved by the Commission in Dockets UE-220053, et. al.

**Table No. 1 – 2022 Actual Transfer-To-Plant & Net Plant After ADFIT versus Authorized**

Washington 2022 Actual Transfer-To-Plant & Net Plant After ADFIT versus Authorized (000s)			
	Electric	Natural Gas	Washington Total
Actual Transfers-To-Plant	\$ 214,330	\$ 54,698	\$ 269,028
As-Filed Transfers-To-Plant	\$ 167,665	\$ 46,387	\$ 214,052
Variance Over Authorized	\$ 46,665	\$ 8,311	\$ 54,976
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Actual Net Plant After ADFIT	\$ 2,001,820	\$ 504,232	\$ 2,506,052
As-Filed Net Plant After ADFIT	\$ 1,968,699	\$ 503,561	\$ 2,472,260
Variance Over Authorized	\$ 33,121	\$ 671	\$ 33,792

For Washington electric, the actual transfers to plant for 2022 of \$214,330,000 is \$46,665,000 more than the as-filed transfer-to-plant amount of \$167,665,000 (excluding Colstrip Units 3 and 4 investments) for calendar year 2022. Including the impact on A/D and ADFIT, the Company has also updated the “Net Plant after ADFIT” as of the twelve-months-ended December 31, 2022, on an end of period basis, resulting in a “Net Plant after ADFIT” balance of \$2,001,820,000 versus the as-filed level (excluding Colstrip Units 3 and 4 pro forma and provisional additions) of \$1,968,699,000. Please see Attachment E for the updated Capital Additions Adjustment native excel file supporting the electric actual transfer-to-plant data and updated A/D and ADFIT detail, resulting in the 2022 “Net Plant After ADFIT” balances. As noted above, the updated actual electric 2022 transfers-to-plant and 2022 “Net Plant After ADFIT” balances reflect amounts greater than that included by the Company in its as-filed case, resulting in no overall capital additions subject to “refund” as of December 31, 2022.

For Washington natural gas, the actual transfers to plant for 2022 of \$54,698,000 is \$8,311,000 more than the as-filed transfer-to-plant amount of \$46,387,000 for calendar 2022. Including the impact on A/D and ADFIT, the Company has also updated the “Net Plant after ADFIT” as of the twelve-months-ended December 31, 2022, on an end of period basis, resulting in a “Net Plant after ADFIT” balance of \$504,232,000 versus the as-filed level of \$503,561,000. Please see Attachment E for the updated Capital Additions Adjustment native excel file supporting the natural gas actual transfer-to-plant data and updated A/D and ADFIT detail, resulting in the 2022 “Net Plant After ADFIT” balances. As noted above, the updated actual natural gas 2022 transfers-to-plant and 2022 “Net Plant After ADFIT” balances reflect amounts greater than that included by the Company in its as-filed case, resulting in no overall capital additions subject to “refund” as of December 31, 2022.

#### **b) Business Case Justification**

Attachment A provides a summary of all Business Cases included in the Company’s filed case in Dockets UE-220053, et. al., including the calendar 2022 system as-filed, planned gross plant additions, compared to the actual system gross plant additions transferred into plant in 2022. Further, this summary includes the variance amount and percent between the as-filed and actual gross transfers to plant by Business Case during 2022.

For each Business Case with a transfer to plant “significant cost variance” greater than \$500,000 and +/- 10% of the amount as-filed, those Business Cases are flagged as “met = Yes,” and additional support is provided, including a Capital Variance Explanation Form, which discusses the reason for the variance, management oversight and authorization for cost overruns, and the impact, if any, to offsets versus that included by the Company in its direct-filed case (see section g) “Offsetting Factors” below for actual 2022 offsets). By using this threshold, the Company is providing additional justification for 99% of the variance in transfers-to-plant identified between actual capital additions in 2022 versus that included in the Company’s direct filed case and approved by the Commission.

Additionally, if a new Business Case was introduced in the year, with a transfer to plant amount greater than the \$500,000 “significant cost variance” threshold, the associated new Business Case

is provided with the Capital Variance Explanation Form in Attachment C. If the transfer-to-plant variance is below the \$500,000 “significant cost variance” threshold, a description of the Business Case was provided in Attachment D.

Finally, support of the 2022 capital pro forma and provisional additions were provided with the Company’s direct filed case, including a description of each Business Case located within the respective direct testimony of Company witnesses Mr. Thackston (Exh. JRT-1T), Mr. Magalsky (Exh. KEM-1T), Ms. Rosentrater (Exh. HLR-1T), Mr. Kensok (Exh. JMK-1T), Mr. Howell (Exh. DRH-1T) and Mr. Kinney (Exh. SJK-1T). Additionally, an exhibit was filed with each witness’s testimony including each full Business Case. Please see Attachment A for reference to each witness’ respective exhibit and pages where each Business Case can be found.

**c) Actual In Service Dates**

The Company has provided detailed information by Business Case, of system and Washington electric and Washington natural gas actual transfers-to-plant by month, with actual in-service dates, provided within Attachment B.

**d) Actual 2022 Final Costs**

As noted above, Attachment A summarizes, by Business Case, actual final costs at a system level for 2022, and identifies any “significant cost variances,” pointing elsewhere for support of those variances. Monthly actual transfer-to-plant amounts by Business Case directly assigned or allocated to Washington electric or Washington natural gas are provided within Attachment B.

**e) Changes to Business Cases**

Changes in Business Cases, resulting from deviations of the scope and description from that provided in the Company’s initial filing, and meeting the “significant cost threshold” of \$500,000 and +/- 10% variance are listed in Table No. 2 below. Capital Variance Explanation Forms for these Business Cases providing the variance justification narrative is provided in Attachment C. These Business Cases are included in Table No. 2 because either the Business Case was not included in the original filing or because an update has been made since the original filing. Additionally, in several instances the Company is providing additional documentation in Attachment C along with each Capital Variance Explanation Form, to support the variance in transfers to plant. Examples of the additional documentation being provided include steering committee meeting notes or Business Case Funds Change Request Forms, seeking funding change approval from the Capital Planning Group.

**Table No. 2 – Changed Business Cases**

<u>Business Case</u>	2022 TTP Plan		2022 Actual TTP		Variance \$
	Gross Plant	Gross Plant	Gross Plant	Gross Plant	over/(under)
Energy Delivery Modernization & Operational Efficiency	\$ 5,560,672	\$ 8,762,727	\$ 8,762,727	\$ 3,202,055	\$ 3,202,055
Gas ERT Replacement Program	\$ -	\$ 778,042	\$ 778,042	\$ 778,042	\$ 778,042
Gas PMC Program	\$ 3,500,004	\$ 1,657,533	\$ 1,657,533	\$ (1,842,471)	\$ (1,842,471)
KF_Fuel Yard Equipment Replacement	\$ -	\$ 31,118,690	\$ 31,118,690	\$ 31,118,690	\$ 31,118,690
Strategic Initiatives - Clean Energy Fund 2	\$ -	\$ 555,858	\$ 555,858	\$ 555,858	\$ 555,858

**f) Prudent Decision Making For Cost Variances**

For each Business Case with “Significant cost variances” meeting the defined threshold of \$500,000 and +/- 10% of the amount as-filed, the Company has provided in Attachment C, a Capital Variance Explanation Form which contains a discussion of the management oversight of the project or program should significant cost overruns occur. It is common practice at Avista for capital Business Cases to have a steering committee or be reviewed at various budget committee meetings in the year. If additional funding (spend) is needed, a request is then provided to the Capital Planning Group (CPG). Every funding request put before the CPG, and approved by the CPG, includes a description, and is signed by the Business Case owner, supporting the decision to continue to invest in the project under the relevant changed circumstances.

**g) Offsetting Factors**

As a part of the 2022 Provisional Capital Report and Business Case review, the Company evaluated the expected direct O&M offsets included in its filed case (Dockets UE-220053 et. al.) for any changes per actual results. Table No. 3 below provides the as-filed direct O&M offsets versus the actual direct O&M offsets determined for the 2022 investments.

**Table No. 3 – As-Filed Direct O&M Offsets versus Actual Direct O&M Offsets**

<u>2022 Direct O&amp;M Offsets</u>	<u>As Filed</u>	<u>Actual</u>
Customer Experience Platform Program	\$29,582	\$29,582
Distribution Grid Modernization	\$26,684	\$115,169
Downtown Network - Performance & Capacity*	\$79,200	\$47,520
Energy Delivery Modernization & Operational Efficiency	\$100,000	\$100,000
Gas Airway Heights HP Reinforcement	\$2,312	\$2,312
Gas PMC Program*	\$38,000	\$0
Gas Reinforcement Program	\$2,400	\$2,400
N Lewiston Autotransformer - Failed Plant	\$266,000	\$266,000
Structures and Improvements/Furniture	<u>\$11,000</u>	<u>\$11,000</u>
	\$555,178	\$573,983

\*Reductions will be realized in a future period.  
Transfer to plant was delayed into future years.

As discussed by the Company in its direct filed case (Exh. EMA-1T, starting at page 35), the Company incorporated O&M cost savings across the board for all capital projects that were not otherwise related to mandates or growth. Avista incorporated direct O&M offsets related to certain capital projects and for those projects where immediate hard cost savings could not otherwise be identified, the Company incorporated a 2% efficiency adjustment. In this manner, this would provide additional impetus to drive efficiencies out of our capital investments. With regard to the “2% efficiency” adjustment, for each Business Case where no direct offset was determined, the Company separately applied a “2% Efficiency Adjustment,” calculated based on 2% of the “return on” the specific Business Case investment. The Company, however, included the full level of capital investment in its revenue requirement and provided a separate “offsets adjustment” to incorporate both the direct O&M offsets as well as the “2% Efficiency Adjustment,” where

appropriate. These offsets (direct and 2% efficiency adjustments) were assumed to be in effect in Rate Year 1 for 2023 (RY1) and Rate Year 2 for 2024 (RY2). Based on the results shown in Table No. 2 above, there is no material change in direct O&M offsets to be reflected or adjusted at this time.<sup>4</sup>

In addition, it is important to note that although the Company included in its electric and natural gas Pro Forma Studies in Dockets UE-220053 et. al., total direct O&M offsets as noted in Table No. 2 above, as well as offsets associated with reduction in O&M by use of a 2% efficiency adjustment, the Company also included reductions in its overall Washington electric and natural gas revenue requirements over the Two-Year Rate Plan by adjusting other revenue related to growth plant, retirements on capital investment (reduced depreciation expense), and reduced net plant after ADFIT for the change in A/D and ADFIT on existing test period plant at 09.2021, adjusted to 12.2022 and further to AMA 2023 for RY1 and AMA 2024 for RY2. Overall, the total offsetting adjustments reduced the Company's as-filed revenue requirement in total by \$41.3 million for electric and \$11.4 million for natural gas, for RY1, and by \$23.5 million for electric and \$6.5 million for natural gas, for RY2, (or a total of \$64.8 million for electric and \$17.9 million for natural gas, over the Two-Year Rate plan). Values **for 2022 alone** are summarized as follows:

- Direct O&M expense and "Other Revenue" reductions – Included in Pro From "Capital O&M Offsets & Revenues" Adjustments (4.03) for RY1 and (5.09) for RY2 are 1) direct O&M savings for certain capital Business Cases, 2) an incremental "2% O&M efficiency" adjustment, reducing O&M expense, for all remaining capital Business Cases (not required for regulatory purposes), and 3) offsetting revenue associated with the Growth Capital Business Case. Also included in Pro From "Power Supply" Adjustment (3.00P) for RY1, were incremental EIM benefits (revenues), as a result of the EIM Business Case. These direct O&M and "2% efficiency O&M" offsets and revenues were shown in detail in Exh. EMA-5. Incremental O&M savings related to AMI O&M offsets (per PF Adjustments 3.04 (RY1) & 5.01 (RY2)) and reduced O&M labor expense for retirements (see PF Adjustment 3.07), were also included. As shown in Table Nos. 6 and 7 (Line 1) of Exh. EMA-1T, pages 36 and 37, a combination of each of these O&M offsets and revenues total \$6.8 million for electric and \$2.2 million for natural gas, for 2022 alone, and in effect for 2023 (RY1).<sup>5</sup>
- Retirements – Included reductions to electric and natural gas depreciation expense to reflect capital retirements through 2023 (RY1) and 2024 (RY2). As shown in Table Nos. 6 and 7 (Line 2) of Exh. EMA-1T, pages 36 and 37, this reduced the Company's proposed

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<sup>4</sup> Per the Provisional Capital Review process requirements approved in Dockets UE-220053 et. al., offsetting factors considered in this context will be limited to offsets that might occur directly as a result of Avista's investment in the specified Business Cases and will not include offsets that do not directly result from the investment in the specific Business Cases. Where any efficiency adjustment is used by the Company in lieu of a direct benefit, that adjustment will continue for the 2022 – 2024 period.

<sup>5</sup> This is prior to incremental direct O&M and other revenue offsets included related to 2023 in effect in Rate Year 1 and 2024 in effect in Rate Year 2. See Table Nos. 6 and 7 (Line 1) of Exh. EMA-1T, pages 36 and 37 for full detail over the Two-Year Rate Plan.



revenue requirement by approximately \$5.7 million for electric and \$1.5 million for natural gas for 2022 alone, and in effect for 2023 (RY1).<sup>6</sup>

- Reduction to Net Plant after ADFIT – Included reductions to Net Plant after ADFIT for the change in A/D and ADFIT on existing plant at 09.2021, adjusted to EOP 12.2022 and further to AMA 2023 for RY1 and AMA 2024 for RY2. As shown in Table Nos. 6 and 7 (Line 3) of Exh. EMA-1T, pages 36 and 37, this reduced overall net rate base, resulting in a reduction to Company revenue requirements of \$10.5 million for electric and \$2.4 million for natural gas for 2022 alone, and in effect for 2023 (RY1).<sup>7</sup>

Overall offsets assumed for 2022 alone, and included in effect during 2023 (RY1), therefore totaled \$23.0 million for electric and \$6.0 million for natural gas. No additional changes in offsets are applicable to be updated through the Provisional Capital Reporting review process at this time.

## **INFLATION REDUCTION ACT AND INFRASTRUCTURE INVESTMENT AND JOBS ACT REPORTING**

In response to the Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act (IIJA), Avista has been very active in terms of seeking out potential grant opportunities. For example, late in 2022, Avista started the process for seeking grants under the Grid Resilience and Innovation Partnerships (GRIP) effort. More specifically, Avista provided concept papers under the “Grid Resilience” and the “Smart Grid” opportunity areas. The Grid Resilience concepts included \$100 million in funding for wildfire hardening efforts. The Smart Grid concept paper focused on areas of grid resiliency and Community Grid platforms, totaling \$32 million in potential funding. In February we were pleased to learn that our proposals were “encouraged,” meaning that we were selected to proceed to submitting grant opportunities in those areas. Ultimate determination of whether or not we have been selected, and are able to negotiate a successful program, will take place by the end of the 2023.

In addition, we have team members watching for other potential grant opportunities under the IIJA and IRA, as applicable. Such other areas include funding for hydroelectric upgrades, and electric vehicle infrastructure. Attachment F provides a listing of the grant opportunities we are evaluating for applicability to Avista directly, or which might benefit Avista indirectly by partnering with other entities. In the end, we will substantially participate in any programs that make sense and provide value to our customers. That said, such opportunities are prospective, and therefore not included in any of the projects that were transferred to plant in 2022 (and subject of this compliance report).

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<sup>6</sup> This is prior to incremental retirement offsets included related to 2023 in effect in Rate Year 1 and 2024 in effect in Rate Year 2. See Table Nos. 6 and 7 (Line 1) of Exh. EMA-1T, pages 36 and 37 for full detail over the Two-Year Rate Plan.

<sup>7</sup> This is prior to incremental reduction of Net Plant After ADFIT offsets included related to 2023 in effect in Rate Year 1 and 2024 in effect in Rate Year 2. See Table Nos. 6 and 7 (Line 1) of Exh. EMA-1T, pages 36 and 37 for full detail over the Two-Year Rate Plan.



Please direct any questions regarding this report to Tia Benjamin at 509-495-2225 or [tia.benjamin@avistacorp.com](mailto:tia.benjamin@avistacorp.com), or Liz Andrews at 509-495-8601 or [liz.andrews@avistacorp.com](mailto:liz.andrews@avistacorp.com).

Sincerely,

*/s/ Elizabeth Andrews*

Elizabeth Andrews  
Sr. Manager, Revenue Requirements