Exhibit No. ____(JSS-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-15________

DOCKET NO. UG-15________

DIRECT TESTIMONY OF

JENNIFER S. SMITH

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, business address, and present position with Avista Corporation.

A. My name is Jennifer S. Smith. I am employed by Avista Corporation as a Senior Regulatory Analyst in the State and Federal Regulation Department. My business address is 1411 East Mission, Spokane, Washington.

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

A. I am a 2002 graduate of Washington State University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting and Accounting Information Systems. After spending eight years in the public accounting sector, I was hired into the State and Federal Regulation Department as a Regulatory Analyst in January of 2010. In my current role as a Senior Regulatory Analyst, I assist in the preparation of normalized revenue requirement and pro forma studies for all jurisdictions in which the Company provides utility services. I am also responsible for, among other things, annual filings and various applications related to affiliated interest issues and subsidiary operations.

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

A. My testimony and exhibits in this proceeding will cover the overall methodology and results of the Company’s electric and natural gas Pro Forma Cross Check Studies in support of the Company's need for the proposed increase in rates requested in Company witness Ms. Andrews’ testimony. The Pro Forma Cross Check

Studies present the Company's electric and natural gas results on a pro forma basis for comparison to the Attrition studies sponsored by Ms. Andrews. The Pro Forma Cross Check Studies include expense and rate base adjustments to the historical test period actual results, to arrive at pro forma results for the 2016 calendar year rate period.[1] These studies incorporate the Washington share of the proposed adjustments of other witnesses in this case.

A table of contents for my testimony is as follows:

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

A. Yes. I am sponsoring Exhibit Nos. ____(JSS-2) and ____(JSS-3). Exhibit Nos. ____(JSS-2) (Electric) and ____(JSS-3) (Natural Gas) present the Company's Pro Forma Cross Check Studies, which show actual twelve-month ending September 30,

[1] Certain adjustments are used in both the Attrition and Pro Forma studies, such as the Pro Forma Power Supply adjustment sponsored by Company witness Mr. Johnson, and certain transmission revenues, as discussed by Company witness Mr. Cox.

2014 operating results, and pro forma electric and natural gas operating results and rate base for the State of Washington. These exhibits show the specific restating and pro forma adjustments used as a "cross check" in support of the electric and natural gas Attrition Study analyses.

II. PRO FORMA CROSS CHECK STUDIES

Q. Before explaining each of the electric and natural gas Pro Forma Cross Check Studies prepared by the Company, please explain the purpose of these Pro Forma Studies.

A. The Company's electric and natural gas rate relief for 2016 requested in this case is based on the Company's electric and natural gas Attrition Study results. The purpose of the electric and natural gas Pro Forma Cross Check Studies is to provide a revenue requirement analysis based on individual restating and pro forma adjustments, and a separate independent analysis of Avista's need for revenue increases in 2016. These Pro Forma Studies act as a "cross check" to the reasonableness of the electric and natural gas Attrition Study results discussed in Ms. Andrews' testimony.

Furthermore, the Pro Forma Cross Check revenue requirement is reconciled to the Attrition Study revenue requirement in order to establish revenue, expenses and rate base numbers that can be used as inputs to the Company's cost of service studies prepared by Company witnesses Ms. Knox (Electric Cost of Service Study), and Mr. Miller (Natural Gas Cost of Service Study). The Pro Forma Electric and Pro Forma Natural Gas Cross Check Studies are provided as Exhibit Nos. ____(JSS-2) and ____(JSS-3), respectively.

Electric Pro Forma Cross Check Study

Q. Would you please explain what is shown on page 1 of Exhibit No. ____(JSS-2)?

A. Yes. Exhibit No. ____(JSS-2), page 1, shows actual and pro forma electric operating results and rate base for the test period for the State of Washington. Column (b) of page 1 of Exhibit No. ____(JSS-2) shows twelve-months ending September 30, 2014 actual operating results and components of the average-of-monthly-average rate base as recorded; column (c) is the total of all adjustments to net operating income and rate base; and column (d) is the pro forma adjusted results of operations, all under 2015 existing rates. Column (e) shows the revenue increase required to allow the Company to earn a 7.46% rate of return for the 2016 rate period. Column (f) reflects total pro forma electric operating results.

Q. Would you please explain page 2 of Exhibit No. ____(JSS-2)?

A. Yes. Page 2 shows the calculation of the $33,229,000 revenue requirement at the requested 7.46% rate of return based on the electric Pro Forma Cross Check Study.

Q. What does page 3 of Exhibit No. ____(JSS-2) show?

A. Page 3 shows the proposed Cost of Capital and Capital Structure utilized by the Company in this case, and the weighted average cost of capital of 7.46%. Company witness Mr. Thies discusses the Company's proposed rate of return and the capital structure utilized in this case, while Company witness Mr. McKenzie provides additional testimony related to the appropriate return on equity for Avista.

Q. Please explain page 4 of Exhibit No. ____(JSS-2).

A. Page 4 shows the derivation of the electric net-operating-income-to-gross-revenue conversion factor. The conversion factor takes into account uncollectible accounts receivable, Commission fees and Washington State excise taxes. Federal income taxes are reflected at 35%.

Q. Now turning to pages 5 through 10 of your Exhibit No. ____(JSS-2), would you please explain what those pages show?

A. Yes. Page 5 begins with actual operating results and rate base for the twelve-months-ending September 30, 2014 test period in column (1.00). Individual normalizing and restating adjustments that are standard components of our annual reporting to the Commission begin in column (1.01) on page 5 and continue through column (2.17) on page 7. Individual pro forma adjustments are shown on pages 8 and 9 in columns (3.00) though (3.11). The last column on page 9, labeled "Pro Forma Sub-total" is the subtotal of the previous columns (1.00) through (3.11).

Columns (4.01) through (4.04), on page 10 of Exhibit No. ____(JSS-2), represent additional pro forma adjustments related to capital additions for October through December 2014, 2015 and AMA 2016, as well as the pro forma adjustments related to Meter Retirement and O&M Offsets. The column on page 10, labeled "Pro Forma Cross Check Total," reflects the total electric revenue requirement for 2016 of $33,069,000 based on the use of restating and pro forma adjustments from the historical test year to the 2016 rate year.

This revenue requirement can be compared as a "cross check" to the revenue requirement determined using the Attrition Study of $33,229,000, which is shown at line 7 on page 1 of Exhibit No. ____(EMA-2).

Column (4.05) on page 10 represents the difference of $160,000 between the electric Pro Forma Cross Check Study and the electric Attrition Study.

The Pro Forma Cross Check revenue requirement is reconciled to the Attrition Study revenue requirement in order to establish revenue, expenses and rate base numbers that can be used as inputs to the Company's cost of service study prepared by Ms. Knox.

Each of the Commission Basis, restating and pro forma adjustments are discussed in the testimony that follows, and the Company has also provided workpapers, both in hard copy and electronic formats, outlining additional details related to each of the adjustments.

Standard Commission Basis and Restating Adjustments

Q. Would you please explain each of these adjustments, the reason for the adjustment and its effect on the State of Washington net operating income and/or rate base for the historical test period?

A. Yes, but before I begin, I will note the **Results of Operations** column (1.00), reflects the Company's actual operating results and total net rate base experienced by the Company for the twelve-month period ending September 30, 2014 on an average-of-monthly-average (AMA) basis. Columns following the Results of Operations column (1.00) reflect normalizing and restating adjustments necessary to: restate the actual results based on prior Commission orders; reflect appropriate annualized expenses;

correct for errors; or remove prior period amounts reflected in the actual September 30, 2014 results.

Q. Please continue with your explanation of each adjustment and its effect on test period net operating income and/or rate base.

A. The first adjustment, column (1.01) on page 5, entitled **Deferred FIT Rate Base,** adjusts the deferred federal income tax (DFIT) rate base balance included in the Results of Operations column (1.00) to the adjusted DFIT balance, as shown within my workpapers provided with the Company's filing. Accumulated DFIT reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS) and bond refinancing premiums. These amounts are reflected on the average-of-monthly-average balance basis. The effect on Washington rate base for this adjustment is a decrease of $6,009,000[2]. A decrease to Washington net operating income of $57,000 is due to the Federal income tax (FIT) expense on the restated level of interest on the change in rate base[3].

The adjustment in column (1.02), **Deferred Debits and Credits,** is a consolidation of previous Commission Basis or other restating rate base adjustments and their net operating income (NOI) impact. The net impact on a consolidated basis of this

[2]The reduction in rate base is mainly due to an increase in DFIT as a result of Avista recording in the test period an estimate of the impact of a tax deduction the Company intends to file in its 2014 federal tax return. Avista plans to make a "Change of Accounting" filing to implement certain IRS Tangible Property Regulations associated with revised rules on property capitalization versus repair requirements. The study to implement this tax accounting change, which is commonly referred to as a "Repairs Study", will be finalized during the first quarter of 2015. In September 2014, the Company recorded its estimate with the best information available and currently does not expect the overall estimate to change materially.

adjustment decreases Washington rate base by $7,399,000. Washington net operating income (NOI) increases by a total of $614,000 including increases to operating income of $1,052,000 for expenses, and $70,000 of FIT expense related to the restated level of interest on the change in rate base, and a decrease in operating income for FIT expense of $368,000.

Adjustments included in the Deferred Debits and Credits consolidated adjustment are those necessary to reflect restatements from actual results based on prior Commission orders, and are explained below. For consistency with prior rate case filings, a description of each adjustment is included below.

The following items are included in the consolidation:

- **<u>Colstrip 3 AFUDC Elimination</u>** reflects the reallocation of rate base and depreciation expense between jurisdictions. In Cause Nos. U-81-15 and U-82-10, the UTC allowed the Company a return on a portion of Colstrip Unit 3 construction work in progress ("CWIP"). A much smaller amount of Colstrip Unit 3 CWIP was allowed in rate base in Case U-1008-144 by the Idaho Public Utilities Commission ("IPUC"). The Company eliminated the AFUDC associated with the portion of CWIP allowed in rate base in each jurisdiction. Since production facilities are allocated on the Production/Transmission formula, the allocation of AFUDC is reversed and a direct assignment is made. The rate base adjustment reflects the average-of-monthly-averages amount for the test period. The effect on Washington rate base is an increase of $7,000.

- **<u>Colstrip Common AFUDC</u>** is associated with the Colstrip plants in Montana, and impacts rate base. Differing amounts of Colstrip common facilities were excluded from rate base by this Commission and the IPUC until Colstrip Unit 4 was placed in service. The Company was allowed to accrue AFUDC on the Colstrip common facilities during the time that they were excluded from rate base. It is necessary to directly assign the AFUDC because of the differing amounts of common facilities excluded from rate base by this Commission and the IPUC. In September 1988, an entry was made to comply with a Federal

[3] The net effect of Federal Income Tax (FIT) expense on the restated level of interest expense due to a change in rate base, is shown within <u>each</u> individual adjustment. The restated debt interest impact per individual rate base adjustment can be seen on Line 27 of Exhibit No. __(JSS-2).

Energy Regulatory Commission ("FERC") Audit Exception, which transferred Colstrip common AFUDC from the plant accounts to Account 186. These amounts reflect a direct assignment of rate base for the appropriate average-of-monthly-averages amounts of Colstrip common AFUDC to the Washington and Idaho jurisdictions. Amortization expense associated with the Colstrip common AFUDC is charged directly to the Washington and Idaho jurisdictions through Account 406 and is a component of the actual results of operations. The rate base amount is also included in the results of operations accurately reflecting the average-of-monthly-averages amount for the test period. No adjustment is necessary.

- **Kettle Falls Disallowance** reflects the Kettle Falls generating plant disallowance ordered by this Commission in Cause No. U-83-26. The disallowed investment and related depreciation, FIT expense, accumulated depreciation and accumulated deferred FIT on an AMA basis are accurately reflected in the results of operations column, removing these amounts from actual results of operations. No adjustment is necessary.

- **Settlement Exchange Power** reflects the rate base associated with the recovery of 64.1% of the Company's investment in Settlement Exchange Power. The 64.1% recovery level was approved by the Commission's Second Supplemental Order in Cause No. U-86-99 dated February 24, 1987. Amortization expense and deferred FIT expense recorded during the test period are accurately reflected in results of operations. However, the production rate base and accumulated deferred FIT amounts within results of operations are reflected on a twelve-month ending September 30, 2014 test period AMA basis. The use of AMA for the rate period was ordered in Order No. 01 in Docket No. U-071805. To adjust the production rate base and accumulated deferred FIT amounts to reflect an AMA 2016 rate period basis, the effect on Washington rate base is a decrease of $4,522,000.

- **Restating CDA Settlement Deferral** adjusts the net assets and DFIT balances reflected in results of operations associated with the 2008/2009 past storage and §10(e) charges deferred for future recovery to a 2016 AMA basis. A ten-year amortization expense, as approved in Docket No. UE-100467, of the CDA Settlement Deferral is accurately reflected in results of operations. The effect on Washington rate base is a decrease of $222,000.

- **Restating CDA/SRR (Spokane River Relicensing) CDR Deferral** adjusts the net assets reflected in results of operations associated with the CDA Tribe settlement 4(e) Spokane River relicensing conditions deferred for future recovery to the proper 2016 AMA basis. A ten-year amortization expense of the CDA/SRR CDR Deferral, as approved in Docket No. UE-100467 is accurately reflected in results of operations. The effect on Washington rate base is a decrease of $25,000.

- **Restating Spokane River Deferral** adjusts the net asset and DFIT balances reflected in results of operations related to the Spokane River deferred relicensing costs deferred for future recovery to a 2016 AMA basis. A ten-year amortization expense of the Spokane River Deferral, as approved in Docket No. UE-100467, is accurately reflected in results of operations. The effect on Washington rate base is a decrease of $107,000.

- **Restating Spokane River PM&E Deferral** adjusts the net asset and DFIT balances reflected in results of operations related to the Spokane River deferred PM&E costs deferred for future recovery to a 2016 AMA basis. A ten-year amortization expense of the Spokane River PM&E Deferral, as approved in Docket No. UE-100467, is accurately reflected in results of operations. The effect on Washington rate base is a decrease of $68,000.

- **Restating Montana Riverbed Lease** adjusts the net asset and DFIT balances reflected in results of operations related to the costs associated with the Montana Riverbed lease settlement deferred for future recovery to a 2016 AMA basis. In the Montana Riverbed lease settlement, the Company agreed to pay the State of Montana $4.0 million annually beginning in 2007, with annual inflation adjustments, for a 10-year period for leasing the riverbed under the Noxon Rapids Project and the Montana portion of the Cabinet Gorge Project. The first two annual payments were deferred by Avista as approved in Docket No. UE-072131. In Docket No. UE-080416 (see Order No. 08), the Commission approved the Company's accounting treatment of the deferred payments, including accrued interest, to be amortized over the remaining eight years of the agreement starting on January 1, 2009. This restating adjustment also includes the increase in the annual lease payment expense for the additional annual inflation. This adjustment increases expense and decreases Washington operating income by $306,000 and decreases rate base by $990,000.

- **Restating Lancaster Amortization** adjusts the net asset and DFIT balances reflected in results of operations related to the 2010 ($6.8 million Washington) deferred Lancaster plant Power Purchase Agreement (PPA), to a 2016 AMA basis. A five-year amortization expense of the Lancaster deferral ends in November 2015, therefore a reduction in expense for the pro forma period from that reflected in results of operations reduces expense and increases Washington operating income by $1,360,000. The effect on Washington rate base is a decrease of $1,473,000.

- **<u>Customer Advances</u>** decreases rate base for money advanced by customers for line extensions, as they will be recorded as contributions in aid of construction at some future time. The reduction to rate base per results of operations is accurately reflected at approximately $460,000; therefore no adjustment is necessary to rate base.

- **<u>Customer Deposits</u>** reduces electric rate base by the average-of-monthly-averages of customer deposits held by the Company, as ordered by this Commission in Docket UE-090134. The reduction to rate base per results of operations is reflected at $1,533,000; therefore no adjustment is necessary to rate base. The corresponding interest paid on customer deposits is reclassified to utility operating expense, at the current UTC interest rate of 0.14%. The effect on Washington is an increase in expense and a decrease in operating income of $2,000.

In summary, as noted above, the net impact on a consolidated basis of the adjustments described above increases Washington net operating income by $614,000, and decreases Washington rate base by $7,399,000.

Q. Please continue describing the remaining adjustments on page 5.

A. The adjustment in column (1.03), **Working Capital**, restates the working capital balance reflected in the Company's Results of Operations column (1.00), to the adjusted working capital balance. The Company uses the Investor Supplied Working Capital (ISWC) methodology to calculate the amount of working capital reflected in its actual results of operations. The electric working capital balance at twelve-months-ended September 30, 2014, on an AMA basis, results in an electric working capital balance of $45.742 million, an increase in net rate base of $20.703 million from that recorded in its results of operations. The methodology used in this case is consistent with the ISWC methodology utilized in Docket No. UE-140188.

The effect of this adjustment on Washington rate base is an increase of $20,703,000. An increase to Washington net operating income of $196,000 is due to the FIT expense of the restated level of interest on the change in rate base.

Q. Please briefly describe the refinements made in the methodology used to calculate the Company's working capital in the Company's prior case in Docket Nos. UE-140188 and UG-140189.

A. In Docket Nos. UE-140188 and UG-140189, the Company included the following refinements to its calculation of working capital:

(1) The Company proposed that pension and other post-retirement benefits liabilities and the associated regulatory asset balances be included as current assets and current liabilities rather than non-operating investments.

(2) The Company proposed that accumulated deferred income tax balances associated with its pension and other post-retirement benefits liabilities and regulatory assets be classified as current assets and current liabilities, along with those underlying balances.

Q. Was the UTC Staff supportive of these refinements in the last proceeding?

A. Yes. In Docket UE-140188 and UE-140189, UTC Staff witness Ms. Erdahl, in Exhibit No. ____(BAE-1T), page 4, lines 3-10, recommends approval of the Company's updated analysis, including the treatment of pensions and other post-retirement benefits and liabilities, including the associated regulatory assets and related tax impacts.

Furthermore, Ms. Erdahl, in Exhibit No. ____(BAE-1T), page 8, lines 17-22 states:

> Staff evaluated Avista's ISWC calculation for both electric and natural gas service. Staff reviewed the underlying balance sheet accounts and allocation methodology and determined the Company's calculation is correct as of the update Avista provided on June 26, 2014, in response to Staff Data Request 115. Accordingly, there are no substantive differences between Staff and Company on this issue.

Q. Did staff recommend any conditions to the Commission as it relates to the treatment of pension and post retirement benefits in ISWC?

A. Yes. In Docket UE-140188 and UE-140189, Exhibit No. ____(BAE-1T), page 4, lines 15-22, UTC staff witness Ms. Erdahl, recommends:

> In order to ensure accounting consistency, Staff recommends the Commission condition its acceptance of the ISWC adjustment as follows:
>
> 1) In future rate cases, Avista must calculate its ISWC in principally the same manner, including the same underlying accounts and methodologies.
>
> 2) Avista must include ISWC as a rate base item, whether ISWC is positive or negative.

Avista supports these recommendations as proposed by Commission Staff and has included them in its calculations.

Q. Please continue describing the remaining adjustments on page 5, starting at column (2.01).

A. The next adjustment, included after Working Capital, is labeled column (2.01), **Eliminate B & O Taxes**, and eliminates the revenues and expenses associated with local business and occupation (B & O) taxes, which the Company passes through to its Washington customers. The adjustment eliminates any timing mismatch that exists between the revenues and expenses by eliminating the revenues and expenses in their entirety. B & O taxes are passed through on a separate schedule, which is not part of this proceeding. The effect of this adjustment is to decrease Washington net operating income by $57,000.

The adjustment in column (2.02), **Restate 2014 Property Tax**, restates the accrued property tax during the test period to actual property tax paid during 2014. Property tax expense for 2014 was based on actual plant balances as of December 31, 2013. The effect of this adjustment is to decrease Washington net operating income by $244,000. Adjustment (3.06) Pro Forma Property Tax, explained below, increases property tax expense to reflect the 2016 rate year level of expense.

The last adjustment on page 5, shown in column (2.03) **Uncollectible Expense**, restates the accrued expense to the actual level of net write-offs for the test period. The effect of this adjustment is to decrease Washington net operating income by $726,000.

Q. Please turn to page 6 and explain the adjustments shown there.

A. The first adjustment shown on page 6 in column (2.04), **Regulatory Expense**, restates recorded regulatory expense for the twelve-months-ended September 30, 2014, to reflect the UTC assessment rates applied to revenues for the test period and the actual levels of FERC fees paid during the test period. The effect of this adjustment is an increase to Washington net operating income of $48,000.

The adjustment in column (2.05), **Injuries and Damages**, is a restating adjustment that replaces the accrual with a six-year rolling average of injuries and damages payments not covered by insurance. As a result of the Commission's Order in Docket No. U-88-2380-T, the Company changed to the reserve method of accounting for injuries and damages not covered by insurance. The effect of this adjustment is to decrease Washington net operating income by $157,000.

The adjustment in column (2.06), **FIT/DFIT/ITC/PTC Expenses**, adjusts the FIT and DFIT calculated at 35% within Results of Operations by removing the effect of certain Schedule M items, revising the Section 199 Manufacturing Permanent M Deduction accrued during the test period to the actual Schedule M deduction taken per the 2013 tax return filed in September 2014, and adjusts the appropriate level of production tax credits and investment tax credits on qualified generation.

The net FIT and production tax credit adjustments decrease Washington net operating income by $231,000. Adjusting for the proper level of deferred tax expense for the test period increases Washington net operating income by $8,000. This adjustment also reflects the proper level of amortized investment tax credit for the test period increasing Washington net operating income by an additional $10,000. Therefore, the net effect of this adjustment, all based upon a Federal tax rate of 35%, is to decrease Washington net operating income by $213,000.

The adjustment in column (2.07), **Office Space Charged to Subsidiaries**, removes a portion of the office space costs (including, but not limited to office building operating and fixed costs, utilities, administrative, security, HVAC, depreciation and property taxes, as well as other costs related to employee use of phones, laptops, etc.) using the relationship of labor hours charged to subsidiary/non-utility activities by employee compared to total labor hours by employee. These percentages are applied to the employees' office space (expressed in square feet) and multiplied by office space costs/per square foot. This restating adjustment is made as a result of the Commission's Third Supplemental Order in Docket No. U-88-2380-T. In July of 2014 the Company began removing a portion of the office space cost on a monthly basis, so this adjustment includes the removal of six months allocation. The effect of this adjustment is to increase Washington net operating income by $10,000.

The adjustment in column (2.08), **Restate Excise Taxes**, removes the effect of a one-month lag between collection and payment of taxes. The effect of this adjustment is to increase Washington net operating income by $41,000.

The adjustment in column (2.09), **Net Gains/Losses**, reflects a ten-year amortization of net gains realized from the sale of real property disposed of between 2005 and September 30, 2014. This restating adjustment is made as a result of the Commission's Order in Docket No. UE-050482. The effect of this adjustment is to increase Washington net operating income by $53,000.

The adjustment in column (2.10), **Weather Normalization 2014**, normalizes weather sensitive kWh sales by eliminating the effect of temperature deviations above or below historical norms. Ms. Knox is sponsoring this adjustment. The effect of this particular adjustment is to decrease Washington net operating income by $4,375,000.

The last adjustment on page 6 included as column (2.11), **Eliminate Adder Schedule Adjustments**, removes the impact of the adder schedule revenues and related expenses, such as Schedule 91 Tariff Rider (DSM), Schedule 92 Low Income Rate

Assistance Program Rate, Schedule 93 ERM rebate, Schedule 94 BPA rebate, and Schedule 59 Residential Exchange credit, since these items are recovered/rebated by separate tariffs and, therefore, are not part of base rates. In the Company's prior GRC filings this adjustment and weather normalization were both included as part of the forward looking restatement of current base rates. Separating the revenue normalization process into three steps allows for direct comparison with the Commission Basis reported revenue. There is $0 total effect of this adjustment on Washington net operating income, as the adjustment to expense is equal to the adjustment to revenue.

Q. Please turn to page 7 and explain the adjustments shown there.

A. Page 7 starts with the adjustment in column (2.12), **Miscellaneous Restating Adjustments**, which removes a number of non-operating or non-utility expenses associated with dues and donations, etc., included in error in the test period actual results, and removes or restates other expenses incorrectly charged between service and or jurisdiction, all of which total approximately $30,000.

The Company also removed 50% of director meeting expenses, as ordered in Docket No. UE-090134, and restated director fee expenses to reflect a 97% Utility / 3% non-utility split, the net of which increases expenses approximately $32,000. The effect of this adjustment is to decrease Washington net operating income by $1,000.

Q. As noted above, the Company removed 3% of Director Fee expenses. What is the basis for removing 3% of these costs?

A. In 2014 the Company requested each of its Directors to estimate the time they spend on utility versus non-utility duties and responsibilities, based on their actual experience. The responses from the Directors indicated that, in the aggregate, approximately 97% of the Directors' time is dedicated to utility matters, and approximately 3% to non-utility.

This change in percentage related to non-utility director fee expense is reflective of the sale of Avista's subsidiary Ecova and the purchase of Alaska Energy and Resource Company (AERC) / Alaska Electric Light and Power Company (AEL&P). Company witness Mr. Thies discusses these transactions in more detail.

The adjustment in column (2.13), **Eliminate WA Power Cost Deferral,** removes the effects of the financial accounting for the Energy Recovery Mechanism (ERM.) The ERM normalizes and defers certain net power supply and transmission revenues and expenses pursuant to the Commission-approved deferral and recovery mechanism. The adjustment removes the ERM surcharge revenue as well as the deferral and amortization amounts and certain directly assigned power costs and net transmission costs associated with the ERM. The effect of this adjustment is to increase Washington net operating income by $1,703,000.

The adjustment in column (2.14), **Nez Perce Settlement Adjustment**, reflects an increase in production operating expenses. An agreement was entered into between the Company and the Nez Perce Tribe in 1999 to settle certain issues regarding previously owned hydroelectric generating facilities of the Company. This adjustment directly assigns the Nez Perce Settlement expenses to the Washington and Idaho jurisdictions. This is necessary due to differing regulatory treatment in Idaho Case No. WWP-E-98-11 and Washington Docket No. UE-991606. This restating adjustment is consistent with

Docket No. UE-011595. The effect of this adjustment is to decrease Washington net operating income by $9,000.

The adjustment in column (2.15), **Restate Debt Interest**, restates debt interest using the Company's pro forma weighted average cost of debt, as outlined in the testimony and exhibits of Mr. Thies, on the Results of Operations level of rate base shown in column (1.00) only, resulting in a revised level of tax deductible interest expense on actual test period rate base. The Federal income tax effect of the restated level of interest for the test period decreases Washington net operating income by $737,000.

The Federal income tax effect of the restated level of interest on all other rate base adjustments included in the Company's filing are included and shown as an income impact of each individual rate base adjustment described elsewhere in this testimony.

The adjustment in column (2.16), **Restate Incentive Expenses**, restates actual incentives included in the Company's test period ending September 30, 2014, to reflect a six-year average of payout percentages, reducing overall electric expense by approximately $1.1 million. For officers, the incentive amount included in the Company's filing is based on 2014 incentives accrued for officers (paid Q-1 of 2015), based on operating performance metrics defined in the Officer Short-Term Incentive Plan (STIP) related to O&M targets.[4] This amount was then multiplied by the six-year average of actual percentage payouts for the periods 2008-2013 (or 28.84%). For non-officer

[4] Officer STIP based on earnings per share targets are excluded from this calculation. Long-term incentives based on financial metrics (performance shares) and those short-term incentives based on earnings per share are borne by shareholders.

incentives, this is calculated by using the 2016 level of labor expense (determined in Pro Forma Labor adjustment 3.02) multiplied by the payout incentive opportunity per the Company's current incentive plan (or 12% overall) to determine the incentive payout opportunity, multiplied by the six-year average of actual percentage payouts for the periods 2008-2013 (or 85%). The net effect of this adjustment increases Washington net operating income by $729,000.

Q. Please briefly describe the Executive Short Term Incentive Plan (STIP).

A. The STIP is designed to align the interests of executives with both customer and shareholder interests in order to achieve overall positive financial performance for the Company. The STIP is a pay-at-risk plan whereby employees are eligible to receive cash incentive pay if the stated targets are achieved.

The STIP has four operational components, plus two earnings per share (EPS) components. The total amount associated with utility operational components is 40% and is broken down as follows: 20% O&M Cost-Per-Customer, 8% Customer Satisfaction, 8% Reliability, and 4% Response Time. The EPS components account for 60% of the total opportunity and are broken out into 50% utility EPS and 10% non-utility EPS. Only the operational components (40%) are proposed to be included in retail rates. They reflect measures that are designed to drive cost-control, and delivery of safe, reliable service with a high level of customer satisfaction. The remaining 60% related to EPS targets is borne by shareholders.

Q. Please describe the Executive Long Term Incentive Plan (LTIP).

A. The Executive Officer Long Term Incentive Plan (LTIP) is designed to align the interests of executives with customer and shareholder interests in order to achieve positive financial performance for the Company over the long term. The LTIP is a pay-at risk plan whereby executive officers and other key employees are eligible to receive common stock and dividend equivalents if stated targets are achieved and employment is maintained. The program encourages participants to focus on the long-term performance of the Company and provides an opportunity to maintain ownership in the Company. The current LTIP awards are based on 25% restricted common stock units and 75% through performance based common stock equity awards.[5]

Q. What portion of the LTIP is included in this filing?

A. The Restricted Stock portion (25%) of the LTIP is included in this filing. Restricted Stock is intended to provide an incentive for employees to remain employed by the Company and is therefore, appropriate to be included in rates. The long-term nature of large-scale generation, transmission and distribution projects spanning multiple years are completed more efficiently with experienced, consistent leadership. In addition, it is the Company's policy to promote from within when possible, preserving the values inherent in our culture that drive customer satisfaction, reliability of service, etc. Employees with a long tenure of employment with the Company are well versed in the Company's culture and will continue to cultivate the values embedded within Avista.

[5] As with all components of the executive officer compensation, the Compensation Committee determines all material aspects of the long-term incentive reward – who receives the award, the amount of the award, the timing of the award, as well as any other aspects of the award that may be deemed material.

The amount of restricted stock expense included in this case, based on 2014 actual, is approximately $675,000 on a system basis or $325,000 Washington Electric.

The Performance Share (75%) portion of the LTIP, which is directly related to total shareholder return and cumulative earnings per share, has been excluded from this filing.[6] The Company rewards performance shares to provide a direct link to the long-term interests of customers and shareholders by assuring that shares will be paid only if the Company attains a specific performance level of Total Shareholder Return (TSR) relative to our peers (as reported in the S&P 400 Utilities Index).

Q. Please provide an overview of the Company's non-executive employee incentive plan.

A. In accordance with the Company's overall compensation design to align elements of incentive plans among all Company employees and executives, the non-executive Employee Incentive Plan (Plan) has essentially the same stated goals as the STIP discussed above. Both plans provide incentives and focus employees on stated goals while recognizing and rewarding employees for their contributions toward achieving those goals. The components of the non-executive employee incentive plan are as follows: 60% O & M Cost-Per-Customer, 15% Customer Satisfaction, 15% Reliability Index and 10% Response Time.

Annually, the Company will assess the non-executive employee incentive plan to determine if modifications should be made to keep employees focused on the core business goals of the Company.

Q. Please continue with your explanation of the adjustments on page 7.

A. The adjustment in column (2.17), **Regulatory Amortization Restating Adjustment**, removes various amortization expenses included in the Company's test period that expire prior to the 2016 rate year. The expiring regulatory amortizations include: 1) 2011 deferred Colstrip and Coyote Springs 2 thermal maintenance expense, and a 4-year Amortization of the 2011 deferral amount approved in Docket No. UE-100467, started January 1, 2012, expiring on December 31, 2015; 2) BPA Settlement Deferral, authorized in UE-130536, allowing the Company to defer Washington's share of $2.1 million of annual transmission revenue and credit to customers during 2014; 3) Canada to Northern California (CNC) Transmission Project, a 3-year amortization period ending in December 2014; 4) LiDAR O&M and Deferred O&M, a 3-year amortization period ending in December 2014; and 5) Wartsila Generator (Small Gen) expenses, a 10-year amortization period ending December 2014. The effect of this adjustment is to increase Washington net operating income by $1,604,000.

The last column on page 7, entitled **Restated Total**, subtotals all the preceding columns (1.00) through column (2.17). These totals represent actual operating results and rate base plus the standard normalizing adjustments that the Company includes in its annual Commission Basis reports. However, the Restated Total column does not represent September 30, 2014 test period results of operation on a normalized commission basis. Differences between certain restating adjustments included in

[6] Total CEO Long Term Incentive Plan has been excluded because both the restricted stock and performance shares have financial performance-related triggers.

normalized Commission Basis Reports (CBRs) versus those included here, include but are not limited to, removal of CBR Power Supply (as the Power Supply net expense adjustment is included later as Pro Forma Power Supply Adjustment (3.0)); inclusion of debt interest restated based on the Company's proposed weighted cost of debt (described in adjustment (2.15) Restate Debt Interest above), as well as restated deferred debits and credits (described in adjustment (1.02) above) and restated regulatory amortizations (described in adjustment (2.17) above). Each of the adjustments noted above have been included consistent with past general rate case filings by the Company. The Commission Basis Report results of operations, for the test period ending September 30, 2014, shows a 7.39% rate of return, as shown in Exhibit No. __ (EMA-2), page 5, line 50.

Pro Forma Adjustments

Q. Please explain each of the pro forma adjustments shown on page 8.

A. The adjustment in column (3.00), **Pro Forma Power Supply**, was made under the direction of Mr. Johnson, and is explained in detail in his testimony. This adjustment includes pro forma power supply related revenue and expenses to reflect the twelve-month period January 1, 2016 through December 31, 2016, using historical loads.[7] Mr. Johnson's testimony outlines the system level of pro forma power supply revenues and expenses that are included in this adjustment. This adjustment calculates the Washington jurisdictional share of those figures, and also the directly assigned Washington Energy Independence Act (EIA) renewable energy credits (RECs) tracked in a separate REC deferral. In addition, as discussed by Mr. Johnson, the Company is proposing to include in net power supply costs the pro forma level of operations and maintenance (O&M) costs related to the Company's fifteen percent ownership in Colstrip and its Coyote Spring II (CSII) generating plant. As further explained by Mr. Johnson, differences between actual and pro forma O&M costs for these plants would be tracked as a part of the Energy Recovery Mechanism (ERM) base, with any differences subject to the ERM deadband and sharing mechanism. The net effect of the power supply adjustments decrease Washington net operating income by $2,451,000.

The adjustment in column (3.01), **Pro Forma Transmission Revenue/Expense,** was made under the direction of Mr. Cox and is explained in detail in his testimony. This adjustment includes pro forma transmission-related revenues and expenses to reflect the twelve-month period January 1, 2016 through December 31, 2016.[8] The net effect of the transmission revenue and expense adjustments decrease Washington net operating income by $71,000

The adjustment in column (3.02), **Pro Forma Labor-Non-Exec**, reflects changes to test period union and non-union wages and salaries, excluding executive salaries, which are handled separately in adjustment (3.03). For non-union employees, test period wages and salaries are restated to include the March 2014 overall actual increase of 3.0% on an annualized basis, the March 2015 overall increase of 3.0% (approved by the

[7] The impact of this adjustment is also included in the Company's electric Attrition Study. See column [I], page 4 of Exhibit No. __(EMA-2).

[8] The impact of certain transmission revenues (i.e. transmission revenues included in authorized ERM net energy costs) included in this adjustment are also included in the Company's electric Attrition Study. See column [I], page 4 of Exhibit No. __(EMA-2).

Compensation Committee of the Board of Directors[9]), and 10 months of the planned March 2016 increase of 3.0%. An increase for 2016 will be presented to the Compensation Committee of the Board of Directors for approval at the Board's May 2015 meeting. This amount will be updated based on market data in November 2015 to be effective in March 2016. Also included in this adjustment are the 2014, and planned 2015 and 2016 union contract increases for each year.[10] The methodology behind this adjustment is consistent with that used in the Company's previous Docket No. UE-140188. The effect of this adjustment on Washington net operating income is a decrease of $2,503,000.

The adjustment in column (3.03), **Pro Forma Labor-Executive**, reflects changes to reflect an annualized 2014 level of allocated executive officer salaries (effective March 2014). However, the Company has included updated utility and non-utility allocation percentages planned for 2016. The net result of these changes increases the executive compensation expense approximately $220,000 from that included in the Company's historical test period. No additional increases in executive labor for 2015 or 2016 have been included in this filing.

The basis for labor allocations in the current rate case is based on an estimate by each executive of the time to be spent on non-utility activities based on current and past job responsibilities, anticipated changes due to projects specific to the upcoming year, anticipated responsibility and/or overall upcoming strategic initiatives and associated

[9] In November 2014 a 3.0% increase for non-union employees was approved to be effective March 1, 2015, based on then-current market data.
[10] Union increases are governed by contract terms. The current contract was approved January 8, 2015 with increases of 3% for 2014 (retroactive to March 26, 2014) and 2015.

roles. The non-utility/utility allocations are updated in the bi-weekly timekeeping system as we progress through the year based on actual time and changes to strategic initiatives or job responsibilities. Charges related to AEL&P and/or AERC are tracked separately from other non-utility costs and directly charged to non-utility operations. Due to changes within the organization (such as the sale of ECOVA and acquisition of AERC & AEL&P discussed by Mr. Thies), the expected 2016 average percentage to be allocated to non-utility for all officers has decreased to approximately 11% from a 15% level from the last survey. Therefore, while the level of base salaries has remained at the 2014 annualized-level, changes due to updated utility/non-utility allocation factors to approximately 89% utility and 11% non-utility has resulted in a decrease to Washington net operating income of approximately $143,000.

The adjustment in column (3.04), **Pro Forma Employee Benefits**, adjusts for changes in both the Company's pension and medical insurance expense, decreasing Washington net operating income by $1,550,000.

Q. Please describe the pension and 401(k) expense portion of the Employee Benefits adjustment and Washington's share of this expense.

A. The Company's pension and 401(k) expense portion of this adjustment is determined in accordance with Accounting Standard Codification 715 (ASC-715), and has increased on a system basis from approximately $22.8 million for the actual test year costs for the twelve months ended September 30, 2014, to $28.7 million for 2016. The increase in pension expense ($1.6 million Washington electric) is primarily due to updated mortality tables, the discount rate on pension liability and expected return on assets.

At this time the amounts included in this case are based on the most current available data. Preliminary pension expense is determined by an outside actuarial firm, in accordance with ASC-715, and provided to the Company late in the first quarter of each year. These calculations and assumptions are reviewed by the Company's outside accounting firm annually for reasonableness and comparability to other companies. Due to the timing of this report, additional information may become known during the course of these proceedings that may require a modification to this adjustment.

Q. Please describe any recent changes to the Company's retirement plan.

A. In October 2013, the Company revised our defined benefit pension plan such that, as of January 1, 2014, the plan will be closed to all non-union employees hired or rehired by Avista on or after January 1, 2014. All actively employed non-union employees that were hired prior to January 1, 2014, and are currently covered under the defined benefit pension plan, will continue accruing benefits as originally specified in the plan. A defined contribution 401(k) plan will replace the defined benefit pension plan for all non-union employees hired or rehired on or after January 1, 2014. Under the defined contribution plan, the Company will provide a non-elective contribution as a percentage of each employee's pay based on his or her age. The defined contribution is in addition to the existing 401(k) contribution in which the Company matches a portion of the pay deferred by each participant. In addition to the above changes, the Company also revised the lump sum calculation effective January 1, 2014 for non-union participants who retire under the defined benefit pension plan. The lump sum amount is equivalent to the present value of the annuity based upon discount rates.

Q. Please now describe the medical insurance and post-retirement expense portion of the Employee Benefits adjustment and Washington's share of this expense.

A. The Company's medical insurance and post-retirement expense portion of this adjustment ($0.7 million Washington electric) adjusts for the medical-related costs planned for 2016 above the test period. Net medical insurance and post-retirement expense has increased on a system basis from $28.5 million for the actual test year costs for the twelve months ended September 30, 2014, to $31.2 million for 2016. The increase in 2016 represents medical trend and utilization expectations, as well as accounting for Health Care Reform mandates.

Q. Please describe the recent changes to the Company's medical plans.

A. In October 2013 the Company also revised the health care benefit plan. For non-union employees hired or rehired on or after January 1, 2014. Upon retirement the Company will no longer provide a contribution towards his or her medical premiums. The Company will provide access to the retiree medical plan, but the non-union employees hired or rehired on or after January 1, 2014, will pay the full cost of premiums upon retirement. In addition, beginning January 1, 2020, the method for calculating health insurance premiums for non-union retirees under age 65 and active Company employees will be revised. The revision will result in separate health insurance premiums for each group.

Q. Please continue with your explanation of adjustments on page 8.

A. The adjustment in column (3.05), **Pro Forma Insurance**, adjusts actual test period insurance expense related to the utility for general liability, directors and officers ("D&O") liability, and property to reflect the expected 2016 level of insurance, resulting in an increase in expense of $259,000 Washington share. Insurance costs that are properly charged to non-utility operations have been excluded from this adjustment. In addition, Avista has removed a total of 10% of the total Directors' and Officers' insurance expense as ordered in Docket No. UE-090134.[11] This adjustment decreases Washington net operating income by $168,000.

Q. Please briefly explain the cause of the increases in insurance expense.

A. The Company is seeing an increase in the general liability insurance. The increase is due to primary insurance policy providers seeking increases due to adverse impacts over the last several years from increased claim history and due to suspension by insurance providers of the continuity credit provided in previous years.

Q. Were there increases in the property and D&O policies?

A. No. The Company experienced rate decreases related to our Property and Director's & Officer's (D&O) insurance premiums insurance for the 2015 renewal period. These are reflected in our adjustment.

Q. Please continue with your explanation of the last pro forma adjustment shown on page 8.

[11] The increase in insurance expense noted above is net of the offset to reduce D&O insurance expense for the 10% portion removed.

A. The last column on page 8, includes the adjustment in column (3.06), **Pro Forma Property Tax**, which restates the 2014 level of property tax expense adjustment (2.02) Restate 2014 Property tax, to the 2016 level of expense. The property on which the tax is calculated is the property value as of December 31, 2015, reflecting the 2016 level of expense the Company will experience during the rate period. The effect of this adjustment decreases Washington net operating income by $2,068,000.

Q. Please continue with your discussion of the pro forma adjustments included on page 9 of Exhibit No. ____(JSS-2).

A. The first column on page 9, includes the adjustment in column (3.07), **Pro Forma Information Technology/Services Expense,** which includes the incremental costs associated with software development, application licenses, maintenance fees, and technical support for a range of information services programs. As discussed further by Company witness Mr. Kensok, these incremental expenditures are necessary to support Company cyber and general security, emergency operations readiness, electric and natural gas facilities and operations support, and customer services. The effect of this adjustment decreases Washington net operating income by $1,091,000.

The adjustment included in column (3.08), **Lake Spokane Deferral,** reflects the three-year amortization of the deferred costs related to improving dissolved oxygen levels in Lake Spokane. In Docket No. UE-131576, (see Order No. 01), the Company sought, and received approval of an Accounting Order to defer the costs related to the improvement of dissolved oxygen levels in Lake Spokane. Order No. 01 authorized the Company to defer and transfer Washington's share of these costs (approximately

$871,000) to FERC account 182.3 for later recovery. The Company received approval to amortize these costs over a three-year period starting in January 1, 2015, in Docket No. UE-140188. The effect of this adjustment decreases Washington net operating income by $189,000.

The adjustment included in column (3.09) **Pro Forma Revenue Normalization**, includes revenue repricing of the 2015 authorized rates approved in Docket No. UE-140188.[12] Ms. Knox is sponsoring this adjustment. The effect of this adjustment increases Washington net operating income by $10,144,000.

The adjustment included in column (3.10), **Pro Forma Major Maintenance-Hydro Thermal, Other,** includes the incremental increase in major maintenance expense planned for in 2016 above that included in the test period on the Company's hydro, thermal and other generating plants.[13] Examples of major planned maintenance include the Rathdrum hot gas path maintenance planned on Unit #1, Noxon Rapids runner repair on Turbine Unit #5, Long Lake spillgate and Crescent Dam concrete repair, Kettle Falls Combustion Turbine fire system and controls upgrade, Boulder Park required 12,000 hour operation and maintenance, to name a few. The effect of this adjustment decreases Washington net operating income by $1,570,000.

The adjustment included in column (3.11), **Planned Capital Additions December 2014 EOP**, reflects the additional October through December 2014 capital

---

[12] The impact of this adjustment is also included in the Company's electric Attrition Study. See column [D], page 4 of Exhibit No. __(EMA-2).

[13] This adjustment does not include planned maintenance at the Company's Colstrip or CS2 generating plants, as the associated maintenance at those facilities is included in the Pro Forma Power Supply adjustment discussed previously in my testimony and explained in more detail by Mr. Johnson.

additions[14] together with the associated accumulated depreciation (A/D) and accumulated deferred federal income taxes (ADFIT) at a December 2014 EOP basis. This adjustment also includes associated depreciation expense for these October through December 2014 additions. In addition, the plant-in-service at September 30, 2014 end-of-period, was adjusted to a December 31, 2014 EOP basis. Company witness Ms. Schuh describes this adjustment in detail within her testimony. The effect of this component decreases Washington net operating income by $2,790,000 and increases rate base by $35,098,000.

Q. Please explain what is shown in the last column on page 9 of Exhibit No. __ (JSS-2).

A. The last column on page 9, labeled Pro Forma Sub-Total, reflects total pro forma results of operations and rate base consisting of test period actual results and the restating and pro forma adjustments explained thusfar.

Q. Turning to page 10 of Exhibit No. __ (JSS-2), please continue to briefly explain each of the adjustments.

A. The first adjustment included in column (4.01), **Planned Capital Additions 2015 EOP**, reflects the additional 2015 capital additions[15] together with the associated A/D and ADFIT at a December 31, 2015 EOP basis. This adjustment also includes associated depreciation expense for these 2015 additions. In addition, the plant-in-service at December 31, 2014 end-of-period was adjusted to a December 2015 EOP

[14] For each of the periods October-December 2014, 2015, and 2016, distribution-related capital expenditures associated with connecting new customers to the Company's system was excluded. The Pro Forma Cross Check Analysis does not include the increase in revenues from growth in the number of customers from the historical test year to the 2016 rate year and therefore, the growth in plant investment associated with customer growth was also excluded.
[15] Id.

basis. Ms. Schuh describes this adjustment in detail within her testimony. The effect of this adjustment decreases Washington net operating income by $5,056,000 and increases rate base by $149,733,000.

Column (4.02), **Planned Capital Additions 2016 AMA**, reflects all 2016 capital additions[16] together with the associated A/D and ADFIT at a 2016 AMA basis. This adjustment includes associated depreciation expense for the 2016 additions. In addition, the plant-in-service at December 31, 2015 was adjusted to a 2016 AMA basis. Ms. Schuh also describes this adjustment in detail within her testimony. The effect of this adjustment decreases Washington net operating income by $1,755,000 and decreases rate base by $3,071,000.

The adjustment included in column (4.03), labeled **Meter Retirement,** includes for regulatory purposes, the regulatory asset and amortization expense related to the transfer of the net book value of the existing Washington electric meters from electric distribution plant to a regulatory asset, as proposed by Ms. Schuh. The Company is proposing to amortize this regulatory asset balance over a ten-year period, starting in January of 2016. The effect of this component decreases Washington net operating income by $1,125,000 and no net change to rate base.[17] Company witness Mr. Kopczynski describes the AMI program in general, as well as the retirement of existing electric meters.

---

[16] Id.

[17] Due to the reduction in distribution plant and depreciation expense associated with retiring these assets, included in Adjustment 4.02 "Planned Capital Additions 2016 AMA" sponsored by Ms. Schuh, the overall net effect to total rate base is $0. The proposed level of amortization expense of approximately $2.03 million is offset by a reduction in depreciation expense of approximately $901,000.

The final pro forma adjustment included in Column (4.04) is **O&M Offsets**. As explained by Ms. Schuh, all of the 2014 (October through December), 2015 and 2016 capital additions were reviewed for any net O&M offsets both increases in expenses and savings, that are expected in the 2016 rate period. Specific expenses and savings identified were included as an increase or reduction to O&M costs in the Pro Forma Studies, and discussed in Mr. Kinney, Mr. Cox, and Ms. Schuh's direct testimonies with the capital asset with which the net offset relates. The effect of this adjustment on Washington net operating income is an increase of $127,000.[18]

The column on page 10, labeled "Pro Forma Cross Check Total," reflects the total electric revenue requirement for 2016 of $33,069,000 based on the use of restating and pro forma adjustments from the historical test year to the 2016 rate year. This revenue requirement can be compared or "cross checked" to the revenue requirement determined using the Attrition Study of $33,229,000, shown at the bottom of the last column on page 10 of Exhibit No. __ (JSS-2), line 50.

Q. Please describe the last individual adjustment shown on page 10.

A. The column on page 10, labeled (4.05), **Reconcile Pro Forma To Attrition,** represents the difference ($160,000 revenue requirement) between the Pro Forma Cross Check Study and the Attrition Study. This adjustment records the increase in expense of $707,000, decreasing Washington net operating income by $512,000, and

[18] After the final revenue requirement was established in this case, it was determined that $139,000 of additional O&M Offsets exist. The effect of these additional offsets on Washington's net operating income will increase the $127,000 stated above to a revised amount of $218,000.

decreasing net rate base by $5,535,000 necessary to equate with the total level of attrition deficiency as determined by the Company's Attrition Study sponsored by Ms. Andrews.

The Pro Forma Cross Check revenue requirements are reconciled to the Attrition Study revenue requirements in order to establish revenue, expenses and rate base numbers that can be used as inputs to the Company's cost of service studies prepared by Ms. Knox.

Natural Gas Pro Forma Cross Check Study

Q. Would you please explain what is shown on page 1 of Exhibit No. ____(JSS-3)?

A. Yes. Exhibit No. ____(JSS-3), page 1, shows actual and pro forma natural gas operating results and rate base for the test period for the State of Washington. Column (b) of page 1 of Exhibit No. ____(JSS-3) shows twelve-months ending September 30, 2014 actual operating results and components of the average-of-monthly-average rate base as recorded; column (c) is the total of all adjustments to net operating income and rate base; and column (d) is pro forma adjusted results of operations, all under existing rates. Column (e) shows the revenue increase required which would allow the Company to earn a 7.46% rate of return. Column (f) reflects total pro forma natural gas operating results with the requested increase of $12,021,000.

Q. Would you please explain page 2 of Exhibit No. ____(JSS-3)?

A. Yes. Page 2 shows the calculation of the $12,021,000 revenue requirement at the requested 7.46% rate of return based on the natural gas Pro Forma Cross Check Study.

Q. What does page 3 of Exhibit No. ____(JSS-3) show?

A. Page 3 shows the proposed Cost of Capital and Capital Structure utilized by the Company in this case, and the weighted average cost of capital calculation of 7.46%. Mr. Thies discusses the Company's proposed rate of return and the capital structure utilized in this case, while Mr. McKenzie provides additional testimony related to the appropriate return on equity for Avista.

Q. Please explain page 4 of Exhibit No. ____(JSS-3)?

A. Page 4 shows the derivation of the net-operating-income-to-gross-revenue conversion factor. The conversion factor takes into account uncollectible accounts receivable, Commission fees and Washington State excise taxes. Federal income taxes are reflected at 35%.

Q. Now turning to pages 5 through 10 of your Exhibit No. ____(JSS-3), would you please explain what those pages show?

A. Yes. Page 5 begins with actual operating results and rate base for the twelve-months-ending September 30, 2014 test period in column (1.00). Individual normalizing and restating adjustments that are standard components of our annual reporting to the Commission begin in column (1.01) on page 5 and continue through column (2.14) on page 7. Individual pro forma adjustments are shown on page 8 in columns (3.00) though (3.07). The first column on page 9, labeled "Pro Forma Sub-total", is the subtotal of the previous columns (1.00) through (3.07).

Columns (4.01) through (4.05), on page 9 of Exhibit No. ____(JSS-3), represent additional pro forma adjustments related to capital additions for 2015 and 2016 and atmospheric testing expenses expected in 2016. The first column on page 10, labeled "Pro Forma Cross Check Total," reflects the total natural gas revenue requirement for 2016 of $10,611,000 based on the use of restating and pro forma adjustments from the historical test year to the 2016 rate year. This revenue requirement can be compared as a "cross check" to the revenue requirement determined using the Attrition Study of $12,021,000, which is shown at line 7 on page 1 of Exhibit No. ____(EMA-3), column (e).

Column (4.05) on page 10 represents the difference of $1,410,000 between the Pro Forma Cross Check Study and the Natural Gas Attrition Study.

The Pro Forma Cross Check revenue requirement is reconciled to the Attrition Study revenue requirement in order to establish revenue, expenses and rate base numbers that can be used as inputs to the Company's cost of service study prepared by Mr. Miller.

Each of the Commission Basis, restating and pro forma adjustments are discussed in the testimony that follows, and the Company has also provided workpapers, both in hard copy and electronic formats, outlining additional details related to each of the adjustments.

Standard Commission Basis and Restating Adjustments

Q. Would you please explain each of the Commission Basis and restating adjustments, the reason for the adjustment and its effect on test period State of Washington net operating income and/or rate base?

A. The **Results of Operations** column (1.00), reflects the Company's actual operating results and total net rate base experienced by the Company for the twelve-month period ending September 30, 2014 on an average-of-monthly-average (AMA) basis. Columns following the Results of Operations column (1.00) reflect normalizing and restating adjustments necessary to: restate the actual results based on prior Commission orders; reflect appropriate annualized expenses; correct for errors; or remove prior period amounts reflected in the actual September 30, 2014 results.

Q. Please continue with your explanation of each adjustment and its effect on test period net operating income and/or rate base.

A. The first adjustment, column (1.01) on page 5, entitled **Deferred FIT Rate Base**, adjusts the DFIT rate base balance included in the Results of Operations column (1.00) to the corrected DFIT balance, as shown within my workpapers provided with the Company's filing. Accumulated DFIT reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS) and bond refinancing premiums. These amounts are reflected on the average-of-monthly-average balance basis. The effect on Washington rate base for this adjustment is a reduction of $3,032,000.[19]

[19]The reduction in rate base is mainly due to an increase in DFIT as a result of Avista recording in the test period an estimate of the impact of a tax deduction the Company intends to file in its 2014 federal tax return. Avista plans to make a "Change of Accounting" filing to implement certain IRS Tangible Property Regulations associated with revised rules on property capitalization versus repair requirements. The study to implement this tax accounting change, which is commonly referred to as a "Repairs Study", will be finalized during the first quarter of 2015. In September 2014, the Company recorded its estimate with the best information available and currently does not expect the overall estimate to change materially.

A decrease to Washington net operating income of $29,000 is due to the Federal income tax (FIT) expense on the restated level of interest on the change in rate base.[20]

The adjustment in column (1.02), **Deferred Debits and Credits,** is a consolidation of certain Commission Basis or restating rate base adjustments and their operating income (NOI) impact as described in the Electric Pro Forma section above. The rate base amount for each of the deferred debits and credits adjustments discussed below are already reflected in the natural gas results of operations reports and the Results of Operations column (1.00), and, therefore, no restating rate base adjustment is necessary. The net impact on a consolidated basis of this adjustment on Washington natural gas net operating income (NOI) is a reduction of $1,000.

For consistency with prior rate case filings, a description of each adjustment is included below.

- **Customer Advances** decreases rate base for money advanced by customers for line extensions, as they will be recorded as contributions in aid of construction at some future time. The reduction to rate base per results of operations is already reflected at $12,000; therefore no adjustment is necessary to rate base.

- **Customer Deposits** reduces natural gas rate base by the average-of-monthly-averages of customer deposits held by the Company, as ordered by this Commission in Docket UE-090135. The reduction to rate base per results of operations is already reflected at $416,000; therefore no adjustment is necessary to rate base. The corresponding interest paid on customer deposits is reclassified to utility operating expense, at the current UTC interest rate of 0.14%. The effect on Washington operating income is a decrease of $1,000.

---

[20] The net effect of Federal income tax (FIT) expense on the restated level of interest expense due to a change in rate base, is shown within each individual adjustment. The restated debt interest impact per individual adjustment can be seen on Line 28 of Exhibit No. __(JSS-3). The "Restate Debt Interest" adjustment restates debt interest using the Company's pro forma weighted average cost of debt on the Results of Operations level of rate base shown in column (1.00) only, resulting in a revised level of tax deductible interest expense on actual test period rate base.

Q. Please continue describing the remaining adjustments on page 5.

A. The adjustment in column (1.03), **Working Capital,** reflects the natural gas working capital balance for the twelve-month period ending September 30, 2014 on an AMA basis, based on the ISWC methodology, as explained further in the Electric Pro Forma Section above. The effect of this adjustment is an increase to Washington rate base of $10,371,000 and an increase to Washington net operating income of $98,000, due to the FIT expense on the restated level of interest on the change in rate base.

The adjustment in column (2.01), **Eliminate B & O Taxes**, eliminates the revenues and expenses associated with local business and occupation taxes, which the Company passes through to customers. The adjustment eliminates any timing mismatch that exists between the revenues and expenses by eliminating the revenues and expenses in their entirety. B & O Taxes are passed through on a separate schedule, which is not part of this proceeding. The effect of this adjustment is to decrease Washington net operating income by $7,000.

The adjustment in column (2.02), **Restate 2013 Property Tax,** restates the accrued property tax during the test period to actual property tax paid during 2014. Property tax expense for 2014 was based on actual plant balances as of December 31, 2013. The effect of this adjustment is to decrease Washington net operating income by $52,000. Adjustment (3.04) Pro Forma Property Tax, adjusts the property tax expense included in the Company's filing to reflect the 2016 rate year level of expense.

The adjustment in column (2.03), **Uncollectible Expense**, restates the accrued expense to the actual level of net write-offs for the test period. The effect of this adjustment is to increase Washington net operating income by $98,000.

Q. Please turn to page 6 and explain the first column shown there, and the adjustments that follow.

A. The first adjustment on page 6 in column (2.04), entitled **Regulatory Expense Adjustment**, restates recorded regulatory expense for the twelve-month period ended September 30, 2014 to reflect the UTC assessment rates applied to revenues for the test period. The effect of this adjustment is to decrease Washington net operating income by $21,000.

The adjustment in column (2.05), entitled **Injuries and Damages**, is a restating adjustment that replaces the accrual with a six-year rolling average of injuries and damages payments not covered by insurance. As a result of the Commission's Order in Docket No. U-88-2380-T, the Company changed to the reserve method of accounting for injuries and damages not covered by insurance. The effect of this adjustment decreases Washington net operating income by $182,000.

The adjustment in column (2.06), entitled **FIT/DFIT Expense**, adjusts the FIT calculated at 35% within Results of Operations by removing the effect of certain Schedule M items. This adjustment also reflects the proper level of deferred tax expense for the test period, all based upon a Federal tax rate of 35%. The effect of this adjustment increases current FIT expense by $74,000, and decreases deferred tax expense by $74,000, resulting in a net $0 change to Washington net operating income.

The adjustment in column (2.07), **Office Space Charges to Subs**, removes a portion of the office space costs (including, but not limited to office building operating and fixed costs, utilities, administrative, security, HVAC, depreciation and property taxes, as well as other costs related to employee use of phones, laptops, etc.) using the relationship of labor hours charged to subsidiary/non-utility activities by employee compared to total labor hours by employee. These percentages are applied to the employees' office space (expressed in square feet) and multiplied by office space costs/per square foot. This restating adjustment is made as a result of the Commission's Third Supplemental Order in Docket No. U-88-2380-T and consistent with previous Company general rate cases. The effect of this adjustment is to increase Washington net operating income by $1,000.

The adjustment in column (2.08), **Restate Excise Taxes**, removes the effect of a one-month lag between collection and payment of taxes. The effect of this adjustment is to decrease Washington net operating income by $213,000.

The adjustment in column (2.09), **Net Gains/Losses**, reflects a ten-year amortization of net gains realized from the sale of real property disposed of between 2005 and September 30, 2014. This restating adjustment is made as a result of the Commission's Order in Docket No. UG-050483 and consistent with previous Company general rate cases. The effect of this adjustment is to increase Washington net operating income by $3,000.

Q. Please turn to page 7 and explain the adjustments shown there.

A. The first adjustment on page 7 in column (2.10), entitled **Weather Normalization & Gas Cost Adjustment**, normalizes weather sensitive gas therm sales by eliminating the effect of temperature deviations above or below historical norms. This adjustment also restates therms sold to reflect the weather normalized therms and then reprices the adjusted therms sold based upon the authorized weighted average cost of gas. Company witness Mr. Miller is sponsoring this adjustment. The effect of this particular adjustment decreases Washington net operating income by $497,000.

The adjustment in column (2.11), **Eliminate Adder Schedule Adjustments**, removes the impact of the adder schedule revenues and related expenses, such as Schedule 191 Tariff Rider (DSM), Schedule 192 Low Income Rate Assistance Program Rate, Schedule 155 Gas Cost surcharge or rebate, and Schedule 159 Decoupling surcharge or rebate, since these items are recovered/rebated by separate tariffs and, therefore, are not part of base rates. Various accounts associated with the cost of gas managed through the PGA deferral mechanism are consolidated into City Gate Purchases in this adjustment. In the Company's prior GRC filings this adjustment and weather normalization were both included as part of the forward looking restatement of current base rates. Separating the revenue normalization process into three steps allows for direct comparison with the Commission Basis reported revenue. There is $0 total effect of this adjustment to Washington net operating income as the adjustment to expense is equal to the adjustment to revenue.

The adjustment in column (2.12), **Miscellaneous Restating Adjustments**, removes a number of non-operating or non-utility expenses associated with dues and donations, etc., included in error in the test period actual results, and removes or restates other expenses incorrectly charged between service and or jurisdiction totaling approximately $4,400. The Company also removed 50% of director meeting expenses, as ordered in Docket No. UE-090135, and restates director fee expenses to reflect a 97% utility / 3% non-utility split, the net of which increases expense approximately $9,100. The total effect of this adjustment is to decrease Washington net operating income by $3,000.

The adjustment in column (2.13), **Restating Incentive Adjustment,** restates actual incentives included in the Company's test period ending September 30, 2014, reducing overall expense by approximately $333,000. (See the Electric Pro Forma Section above for additional description.) The effect of this adjustment increases Washington net operating income by $216,000.

The last restating adjustment shown on page 7 is included in column (2.14), **Restate Debt Interest.** This adjustment restates debt interest using the Company's pro forma weighted average cost of debt, as outlined in the testimony and exhibits of Mr. Thies, on the Results of Operations level of rate base shown in column (1.00). This adjustment results in a revised level of tax deductible interest expense on actual test period rate base. The Federal income tax effect of the restated level of interest for the test period decreases Washington net operating income by $136,000.

The Federal income tax effect of the restated level of interest on all other rate base adjustments included in the Company's filing are included and shown in each individual rate base adjustment described elsewhere in this testimony.

The last column on page 7, entitled **Restated Total**, subtotals all the preceding columns (1.00) through column (2.14). These totals represent actual operating results and rate base plus the standard normalizing adjustments that the Company includes in its annual Commission Basis reports. However, the Restated Total column does not represent September 30, 2014 test period results of operation on a normalized Commission Basis. Differences between certain restating adjustments included in normalized Commission Basis Reports (CBRs) versus those included here, include but are not limited to, the inclusion of debt interest restated based on the Company's proposed weighted cost of debt (described in adjustment (2.14) Restate Debt Interest above).

<u>Pro Forma Adjustments</u>

Q. Please explain each of the pro forma adjustments shown on page 8.

A. The adjustment in column (3.00), **Pro Forma Labor-Non-Exec**, reflects changes to test period union and non-union wages and salaries, as explained in the Electric Pro Forma section. Executive salaries are handled separately in adjustment (3.01). The methodology behind this adjustment is consistent with that used in the Company's previous Docket No. UG-140189. The effect of this adjustment on Washington net operating income is a decrease of $750,000.

The adjustment in column (3.01), **Pro Forma Labor-Executive**, reflects changes to reflect an annualized 2014 level of allocated executive officer salaries (effective March 2014). However, the Company has included utility and non-utility allocation percentages planned for 2016. No additional increases in executive labor for 2015 or 2016 have been included in this filing. This adjustment is further explained in the Electric Pro Forma Section above. The impact of this adjustment on Washington net operating income is a decrease of $32,000.

The adjustment in column (3.02), **Pro Forma Employee Benefits**, adjusts for changes in both the Company's pension and medical insurance expense (as explained in the Electric Pro Forma Section above), and decreases Washington net operating income by $466,000.

The adjustment in Column (3.03), **Pro Forma Insurance**, adjusts actual test period insurance expense related to the Utility for general liability, D&O liability, and property to reflect the expected 2015 level of insurance. The adjustment is an increase in expense of $77,000[21] (as explained in the Electric Pro Forma Section above). This adjustment decreases Washington net operating income by $50,000.

The adjustment in column (3.04), **Pro Forma Property Tax**, restates the 2014 level of property tax expense (previously discussed in the natural gas restating adjustment section above, see Adjustment (2.02) Restate 2014 Property tax), to the 2016 level of expense. For further explanation of the pro forma adjustment, see (3.06) Pro Forma Property Tax adjustment in the Electric Pro Forma Section above. As can be seen from my workpapers provided with the Company's filing, the property on which the tax is calculated is the property value as of December 31, 2015, reflecting the 2016 level of expense the Company will experience during the rate period. The effect of this particular adjustment is to decrease Washington net operating income by $330,000.

The adjustment in column (3.05), **Pro Forma Information Technology/Services Expense,** includes the incremental costs associated with software development, application licenses, maintenance fees, and technical support for a range of information services programs. Mr. Kensok discusses these incremental expenditures in more detail within his testimony. The effect of this adjustment decreases Washington net operating income by $268,000.

The adjustment in column (3.06), **Pro Forma Revenue Normalization**, includes revenue repricing of the 2015 authorized rates approved in Docket No. UG-140189.[22] Mr. Miller is sponsoring this adjustment. The effect of this adjustment increases Washington net operating income by $5,541,000.

The last pro forma adjustment on page 8, includes the adjustment in column (3.07), **Planned Capital Additions December 2014 EOP**, reflects the additional October

---

[21] The increase in insurance expense noted above is net of the offset to reduce D&O insurance expense for the 10% portion removed.
[22] The impact of this adjustment is also included in the Company's natural gas Attrition Study. See column [C], page 4 of Exhibit No. __(EMA-3).

through December 2014 capital additions[23] together with the associated accumulated depreciation (A/D) and accumulated deferred federal income taxes (ADFIT) at a December 2014 EOP basis. This adjustment also includes associated depreciation expense for these October through December 2014 additions. In addition, the plant-in-service at September 30, 2014 end-of-period, was adjusted to a December 31, 2014 EOP basis. Ms. Schuh describes this adjustment in detail within her testimony. The effect of this component decreases Washington net operating income by $701,000 and increases rate base by $2,960,000.

Q. Turning to page 9 of Exhibit No. ____(JSS-3), what is shown in the first column on that page?

A. The first column on page 9, labeled Pro Forma Sub-Total, reflects total pro forma results of operations and rate base consisting of test period actual results (twelve-months ending September 30, 2014) and the restating and pro forma adjustments explained thusfar.

Q. Please briefly explain each of the adjustments included on page 9 of Exhibit No. ____(JSS-3).

A. The first adjustment included in column (4.01), **Planned Capital Additions 2015 EOP**, reflects the additional 2015 capital additions[24] together with the associated A/D and ADFIT at a December 31, 2015 EOP basis. This adjustment also

[23] For each of the periods October-December 2014, 2015, and 2016, distribution-related capital expenditures associated with connecting new customers to the Company's system were excluded. The Pro Forma Cross Check Analysis does not include the increase in revenues from growth in the number of customers from the historical test year to the 2016 rate year and therefore, the growth in plant investment associated with customer growth was also excluded.

[24] Id.

includes associated depreciation expense for these 2015 additions. In addition, the plant-in-service at December 31, 2014 end-of-period was adjusted to a December 2015 EOP basis. Ms. Schuh describes this adjustment in detail within her testimony. The effect of this component decreases Washington net operating income by $1,365,000 and increases rate base by $28,691,000.

Column (4.02), **Planned Capital Additions 2016 AMA**, reflects all 2016 capital additions[25] together with the associated A/D and ADFIT at a 2016 AMA basis. This adjustment includes associated depreciation expense for the 2016 additions. In addition, the plant-in-service at December 31, 2015 was adjusted to a December 31, 2016 AMA basis. Ms. Schuh also describes this adjustment in detail within her testimony. The effect of this component decreases Washington net operating income by $536,000 and increases rate base by $5,706,000.

The adjustment in column (4.03) **Project Compass Deferral, Regulatory Amortization**, includes the amortization expense associated with a proposed two-year amortization of the deferred natural gas revenue requirement amount associated with the Company's Project Compass Customer Information System (CIS) for calendar year 2015.[26] This project was moved into service in February of 2015. Mr. Kensok discusses the Project Compass project in more detail within his testimony, and Ms. Schuh

[25] Id.
[26] Per Settlement Stipulation, Docket No. UG-140189, Section III, paragraph 7, page 4-5, the Company was allowed to defer for recovery in a future proceeding the natural gas revenue requirement amount associated with the Project Compass Customer Information System for the calendar year 2015, based on the actual costs of the Project at the time the Project goes into service. The carrying charge on the deferral balance was set at 3.25%. An estimated amount has been included at this time for this adjustment until such time as the final costs of the project during 2015 can be established.

incorporates and explains the capital additions related to this project. The effect of this adjustment decreases Washington net operating income by $743,000.

The next adjustment in column (4.04) is **O&M Offsets**. As explained by Ms. Schuh, all of the 2014 (October through December), 2015 and 2016 capital additions were reviewed for any net O&M offsets (both increases in expense and savings) that were expected in the 2016 rate period. Specific expenses and savings identified were included as an increase or reduction to O&M costs for the respective capital investment, as further explained by Ms. Schuh. The effect of this adjustment on Washington net operating income is an increase of $51,000. [27]

The adjustment in column (4.05) is **Pro Forma Atmospheric Testing**, adjusts the test period expense for atmospheric corrosion expense. This is an inspection program to find conditions in the Company's system that could lead to corrosion issues on customer meter sets. This program is a federally-mandated program that requires the Company to inspect all above ground steel pipe at a frequency not to exceed three-years. This expense includes the inspection costs and follow-up remedial actions based on transitioning the Atmospheric Corrosion (AC) inspection cycle from a three-year rotation between the Company's jurisdictions (Washington, Idaho, and Oregon) to an inspection cycle that will be completed one third of each jurisdiction per year.

The atmospheric testing expense included in the twelve-month test period ending September 30, 2014, was approximately $211,000. For 2016, the atmospheric testing

[27] After the final revenue requirement was established in this case, it was determined that the O&M Offset adjustment was overstated by $4,000. The effect of the reduced level of offsets would lower the $51,000 increase to net operating income to $49,000.

inspection program will include costs of approximately $317,000 for the AC inspection cycle and approximately $602,000 for the remediation costs, for a total of $919,000. The net increase to expense is therefore $707,000, decreasing Washington net operating income by $460,000.

The first column on page 10, labeled "Pro Forma Cross Check Total," reflects the total natural gas revenue requirement for 2016 of $10,611,000 based on the use of restating and pro forma adjustments from the historical test year to the 2016 rate year. This revenue requirement can be compared or "cross checked" to the revenue requirement determined using the Attrition Study of $12,021,000, described below, shown at line 7 on page 1 of Exhibit No. ____(EMA-3), column (e).

Q. Please explain what is shown on page 10 of Exhibit No. ____(JSS-3).

A. The next column on page 10, labeled (4.06), **Reconcile Pro Forma To Attrition,** represents the difference ($1,410,000 revenue requirement) between the Pro Forma Cross Check Study and the Attrition Study. This adjustment records the increase in expense of $552,000, decreasing Washington net operating income by $284,000, and the increase in net rate base of $7,915,000 necessary to equate with the total level of attrition deficiency as determined by the Company's Attrition Study.

Q. Please summarize the purpose of the electric and natural gas Pro Forma Cross Check Studies.

A. The Company's electric and natural gas rate relief for 2016 requested in this case is based on the Company's electric and natural gas Attrition Study results. The purpose of the electric and natural gas Pro Forma Cross Check Studies is to provide a "cross check" to the reasonableness of the electric and natural gas Attrition Study as presented by Ms. Andrews. Furthermore, the Pro Forma Cross Check revenue requirements are reconciled to the Attrition Study revenue requirements in order to establish revenue, expenses and rate base numbers that can be used as inputs to the Company's cost of service studies prepared by Ms. Knox and Mr. Miller.

III. ALLOCATION PROCEDURES

Q. Have there been any changes to the Company's system and jurisdictional allocation procedures since the Company's last general electric and natural gas cases, Docket Nos. UE-140188 and UG-140189?

A. No. For ratemaking purposes, the Company allocates revenues, expenses and rate base between electric and gas services and between Washington, Idaho, and Oregon jurisdictions where electric and/or gas service is provided. The allocation factors used in this case, which are updated annually, have been provided with my workpapers.

IV. COMPLIANCE WITH PAST COMMISSION ORDERS

Q. Order No. 6, in Docket Nos. UE-110876 and UG-110877, required Avista to begin tracking its Washington general rate case expenses beginning in 2012. Please explain the Company's compliance with these requirements?

A. Effective January 1, 2012, Avista began separately accounting for all internal and external costs related to preparation, filing, and litigation of Washington general rate cases (GRCs), including but not limited to internal labor costs, administrative and production costs, and costs of outside services.

Costs associated with internal and external costs related to preparation and filing of the Washington electric and natural gas rate case for this filing to date, October through December 2014, totaled $152,000. Washington's electric share of these costs totaled approximately $126,000, whereas Washington natural gas totaled $27,000. Additional costs will be incurred during 2015 related to this current GRC. The internal portion of the expense included labor and expense of employees who directly assigned their time specifically to the Washington rate case.

Electric and natural gas GRC-related costs included in the Company's test period (October 1, 2013 through September 30, 2014) which are mostly related to the 2014 GRC, totaled approximately $892,000 for electric and $794,000 for natural gas. No additional GRC costs were pro formed in this case.

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

A. Yes, it does.