Service Date: December 23, 2024

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AVISTA CORPORATION, D/B/A AVISTA UTILITIES, Respondent.	DOCKETS UE-240006 & UG-240007 (Consolidated) **CORRECTED ORDER** ORDER 08 FINAL ORDER

SUMMARY

Synopsis: *The Commission rejects the tariff sheets filed by Avista Corporation, d/b/a Avista Utilities (Avista or the Company) on January 18, 2024, including the Company's proposed multi-year rate plan. The Commission, considering the full record, authorizes and requires Avista to file tariff sheets reflecting a two-year multi-year rate plan that will result in an increase in revenue of $11.882 million, or 2.01 percent in rate year 1 and approximately $44.4 million, or 7.51 percent in rate year 2 after adjusting for offsetting factors related to Colstrip, for its electric operations and an increase in revenue of approximately $14.2 million, or 11.15 percent in rate year 1 and approximately $4.0 million, or 2.81 percent in rate year 2, for its natural gas operations, in accordance with the decisions below*

The Commission adjusts the Company's return on equity to 9.80 percent and does not authorize a flotation cost adjustment. The Commission accepts Avista's cost of debt of 4.99 percent. The Commission accepts the Company's proposed capital structure and authorizes and sets rates with a capital structure of 48.5 percent equity, 51.5 percent debt. This results in a rate of return for Avista of 7.32 percent.

The Commission authorizes an increase or adjustment to the energy recovery mechanism baseline consistent with this Order to account for the increases in Washington's allocated share of power costs and transmission costs. While the Commission allows the power cost baseline to be reset in this proceeding, the Commission will continue to consider carefully

any future adjustments to the baseline and will change it only under extraordinary circumstances.

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BACKGROUND

1 **PROCEDURAL HISTORY.** On January 18, 2024, Avista Corporation d/b/a Avista Utilities (Avista or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its electric service tariff, Tariff WN U-28, and its natural gas service tariff, Tariff WN U-29 (Initial Filing).[1] Through these filings, Avista seeks to increase rates and charges for the electric and natural gas services the Company provides to its Washington customers.

2 Avista's Initial Filing proposes a rate of return of 7.61 percent (with 48.5 percent equity and a 10.40 percent return on equity). Avista proposes a Two-Year Rate Plan, which would begin with new base rates effective in December 2024 (Rate Year 1) and December 2025 (Rate Year 2).

3 For Rate Year 1, Avista proposes an increase to electric base revenue of $77.1 million, or 13.0 percent, and an increase to natural gas base revenue of $17.3 million, or 13.6 percent. For Rate Year 2, Avista proposes an increase to electric base revenue of $53.7 million, or 11.7 percent, and an increase to natural gas base revenue of $4.6 million, or 3.2 percent.

4 On January 31, 2024, the Commission entered Order 01 consolidating dockets UE-240006 and UG-240007, suspending the tariffs, and setting the matters for adjudication.

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[1] *WUTC v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-240006 & UG-240007 (*consolidated*), filed Revisions to Tariff WN U-28 (Electric) and Tariff WN U-29 (Natural Gas) (Jan. 18, 2024).

5 On February 20, 2024, the Commission convened a virtual prehearing conference before Administrative Law Judges James E. Brown II and Paige Doyle.

6 On February 27, 2024, the Commission entered Order 02 Prehearing Conference Order; Notice of Hearing, establishing the Procedural Schedule, granting petitions to intervene, and noticing an evidentiary hearing for September 30, 2024, continuing if needed to October 1, 2024. On the same day, the Commission entered Order 03, establishing a protective order.

7 On March 20, 2024, Commission staff (Staff) filed a Motion for Partial Summary Determination (Motion). In its Motion, Staff asked for summary determination that Avista's proposed portfolio forecast error adjustment, as included in Avista's proposed Tariff WN U-28, should not be incorporated into Avista's pro forma power cost adjustment, or its Energy Recovery Mechanism (ERM).2

8 On August 7, 2024, following extensive briefing by the parties, the Commission issued Order 07 Denying Staff's Motion For Partial Summary Determination (Order 07), Order 07 denied Staff's Motion because granting the motion would decide a substantial portion of the matter "without the benefit of a full proceeding where the testimony and evidence are examined" and cross-examined.3 Order 07 reiterated the importance of the Commission's discretion and having the ability to weigh the evidence, hear witness testimony, and ask questions of the parties so the Commission can reasonably balance the interests of the parties and issue a decision in the public interest.4

9 Beginning on September 30, 2024, the Commission held a two-day evidentiary hearing in this matter before the Commissioners, with Administrative Law Judges, James E. Brown II and Connor A. Thompson presiding.

10 The parties submitted initial and responsive briefs in the proceeding on October 28, 2024, and on November 12, 2024, Alliance of Western Energy Consumers (AWEC) filed a Motion to File a Limited Response to Public Counsel's Post-Hearing Brief.

11 **PARTY REPRESENTATIVES.** David Meyer, in-house counsel, represents Avista. Jeff Roberson, Josephine R. K. Strauss, Lisa Gafken, Nash Callaghan, Liam Weiland, and

[2] Dockets UE-240006 & UG-240007, Commission Staff's Motion for Partial Summary Determination (Motion) (Mar. 20, 2024).

[3] Dockets UE-240006 & UG-240007, Order 07, Denying Staff's Motion for Partial Summary Determination pg. 36 ¶ 105 (Aug. 7, 2024).

[4] Dockets UE-240006 & UG-240007, Order 07, pgs. 36-37 ¶¶ 103-07.

Colin O'Brien, Assistant Attorneys General, Olympia, Washington, represent Commission staff (Staff).[5] Tad Robinson O'Neill, Jessica Johanson-Kubin, and Robert Sykes, Assistant Attorneys General, Seattle, Washington, represent the Public Counsel Unit of the Attorney General's Office (Public Counsel). Tyler C. Pepple and Sommer J. Moser, of Davison Van Cleve, P.C., represent the Alliance of Western Energy Consumers (AWEC). Michael Goetz, in-house counsel, represents the Northwest Energy Coalition (NWEC). Yochi Zakai and Josh Kirmsse, of Shute, Mihaly & Weinberger LLP, represents The Energy Project (TEP). Gloria Smith, of Sierra Club Environmental Law Program, represents Sierra Club. Justina A. Caviglia represents Walmart, Inc (Walmart).

12 **COMMISSION DETERMINATIONS.** Based on the decisions we make in this Order, we authorize an increase in Avista's revenue requirement of $11.882 million, or 2.01 percent in rate year 1 and approximately $44.4 million, or 7.51 percent in rate year 2 after adjusting for offsetting factors related to Colstrip, for the Company's electric operations and an increase in revenue of approximately $14.2 million, or 11.15 percent in rate year 1 and approximately $4.0 million, or 2.81 percent in rate year 2, for its natural gas operations. Summaries of both the electric and natural gas revenue requirements are attached hereto at Appendix C (electric) and Appendix D (natural gas).

13 **PRELIMINARY MATTERS.** We note that on November 12, 2024, AWEC filed a Motion to File a Limited Response to Public Counsel's Post-Hearing Brief (Motion) along with a Limited Response to Public Counsel's Post-Hearing Brief (Response).[6] According to AWEC's Motion, the Limited Response addresses an alleged inaccuracy in Paragraph 132 of Public Counsel's Post-Hearing Brief. AWEC claims that it filed its response with the intent to ensure a clear evidentiary record. No other parties, including Public Counsel, filed an Answer to AWEC's Motion. Upon review and consideration, we grant AWEC's motion to ensures a clear and complete record in this proceeding.

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[5] In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. See RCW 34.05.455.

[6] Dockets UE-240006 & UG-240007, AWEC's Motion to File a Limited Response to Public Counsel's Post-Hearing Brief (Motion) (November 12, 2024).

MEMORANDUM

I. STANDARD OF REVIEW

- **Regulating in the public interest and determining equitable, fair, just, reasonable, and sufficient rates**

14 The Legislature has entrusted the Commission with broad discretion to determine rates for regulated industries. Pursuant to RCW 80.28.020, whenever the Commission finds after a hearing that the rates charged by a utility are "unjust, unreasonable, unjustly discriminatory or unduly preferential, or in any wise in violation of the provisions of the law, or that such rates or charges are insufficient to yield a reasonable compensation for the service rendered, the commission shall determine the just, reasonable, or sufficient rates, charges, regulations, practices or contracts to be thereafter observed and in force, and shall fix the same by order."[7]

15 As a general matter, the burden of proving that a proposed increase is just and reasonable is upon the public service company.[8] The burden of proving that the presently effective rates are unreasonable rests upon any party challenging those rates.[9]

16 More recently, in 2019, the Legislature expanded the traditional definition of the public interest standard. As Washington state transitions to a clean energy economy, the public interest includes: "The equitable distribution of energy benefits and reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-term public health, economic, and environmental benefits and the reduction of costs and risks; and energy security and resiliency."[10] In achieving these policies, "there should not be an increase in environmental health impacts to highly impacted communities."[11]

17 In 2021, the Legislature again expanded upon the public interest standard in the context of reviewing multiyear rate plans. RCW 80.28.425 provides that "[t]he commission's consideration of a proposal for a multiyear rate plan is subject to the same standards

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[7] *See also* RCW 80.01.040(3) (providing that the Commission shall "[r]egulate in the public interest").

[8] RCW 80.04.130(1).

[9] *WUTC v. Pacific Power and Light Company*, Cause No. U-76-18 (December 29, 1976) (internal citations omitted).

[10] RCW 19.405.010(6).

[11] *Id.*

applicable to other rate filings made under this title, including the public interest and fair, just, reasonable, and sufficient rates." The statute continues, "In determining the public interest, the commission may consider such factors including, but not limited to, environmental health and greenhouse gas emissions reductions, health and safety concerns, economic development, and equity, to the extent such factors affect the rates, services, and practices of a gas or electrical company regulated by the commission."[12]

18 Following the passage of RCW 80.28.425, the Commission indicated its commitment to considering equity while regulating in the public interest: "So that the Commission's decisions do not continue to contribute to ongoing systemic harms, we must apply an equity lens in all public interest considerations going forward."[13] The Commission also indicated that regulated companies should be prepared to address equity considerations in future cases: "Recognizing that no action is equity-neutral, regulated companies should inquire whether each proposed modification to their rates, practices, or operations corrects or perpetuates inequities."[14]

19 During general rate case proceedings, the Commission may determine the prudence of utility actions by reviewing whether the utility made reasonable business decisions in light of the facts and circumstances known or that reasonably should have been known to the utility at the time decisions were made.[15] What is reasonable requires assessment of choices made, in light of circumstances and possible alternatives, based on industry norms and practices.[16] Prudence does not require a single, ideal decision, but requires the utility to make a reasonable decision among a number of alternatives which the Commission might find prudent.[17]

DISCUSSION AND DECISION

II. CONTESTED ISSUES

CCA Costs/Inclusion of Costs in Dispatch

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[12] *Id.*

[13] *WUTC v. Cascade Natural Gas Corporation,* Docket UG-210755 Order 10 ¶ 58 (August 23, 2022).

[14] *Id.*

[15] *WUTC v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 12 at ¶ 19 (Apr. 7, 2004).

[16] *See*, *id.*

[17] *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG—090705 (*consolidated*), Order 11 at ¶ 337 (Apr. 2, 2010).

Avista's Direct Testimony

20 Company witness Kinney testifies that Avista has added significant work processes to both its power and natural gas supply departments to account for increased activity associated with CCA compliance.[18] Currently, this added CCA work has been performed by existing employees. However, Kinney states that this resource approach cannot be sustained as other critical work has been either delayed or not adequately supported.[19]

21 As such, Kinney states that the Company plans to hire four more positions in 2024 to support compliance with CCA. These include a Climate Compliance Manager, a CCA Portfolio Manager, an Energy Supply Analyst, and an Investment Program Manager.[20] The Company notes that it expects it will need to hire additional positions beyond these four as it continues to understand what it characterizes as the broad reaching effects of the CCA.[21]

22 Avista witness Kinney states that the CCA labor adjustment is the only pro forma adjustment in this case where the Company is seeking approval of incremental costs incurred to comply with CCA.[22]

23 Kinney testifies that its Pro Forma CCA Labor Expense adjustment reflects the incremental labor expense of four additional employees in 2024, totaling approximately $494,000 ($381,000 to electric and $113,000 to gas).[23] This adjustment decreases Net Operating Income (NOI) by $301,000 for electric and $89,000 for gas.[24]

24 The Company testifies that its strategy for natural gas decarbonization includes diversifying and transitioning from conventional fossil fuel natural gas to Renewable Natural Gas (RNG), hydrogen, other renewable fuels, and reducing consumption via conservation and energy efficiency.[25] Additionally, Avista testifies that it will purchase carbon offsets as necessary to meet the CCA compliance obligations.[26]

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[18] Kinney, SJK-1T at 9:3-4.

[19] Kinney, SJK-1T at 9:4-7.

[20] Kinney, SJK-1T at 9:7-9.

[21] Kinney, SJK-1T at 10:4-8.

[22] Kinney, SJK-1T at 10:18-20.

[23] Schultz, Exh.KJS-1T at 69:13-15.

[24] Schultz, Exh.KJS-1T at 70:1-2.

[25] Thackston, Exh. JRT-1T at 9:5-8.

[26] Thackston, Exh. JRT-1T at 9:9.

25 Avista contends that based on the CCA's cap-and-trade program's current allowance price range of $22-$82 USD, natural gas with a carbon offset or Renewable Thermal Credits (RTC) will continue to most cost effectively serve Washington customers.[27]

26 The Company also argues that in the short term, the best approach to recover CCA costs is to have them flow through a 95/5 Energy Recovery Mechanism (ERM) without deadbands.[28] Kinney states that allowing those CCA costs to flow through the ERM at 95/5 obligates the Company to pay 5 percent of anticipated CCA costs but avoid disagreements among parties over the magnitude of costs that cannot be known at this point.[29]

27 Kinney contends that requesting 100 percent recovery of CCA costs would be the fairest outcome and reflect the legislation's intent.[30] However, as part of an overall package to simplify the ERM and address increasing forecast costs, he states that the Company is offering this 95/5 split as a compromise.[31]

Staff's Response Testimony

28 Staff witness Erdahl testifies that Avista does not currently and, unless ordered by the Commission, does not plan to incorporate the cost of carbon allowances in future dispatch decision.[32]

29 Erdahl contends that the failure to include allowance costs in dispatch may result in polluting thermal units being dispatched too frequently, which creates equity concerns when those thermal units are located in or near vulnerable populations or highly impacted communities.[33] Erdahl identifies the Boulder Park facility and the Northeast Combustion Turbine as thermal units located within vulnerable population census areas, and the Kettle Falls Biomass Facility which is located within a highly impacted community (HIC).[34]

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[27] Thackston, Exh. JRT-1T at 9:12-15.

[28] Kinney, Exh. SJK-1T at 64:18-19.

[29] Kinney, Exh. SJK-1T at 64:19-20 and 65:1-2.

[30] Kinney, Exh. SJK-1T at 65:4-5.

[31] Kinney, Exh. SJK-1T at 65:6-9.

[32] Erdahl, Exh. BAE-1T at 21:16-17, 22:3-4.

[33] Erdahl, Exh. BAE-1T at 22:6-10.

[29] Erdahl, Exh. BAE-1T at 23:15-17.

30 She recommends that the Commission direct Avista to include the cost of carbon allowance instruments in its forecasting and day-to-day dispatch decisions.[35]

31 Erdahl notes that Puget Sound Energy (PSE) applies a CCA allowance instrument cost adder into costs associated with thermal fleet dispatch to supply secondary and wholesale market sales.[36]

32 Erdahl acknowledges that the inclusion of CCA allowance costs in dispatch decision could result in reduced dispatch of Avista's thermal resource under certain conditions, which could reduce the Company's wholesale and secondary sale revenues.[37] However, Erdahl emphasizes that several of Avista's thermal resources are located within vulnerable populations and highly impacted communities.[38]

33 Staff Witness Wilson testifies that it does not appear that Avista's carbon allowances are being tracked consistently with the CCA.[39] According to Wilson, in the Company's CCA Compliance Model, Avista expects that its no-cost allowances are intended to be used both for emissions associated with serving retail load and for emissions associated with wholesale sales whose revenues benefit its retail customers.[40]

34 However, Wilson states that this understanding is incorrect as Ecology allocated no-cost allowances to Avista based on its requirements to serve Washington retail load, and that Avista remains responsible for obtaining allowances for its wholesale load.[41]

35 To the extent that Avista is relying on the understanding that Ecology is allocating no-cost allowances to Avista for emissions associated with wholesale sales, Staff believes that such reliance is likely to lead to imprudent decisions.[42]

36 Wilson also contends that the Company has placed too much weight on Ecology's "true-up" mechanism.[43] According to Staff, Ecology has said that it anticipates that future

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[35] Erdahl, Exh. BAE-1T at 24:1-2.

[36] Erdahl, Exh. BAE-1T at 24:7-8.

[37] Erdahl, Exh. BAE-1T at 24:21-22 and at 25:1-2.

[38] Erdahl, Exh. BAE-1T at 25:6-9.

[39] Wilson, Exh. JDW-1TC at 17:5-6.

[40] Wilson, Exh. JDW-1TC at 17:6-10.

[41] Wilson, Exh. JDW-1TC at 17:11-17.

[42] Wilson, Exh. JDW-1TC at 17:18-20.

[43] Wilson, Exh. JDW-1TC at 20:7-9.

allocation decisions will be based on concepts such as the reasons for the difference between forecast and actual emissions as well as the expectation that allowance costs will be a factor in dispatch.[44] Given Ecology staff's statement that the true-up will not be one-for one, Staff witness Wilson emphasizes that Avista may need to purchase some allowances for its retail load and especially for its wholesale load, unless those loads are served by energy that does not incur a CCA compliance obligation.[45]

37 Wilson asserts that this strongly suggests that Avista should consider the price of carbon allowances in its dispatch decisions and, hence, in its Net Power Expense (NPE) forecast.[46]

38 Witness Wilson further opines that Avista's no-price dispatch approach puts its allocation of no cost allowances at risk. Given that Ecology is going to consider the reasons for any difference between allocated allowances and actual emissions, if Avista excludes the cost of carbon allowances from its dispatch decisions, Ecology staff will likely look unfavorably on a request to fully true-up Avista's allowances.[47]

39 Staff Witness Wilson testifies that a key complication for the Commission's review of the forecast and actual NPE is that Ecology's CCA compliance requirements do not occur at the end of each calendar year, but require partial and then final surrender of required allowances over a four-year compliance period.[48] Therefore, Wilson contends that the Commission must determine if it will expect Avista to record allowance costs to show compliance on an annual basis or not.[49]

40 If the Commission chooses to do so, then witness Wilson states that Avista's actual NPE would include the actual net cost of CCA allowance transactions in its annual NPE filing *and,* for any surplus or deficit in allowance transactions, Avista would determine an *additional* net cost on a mark-to-market basis.[50] According to Staff, this option would have at least two disadvantages:[51]

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[44] Wilson, Exh. JDW-1TC at 20:24-26, 21:1.

[45] Wilson, Exh. JDW-1TC at 21:7-10.

[46] Wilson, Exh. JDW-1TC at 21:11-12.

[47] Wilson, Exh. JDW-1TC at 21:13-17.

[48] Wilson, Exh. JDW-1TC at 23:3-7.

[49] Wilson, Exh. JDW-1TC at 23:7-9.

[50] Wilson, Exh. JDW-1TC at 23:10-13.

[51] Wilson, Exh. JDW-1TC at 23:13-16.

- The methods for pricing its unsold (or unpurchased) allowances would need to be developed; and
- Reviews and the resulting net value would need to be carried forward to subsequent years.

41 Wilson notes that this option would have the advantages of providing the Commission with a clear opportunity to review the prudence of Avista's transactions and pricing decisions.[52]

42 If the Commission does not require Avista to show compliance on an annual basis, then Avista could simply record its actual net transaction costs for the year and defer the valuation of any allowance surplus or deficit to the future.[53] Wilson notes that this option would be far more administrable and eliminate the need to develop a mark-to-market pricing method.[54]

43 However, since Avista would only encounter a compliance date at which it is required to fully account for its emissions by surrendering allowances every four years, Wilson identifies that the Commission could find it more challenging to review the prudence of Avista's transactions and pricing decisions.[55]

44 Wilson believes that the Commission will find it most efficient to review the prudence of Avista's CCA allowance use and transactions in annual NPE review proceedings due to the Commission every year.[56]

45 Accordingly, Staff argues that in future NPE proceedings, Avista should demonstrate that throughout each reporting year, it has identified an appropriate carbon allowance price and that its unit dispatch and power purchase decisions were prudent, which should include a clear demonstration that those decisions were consistent with its current estimate of the carbon allowance price.[57] Wilson also argues that in future NPE proceedings, Avista will also need to demonstrate that its purchase or sale of allowances is prudent.[58]

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[52] Wilson, Exh. JDW-1TC at 23:16-18.

[53] Wilson, Exh. JDW-1TC at 23:19-20.

[54] Wilson, Exh. JDW-1TC at 23:20-22.

[55] Wilson, Exh. JDW-1TC at 23:22-23, 24:1-3.

[56] Wilson, Exh. JDW-1TC at 24:16-17.

[57] Wilson, Exh. JDW-1TC at 24:22-25:3.

[58] Wilson, Exh. JDW-1TC at 25:4-5.

46 Wilson also suggests the following five factors for the Commission to weigh when determining how to review the prudence of CCA use and transactions:[59]

- Administrative simplicity;
- Necessity of reviewing the allowance price and other factors that should be considered in unit dispatch and power purchase decisions during the annual NPE proceeding;
- Consideration that decisions to transact (or not transact) in the carbon market and carbon auctions depend on the reasonableness of the carbon price estimate and carbon price forecast as it existed during the year;
- Consideration that it is preferable to account for the costs (or benefits) resulting from decisions to transact (or not transact) in the year in which those transactions affect NPE (using mark-to-market valuations for unused allowances, as discussed above); and
- Consideration that it will be easier to review the reasonableness of a utility's carbon price forecasting method after that method is exposed to a variety of real-world circumstances, which may take several years to manifest.

47 While Avista has not estimated CCA costs, Wilson states that in response to a data request[60], Avista provided an illustration of how CCA costs might affect the ERM. In its illustration, Avista suggests that a "bad case, representing approximately a 25% overrun of current (2023) allowance grant levels" would result in an annual cost of as much as $30 million.[61]

48 Witness Wilson recommends that the Commission direct Avista to include CCA allowance costs in the dispatch of its thermal generation plants, whether to serve customer load or to sell electricity into the wholesale market. Wilson opines that Avista should then offset the allowance costs for its retail customer load with no-cost allowances.[62]

49 Wilson also believes that it is most appropriate for the prudence of allowance costs to be reviewed in each utility's respective NPE true-up proceeding —in Avista's case, its annual ERM proceeding.[63]

AWEC's Cross-Answering Testimony

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[59] Wilson, Exh. JDW-1TC at 25:12-27 and at 26:1-3.

[60] See Staff DR-171 Supplemental.

[61] Wilson, Exh. JDW-1TC at 27:12-16; *see also* JDW-11 Avista's Response to DR No. 171.

[62] Wilson, Exh. JDW-1TC at 31:19-22.

[63] Wilson, Exh. JDW-1TC at 32:12-14.

50 AWEC Witness Mullins contends that the decision for how to respond to the uncertainty in the rule is best made by Avista, not the Commission. He states that it is appropriate for Avista to take on the risk of a prudence disallowance if it is not appropriately considering CCA allowance costs in dispatch (both for operations and forecast NPE) or incorrectly interpreting guidance or regulations from Department of Ecology ("Ecology").[64] Mullins recommends that the Commission not adopt a prescriptive approach as advocated by Staff in this case.[65]

51 Mullins also states that the impacts of including CCA costs in plant dispatch may produce different impacts for differing customer classes.[66]

52 He also expressed concerns about the Commission committing at this time to undertake a prudence review on an annual basis as part of Avista's ERM.[67] Since the CCA has four-year compliance periods, Mullins argues that it is not clear what the benefits of annual prudence reviews would be if performed within compliance periods,[68] and that committing to annual prudence reviews now may create different compliance incentives that ultimately put upward pressure on rates.[69]

53 Mullins recommends that the Commission not direct Avista to alter its modeling of CCA costs in the net power supply expense baseline in this case.[70] Mullins also recommends that the Commission not commit to the process and venue for a prudence review of Avista's CCA costs at this time.[71] Finally, Mullins recommends that the Commission not impose any obligations on Avista with regards to the way that it operates its system and with regard to participation in the carbon allowance market at this time.[72]

Public Counsel's Cross-Answering Testimony

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[64] Mullins, Exh. BGM-8T at 10:5-9.

[65] Mullins, Exh. BGM-8T at 10:10-11.

[66] Mullins, Exh. BGM-8T at 11:2-3.

[67] Mullins, Exh. BGM-8T at 11:13-15.

[68] Mullins, Exh. BGM-8T at 11:16-18.

[69] Mullins, Exh. BGM-8T at 11:18-20.

[70] Mullins, Exh. BGM-8T at 12:21-22.

[71] Mullins, Exh. BGM-8T at 13:9-10.

[72] Mullins, Exh. BGM-8T at 13:11-14.

54 Public Counsel Witness Earle argues that while review of CCA allowance costs in the annual ERM review may be useful to provide guardrails, full determination of prudency cannot be reasonably determined until the compliance period and 10-month balancing period is over.[73] He says the Commission should only provide a final determination of prudency after the four-year compliance period and 10-month balancing period is over.[74]

Staff's Cross-Answering Testimony

55 Staff witness Wilson contends that considering the basic economics, it is cost-efficient for Avista and other Washington utilities to include the cost of CCA allowances in their dispatch decisions.[75]

56 Additionally, Wilson testifies that Avista's modeling found that including a CCA allowance price of $71.15 per ton resulted in a net increase of $73,333,559 in power costs.[76]

57 Wilson argues that a $71.15-per-ton allowance price is not representative of recent market prices.[77] He states that a recent forward market price for CCA allowances was $38.09 per ton, which traded at about $38 per ton according to the Intercontinental Exchange (ICE) forward price for December 2025 from August 1, 2024.[78] Using this price, Staff forecasts a CCA allowance cost of $43.1 million.[79]

58 Wilson contends that if Avista dispatches its system using a market price for CCA allowances, its 2025 emissions are forecast to be reduced by 18 percent relative to its proposal.[80]

Avista's Rebuttal Testimony

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[73] Earle, Exh. RLE-17T at 6:1-3.

[74] Earle, Exh. RLE-17T at 6:4-5.

[75] Wilson, Exh. JDW-24CTr at 14:2-4.

[76] Wilson, Exh. JDW-24CTr at 9:1-2.

[77] Wilson, Exh. JDW-24CTr at 10:14-15.

[78] Wilson, Exh. JDW-24CTr at 13:1-3.

[79] Wilson, Exh. JDW-24CTr at 12:2-3.

[80] Wilson, Exh. JDW-24CTr at 13:4-5.

59 Company Witness Kinney disagrees with Staff's recommendation that it include CCA allowance costs in thermal plants dispatch.[81] Kinney states that there is no requirement for Avista to include carbon prices and emission allowance obligation in all unit dispatch and power supply decisions.[82]

60 To help illustrate the impact of including CCA allowance costs in thermal plant dispatch is, the Company ran a scenario based on its original filing. The result was a $73.3 million (system) increase (42%) in NPE, caused by lower surplus sales and additional market purchases to serve load in cases where the "phantom" carbon cost prevents dispatching lower-cost generation.[83]

61 Kinney asserts that including CCA costs in dispatch would require base rates requested in this proceeding to be substantially increased and lists the following arguments against its inclusion:[84]

- The CCA does not require carbon to be added to dispatch, which is an operational decision;
- The Commission has not provided any policy and direction to include carbon in dispatch decisions;
- As illustrated in the modeled scenario, adding the price of carbon could add $73.3 million (system) to the annual NPE;
- The Department of Ecology has not finalized the true-up mechanism, and Avista expects it could be granted no-cost allowances covering wholesale transactions made on behalf of customers; and
- Even if Avista is not given no-cost allowances for wholesale transactions, the Company has multiple ways to mitigate allowance requirements associated with these sales.

62 Kinney contends that it would be imprudent to add the cost of carbon in Avista's resource dispatch resulting in $73.3 million (system) of additional cost to customers.[85] Additionally, Company witness Kinney asserts that adding a carbon price to thermal resource dispatch

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[81] Kinney, Exh. SJK-17T at 30:21-22 and at 31:1.

[82] Kinney, Exh. SJK-17T at 31:5-6.

[83] Kinney, Exh. SJK-17T at 31:18-22.

[84] Kinney, Exh. SJK-17T at 32:12-22 and at 33:2-4.

[85] Kinney, Exh. SJK-17T at 33:17-19.

reduces wholesale revenue to Idaho customers not obligated to meet CCA compliance and who do not receive no-cost allowance grants from the Department of Ecology.[86]

63 Kinney testifies that absent publicly available guidance, it remains unclear if the Department of Ecology will essentially "claw back" or withhold a commensurate number of allowances in future distribution allocations as part of the true-up process. As such, it is just as plausible for Avista to assume the true up mechanism will apply to wholesale market transactions (in effect a "one-for-one" application) as it is to assume it will not.[87]

64 Kinney also argues that contrary to the statement by Staff Witness Wilson, Avista's view of allowance costs is correct – namely, that the CCA is not intended to be the primary means of carbon reduction for electric customers.[88] While Wilson suggests engaging in auctions or bilateral markets to counter the impacts of reduced sales. Kinney contends that there are no statutory or regulatory requirements for utilities to sell their no-cost allowances in at least the initial two compliance periods, to do so may be premature.[89]

65 Regarding the necessity of prudency reviews, Kinney states that if the Company incurs any costs associated with the purchase of CCA allowances to cover the emissions associated with wholesale transactions, those costs will flow through Account 509 in the ERM.[90] FERC accounting requires that all costs and benefits associated with a single transaction must be recorded during the same period and should be recovered (or passed back to customers) at the same time.[91] Thus, Kinney argues this necessitates the need to evaluate the prudency of certain costs and benefits associated with the CCA in the annual ERM filing, but only when it has incurred CCA allowance costs.[92]

66 Kinney contends that it makes sense for the prudence review of procuring allowances for natural gas local distribution company (LDC)-related emissions to occur at the end of the compliance period because of the requirements to consign no-cost allowances and turn in 30 percent of current year vintage allowances annually, and because natural gas companies must procure significant allowances to cover emissions.[93] However, the Company argues

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[86] Kinney, Exh. SJK-17T at 34:1-3.

[87] Kinney, Exh. SJK-17T at 35:7-11.

[88] Kinney, Exh. SJK-17T at 35:19-21.

[89] Kinney, Exh. SJK-17T at 37:8-11.

[90] Kinney, Exh. SJK-17T at 40:13-15.

[91] Kinney, Exh. SJK-17T at 40:15-18.

[92] Kinney, Exh. SJK-17T at 40:18-20.

[93] Kinney, Exh. SJK-17T at 41:1-4.

that prudence of CCA purchases on the electric side likely will need to be reviewed both annually and then in totality after the 4-year compliance period due to the lag between forecasted and actual emissions.[94]

Parties' Briefs

Avista

67 In its post-hearing brief, the Company maintains its position that CCA allowance costs should not be included in thermal plant dispatch. To do otherwise, Avista argues would be to require something that was contained in a retracted Policy Statement and is not well understood, but could result in increased power costs of $73.3 million, or a 42 percent increase to NPE.[95]

Staff

68 In its post-hearing brief, Staff reiterates its position that the costs associated with the CCA should be reviewed annually to ensure prudent management and that CCA costs should be included in dispatch decisions as it pertains to meeting Washington retail load.[96]

69 Regarding annual reviews, Staff notes that despite Public Counsel and AWEC disagreeing with Staff's proposal, Public Counsel witness Earle acknowledges annual reviews might be useful to guard against overruns and AWEC witness Mullins admits there is uncertainty about overruns until the end of the compliance period.[97] This uncertainty, Staff states is the exact reason there should be annual reviews coinciding with review of power costs, which will avoid rate shock to customers and ensure prudent management of costs.

70 For inclusion of CCA costs in dispatch, Staff argues that the economic benefits of thermal dispatch should not be overstated and the risk of emissions exceeding no-cost allowances, resulting in higher costs, "outweigh the lower surplus sales revenues that will result from excluding CCA costs."[98] Staff counters arguments from Avista against inclusion of CCA costs, stating that Avista will still be able to market thermal resources into states such as

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[94] Kinney, Exh. SJK-17T at 41:9-11.

[95] *WUTC v. Avista Corp.*, Dockets 240006 & 240007, Avista's Post-Hearing Brief ¶¶ 91-92 (Oct. 28, 2024) (Avista's Post-Hearing Brief).

[96] *WUTC v. Avista Corp.*, Dockets 240006 & 240007, Staff's Post-Hearing Brief ¶ 88 (Oct. 28, 2024) (Staff's Post-Hearing Brief).

[97] Staff's Post-Hearing Brief, at ¶¶ 94-95.

[98] Staff's Post-Hearing Brief, at ¶ 96.

Oregon, which do not require CCA compliance, excluding the CCA adder.[99] Staff also notes that Avista's arguments regarding wheeling thermal power into Washington ignore Ecology's rules on the issue, which would still require Avista, as the "first jurisdictional deliverer" to hold the compliance obligation.[100]

71 In response to AWEC's criticism of including CCA costs in dispatch, Staff argues that the Commission has a duty to regulate rates and that necessitates consideration of CCA costs, despite witness Mullins assertion that the Commission should not enforce CCA compliance.[101] Further, Staff takes issue with witness Mullins example of Coyote Springs dispatch decisions being binary, that is either to dispatch Coyote Springs or buy unspecified power, which also has a compliance obligation. Staff argues that this is an oversimplification, and in fact, power is available that is bundled with renewable energy certificates, and that not including CCA costs in dispatch favors thermal dispatch of Avista assets like Coyote Springs because CCA costs would need to be assigned to unspecified wholesale power.[102]

Public Counsel

72 Public Counsel opposes Staff's recommendation to review CCA allowance costs annually for prudence. Public Counsel specifically argues that "the four year and 10-month CCA compliance period does not align with an annual review process" and would be better addressed on an interim basis during GRCs and ultimately decided at the conclusion of the compliance period.[103]

AWEC

73 In its post-hearing brief, AWEC argues against including CCA costs in dispatch because it will increase the amount actually paid by customers based on a forecast of CCA costs and does not in any way impact Avista's operations or ability to comply with the CCA.[104]

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[99] Staff's Post-Hearing Brief, at ¶ 97.

[100] Staff's Post-Hearing Brief, at ¶ 98.

[101] Staff's Post-Hearing Brief, at ¶ 99.

[102] Staff's Post-Hearing Brief, at ¶ 100.

[103] *WUTC v. Avista Corp.*, Dockets 240006 & 240007, Public Counsel's Post-Hearing Brief ¶ 77 (Oct. 28, 2024) (Public Counsel's Brief).

[104] *WUTC v. Avista Corp.*, Dockets 240006 & 240007, AWEC's Post-Hearing Brief ¶ 31 (Oct. 28, 2024) (AWEC's Post-Hearing Brief).

74 Further AWEC argues there is no statute, rule, or formal requirement mandating inclusion of CCA costs in dispatch for retail or wholesale sales when forecasting NPE, and the Ecology guidance on a true-up mechanism that Staff points to for support of its position is not finalized.[105]

75 AWEC also argues that Staff's proposal needlessly shifts CCA compliance risks from shareholders to customers, arguing that Staff's proposal artificially imposes a "bad case" compliance obligation on customers prior to Avista incurring those costs and a Commission prudence determination.[106] AWEC also points out that Staff's position is inconsistent with other dockets and that if the Commission is to set a policy, it should be done in Docket U-230161 so that policy and implementation is consistent for all regulated utilities.[107] AWEC argues the same concerns over shifting costs to customers and uncertainty from Ecology should weigh against inclusion of forecast CCA costs in wholesale sales transactions in NPE.[108]

76 Finally, AWEC argues the Commission should refrain from conducting an annual review and prudence determination of CCA costs because of the uncertainty from Ecology and because the law includes a four-year compliance period.[109]

Decision

77 The Commission recognizes the gravity of the need to meet the goals as outlined in the CCA and the Clean Energy Transformation Act (CETA). The emissions reductions required by Washington law creates a situation where Washington's regulated utilities are faced with being first movers on decarbonization compared to most utilities across the country, a place utilities are often uncomfortable being in. This is all happening in a time when technologies and emissions reduction techniques are rapidly improving and being developed. Additionally, as the parties seem to agree, compliance and enforcement rules, policies, and guidance from Ecology and the Commission are still being developed, and when combined with the statutory compliance period of four years, there is still uncertainty in how utilities will comply with the law and how they might achieve their statutorily required goals.

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[105] AWEC's Post-Hearing Brief, at ¶ 35.

[106] AWEC's Post-Hearing Brief, at ¶¶ 38-39.

[107] AWEC's Post-Hearing Brief, at ¶¶ 40-42.

[108] AWEC's Post-Hearing Brief, at ¶¶ 43-47.

[109] AWEC's Post-Hearing Brief, at ¶ 48.

78 Due to this uncertainty, the Commission finds it prudent to carefully address the issues presented by the parties. The Commission is faced with a seemingly precarious balance to maintain, ensuring that the Commission fulfills its duties to regulate rates in the public interest, provide guidance for the regulated community, and retain flexibility for the Commission and the regulated community to achieve ultimate CCA compliance. All of this must be done in a way that achieves the mandates of CCA and CETA, while maintaining affordable and reliable service.

79 In balancing these interests, the Commission must make decisions based on the record before it. Public Counsel and AWEC oppose annual review and prudence determinations of the CCA costs, arguing that an annual prudence determination is impractical due to the four-year compliance period plus ten months in which the utilities must comply with allowance submission requirements.[110] We agree.

80 RCW 70A.65.120 and 70A.65.130 discuss the allocation of allowances to both electric and natural gas investor-owned utilities, respectively. RCW 70A.65.200 discusses penalties and enforcement. All three sections reference and frame compliance, allowance allocations, and penalty enforcement around the "compliance obligation" and "compliance period." RCW 70A.65.020(19) defines "compliance obligation" to mean "the requirement to submit to the department the number of compliance instruments equivalent to a covered or opt-in entity's covered emissions during the compliance period." RCW 70A.65.020(20) defines "compliance period" to mean "the four-year period for which the compliance obligation is calculated for covered utilities."

81 Given the structure of the CCA, and the timing of the "compliance obligation" which may significantly impact a utility company's cost of compliance and subsequent penalties, we find that the costs are unlikely to be known and measurable with finality until the "compliance obligation" date. Said differently, the Commission finds it would be premature to conduct prudence reviews of CCA costs and compliance on an annual basis. To do otherwise may result in the Commission wrongly predetermining prudence when decisions later turn out to be imprudent, or imprudent when they later appear prudent. This may inappropriately shift costs to customers before final compliance obligations are known. Moving forward, as the first compliance period comes to a close, and the rules surrounding compliance become more developed, the Commission may be able to perform more frequent reviews in later compliance periods, but at this time finds the potential perils of annual compliance reviews outweigh the benefits put forward by Staff.

82 Despite our decision to decline annual prudence reviews at this time, Staff's arguments and witness Wilson's five factors presented for consideration do weigh in favor of

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[110] *See, e.g.*, Earle, Exh. RLE-17T at 5:13-19.

increased scrutiny of CCA costs on an annual basis.[111] While the compliance obligation may not be final until the end of the compliance period, Avista and others are making decisions now which will undoubtedly impact the costs Washingtonians will ultimately face at the conclusion of the current compliance period. Wilson's first and second factors are particularly persuasive in outlining just two of many decision points the Commission feels should be addressed annually.

83 Accordingly, the Commission finds that during Avista's annual submission of updates to its CCA tracker tariff, the Company shall submit and present information pertaining to where CCA costs are being included in decision making to include, but not limited to Integrated Resource Plans (IRPs), Clean Energy Implementation Plans (CEIPs), dispatch, power purchase, carbon market transactions, and capital projects. This annual report will be addressed and acknowledged through the Open Meeting process and will help the Commission assess a utility's progress and decision making leading up to the Commission's prudency determination at the conclusion of the compliance period.

84 Aside from recommending an annual prudence review as part of the ERM filing, Staff also recommends the Commission require Avista to account for CCA costs in dispatch. Specifically, Wilson recommends adjusting the ERM to account for CCA costs by adding $21,591,885 to account for CCA allowance prices in dispatch and market purchases and $43,128,017 to account for CCA allowance costs for market sales.[112] The adjustments are calculated using a $38.09 per ton allowance price multiplied by emissions.

85 While the Commission sees merit to Staff's approach, we are concerned that the proposal is not fully developed and would result in disparate treatment with the approaches taken with other utilities. These concerns are described by AWEC in their post-hearing brief.[113] Further, the price point used for calculating CCA costs remains a point of contention between the parties. At this time the Commission notes that there is a lack of trading data on which the Commission can reasonably rely to determine a single price point for CCA allowances for inclusion in dispatch decisions, considering that the price of CCA allowances will change multiple times annually. Accordingly, we decline to require CCA allowance prices and costs in dispatch, market purchases, and market sales at this time.

86 The Commission finds that CCA allowance prices and costs in dispatch, market purchases, and market sales, and the Commission's policy surrounding their inclusion in NPE, should be addressed in Docket U-230161 so that policy and implementation is consistent for all

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[111] Wilson, Exh. JDW-1TCr at 25:4-26:9.

[112] Wilson, Exh. JDW-24CT at 7 (Table 1).

[113] AWEC's Post-Hearing Brief, at ¶¶ 38-47.

regulated utilities, and each impacted utility has an opportunity to comment on the issue. However, regulated utilities should consider accounting for the prices and costs as proposed by Staff. The Commission will continue to monitor how Avista and others are addressing CCA compliance in their decision making moving forward and will ultimately determine whether their actions were prudent when Avista seeks cost recovery and a prudence determination of CCA costs. Further, Avista and other regulated utilities will need to demonstrate the impacts of the CCA on their decisions including dispatch, market purchases, and market sales moving forward. We expect the utilities will continue to develop compliance strategies in response to the adoption of rules and guidance established by Ecology and the Commission, as we collectively move towards meeting the mandates of both the CCA and CETA.

Energy Recovery Mechanism/Net Power Expenses

Avista – Direct Testimony

87 Avista's proposed authorized NPE and revenue in its initial filing is $112.8 million for RY1 and $146.4 million for RY2 (Washington-basis).[114] Company witness Kalich provides a list of non-modeled NPE items in Exhibit CGK-3, which includes the Forecast Error Adjustment of $65.8 million, as well as miscellaneous fuel, transmission, and other costs related to power supply.[115] Kalich also notes that forecast NPE rises significantly in RY2, approximately $89 million, due to the removal of Colstrip coal-fired generation Units 3 and 4 from Avista's portfolio. This increase is partially offset by a $35 million decrease in depreciation and fixed O&M costs.[116]

ERM

88 Beyond the increase to NPE, the Company also proposes modifying its Energy Recovery mechanism, or ERM, by moving to a single 95% customer / 5% Company (95/5) sharing level applied to the entire difference between actual and authorized power supply costs[117] as well as eliminating the deadbands.[118] The Company cites Forecast Error, Regional Resource Adequacy, Lack of Market Liquidity, Carbon Emission Policy, and Changing

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[114] Kalich, Exh. CGK-1T at 31:9-20.

[115] Kalich, Exh. CGK-1T at 23:20-24:6.

[116] Kalich, Exh. CGK-1T at 14:23-15:10.

[117] Kinney, Exh. SJK-1T at 50:3-5.

[118] Kinney, Exh. SJK-1T at 50:9.

Market Dynamics as the reasons for making their recommended changes to the ERM and deadbands.[119]

89 The ERM and deadbands are currently structured as follows:

Table 1: ERM and deadbands

	Power Supply Costs in Rate Bases
Surcharge (Power costs higher than authorized)	First $4M absorbed by AVA
	Next $6M, 50/50 split between customers and AVA
	Over $10M, 90/10 split between customers and AVA
$0	
Rebate (Power costs lower than authorized)	First $4M absorbed by AVA
	Next $6M, 50/50 split between customers and AVA
	Over $10M, 90/10 split between customers and AVA

90 Company Witness Kinney argues that deadbands skew risks in favor of one party or the other, are not an industry standard, and focus utility rate proceedings on power supply expense deadband management instead of overall costs estimation.[120] He further contends that for deadbands to be beneficial, two criteria must be met at minimum:

- The Company has the opportunity for actions resulting in significant cost reductions and the commensurate benefits of the deadband, and
- The net power cost forecast must be accurate and without significant error.[121]

91 Kinney argues that neither criteria is currently met, leaving risk unshared and one party benefiting at the expense of the other.[122]

92 While forecast error has always existed, Kinney argues that new Company analysis prepared for this filing demonstrates that power supply costs cannot be forecasted accurately for reasons outside of utility control.[123]

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[119] Kinney, Exh. SJK-1T at 50:11-34.

[120] Kinney, Exh. SJK-1T at 53:7-9.

[121] Kinney, Exh. SJK-1T at 53:9-13.

[122] Kinney, Exh. SJK-1T at 53:13-16.

[123] Kinney, Exh. SJK-1T at 54:6-8.

93 Regarding the Forecast Error Adjustment, Kinney claims that due to volatile market conditions, the Company is incapable of forecasting power supply costs accurately, and therefore managing the forecast error is outside of the Company's control.[124] Kinney further testifies that though NPE forecast error has always been present, forecasts continue to get worse with new and "nearly impossible to predict" variables,[125] such as the implied market heat rate,[126] rising market volatility,[127] falling market liquidity,[128] the CCA,[129] and the increasing value of Avista's thermal generation fleet.[130]

94 The Company further argues that a shift to a 95/5 split would benefit customers as looking at individual years of history, customers would have benefitted with the 95/5 approach in nine of twelve years, or 75 percent of the time.[131]

95 Beyond the significant forecasting error, Kinney argues that the Commission should re-consider the removal of deadbands, despite rejecting this request in 2012, due to the uncertainty caused by CCA regulations.[132] The Company considered including a CCA cost estimate in a pro forma adjustment but decided against it because of uncertainty in the implementation and impacts of the CCA.[133] Kinney contends that depending on Commission guidance, the Company may have to include carbon costs in its dispatching decisions, which the Company argues would increase NPE by tens of millions of dollars.[134] Kinney argues that not including this estimate could harm the company if deadbands remain.[135] Kinney also notes that had the Company included an estimate in its NPE and thus overstated its cost, customers would be harmed by the first $4 million flowing directly to the Company in the first deadband, and another $1.5 million through the 50/50 sharing band.[136]

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[124] Kinney, Exh. SJK-1T at 50:11-15.

[125] Kinney, Exh. SJK-1T at 54:2-9.

[126] Kinney, Exh. SJK-1T at 58:6-60:3.

[127] Kinney, Exh. SJK-1T at 60:14-62:8.

[128] Kinney, Exh. SJK-1T at 62:9-63:2.

[129] Kinney, Exh. SJK-1T at 64:3-65:9.

[130] Kinney, Exh. SJK-1T at 69:15-71:14.

[131] Kinney, Exh. SJK-1T at 54:22-23.

[132] Kinney, Exh. SJK-1T at 56:8-10.

[133] Kinney, Exh. SJK-1T at 56:11-12.

[134] Kinney, Exh. SJK-1T at 56: 15-17.

[135] Kinney, Exh. SJK-1T at 56:17-19.

[136] Kinney, Exh. SJK-1T at 56:19-22.

96 According to the Company, throughout the history of the ERM, sharing bands were a means to distribute the impacts of varying electric and natural gas prices, along with hydro variability risk. When the Company's thermal fleet had an expected annual value of $30 to $50 million, even 10 to 20 percent error resulted in costs falling within the deadbands. However, with today's annual thermal fleet value estimated at $500 million, that same 10 to 20 percent error becomes multiples of the deadbands and overwhelms Company efforts to reduce costs.[137]

97 Kinney asserts that because of a lack of liquidity and the much higher expense of margin calls to hedge forward transactions, hedging in the forward markets to lock in projected value no longer is an option for most of Avista's business.[138] He further argues that being unable to capture forward resource value results in the Company taking more of the financial risk with the current ERM deadbands and recovery structure.[139]

98 The Company argues that in the short term, the best approach to recover CCA costs is to have them flow through a 95/5 ERM without deadbands.[140] Kinney states that allowing those CCA costs to flow through the ERM at a sharing level of 95/5 obligates the Company to pay 5 percent of anticipated CCA costs but avoids disagreements between parties over the magnitude of costs that cannot be known at this point.[141]

99 Kinney contends that requesting 100 percent recovery of CCA costs would be the fairest outcome and reflect the legislation's intent.[142] However, as part of an overall package to simplify the ERM and address increasing forecast costs, he states that the Company is offering this compromise.[143]

100 Avista also notes that while the transformation to new markets creates efficiencies and lower NPE, it also reduces the Company's ability to affect costs.[144] Thus, when the

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[137] Kinney, Exh. SJK-1T at 60:17-21, 61:1.

[138] Kinney, Exh. SJK-1T at 62:19-21.

[139] Kinney, Exh. SJK-1T at 62:22-23, 63:1-2.

[140] Kinney, Exh. SJK-1T at 64:18-19.

[141] Kinney, Exh. SJK-1T at 64:19-20 and 65:1-2.

[142] Kinney, Exh. SJK-1T at 65:4-5.

[143] Kinney, Exh. SJK-1T at 65:6-9.

[144] Kinney, Exh. SJK-1T at 65:11-16.

benefits of new markets are reflected in power supply modeling, as is currently the case, it is reasonable to remove deadbands.[145]

101 The Company also argues that the existing deadbands were identified as a significant credit weakness, and that the ERM's current design disadvantages Avista compared to other regional utilities.[146]

Colstrip

102 Regarding Colstrip, the Company includes Colstrip's net power supply costs in Pro Forma Power Supply Adjustment 3.00P and the ERM baseline in RY1. The breakdown of Washington's Electric RY2 revenue requirement without Colstrip can be seen in Table 2.[147]

Table 2: Washington Electric RY2 revenue requirement – Colstrip Offset

Breakdown of Washington Electric RY2 Revenue Requirement ($000s)		
Net Expense/Capital Investment Increase	$	18,618
Colstrip Power Supply Increase	$	59,512
Subtotal - Base Rate Increase	$	78,130
Schedule 99 Colstrip Tracker Reduction	$	(24,419)
Overall Bill Impact	**$**	**53,711**

EIM Benefits

103 Finally, Avista witness Kalich details the methodology the Company uses to quantify the value gained from participation in the intra-hour Energy Imbalance Market (EIM)[148]

[145] Kinney, Exh. SJK-1T at 65:17-20.

[146] McKenzie, Exh. AMM-1T at 18:11-14.

[147] Andrews, Exh. EMA-1T at 6:15-8:21

[148] The acronyms EIM and WEIM are used interchangeably by the parties throughout their testimony and briefs. They appear as used by the parties throughout their filings.

offered by CAISO, developed with the help of consulting firm Borismetrics.[149] Kalich states that Avista has determined an EIM system benefit of $5.5 million in 2025.[150]

Staff's Response Testimony

ERM

104 Staff Witness Wilson testifies that Staff is unconvinced that the current sharing/deadband schedules provide the Company with material incentives that affect its current resource decisions.[151] Wilson further testifies that considering both base rates and NPE, the cost-effectiveness of Avista's wind and hydropower procurements could easily have a more substantial rate impact than the natural gas plants. However, he does acknowledge that once procured, any impacts of wind and hydropower on NPE are largely indirect and outside a utility's control.[152]

105 Staff contends that in the PacifiCorp order, the Commission pointed out that the effect of the sharing/deadband schedules is to insulate customers from cost increases and provide a balancing effect between years in which power costs are under- or over-forecast.[153] Staff agrees that this is a reasonable policy position to take and gives it strong deference.[154]

106 Staff recommends simplifying the current sharing portion of the mechanism to a symmetric 90/10 sharing.[155] Staff asserts that this ratio equitably shares risk between customers and Avista, while continuing to provide the Company with a reasonable incentive to manage or control power costs.[156]

107 Additionally, with respect to the deadband, Staff recommends reducing the deadband from $4 million to $3 million.[157] The Commission retained the $4 million deadband in the

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[149] Kalich, Exh. CGK-1T at 4:14-14:7. The detail provided by Kalich in direct testimony does not specifically pertain to arguments made in response by intervening parties, since those arguments consider what is absent from the analysis.

[150] Kalich, Exh. CGK-1T at 13:14-14:7.

[151] Wilson, Exh. JDW-1TC at 35:19-21.

[152] Wilson, Exh. JDW-1TC at 36:1-5.

[153] Wilson, Exh. JDW-1TC at 36:8-11.

[154] Wilson, Exh. JDW-1TC at 36:11-12.

[155] Wilson, Exh. JDW-1TC at 37:3-4.

[156] Wilson, Exh. JDW-1TC at 37:4-6.

[157] Wilson, Exh. JDW-1TC at 37:7-8.

PacifiCorp case, which is approximately 2 percent of its net power costs.[158] Since Avista's proposed NPE is much smaller than that of PacifiCorp, Staff finds it inequitable to expose Avista to a relatively larger deadband risk.[159]

Forecast Error Adjustment

108 Staff witness Wilson recommends that the Commission reject Avista's proposed Forecast Error Adjustment as not justified.[160] Wilson describes the Forecast Error Adjustment as a pre-payment of revenue requirement that Avista expects based on historical NPE trends but is not itself an expense.[161] Wilson argues that "Avista is proposing to include in its NPE forecast recovery of a revenue requirement that does not yet exist."[162] While acknowledging that some drivers of NPE are outside of Avista's control, Wilson also claims that several significant drivers remain in the Company's control[163,] and that it is unreasonable to forecast a cost that may not even occur. [164]

109 Wilson also notes concern that Avista does not appear to pay attention to its responsibilities to help minimize NPE costs to customers in direct testimony.[165] Wilson contends that while there are increased challenges for Avista with respect to hedging, it has not provided detailed information regarding the carbon allowance or natural gas markets Avista participates in.[166]

Errors

110 Wilson identifies several forecast errors in Avista's net power cost filing and recommends that the Commission accept Staff's corrections to Avista's 2025 and 2026 forecast NPE.[167] Wilson also recommends that the Commission direct Avista to update its model to address the input errors identified by Staff, specifically the Lancaster PPA and the Rattlesnake

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[158] Wilson, Exh. JDW-1TC at 37:8-9.

[159] Wilson, Exh. JDW-1TC at 37:9-11.

[160] Wilson, Exh. JDW-1TCr at 4:9-12.

[161] Wilson, Exh. JDW-1TCr at 8:1-16.

[162] Wilson, Exh. JDW-1TCr at 9:9-10.

[163] Wilson, Exh. JDW-1TCr at 9:18-11:5.

[164] Wilson, Exh. JDW-1TCr at 14:19-15:3.

[165] Wilson, Exh. JDW-1TCr at 11:6-10.

[166] Wilson, Exh. JDW-1TCr at 12:1-14:9.

[167] Wilson, Exh. JDW-1TCr at 5:6-8.

Flats Wind Project.[168] Avista already acknowledged multiple other errors Wilson identified in the Company's forecast NPE.[169]

Colstrip

111 Regarding Colstrip, Wilson claims that the modeling assumption used by Avista to determine the marginal fuel price for Colstrip is dependent on an extremely unlikely circumstance where Avista does not meet its minimum contractual fuel consumption in 2025. Since Avista is currently projected to exceed the minimum annual amount, Wilson argues that the marginal price of fuel should be the highest annual marginal price.[170] Wilson further argues that failure to dispatch Colstrip to the proper marginal cost would be imprudent.[171]

Power Cost Update (In Case of MYRP Rejection)

112 Should the Commission accept Staff's recommendation and reject the MYRP, Staff witness Erdahl recommends that the Company should be allowed to file a power cost update with a rate effective date of December 31, 2025. This update would provide Avista an opportunity to update power costs while removing Colstrip from rates on or before December 31, 2025. Erdahl recommends that the power cost update also update fuel expenses and market sales for resale.[172]

EIM Benefits

113 Staff witness Wilson claims that Avista does not include non-energy expenses and revenues from the Western Energy Imbalance Market (WEIM), such as congestion charges. While Wilson notes that Avista's methodology seems reasonable for forecasting energy transaction costs, Wilson argues that the Company has earned on average $1.4 million per year in non-energy benefits from the WEIM which is not reflected in the model.[173]

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[168] Wilson, Exh. JDW-1TCr at 42:3-6; 40:15-41:3; 41:5-13.

[169] Wilson, Exh. JDW-1TCr at 37:16-38:6.

[170] Wilson, Exh. JDW-1TCr at 39:1-40:7.

[171] Wilson, Exh. JDW-1TCr at 40:9-13.

[172] Erdahl, Exh. BAE-1T at 15:9-17.

[173] Wilson, Exh. JDW-1TCr at 38:13-22. The $1.4 million figure does not include a citation.

114 Wilson recommends that the Company update its dispatch to include the non-energy WEIM charges and benefits. Staff does not have an estimate of how this recommendation would ultimately affect NPE.[174]

Public Counsel's Response Testimony

ERM

115 Public Counsel contends that the Company's entire argument is based on its self-declared inability to forecast or prepare for market changes.[175] Witness Earle argues that the Company is effectively testifying that it lacks the competency to adapt to normal occurrences in the market, and as a result the Company wants to shift 95 percent of the risk for its decision onto ratepayers.[176]

116 Earle contends that it is apparent that the ERM is working as it was designed to as there are some years in which costs are shared, and other years in which benefits are shared.[177] The existence of years such as 2022 with large shortfalls is concerning and may be an indication of insufficient hedging.[178] Before considering altering the ERM deadbands and sharing bands, Public Counsel urges the Commission to order Avista to provide a comprehensive report on its hedging policies and practices.[179]

117 Earle also contends that both conditions that Avista states are needed for deadbands to be beneficial are met.[180] Earle argues that Avista can take actions to reduce costs, and the NPE forecast, while not perfect, has a track record that supports the idea that costs are forecastable.[181]

118 Public Counsel testifies that the Commission should reject any conclusions from Avista's historical comparison as being dispositive.[182] Public Counsel states that the historical comparison the Company makes is problematic as it unreasonably assumes that changes to

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[174] Wilson, Exh. JDW-1TCr at 42:3-6.

[175] Earle, Exh. RLE-1CT at 8:11-12.

[176] Earle, Exh. RLE-1CT at 8:19-20, 9:1-2.

[177] Earle, Exh. RLE-1CT at 14:12-15.

[178] Earle, Exh. RLE-1CT at 14:15-17.

[179] Earle, Exh. RLE-1CT at 14:17-19.

[180] Earle, Exh. RLE-1CT at 16:7-11.

[181] Earle, Exh. RLE-1CT at 16:11-13.

[182] Earle, Exh. RLE-1CT at 17:5-6.

the incentive structure would not have changed behavior.[183] A proper calculation of the different outcomes under various risk sharing mechanisms should consider the effects of the risk sharing mechanisms on NPC variance.[184]

119 Public Counsel also argues that Avista's justifications for changing the ERM are not new and that between 2012-2022, actual NPE was less than the authorized level for eight of those years.[185]

120 Public Counsel further states that the history of the difference between authorized and actual NPE shows Avista's claims such as "our forecasts continue to get worse" and "power supply costs cannot be forecasted accurately, and for reasons outside of utility control" are unsubstantiated.[186]

121 Public Counsel also finds Avista's complaints on market liquidity to be unreasonable.[187] Earle states that the Company's forward electricity purchases were at low levels in 2020 and 2021 compared to previous years and then disappear from 2022 onwards.[188] Earle contends that this is concerning and surprising given the ability of other utilities to buy electric power forward, contributing to the unreasonableness of the Company's complaint.[189]

122 While Public Counsel agrees that Avista should address the uncertainty in the carbon emissions policy, Earle argues uncertainty is not a reason for inaction and placing nearly all of the risk on ratepayers.[190] Contrary to Avista's claims of having no control, Earle argues that the Company can modify its operations in response to observed costs and purchase and sell allowances in the market to mitigate risk.[191] Additionally, Earle emphasizes that compliance periods for allowances are four years followed by 10 months to transfer compliance instruments for the compliance period, allowing Avista to perform substantial risk mitigation over a period of almost five years.[192]

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[183] Earle, Exh. RLE-1CT at 16:15-18.

[184] Earle, Exh. RLE-1CT at 17:3-5.

[185] Earle, Exh. RLE-1CT at 9:9-10.

[186] Earle, Exh. RLE-1CT at 10:20-24.

[187] Earle, Exh. RLE-1CT at 13:2-3.

[188] Earle, Exh. RLE-1CT at 12:7-8.

[189] Earle, Exh. RLE-1CT at 13:1-3.

[190] Earle, Exh. RLE-1CT at 13:5-8.

[191] Earle, Exh. RLE-1CT at 13:8-11.

[192] Earle, Exh. RLE-1CT at 13:11-14.

123 Earle also emphasizes that unplanned changes in the weather are not a new phenomenon.[193] While climate change may make variation more severe, it does not mean planning cannot occur or contingencies be put into place to handle them.[194]

Forecast Error Adjustment

124 Earle recommends that the Commission reject Avista's proposal to add a forecast error adjustment of $65.8 million to the forecast NPE. Earle states that the adjustment does not entail actual costs that Avista has incurred, or will incur, on behalf of its customers and the Commission has repeatedly rejected the premise that it is impossible to forecast NPE.[195]

125 Citing Avista witness Kinney, Earle describes the Forecast Error Adjustment as the difference between Avista's forward looking evaluation and after-the-fact evaluation of its generation resources, which Avista proposes to be $65.8 million on top of the standard forecast NPE.[196] Earle argues that the Forecast Error Adjustment is not a separate cost that the Company incurs on behalf of ratepayers, and that the ERM already accounts for various forecast errors.[197] Earle claims that the Company's argument that forecasting has continued to get worse and that power supply costs cannot be forecasted accurately are disproved by Avista's performance forecasting NPE since the ERM was implemented in 2003. Earle includes the following figure in his testimony, a waterfall graph of Avista's performance calculating forecast NPE since 2003.[198]

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[193] Earle, Exh. RLE-1CT at 14:2-3.

[194] Earle, Exh. RLE-1CT at 14:3-5.

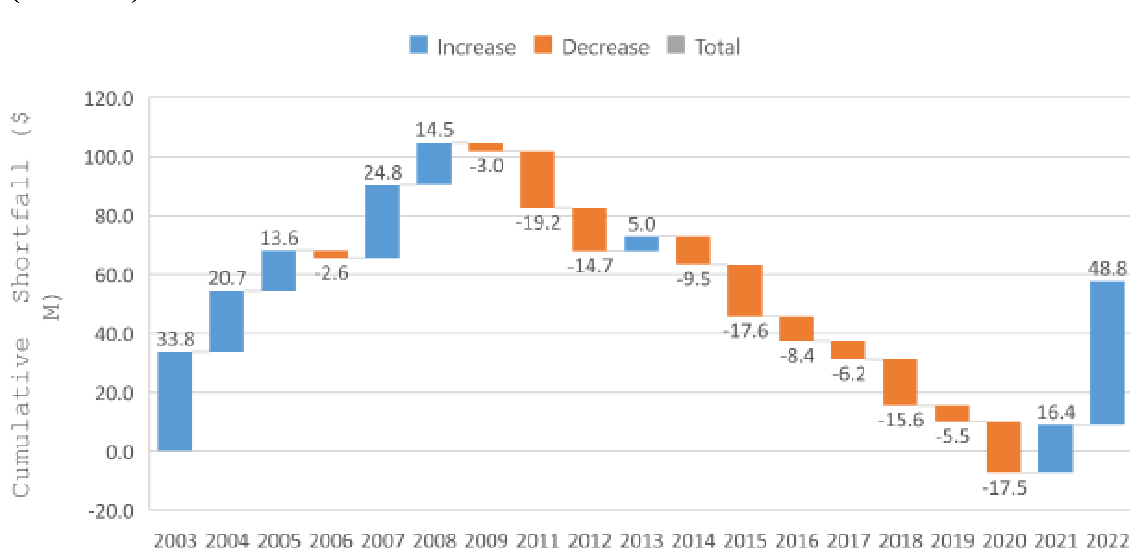
[195] Earle, Exh. RLE-1CT at 2:19-26.

[196] Earle, Exh. RLE-1CT at 3:18-4:3.

[197] Earle, Exh. RLE-1CT at 4:4-11.

[198] Earle, Exh. RLE-1CT at 5:8-7:10.

Figure 1: Waterfall diagram of Avista's (Actual NPE – Authorized NPE) ($million).[199]



126 Earle highlights that the 2022 NPE forecast as authorized to be $72.3 million with a final incurred NPE of $121.1 million, under-collecting by $48.8 million. However, Avista had calculated its 2022 portfolio error to be $202.7 million, which would have resulted in an over-collection of $154 million if it had been allowed into the NPE forecast for 2022.[200]

EIM Benefits

127 Earle finds Avista's estimate of EIM benefits to be unreasonable. Earle asserts that the Company's modeling methodology contains errors, including gaps in pricing data used in its regression analysis[201] and flawed assumptions that reduce the variability of intra-hour prices.[202] As a result of these flaws, Earle recommends rejecting Avista's estimate of WEIM benefits.[203]

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[199] Earle, Exh. RLE-1CT at 6:5.

[200] Earle, Exh. RLE-1CT at 4:10-5:2.

[201] Earle, Exh. RLE-1CT at 27:8-28:17.

[202] Earle, Exh. RLE-1CT at 28:18-29:13.

[203] Earle, Exh. RLE-1CT at 29:14-16.

128 Earle also recommends that the Commission reject Avista's use of the 2017 E3 study to support the Company's forecast of EIM benefits since the study is outdated, using prices and results that are listed in 2017 dollars.[204]

129 To counter Avista's estimate, Earle points to CAISO's estimated benefits for Avista's Balancing Authority Area (BAA). Earle claims that CAISO estimates $25.3 million in benefits annually for the Company's BAA,[205] and states that the Company earned $24.1 million in 2022 and $20.1 million in 2023 from WEIM participation.[206] Earle also claims that E3 previously endorsed the CAISO WEIM benefits methodology as an accurate measure for benefits Puget Sound Energy received from its participation in the WEIM.[207]

130 Earle provides an alternative "bootstrapping analysis" to calculate the benefits that Avista receives from EIM participation and recommends that the Commission order Avista to develop a new forecasting methodology using either this methodology or a different approach such as Monte Carlo modeling or scenario-based forecasting. The new methodology should align with CAISO's WEIM benefit estimates.[208] Earle also recommends that the Commission order the adoption of an annual WEIM benefits forecast of $20.7 million, based on the bootstrapping analysis.[209]

The Energy Project's Response Testimony

131 The Energy Project argues that the Commission should reject Avista's ERM proposal for two reasons:

- Individual customers do not understand regional energy market structures, nor can they make a significant impact on the Company's power costs, and
- In SB 5295 the Legislature directed the UTC to establish and maintain regulatory processes that measure and incent utility performance.[210]

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[204] Earle, Exh. RLE-1CT at 29:17-6. Earle estimates that the value of EIM benefits from the 2017 E3 study, converted to 2025 dollars, would be $7.4 million instead of $5.5 million.

[205] Earle, Exh. RLE-1CT at 30:7-14.

[206] Earle, Exh. RLE-1CT at 31:4-6. In Public Counsel's cross testimony, Earle provides the updated data and does not significantly change the recommendation.

[207] Earle, Exh. RLE-1CT at 35:9-11.

[208] Earle, Exh. RLE-1CT at 35:12-36:7.

[209] Earle, Exh. RLE-1CT at 33:5-9.

[210] Stokes, Exh. SNS-1T at 40:5-8,10-11.

132 Since customers have such little ability to impact power costs, Stokes argues that it is inappropriate to change the ERM to place nearly all the costs on customers.[211] Additionally, TEP argues that moving from a deadband that gives shareholders a $4 million incentive to contain energy costs to one in which shareholders only have a 5 percent incentive runs counter to the Legislature's direction in SB 5295.[212]

AWEC's Response Testimony

133 AWEC testifies that the ERM is functioning as the Commission intended, and that the Commission has repeatedly rejected arguments to eliminate deadbands from cost sharing mechanisms. As such, AWEC recommends that the Commission reject Avista's proposal.[213]

134 Mullins argues that none of the issues Avista raises have any relevance to the ERM.[214] He asserts that power costs have always been volatile – that is why the ERM exists.[215] Mullins further contends that even if one were to assume that power costs are more volatile today than they were in the past, Avista's risk is no greater because the deadbands and sharing bands have remained the same since 2006.[216] He argues that the ERM does not create power cost risk for Avista, it insulates it from this risk by allowing for a true up of amounts that exceed the deadbands.[217]

135 Additionally, AWEC contends that like PacifiCorp in its 2023 GRC, Avista argues that customers have been harmed by the current ERM structure relative to Avista's proposed 95/5 sharing structure. Mullins states that the Commission rejected this argument, noting that the deadbands have insulated both customers and PacifiCorp from unreasonable risk and appropriately assign power cost risk.[218]

136 Mullins further testifies that the concerns related to policy changes are speculative at best.[219] Mullins states that beyond the CCA, Avista merely references the Energy

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[211] Stokes, Exh. SNS-1T at 40:8-9.

[212] Stokes, Exh. SNS-1T at 40:13-16.

[213] Mullins, Exh. BGM-1T at 59:10-13.

[214] Mullins, Exh. BGM-1T at 60:1, 61:1.

[215] Mullins, Exh. BGM-1T at 61:1-2.

[216] Mullins, Exh. BGM-1T at 61:2-5.

[217] Mullins, Exh. BGM-1T at 61:5-7.

[218] Mullins, Exh. BGM-1T at 61:16-20.

[219] Mullins, Exh. BGM-1T at 62:7.

Independence Act and CETA, stating that "[m]any unknowns exist on the path to decarbonization that likely are not reflected in our normalized NPE modeling and forecast."[220] As such, AWEC contends that deviating from Commission policy and precedent to the detriment of ratepayers based on speculation is unreasonable.[221]

137 AWEC asserts that Avista's arguments about organized markets reducing the Company's ability to affect costs were expressly rejected in PacifiCorp's most recent rate case, with the Commission finding them to be "unsettling."[222]

Forecast Error Adjustment

138 Mullins recommends that the Commission reject Avista's proposed Forecast Error Adjustment, which would reduce the revenue requirement for electric service in RY1 by $45.2 million.[223] Mullins argues that the mark-to-market calculations Avista performed to generate the Forecast Error Adjustment do not represent a cost to Avista since power supply expenses are influenced by many other factors.[224] Mullins also claims that Avista's back-casting analysis is best used as a model validation exercise, not a method of remedying a model that was shown to be invalid.[225] Mullins asserts that Avista's backwards-looking calculation simply demonstrates that there was major market volatility between 2018 and 2022, the period over which the Company calculated the Forecast Error Adjustment.[226]

California-Oregon-Border Sales

139 Regarding California-Oregon-Border (COB) sales, Mullins recommends an adjustment to NPE to account for COB margins, resulting in a reduction to revenue requirement for electric services of $142,054 for RY1.[227] Mullins notes that Avista has previously included a line item in Forecast NPE to account for sales at the COB market hub since Avista holds

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[220] Mullins, Exh. BGM-1T at 62:10-12.

[221] Mullins, Exh. BGM-1T at 62:12-14.

[222] Mullins, Exh. BGM-1T at 62:17-20.

[223] Mullins, Exh. BGM-1T at 44:8-13.

[224] Mullins, Exh. BGM-1T at 41:19-42:20.

[225] Mullins, Exh. BGM-1T at 43:8-22.

[226] Mullins, Exh. BGM-1T at 43:1-7.

[227] Mullins, Exh. BGM-1T at 46:8-12.

a contract with Portland General Electric (PGE) for 100 MW of transmission capacity at COB.[228]

Colstrip

140 Regarding Colstrip's NPE impact, Mullins objects to Avista's use of a mark-to-market calculation to determine this impact. Mullins claims that since the removal of Colstrip Units 3 and 4 from rates is the principal driver of the RY2 revenue requirement increase, it would be inappropriate to determine its rate impact using only a mark-to-market calculation performed in 2024. Mullins recommends that the Commission require Avista to perform a full update to NPE for RY2 through a PCORC or a limited update.[229] If the Commission opts for a limited update, Mullins recommends that it be submitted in August 2025 with an update to forward market prices effective November 1, 2025. Mullins' recommendation includes no modeling updates, only prices, contracts, and resources.[230] Mullins also recommends the removal of wheeling costs associated with Colstrip as a part of the RY2 NPE update, since they will no longer be used to benefit ratepayers once Colstrip Units 3 and 4 are removed from rates.[231]

141 Finally, Mullins also recommends the transfer of plant balances associated with Colstrip's transmission assets to being classified as "plant held for future use" and excluded from the revenue requirement, while removing associated expenses from the revenue requirement for RY2. Mullins justifies this recommendation by noting that Avista is transferring all ownership interest in Colstrip Units 3 and 4 to Northwestern and claims that the Company has shown no evidence that it will utilize the transmission assets.[232]

EIM Benefits

142 Mullins claims that Avista's WEIM benefit forecasting does not capture the benefits of market settlements, such as neutrality charges, flex awards, and greenhouse gas revenues resulting in an understatement of net power expense.[233] Mullins also states that the Company does not include revenues received for providing carbon free resources into the

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[228] Mullins, Exh. BGM-1T at 44:14-45:11.

[229] Mullins, Exh. BGM-1T at 55:1-56:2.

[230] Mullins, Exh. BGM-1T at 56:3-19.

[231] Mullins, Exh. BGM-1T at 57:1-19.

[232] Mullins, Exh. BGM-1T at 57:20-58:21.

[233] Mullins, Exh. BGM-1T at 47:6-12; 53:7-14.

WEIM in its benefits forecast, compared to peer utilities Puget Sound Energy, PacifiCorp, and Portland General Electric.[234]

143 To account for the omission of these WEIM benefits, Mullins recommends an increase of $3.0 million to Avista's WEIM benefits calculation. This recommendation would reduce revenue requirement by $2.1 million.[235]

Avista's Rebuttal Testimony

ERM

144 While Avista initially proposed a 95/5 sharing mechanism for the ERM, upon review of Staff's testimony, the Company is willing to accept a 90/10 sharing of costs and benefits, but with a slightly modified "deadband."[236] The Company supports an asymmetric deadband, so that when power supply costs are higher than authorized, the Company would absorb $2.5 million before the 90/10 sharing.[237] When actual power supply costs are lower than authorized, the Company would only retain $2 million, before sharing 90/10 with customers.[238]

145 Avista contends that the proposed asymmetrical deadbands of $2.5 and $2.0 million are justified based on the relative size metrics of Avista and PacifiCorp and the Company's corresponding ability to absorb the "deadband" in a way that would still be meaningful without being punitive.[239]

146 The Company also agrees with Staff to eliminate the second asymmetrical sharing band that currently refunds 75 percent of surplus dollars to customers or equally splits surcharge dollars.[240]

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[234] Mullins, Exh. BGM-1T at 53:15-54:5.

[235] Mullins, Exh. BGM-1T at 54:6-15.

[236] Christie, Exh. KJC-4T at 13:21-22, 14:1-2.

[237] Christie, Exh. KJC-4T at 14:2-4.

[238] Christie, Exh. KJC-4T at 14:4-6.

[239] Christie, Exh. KJC-4T at 14:15-18. Relative to NPE, Avista's sharing of deviations from authorized bands is approximately two times that of either PacifiCorp or PSE, which demonstrates the fairness of moving to a lower sharing band. Kinney, Exh. SJK-17T at 17:16-19, 18:6-8.

[240] Kinney, Exh. SJK-17T at 16:13-14.

147 Avista disagrees with AWEC and Public Counsel's contention that the PacifiCorp order precludes ERM modifications for Avista.[241] Kinney argues that the risk inherent in Avista's deadbands is more impactful to it given the Company's relative size, which alone should warrant ERM modification.[242] He further argues that the Company's modified proposal retains the "guardrails" desired by the Commission and keeps the customer-focused intent of the asymmetry in the second-band, while adjusting the deadband size to a risk level more in line with Avista's regulated peers.[243]

148 Avista argues that by retaining customer-favored asymmetry in the deadband, the Company believes its modified ERM proposal addresses the concerns voiced by Witness Mullins.[244]

149 Avista argues that while it is not possible to address CCA fully in this proceeding, because so many unknowns still exist with CCA, it is prudent, however, to recognize the risk that may be borne by the Company for these costs in the pro forma period, and to address them as much as reasonably possible in this proceeding with tools available – namely, by recognizing recent under-collection of costs by including a forecast error adjustment and modifying the ERM.[245]

150 Regarding Performance Based Ratemaking requirement in ESSB 5295, Avista testifies that the ERM has not been separately identified by the Commission as an area to apply performance measures geared towards evaluating how a utility performs. The incentive to perform is already part of the sharing mechanism.[246]

151 Avista suggests that Public Counsel misunderstood the forecast error adjustment to include only market variability associated with generation assets, when in fact the proposed forecast error represents components of actual costs.[247] The Company argues that Public Counsel's broader argument, that over the life of the ERM the average forecast error was small, is gravely mistaken.[248] Kalich emphasizes that the 20-year *average* error to which

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[241] Kinney, Exh. SJK-17T at 19:7-9.

[242] Kinney, Exh. SJK-17T at 19:9-11.

[243] Kinney, Exh. SJK-17T at 19:24-26, 20:1-2.

[244] Kinney, Exh. SJK-17T at 21:4-6.

[245] Kinney, Exh. SJK-17T at 22:10-15.

[246] Kinney, Exh. SJK-17T at 23:15-18.

[247] Kalich, Exh. CGK-7T at 8:9-10, 8:13-14.

[248] Kalich, Exh. CGK-7T at 8:14-15.

Earle cites incorrectly masks very large forecast errors occurring year-to-year and over contiguous years.[249]

152 In response to Public Counsel, Kalich states that the market for electricity has fundamentally changed and opportunities to make forward electricity purchases and provide beneficial sale transactions on behalf of customers and the Company do not exist today as they did in the past.[250]

153 Avista currently defines CCA costs as NPE and these costs flow through the ERM. Kalich argues that it has no way to lower NPE through actions under the CCA, but that it is only a question of what the unknown costs will be.[251] Kalich argues that Avista should not be responsible for a large share of CCA costs, claiming that CCA wasn't intended to increase utility costs for electric utilities.[252] However, Kalich notes that CCA costs will almost certainly increase NPE, and argues that modifying the ERM will help mitigate the issue by reducing the Company's unreasonable exposure to CCA costs through the ERM.[253]

154 The Company argues that it should not provide a comprehensive report on its hedging practices and policies before any modification of the ERM is made because it already provides this information to the Commission.[254] Further, Avista contends that issues presented in this case will not be solved by modifying hedging policies and practices.[255] Kalich states that Earle presents no evidence to refute the primary reason hedging has become less relevant in today's marketplace, as the market liquidity for forward hedging has diminished.[256]

General Forecast NPE

155 Kinney states that the Company has rerun its Power Supply Model, updating wholesale gas and electricity prices, new and incremental contracts, non-gas fuel prices, and

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[249] Kalich, Exh. CGK-7T at 8:15-17.

[250] Kalich, Exh. CGK-7T at 11:16-20.

[251] Kalich, Exh. CGK-7T at 12:15-16.

[252] Kalich, Exh. CGK-7T at 12:16-18.

[253] Kalich, Exh. CGK-7T at 12:19-20.

[254] Kalich, Exh. CGK-7T at 13:6-10.

[255] Kalich, Exh. CGK-7T at 13:11-12.

[256] Kalich, Exh. CGK-7T at 13:12-16.

adopting certain positions shared by other parties. As a result, the forecast NPE is reduced from $175.1 million to $119.0 million.[257]

156 Kalich testifies that Avista updated wholesale electricity and gas prices to a three-month average of forward prices for the period ending July 15, 2024. Kalich also states that suggestions from Staff for the forecast NPE were incorporated, including startup fuel costs, corrected long-term wholesale power contract revenues, updated marginal dispatch pricing for Colstrip, increased expected Rattlesnake Flat Wind generation levels, and new tariff rates associated with BPA transmission and gas transport contracts.[258]

157 Kinney asks that the Commission make explicit findings of fact with respect to multiple items, including changing market fundamentals, a large forward premium in the implied market heat rate (IMHR), the increased value and risk associated with Avista's thermal fleet, diminished market liquidity that precipitates forecast error, the increased difficulty of hedging, and the difficulty of the Company to properly forecast NPE.[259]

158 Kalich suggests convening a new workshop series after the conclusion of the rate case to revisit power supply modeling methodology, address new changes in the energy space, inform the new representatives of the intervening parties, and consider alternatives to AURORA model.[260]

Forecast Error Adjustment

159 Kinney states that Avista reduced the Forecast Error Adjustment from $65.8 million to $29.7 million.[261] Kinney offers a change to the Forecast Error Adjustment calculation methodology; using three historical years instead of five, and simply averaging the annual average of actual ERM variances instead of the average annual difference between the calculated Forecast Value and Actual Value of NPE.[262] Kinney claims that this methodology consists of actual costs, addressing Public Counsel's concern that the Forecast Error Adjustment does not consist of costs that Avista has incurred in the past. Kinney also claims that the new methodology incorporates feedback from AWEC

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[257] Kinney, Exh. SJK-17T at 3:7-11, 3:18-3:22.

[258] Kalich, Exh. CGK-7T at 5:18-6:20.

[259] Kinney, Exh. SJK-17T at 5:5-6:17.

[260] Kalich, Exh. CGK-7T at 7:10-23. AURORA or Aurora is an energy forecasting and analysis software.

[261] Kinney, Exh. SJK-17T at 3:12-14.

[262] Kinney, Exh. SJK-17T at 10:19-11:12.

criticizing the futility of using a model validation technique for recalibrating results,[263] and that the new methodology for the Forecast Error Adjustment addresses all concerns held by Staff in Order 07 with which the Commission agreed.[264]

160 Kinney argues that AURORA modeling methodology, to which all stakeholders previously agreed, cannot reflect all the changes to input assumptions happening now in the regulatory and market environments.[265] In response to Public Counsel witness Earle's claim that Avista is providing new modeling changes that have not been vetted by the Commission, Kalich contends that Avista is not claiming to change its modeling methodology but is instead listing the Forecast Error Adjustment as a line-item adjustment, instead of burying it within the AURORA model.[266] Further, Kalich rejects Staff and AWEC's characterization of the Forecast Error Adjustment as simply a mark-to-market valuation of the Company's generation portfolio , arguing instead that it captures the entire portfolio since the calculation is based on metrics that capture the entire portfolio.[267]

161 Kinney further states that the Forecast Error Adjustment is known and measurable, and captures underlying offsets because it is based on previously approved values and captures all power supply expenses.[268] Kalich contends that forecast error is neither less nor more known than other assumptions already making up the forecast NPE value, and that if the Forecast Error Adjustment is rejected, so too should other NPE pro forma adjustments used in prior rate cases.[269] Kalich also rejects Staff witness Wilson's claim that forecast error difference is not an expense, calling it a cost "by definition" because it is driven by differences between authorized and actual expenses.[270] He rejects Wilson's assertion that including the Forecast Error Adjustment is "unprecedented," saying that recovering known and measurable costs is not unprecedented.[271]

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[263] Kinney, Exh. SJK-17T at 12:11-20.

[264] Kinney, Exh. SJK-17T at 13:5-15:10.

[265] Kinney, Exh. SJK-17T at 10:8-19.

[266] Kalich, Exh. CGK-7T at 21:8-22:2.

[267] Kalich, Exh. CGK-7T at 15:13-16:13.

[268] Kinney, Exh. SJK-17T at 13:5-15:10.

[269] Kalich, Exh. CGK-7T at 39:5-41:20.

[270] Kalich, Exh. CGK-7T at 24:2-16.

[271] Kalich, Exh. CGK-7T at 25:15-26:2.

162 Kalich also contests Wilson's categorizations of factors as within Avista's control. Kalich describes hedging costs, physical depreciation, fuel procurement practices, and bilateral transactions outside of the EIM as outside of utility control.[272]

163 To support the inclusion of a Forecast Error Adjustment, Kalich claims that the calculated value of the implied market heat rate (IMHR) -- the price of power on the market divided by the price of natural gas -- has been higher than its realized value in the spot market. According to Kalich, this discrepancy prevents Avista from being able to realize the potential economic value that underpins forecasted NPE benefits. Kalich further argues that including the Forecast Error Adjustment would help to adjust the differences between forward prices and actuals, and that if it results in an overcorrection, the following rate case's Forecast Error Adjustment would account for that miss.[273]

164 Kinney rejects the arguments made by Staff, AWEC, and Public Counsel that the ERM captures forecast error instead of allocating the results through sharing bands.[274]

165 Kalich clarifies that in some years, the Forecast Error Adjustment could be a negative value, such times as when natural gas prices are falling.[275]

Colstrip

166 Avista witness Kinney states that Colstrip expenses are removed from the 2026 NPE based on its 2025 net value (market value minus fuel), and that no further power supply updates to 2026 are necessary.[276] Company witness Andrews states that the Company has updated the value of Colstrip to match the value from the most current power supply baseline for RY1. As a result, forecast NPE increases by $54.2 million in RY2, partially offset by a $24.4 million reduction in expenses to Washington customers through Colstrip Tariff Schedule 99.[277]

167 Avista rejects AWEC's recommendation that the Colstrip Transmission Assets be removed from rates. Kinney testifies that Avista still plans to use its Montana and BPA point-to-point transmission rights to take advantage of Montana wind resources, which the Company identified as part of its Preferred Resource Strategy in its 2025 IRP. Avista also

[272] Kalich, Exh. CGK-7T at 26:3-32:9.

[273] Kalich, Exh. CGK-7T at 34:3-36:3.

[274] Kinney, Exh. SJK-17T at 9:12-21.

[275] Kalich, Exh. CGK-7T at 23:8-24:3, 25:4-14.

[276] Kinney, Exh. SJK-17T at 3:15-17.

[277] Andrews, Exh. EMA-6T at 78:1-80:4.

plans to maintain transmission rights the Company expects it will need in the future. If the transmission assets are underutilized, Avista can sell access in short-term contracts to recover costs. In general, Avista takes the position that the Colstrip transmission assets still provide value to Avista and its customers.[278] Kinney also notes that if Avista were to stop paying its share of system upgrades and annual maintenance costs for Colstrip transmission assets, it would be in contract breach.[279]

California-Oregon-Border Adjustment

168 Kinney rejects AWEC's COB adjustment. Kinney claims that an adjustment for COB transmission was not included in previous cases and is not included in the power supply modeling methodology because the Company models an aggregated wholesale electric market comprised of all markets used by the Company.[280]

EIM Benefits

169 Company witness Kalich generally defends Avista's methodology for forecasting WEIM benefits.[281] Kalich notes that the Company uses the same methodology that PSE used in a previously approved general rate case, UE-200980.[282] After reviewing response testimony and consulting with PSE, Kalich states that Avista is adjusting its WEIM benefits forecast from $5.5 million to $6.6 million due to changes in the baseline model used to calculate incremental WEIM benefits.[283]

170 Regarding Public Counsel's recommendation that the Commission order Avista to develop a valid WEIM benefits forecast methodology, Kalich replies that the Company does not object to the Commission establishing a specific methodology in its order. However, Kalich states that a change in methodology would not be available in a timeline suitable for the current rate case.[284]

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[278] Kinney, Exh. SJK-17T at 25:9-30:6.

[279] Kinney, Exh. SJK-17T at 28:23-29:3.

[280] Kinney, Exh. SJK-17T at 30:7-18. AWEC argues that Avista witness Kinney accepted the adjustment during the hearing, despite Avista's arguments against AWEC's proposal to continue modeling sales transactions at the COB market hub. AWEC's Post-Hearing Brief, at ¶ 52 (*citing*, Hearing Tr. Vol. III at 221:7-23).

[281] Kalich, Exh. CGK-7T at 48:19-53:22.

[282] Kalich, Exh. CGK-7T at 48:13-18.

[283] Kalich, Exh. CGK-7T at 45:18-46:5.

[284] Kalich, Exh. CGK-7T at 48:13-18.

171 Kalich recommends that the Commission reject Public Counsel's recommendation that the Company use of CAISO's estimates of WEIM benefits instead of its own. Kalich argues that the CAISO calculation overstates the WEIM benefits that Avista receives,[285] and that the historic data detailing revenues from the WEIM do not factor in the loss of revenue the Company would have earned in bilateral markets.[286] Kalich also argues that the reported benefit data from CAISO contains only 25 months, a small dataset that occurred under low hydro conditions.[287]

172 Regarding AWEC witness Mullins recommendation that Avista include greenhouse gas revenues, neutrality charges, and Flex Ramp revenues, Kalich states that the Company no longer receives greenhouse gas revenues since the CCA was passed and that Flex Ramp revenues are immaterial. As a result, the value of increased WEIM benefits resulting from Mullins' recommendation should be reduced to $0.9 million.[288]

173 In response to Staff witness Wilson's recommendation that WEIM benefits be increased $1.4 million following an analysis of EIM "cost codes," Kalich testifies that cost codes provided by CAISO are not granular enough to determine whether benefits included in those cost codes are already being captured in AURORA. Upon review of the cost code data, Kalich found that an analysis utilizing cost code data would indicate that NPE should increase by $0.3 million. Avista does not recommend an increase to NPE based on WEIM cost codes.[289]

Staff's Cross-Answering Testimony

174 Staff witness Wilson recommends that the system NPE forecast be increased from $175.1 million to $175.7 million, as adjustments to account for CCA costs and removing the Forecast Error Adjustment nearly balance each other out.[290] Regardless of the Commission's treatment of CCA costs, Staff recommends removing Avista's Forecast Error Adjustment. Staff further recommends including CCA allowance prices in dispatch and market purchases.[291] Staff's estimate of Washington NPE revenue requirement is

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[285] Kalich, Exh. CGK-7T at 46:6-47:6.

[286] Kalich, Exh. CGK-7T at 44:1-19.

[287] Kalich, Exh. CGK-7T at 53:23-54:21.

[288] Kalich, Exh. CGK-7T at 43:12-21, 47:7-16. Kalich does not comment on whether the Commission should accept the resulting $0.9 million increase to EIM benefits.

[289] Kalich, Exh. CGK-7T at 47:17-48:5.

[290] Wilson, Exh. JDW-24CTr at 19:1-5.

[291] Wilson, Exh. JDW-24CTr at 20:4-9.

increased from $112.8 million to $113.0 million.[292] Wilson claims that the $71.15 per CCA allowance estimate is not reasonable and details the forecasting assumptions that go into Staff's estimate of CCA costs.[293] However, if the Commission determines that the cost of CCA allowances associated with forecast wholesale market sales should not be included in NPE as recommended by Staff, Staff's forecast system NPE recommendation would decrease to $132.4 million with a corresponding reduction to Washington NPE.[294]

175 Wilson also points out potential errors in Avista's AURORA modeling of unit commitment when including CCA allowance prices. Wilson does not believe that this is a material problem requiring immediate action but recommends that the Company investigate this for future filings.[295] In the event the Commission accepts AWEC's position on COB market sales, Wilson provides minor adjustments to Staff's recommended values for System Account 447, System Total Revenue, System Total Net Expense, and Washington NPE Revenue Requirement.[296]

EIM Benefits

176 In cross testimony, Wilson notes that WEIM benefits are not included in Avista's calculation of NPE forecast. Wilson further testifies that it is not necessary for Avista to include WEIM benefits in the NPE forecast, as AURORA does not differentiate between market platforms. Wilson did not investigate Public Counsel witness Earle's benefits calculation and does not take a position on whether the Company's or Public Counsel's WEIM benefits calculations are more accurate, assuming that they are immaterial to an NPE forecast.[297]

177 Wilson disagrees with Public Counsel witness Mullins' recommendation to include greenhouse gas revenues in the EIM benefits forecast. Wilson reaches this conclusion based on Kalich's testimony that the Company does not participate in California's greenhouse gas cap and trade program, which would be the source of greenhouse gas revenue.[298]

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[292] Wilson, Exh. JDW-24CTr at 20:1-2.

[293] Wilson, Exh. JDW-24CTr at 22:14-26:19.

[294] Wilson, Exh. JDW-24CTr at 19:6-9.

[295] Wilson, Exh. JDW-24CTr at 21:7-22:12.

[296] Wilson, Exh. JDW-24CTr at 27:1-7.

[297] Wilson, Exh. JDW-24CTr at 2:21-4:4.

[298] Wilson, Exh. JDW-24CTr at 4:15-18.

178 However, Wilson does agree with Mullins that some WEIM settlement charges are inappropriately omitted from Avista's forecast of EIM benefits. Wilson's estimate of those non-energy benefits to be $1.4 million annually.[299]

179 After reviewing Avista's data request responses providing more detailed WEIM settlement charge information, Wilson finds reasonable the resulting increased $.5 million adjustment in forecast NPE.

Public Counsel's Cross-Answering Testimony

ERM

180 In cross-answering testimony, Public Counsel witness Earle reiterates arguments that the Commission should reject both Avista's and Staff's proposed changes to the sharing bands because they would make the dead and sharing band mechanism less effective.[300]

181 Witness Earle contends that Staff's comparison of Avista to PacifiCorp's deadband fail in two primary ways:

- Staff does not consider that even if Avista's dead band is relatively large compared to PacifiCorp's, this could mean PacifiCorp's is too small, and

- Staff provides no reason why the width of the dead band should be based on proposed power costs alone.[301]

182 As such, Public Counsel argues that the Commission should reject both Avista and Staff's proposals as unwarranted and unsupported by the factual record and maintain the current ERM deadband and sharing bands.[302]

183 Earle supports AWEC's recommendation for an update to Avista's forecast NPE in August 2025, with an additional update of forward market prices effective November 1, 2025. This would reduce forecast lag from 14 months to two months.[303]

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[299] Wilson, Exh. JDW-24CTr at 5:1-7.

[300] Earle, Exh. RLE-17T at 3:12-14.

[301] Earle. Exh. RLE-17T at 3:19-20, 4:1-7.

[302] Earle. Exh. RLE-17T at 4:11-13.

[303] Earle, Exh. RLE-17T at 6:16-7:18.

184 Based on CAISO's newly released estimate of 2024 WEIM benefits, Earle makes a minor adjustment to Public Counsel's previous recommendation, and recommends the Commission order an adoption of an annual WEIM benefits forecast of $20.1 million.[304]

AWEC's Cross-Answering Testimony

185 In cross-answering testimony, Mullins continues to argue that the Commission should reject Avista's ERM proposal, assert:[305]

- The ERM is functioning as intended,
- Avista's arguments are irrelevant and unconvincing, and
- The Commission rejected similar arguments in PacifiCorp's 2023 GRC.

186 He states that Staff's conclusion that a 90/10 split is equitable is at odds with the Commission's decision in the PacifiCorp GRC,[306] and that Staff provides no evidence to support its contrary conclusion.[307]

187 Mullins argues that Staff's rationale for a reduction to the deadband does not consider the rapid growth and higher volatility experienced and noted by the Commission with respect to PacifiCorp's power costs.[308]

188 Mullins argues that Avista's forecast power costs are at a similar level to when PacifiCorp's PCAM was first established ($112 million in the current case compared to $108 million when PacifiCorp's PCAM was established).[309] As a result, Mullins emphasizes that the Commission's PacifiCorp order supports maintaining the ERM structure as is.

NPE

189 Mullins recommends the Commission not direct Avista to alter its modeling of CCA costs in its NPE forecast, given the uncertainty of Avista's ability to monetize its no-cost

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[304] Earle, Exh. RLE-17T at 8:1-15. Earle's previous recommendation was an annual EIM benefits forecast of $20.7 million in response testimony.

[305] Mullins, Exh. BGM-8T at 2:29-30, 3:1-2.

[306] Mullins, Exh. BGM-8T at 3:10-14.

[307] Mullins, Exh. BGM-8T at 3:14-15.

[308] Mullins, Exh. BGM-8T at 3:15-19.

[309] Mullins, Exh. BGM-8T at 5:7-11.

allowances and the fact that the relevant Ecology rulemakings have not yet occurred.[310] Mullins states that Staff's recommendation of handling the removal of Colstrip from rates is consistent with AWEC's. Mullins would support Staff's recommendation provided that AWEC's recommendations for wheeling costs, transmission assets, and scheduling and modeling parameters are met.[311] Mullins also provides backup options to remove Colstrip from rates if the Commission rejects the MYRP, Avista files a new rate case in 2025, and the effective date of that rate case is after December 31, 2025.[312]

Decision

Restructuring the ERM

190 The Commission has previously addressed the purpose of risk sharing through mechanisms like the ERM, most recently in Dockets UE-230172 and UE-210852. There we reiterated that power cost risk sharing mechanisms are intended "to encourage effective management and reduction of power costs."[313]

191 The sharing mechanisms provide guardrails to ensure a utility manages fuel price volatility and does not engage in overly risky behavior because the guardrails ensure the utility will share in cost overruns with customers.[314]

192 Like PacifiCorp, Avista points to several factors that it claims necessitate changes to the ERM, including "nearly impossible to predict" variables,[315] such as the implied market heat rate,[316] rising market volatility,[317] falling market liquidity,[318] the CCA,[319] and the increasing value of Avista's thermal generation fleet.[320]

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[310] Mullins, Exh. BGM-8T at 12:18-13:8.

[311] Mullins, Exh. BGM-8T at 18:1-19.

[312] Mullins, Exh. BGM-8T at 18:20-19:9.

[313] *WUTC v. PacifiCorp*, Dockets UE-230172 & UE-210852 ¶ 389 (Mar. 19, 2024).

[314] *See*, *WUTC v. PacifiCorp*, Dockets UE-230172 & UE-210852 ¶ 390 (Mar. 19, 2024).

[315] Kinney, Exh. SJK-1T at 54:2-9.

[316] Kinney, Exh. SJK-1T at 58:6-60:3.

[317] Kinney, Exh. SJK-1T at 60:14-62:8.

[318] Kinney, Exh. SJK-1T at 62:9-63:2.

[319] Kinney, Exh. SJK-1T at 64:3-65:9.

[320] Kinney, Exh. SJK-1T at 69:15-71:14.

193 We recognize that during the past three to four years, energy markets have looked somewhat different for Avista, as they have for all utilities. However, the evidence in this case shows that the ERM is working as it should for now.[321]

194 AWEC and Public Counsel correctly argue that fuel prices have been volatile since the ERM was implemented in 2006.[322] During that time fracking was just starting and natural gas was becoming more available and at a lower cost. The ERM functioned through a Great Recession and then through record low interest rates and a booming stock market. The ERM is intended to share risks in good times and in bad, to ensure that the utility retains a certain level of risk even when external pressures increase, because ultimately the utility has control, or at least some level of control, over the resources it procures and the contracts it enters for fuel and power. There is inherently informational asymmetry, where the utility knows far more about its operations and choices than intervenors and certainly than customers.

195 To ensure that rates remain just and reasonable, the utility should carry a certain level of risk through the ERM or a similar mechanism.

196 We are not convinced here that comparisons to the relative size of the risk that other utilities face means Avista's ERM should be modified. As Avista points out, each utility is different. Avista's resource position is different than from PacifiCorp's or Puget Sound Energy's.[323] Because of this, a simple comparison of relative risk through the dead and sharing bands is unconvincing and as Public Counsel and AWEC point out, perhaps raises the question of whether instead of decreasing the bands for Avista, the bands should not be increased for other utilities.

197 Accordingly, the Commission denies Avista's and Staff's proposals to modify the ERM at this time. This is not to say that the Commission simply will not modify the ERM under any circumstances. We are open to entertaining changes to the ERM, however, as AWEC and Public Counsel rightfully point out, there is a modeling issue present, as evidenced by Avista's admissions in relation to the Forecast Error Adjustment. The Commission finds that the parties should address the modeling errors, and only then might the Commission revisit the issue, if necessary, to assess whether further adjustments are needed.

Forecast Error Adjustment

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[321] *See*, Kalich, Exh. CGK-7T at 23:1-7; *see also* Mullins, BGM-1T at 60:14-61:6; BGM-8T at 2:29-30.

[322] *See*, *Avista Corp.*, Docket UE-060181, Order 3 ¶ 3 (June 16, 2006).

[323] Avista's Post-Hearing Brief, at ¶¶ 74-81.

198 We next address Avista's proposal to add a forecast error adjustment to their baseline NPE. On direct, the Company proposed a forecast error of $65.8 million, which it reduced on rebuttal to $29.7 million. Avista argues the Commission should approve the new forecast error, using a new methodology, as the new forecast error is known, measurable, considers any indirect offsets, and is generally supported in the record by contracts, receipts, ledgers, and other proof as are other approved adjustments like median hydro, averages for outages, and forward market prices.[324] No other party supports this adjustment.

199 Staff argues the Commission should reject the forecast error adjustment "as arbitrary, and thus as unfair, unjust, or unreasonable."[325] Staff argues the revised forecast error adjustment (1) is untested and only offered on rebuttal, (2) unfairly shifts power cost risks away from Avista, and (3) is unknown, unmeasurable, and normalized on a biased sample.[326]

200 Public Counsel argues the proposal lacks analytical rigor, does not meet the known and measurable standard, and fails to match with offsets.[327] Further, Public Counsel argues that the events and costs represented in 2021, 2022, and 2023, represent a small sample in time, which was impacted by a series of unfortunate events, all of which make basing an adjustment for 2025 and 2026 on events during that time extremely problematic.[328] Finally, Public Counsel notes the adjustment only improves Avista's results and provides Avista a windfall.[329]

201 We largely agree with Staff and Public Counsel. While we do find the issues Avista is facing to be problematic, we find that as with the ERM, the methodology Avista uses to forecast power expenses needs to be re-examined, and that a large adjustment, which Avista would collect from customers to account for modeling errors, is not just or reasonable.

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[324] Avista's Post-Hearing Brief, at ¶¶ 56-59, 61.

[325] Staff's Post-Hearing Brief, at ¶ 66.

[326] Staff's Post-Hearing Brief, at ¶¶ 67-87 (Oct. 28, 2024) (*citing*, *Wash. Utils. & Transp. Comm'n v. Harbor Water Co., Inc.*, Docket U-87-1054-T, 1988 Wash. UTC Lexis 68, * 37 (May 7, 1988); Kalich, Exh. CGK-7T at 19:14-20; *Wash. Utils & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06, 11-12 ¶ 14 (Mar. 25, 2011); *Avista Corp.*, Dockets UE-090134, UG-090135 & UG-060518, Order 10, at 21 ¶ 45).

[327] Public Counsel's Post-Hearing Brief, at ¶¶ 62-63.

[328] Public Counsel's Post-Hearing Brief, at ¶¶ 64-65.

[329] Public Counsel's Post-Hearing Brief, at ¶ 68.

202 The Commission expressed some concerns with the forecast error adjustment in Order 07 of this docket, but ultimately decided that the record needed to be further developed on the $65.8 million adjustment. As Staff points out, that record was not developed because Avista revised the error amount and changed the methodology on rebuttal.

203 While the Commission understands Avista's change in methodology and adjustment on rebuttal, the Commission has held "at some point, the company's positions must be made clear in order for the other parties to respond to those positions. That point is prior to rebuttal. The parties in a rate case should not have to constantly respond to a moving target."[330]

204 Here, the record is not well developed on Avista's updated proposal, in part because the proposal changed on rebuttal. For an adjustment of this magnitude, the Commission encourages companies to vet such proposals with parties ahead of time and allow reasonable time and opportunity for response.

205 Further, as Staff, Public Counsel, and AWEC point out, the original and revised proposal do not meet the known and measurable standard. "Washington uses a hybrid test year approach that allows pro forma adjustments only for known and measurable changes–not budgeted or projected changes–that occur, generally within a reasonable time after the end of the test year."[331] Further, "[a]n event is 'known' if it occurred during or shortly after the historical test year and it is 'measurable' if it is not an estimate, projection, or product of a budget forecast."[332]

206 Moreover, as Public Counsel states, Avista's proposal "does not help predict future gas or electricity prices, the implied market heat rate, or how forward prices are inadequate inputs because they collapse as they reach real time."[333]

207 We agree with Public Counsel and note that Public Counsel's criticism gets to the underlying problem with the forecast error adjustment. Rather than identifying known and measurable causes of the error, and recommending modeling adjustments to account for those errors, the Company notes the error is and remains present. The Company averages

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[330] *Wash. Utils. & Transp. Comm'n v. Harbor Water Co., Inc.*, Docket U-87-1054-T, 1988 Wash. UTC Lexis 68, * 37 (May 7, 1988).

[331] *Pac. Power & Light Co.*, Dockets UE-140762, UE-140617, UE-131384 & UE-140094, Order 08, 3 ¶ 8.

[332] Public Counsel's Post-Hearing Brief, at ¶ 55 (Oct. 28, 2024) (*citing*, *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Dockets UE-090134 & UG 090135 *(consol.)* Final Order 10 ¶ 43 (Dec. 22, 2009)).

[333] Public Counsel's Post-Hearing Brief, at ¶ 62.

recent unfavorable amounts to calculate a solution which might cover the error but does not solve the underlying condition. In fact, the exact cause of the error appears to remain elusive and is not known.

208 Because the Company does not persuasively support the proposed forecast error adjustment, and because the proposal fails to meet the known and measurable standard, the Commission rejects inclusion of the forecast error adjustment.

209 However, we agree with Avista that further discussions by all parties should take place in relation to the ERM and forecast error. Witness Kalich suggested convening a new workshop series after the conclusion of the rate case to revisit power supply modeling methodology, address new changes in the energy space, inform the new representatives of the intervening parties, and consider alternatives to or modifications to the AURORA model.[334] We agree with this suggestion and find, following the close of this proceeding, that Avista shall convene a workshop series with interested parties to address modeling inputs, power supply modeling methodology, use of AURORA, and a changing energy landscape. These conversations should include discussions regarding inclusion of CCA costs and address the forecast error as well as other issues raised by the parties in this proceeding.

210 Based on the evidence in the record and the Commission's denial of the forecast error adjustment, the Commission authorizes a Washington Total Power Supply Base of $34,116,983 for rate year 1, and $85,733,975 for rate year 2.

Western Energy Imbalance Market (WEIM) Benefits

211 Avista justifies their WEIM benefits methodology by claiming it is the same as that PSE used and the Commission approved in their rate case in Docket UE-200980.[335] However, Staff, Public Counsel, and AWEC each suggest adjustments to Avista's WEIM benefits calculation methodology.

212 AWEC proposes to include greenhouse gas (GHG) revenues in the evaluation of WEIM benefits. However, Avista argues that those revenues are no longer available after passage of the CCA.[336] In its post-hearing brief, AWEC argues that despite Avista's arguments that

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[334] Kalich, Exh. CGK-7T at 7:10-23.

[335] Kalich, Exh. CGK-7T at 48:13-18.

[336] Kalich, Exh. CGK-7T at 43:12-21, 47:7-16.

GHG revenues are no longer received, there must be exceptions and the Commission should at least adopt Avista's own recalculation of $0.9 million.[337]

213 We disagree. Avista asserts and the record shows that Avista is not receiving GHG revenues.[338] Despite AWEC's assertion that there are exceptions, pointing to the testimony of witness Kalich, the Commission finds such exceptions to be speculative and generally unsupported by the record. For clarity, AWEC argues Avista received some GHG revenues in 2022 and 2023. Avista admits this in Exhibit CGK-7T.[339] However, as Kalich testifies and the record shows, the revenues that AWEC asserts should be included are based on transactions in 2022. The transactions through 2022 decreased to a negligible amount in the test year of 2023 before ceasing in the later part of 2023.[340] To adopt an adjustment based on an assertion of exceptions – or revenue which the record shows is no longer being received – would violate the known and measurable standard. Therefore, we find that AWEC's proposed adjustment should be rejected.

214 AWEC and Staff propose to include other non-energy benefits in the evaluation of benefits.[341] Specifically, AWEC proposes the Commission should order Avista to adjust for WEIM settlement transactions. Staff witness Wilson agrees some WEIM settlement charges are inappropriately omitted from Avista's forecast of WEIM benefits. Wilson's estimate of those non-energy benefits is $1.4 million annually.[342] However, Avista uses an approved methodology to calculate those benefits, which does not produce surplus revenues that need to be redistributed. Accordingly, we reject the adjustments proposed by AWEC and supported by Staff for including additional non-energy benefits.

215 Finally, Public Counsel proposes adopting CAISO's estimate of WEIM benefits, which would result in $20.1 million in benefits. On rebuttal, Avista witness Kalich argues that the CAISO calculation overstates the WEIM benefits that Avista receives and does not factor in the loss of revenue that would have been earned by the Company in bilateral markets. Kalich also argues that the reported benefit data from CAISO contains only 25 months, a small dataset that occurred under low hydro conditions. On this, we agree with Avista.

216 The CAISO estimate does not account for the opportunity cost of leaving the bilateral market, thus it should not be used to calculate WEIM benefits for Avista at this time as the

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[337] AWEC's Post-Hearing Brief, at ¶ 51 (*citing*, Hearing Tr. Vol. III at 221:7-23).

[338] Kalich, CGK-7T at 47:14-15; fn. 53.

[339] Kalich, CGK-7T at 47:14-15; fn. 53.

[340] Kalich, CGK-7T at 47:14-15; fn. 53.

[341] *See*, Wilson, Exh. JDW-24CTr at 5:1-7.

[342] Wilson, Exh. JDW-24CTr at 5:1-7.

evidence suggests its adoption would likely result in an overestimation of benefits not likely to be realized. Accordingly, the Commission finds the WEIM benefits calculation methodology proposed by Avista, resulting in $6.6 million in benefits, reasonable and rejects the proposals to adjust WEIM benefits put forward by Staff, Public Counsel and AWEC.

Colstrip

217 AWEC also requests the Commission order Avista to remove Colstrip transmission assets from rates and to file a Power Cost Only Rate Case (PCORC) or other limited update to rates to improve Avista's mark-to-market valuation of Colstrip in RY2 before the costs of Colstrip Units 3 and 4 are removed from rates.

218 We reject both proposals at this time. First, Avista has identified as part of its Preferred Resource Strategy in its 2025 IRP the use of the assets for transmission of Montana wind resources. Further, as Avista points out, if underutilized, Avista will sell access through short-term contracts to recover costs. Either use would provide value to Avista and its customers. Indeed, if Avista stopped paying its share of transmission upgrades and annual maintenance, it would be in breach of contract. We find that as of today, Avista's transmission assets are used and useful and the Company has provided evidence and testimony showing that they will remain so. Accordingly, we find that the Colstrip transmission assets should remain in rates at this time. However, if the assets cease to be used and useful, we will revisit the issue in the next GRC.

219 Second, Avista argues, and we agree, that a further power supply update to update the mark-to-market valuation of Colstrip in 2026 is not necessary. As Avista provides, the Company updated the value to match that from the most current power supply baseline for Rate Year 1. While AWEC argues that valuation may not account for offsetting benefits from dispatching other resources, there is no evidence supporting the need for an update and the Commission does not find that the benefits would outweigh the costs of such a proceeding. Accordingly, we reject AWEC's proposals.

California-Oregon-Border Adjustment

220 AWEC recommends "an adjustment to NPE to account for COB margins, resulting in a reduction to revenue requirement for electric services of $142,054 for RY1."[343]

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[343] Mullins, Exh. BGM-1T at 46:8-12.

221 In its post-hearing brief, AWEC argues that Avista witness Kinney accepted the adjustment during the hearing.[344] While Avista does not directly address the COB adjustment in its post-hearing brief, the Company notes in a footnote the following:

> An adjustment for COB transmission was not included in previous cases and is not included in the agreed power supply modeling methodology. One primary goal of the Workshops on power supply modeling was to simplify inputs. The parties agreed to a balanced modeling approach that included a single wholesale electric market and a single wholesale natural gas market, instead of representing all markets used by the Company. The parties agreed this simplification was fair and no further adder for COB transmission was included in the power supply methodology.[345]

222 From reviewing the hearing transcript, however, it does appear Avista accepted the adjustment.[346] Accordingly, the Commission finds that the adjustment AWEC proposes to account for COB margins should be made.

Capital Projects and Timing/Classification of Provisional Plant

Avista's Direct Testimony

223 Avista witness Benjamin provides testimony regarding the Company's overall approach for the inclusion and classification of capital projects (plant or plant additions) and the Company's proposal to continue the existing provisional plant review methodology. Witnesses Alexander, DiLuciano, Manuel, Howell, and Hydzik provide the business cases related to the capital projects included in the Company's MYRP proposal.[347]

224 Benjamin testifies that the Company uses a test period ending on June 30, 2023, includes pro forma adjustments for July 2023 (actuals), and expected additions through December 2023. Further, Benjamin asserts that plant additions through 2024 are classified as "pro forma" on an End of Period (EOP) basis as the Commission already approved that rate base in its 2022 GRC. Therefore, only capital projects for 2025 and 2026 are classified as provisional and are included on an Average of Monthly Averages (AMA) basis.[348]

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[344] AWEC's Post-Hearing Brief, at ¶ 52 (*citing*, Hearing Tr. Vol. III at 221:7-23).

[345] Avista's Post-Hearing Brief, at fn. 121.

[346] Hearing Tr. Vol. III at 221:7-23

[347] Benjamin, Exh. TCB-3.

[348] Benjamin, Exh. TCB-1T at 8:12-9:3, 10:19-11:2.

Benjamin testifies that provisional plant is categorized according to the Commission's Used and Useful Policy Statement.[349]

225 Regarding the pro forma classification of 2023 and 2024 plant additions, Benjamin appears to contemplate that the 2023/2024 plant additions remain subject to the Provisional Capital Reporting process as ordered in the 2022 GRC, despite the change in terminology.[350] Benjamin proposes that the 2025 and 2026 plant additions be subject to the same provisional reporting and review requirements as ordered in the 2022 GRC. Further, the Company intends to update the actual capital additions through 2023 and any changes to the expected additions through 2026.[351]

226 Benjamin's testimony incorporates the "Pro Forma Studies" provided by Company witness Schultz which results in an approximate increase to net plant of $305 million for electric and $72.5 million for natural gas over the course of the MYRP.[352] Benjamin testifies these balances include all direct Operations & Maintenance (O&M) offsets, a 2 percent O&M efficiency adjustment for those business cases without direct offsets, offsetting revenues attributed to growth, incremental reductions to depreciation expense, and net impact to net plant when including retirements occurring over the rate plan.[353]

Staff's Response Testimony

227 Staff witness Erdahl makes two recommendations related to provisional plant. First, Erdahl disagrees with the Company's reclassification of provisional plant from its 2022 GRC to traditional pro forma for the plant additions in 2023 and 2024.[354] Erdahl states that "[p]ro forma plant is not refundable," arguing customers should retain the benefits of the

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[349] Benjamin, Exh. TCB-1T at 12:11-17. The Commission notes that Avista does not utilize the exact categories specified in the Used and Useful Policy Statement (specific, programmatic, and projected) but rather four categories (large or distinct, programmatic, mandatory and compliance, and short-lived). However, this is consistent with the way the Company classified provisional plant in its 2022 GRC. *See In re Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful After Rate Effective Period*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After the Rate Effective Date (Jan. 31, 2020). Herein referenced as the Used and Useful Policy Statement.

[350] Benjamin, Exh. TCB-1T at 28:15-29:1.

[351] Benjamin, Exh. TCB-1T at 29:2-30:17. Benjamin also provides testimony that reiterates that provision plant review process as established in the 2022 GRC at Exh. TCB-1T at 30:18-32:32

[352] Benjamin, Exh. TCB-1T at 26:24-27:13.

[353] Benjamin, Exh. TCB-1T at 18:9-21.

[354] Erdahl, Exh. BAE-1T at 9:1-3. 2023 Provisional Plant was under review at the time response testimony was due. The Provisional Plant for 2024 would not be under review until April 2025.

review process including potential refunds.[355] Further, Erdahl contends reclassifying plant between MYRPs creates duplicative work for Staff and other parties as the same plant would be evaluated at three separate points in time (past GRC, retrospective plant review, and current GRC). Erdahl also argues that these evaluation points create the possibility of inconsistent prudency findings by the Commission.[356]

228 Second, Erdahl proposes that Avista be required to establish separate tariff schedules for plant that is provisionally approved in rates, like those created in PSE's 2022 GRC.[357] Erdahl argues this process provides clear delineation between plant that is approved into rate base and that rate base which is subject to refund. However, citing "administrative efficiency," Staff proposes these tariffs for Avista's next GRC, not in this proceeding."[358]

229 Erdahl also provides Staff's opinion that the methodology employed to develop the rate case should prevent double counting of rate base from a company's prior GRC. Specifically, Erdahl testifies that Avista employed a new modified historical test year rather than building incrementally from the prior proceeding.[359]

230 Staff witness Sofya Shafran Atitsogbe Golo (Atitsogbe) provides testimony expressing concern about Avista's distribution system planning and the initial prudency of associated investments. While Staff does not request a prudency determination now, they recommend the provisional distribution plant be included in rates, subject to refund, and comply with two proposed conditions during the annual provisional plant review process, which are discussed below.[360] Staff argues the Commission should allow these investments on a provisional basis to avoid immediate negative financial impacts and provide "balance[ ]for regulatory compliance with the practical necessity of maintaining a stable and reliable distribution system for customers."[361]

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[355] Erdahl, Exh. BAE-1T at 9:3-5.

[356] Erdahl, Exh. BAE-1T at 9:17-22. Alternatively, Erdahl recognizes that the Commission could, in this proceeding, order refunds subject to review for "pro forma" plant if the Commission does not accept Staff's position of retaining the provisional plant status. Erdahl, BAE-1T at 10:3-10.

[357] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy,* Dockets UE-220066 and UG-220067 *(consolidated)*, Settlement Agreement Joint Testimony, Exh. JAP-SEF-JJJ-1JT at 20:5-22:10. The concept for a separate tariff was proposed by PSE in its direct testimony (SEF-1Tr) and then incorporated into the settlement agreement.

[358] Erdahl, Exh. BAE-1T at 10:13-21.

[359] Erdahl, Exh. BAE-1T at 8:12-18.

[360] Atitsogbe, Exh. SSAG-1T at 30:13-19.

[361] Atitsogbe, Exh. SSAG-1T at 30:20-21.

231 Atitsogbe expresses specific concerns about Avista's lack of planning for distributed energy resources (DERs) and evaluation of non-wire alternatives (NWAs). Atitsogbe emphasizes that distribution planning exists in various utility filings (*e.g.,* IRPs, Clean Energy Action Plans CEAPs, and CEIPs) that Staff rely upon when evaluating investments in a GRC.[362] Further, Atitsogbe points to various statutory requirements and Commission rules that require specific utility actions within utility distribution planning efforts.[363]

232 Staff's analysis finds five distinct deficiencies with the Company's distributed energy resources (DER) integration efforts. These include: (1) non-compliance with the DER rules; (2) an incomplete DER potential study; (3) failure to meet conservation and demand response goals; (4) unclear project coordination; and (5) delayed implementation of its Advanced Distribution Management System (ADMS). Atitsogbe contends these issues demonstrate the Company's failure to meet its obligations in distribution planning.[364] Further, Atitsogbe contends that distribution investments account for the majority of total plant investment during 2025, and nearly half in 2026, leading to Staff's concern that the Company continues to undertake costly distribution investments that reinforce the traditional grid structure rather than transitioning to a modern grid.[365]

233 Regarding NWAs, Atitsogbe contends that an evaluation of investment alternatives must be considered in determining prudency.[366] Atitsogbe testifies that only one project made mention of NWAs, and that the Company failed to provide any details of the analysis conducted.[367] Further, Atitsogbe argues the Company failed to follow its own internal "playbook" to evaluate NWAs.[368]

234 Staff recommends Avista comply with two conditions during the provisional plant review process; otherwise, the provisional distribution plant should be refunded to customers.

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[362] Atitsogbe, Exh. SSAG-1T at 13:12-14:10.

[363] Witness Atitsogbe includes references to: RCW 19.405.010(1); WAC 480-100-610(4); RCW 19.280; WAC 480-100-620; WAC 480-100-640; Laws of 2023, Chapter 200, sec. 1; Avista's 2022-2023 Electric Biennial Conservation Plan, Docket U-210826; RCW 19.285; Northwest Power Act in 16 USC Chapter 12H; Avista's 2021 CEIP, Docket UE-210628, Order 01 (June 23, 2022).

[364] Atitsogbe, Exh. SSAG-1T at 19:8-20:14. Witness Atitsogbe acknowledges the Company proposed three projects that may assist in accommodating DERs but maintains it is not sufficient to meet their planning obligations.

[365] Atitsogbe, Exh. SSAG-1T at 7:1-5, 8:2-6, 16:14-18.

[366] Atitsogbe, Exh. SSAG-1T at 21:12-14. Atitsogbe references footnote 34 in the Commission's Used and Useful Policy Statement interpreting the property valuation provision of RCW 80.04.250.

[367] Atitsogbe, Exh. SSAG-1T at 22:14-17.

[368] Atitsogbe, Exh. SSAG-1T at 22:1-6. The playbook is provided in Atitsogbe Exh. SSAG-2.

First, Atitsogbe proposes requiring additional data for the past five years that includes: financial data related to distribution system investments for the preceding five years; interconnection charges; information about routine operational activities by category for projects exceeding $2 million; data and narrative for distribution system O&M costs; and a five-year forecast for both distribution plant and O&M expenses.[369]

235 Second, Atitsogbe recommends conditions be placed on Avista's 2025 electric IRP to ensure the Company "conducts a comprehensive, transparent, and forward-looking distribution planning [process]."[370] These requirements include information about DERs in Avista's distribution system, compliance with RCW 19.280.100(2)(e), and specific requirements for its grid development scenarios.[371]

AWEC's Response Testimony

236 AWEC witness Mullins testifies that the MYRPs and provisional plant review process have resulted in greater administrative burden, created capital spending budgets that are difficult to challenge, and which shift risk to ratepayers. He notes that they are not permitted but not required under R CW 80.28.425 (MYRP Statute). Mullins calls for the Commission to limit the forecasted capital allowed in rates and revise the provisional plant review process from a portfolio approach to a project-by-project review.[372]

237 Mullins argues the statutory changes that shift determination of a utility's revenue requirement away from the modified historical test year and limited pro forma adjustments have not curbed the frequency of rate cases, reduced t administrative burden, or provided appropriate protections against utility cost escalations. Mullins contends that instead, rate cases have become more complicated, contain aggressive forecasting assumptions, provide no incentive for utility cost containment, and provide for a review period that is irrelevant so long as the utility spends within the approved budget. Further, Mullins takes issue with Avista including capital expenditures for business cases not included in its 2022 GRC during the provisional plant review process.[373]

238 For these reasons, Mullins recommends a 'course correction' to limit capital project costs to plant in service on or before the rate effective date for each rate year within the MYRP.

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[369] Atitsogbe, Exh. SSAG-1T at 26.

[370] Atitsogbe, Exh. SSAG-1T at 27:18-19.

[371] Atitsogbe, Exh. SSAG-1T at 27:21-29:14. RCW 19.280.100 requires a ten-year plan for distribution system investments and analysis of NWAs.

[372] Mullins, Exh. BGM-1T at 12:3-13:2.

[373] Mullins, Exh. BGM-1T at 5:15-7:3, 7:17-8:10.

Mullins argues that not only is the statutory language allowing MYRPs permissive, but that the Commission's Used and Useful Policy Statement also affirms the Commission's intent for the continued use of the modified historical test year approach.[374]

239 For RY1, this recommendation would limit capital expenditures to those in service on or before December 21, 2024. However, Mullins recognizes this approach still requires projected costs and therefore recommends that Avista submit a compliance filing with an attestation confirming that all estimated plant through December 21, 2024, was placed in service. Additionally, Mullins proposes the Commission require this attestation on a project-by-project basis with a refund for any underspent project with costs exceeding $1 million. Further, if the Commission does not accept AWEC's recommendation to limit capital additions or the attestation process, Mullins argues that the Commission should still adopt a project-by-project methodology for the provisional plant review filing.[375]

240 For RY2, Mullins testifies that due to the complexities of removing Colstrip from rates, it may be more efficient to limit this GRC to a single year. However, if the Commission authorizes a two-year rate plan, Mullins recommends the same limitations and attestation process occur for the second year (calendar year 2025).[376]

241 Mullins contends this approach would eliminate the need for the after-the-fact capital review process, thus mitigating the administrative burden of MYRPs. AWEC's recommendations would reduce electric total rate base by $25.8 million for RY1 and $9.0 million for RY2. For natural gas, AWEC would reduce total rate base by $3.2 million in RY1, with an increase of $5.9 million for RY2.[377]

Avista's Rebuttal of Staff

242 Company witness Andrews responds to Staff witness Erdahl's testimony regarding the classification of pro forma and provisional plant, the request for an extended review period, and Staff's proposal for separate tariffs to track provisional plant. Avista is "amenable" to Staff's classification of plant, and supportive of the extended review period, but disagrees with creating separate tariff schedules for provisional plant.[378]

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[374] Mullins, Exh. BGM-1T at 9:9-11:10, referencing the MYRP Statue RCW 80.04.250 and paragraph 20 of the Commission's Used and Useful Policy Statement.

[375] Mullins, Exh. BGM-1T at 11:13-12:6.

[376] Mullins, Exh. BGM-1T at 13:5-18.

[377] Mullins, Exh. BGM-1T at 13:20-14:3.

[378] Andrews, Exh. EMA-6T at 3:18-4:11.

243 While Avista does not oppose Staff's position regarding the classification of projected plant, Andrews testifies that the Company's classification of provisional plant for 2023 and 2024 (included in the 2022 GRC) was not intended to circumvent the established review process. Andrews agrees to maintain the classification of provisional plant for any projected plant beyond the test year.[379]

244 However, Andrews disagrees with Staff's perspective that changing the label of provisional plant creates duplicative review and the possibility of inconsistent prudency determinations. Andrews argues that the existing provisional plant review process would remain intact despite the naming convention and that many of Avista's projects are ongoing, as demonstrated in other Company witnesses' testimony and supporting business cases. Andrews argues that these business cases are not changing, just the project funding levels. Combined with an extended review timeframe from four to six months, Andrews submits that the fact that business cases remain unchanged further alleviates pressures for Staff and other parties to complete review of these filings.[380]

245 The Company also disagrees with Staff's proposal for separate tariffs to track provisional plant. Andrews argues the utilization of separate tariffs introduces complexity and additional burden by requiring: (1) the review of revenue requirement through both base rate and individual trackers, (2) the Company to adjust its accounting system and processes, and (3) management of additional tariffs which could lead to errors with more complicated rate structure. Andrews also points to the Commission's Used and Useful Policy Statement that allows for either process. Finally, she contends that the deferral process for any required refunds is reasonable, especially given that no refunds have yet been required through the provisional plant review for 2022 or 2023.[381]

246 Avista witness DiLuciano responds to Staff witness Atitsogbe's testimony related to the Company's electric distribution system planning. DiLuciano wholly disagrees with Staff's assessment of the Company's distribution system planning, its determination that Avista has not met the prudency standard, and its claims that the Company has not complied with various RCWs, WACs, and Commission orders.[382]

247 First, DiLuciano states the Company has already demonstrated through direct testimony and exhibits that it has met the prudence standard with a "robust planning standard that sets the foundation," for its distribution planning and investments. DiLuciano testifies the

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[379] Andrews, Exh. EMA-6T at 11:4-12:12.

[380] Andrews, Exh. EMA-6T at 13:3-14:17.

[381] Andrews, Exh. EMA-6T at 15:2-16:16.

[382] DiLuciano, Exh. JDD-3T at 3:4-4:1.

business cases in this proceeding contain the necessary documentation, including consideration of alternatives, that Staff claims is lacking.[383]

248 Second, DiLuciano takes issue with Staff's assertions that the Company has not changed its planning process related to an increased focus on DERs as required by RCW 19.280, and that it is not making progress to modernize its distribution grid. He cites the Company's refinements in its distribution planning and subsequent collaboration with Modern Grid Solutions (MGS) to integrate new approaches including NWAs.[384] Further, DiLuciano testifies that the Company has also engaged with interested parties through its Distribution Planning Advisory Group (DPAG) and its transmission planning process.[385] DiLuciano argues that Avista has made progress in meeting RCW 19.280.100 as evidenced by: (1) deployment of grid-monitoring capable smart devices, (2) utilization of Advanced Metering Infrastructure data, (3) publication of its ten-year plan, (4) and inclusion its 2023 electric IRP of a chapter related to DERs and data specific to Avista's territory.[386]

249 Next, DiLuciano provides examples of projects that help inform the Company in its interconnection process, hosting capacity assessment, DER behavior, or document Avista's consideration of DERs in its grid modernization efforts. These projects included a collaboration to refine microgrid designs, battery installation to reduce load on a substation transformer, considerations of rooftop solar to mitigate capacity constraints, and consideration of batteries for part of the North Spokane transmission system.[387]

250 While DiLuciano argues that although the Company did not meet its 2022-2023 conservation targets, it employed adaptive management efforts in an attempt to reach the targets but was hampered by circumstances that were both unforeseen and extraordinary in nature. DiLuciano references the continued COVID-19 emergency and lasting impacts such as supply chain issues, labor shortages, and high interest rates and inflation. Also, DiLuciano testifies that notwithstanding those efforts and impacts, there was no material strain placed on the distribution system from the missed targets.[388]

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[383] DiLuciano, Exh. JDD-3T at 4:4-21.

[384] DiLuciano, Exh. JDD-3T at 5:1-6:19. MGS is the consulting firm that assisted Avista with its NWA/DER Playbook referenced by Staff and Sierra Club.

[385] DiLuciano, Exh. JDD-3T at 9:5-10:12.

[386] DiLuciano, Exh. JDD-3T at 14:1-11.

[387] DiLuciano, Exh. JDD-3T at 10:14-11:7, 11:18-12:10. *See* JDD-7, JDD-8, and JDD-9 for the referenced business cases.

[388] DiLuciano, Exh. JDD-3T at 16:14-17:14.

251 To refute Staff's claim that it failed to comply with the Commission's order in Avista's 2021 CEIP filing,[389]DiLuciano testifies that the Company's DER Potential Assessment was published on June 17, 2024, and provides the report in Exh. JDD-10t.

252 Finally, DiLuciano responds to Staff's proposal to require two conditions for the annual review process to determine the recovery of distribution provisional plant. First, DiLuciano argues that the financial information and data that Staff requests in Condition 1 are already provided to the Commission as part of the business cases filed in GRCs. Requiring further reporting, he says, would create a burden for the Company. Further, DiLuciano references Staff compliance letters from Avista's 2023 provisional plant review that finds the documentation provided in the filing to be in compliance and sufficient.[390]

253 Regarding Staff's second condition requiring additional analysis in Avista's 2025 IRP, DiLuciano testifies the draft IRP will be filed in September 2024 with a final draft due on January 2, 2025. Therefore, DiLuciano argues that with a rate effective date of December 21, 2024, in this proceeding, the Company does not have adequate time to complete the extensive analysis required for compliance with such a condition.[391]

Avista's Rebuttal of AWEC

254 Company witness Andrews disagrees with AWEC's position and recommendations related to capital projects. First, she identifies a modeling error in RY2 capital adjustment; namely that Mullins fails to adjust Accumulated Deferred Federal Income Taxes (ADFIT) when moving from an AMA basis to an EOP basis, resulting in an overstated reduction in revenue requirement of $859,000 and $96,000 for electric and natural gas, respectively. Andrews contends the capital investments excluded by AWEC contain projects needed to maintain energy reliability for customers.[392]

255 Next, Andrews argues that AWEC's position "upsets the new regulatory paradigm…."[393] Andrews contends that the Legislature and Commission, respectively, acknowledge the

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[389] DiLuciano, Exh. JDD-3T at 12:13-14. The DER Potential Assessment was published on June 17, 2024, with response testimony due in this case on July 3, 2024. It does not appear this assessment was filed with the Commission in either Docket UE-210628 (2021 CEIP) or the 2022 GRC docket.

[390] DiLuciano, Exh. JDD-3T at 20:24-22:13.

[391] DiLuciano, Exh. JDD-3T at 22:15-3. DiLuciano provides additional testimony as to why incorporating Condition 2 into the 2027 IRP is also inappropriate. *See*, DiLuciano, Exh. JDD-3T at 23:6-25:12.

[392] Andrews, Exh. EMA-6T at 18:11-12.

[393] Andrews, Exh. EMA-6T at 18:18.

need for a more flexible regulatory rate setting process, as evidenced by the passage of ESSB 5295 and the Commission's subsequent Used and Useful Policy Statement. Andrews argues that the statute and policy guidance provides for that flexibility while continuing certain regulatory principles.[394]

256 Andrews also takes issue with Mullins' claim that utilities lack incentive to limit the amount of capital investment and to subsequently ensure they spend to approved budgets. To the contrary, Andrews contends that the Company's capital planning process neither results in funding every request nor provides automatic funding at the level of funding requested. Additionally, Andrews opines that the time to prepare for and complete the adjudication process together with the subsequent period of the proposed MYRP requires estimates months and years in advance. Therefore, AWEC's proposal would penalize a utility by "freezing" funding for specifically identified projects so far in advance given that operational needs change over time.[395]

257 Finally, Andrews claims that the Company experienced earnings erosion despite the rate plan authorized in the 2022 GRC. Andrews references testimony of other Company witnesses to support this statement.[396]

Public Counsel's Cross-Answering Testimony

258 In cross-answering, Public Counsel witness Garrett supports AWEC's position limiting the capital investments allowed for recovery in a MYRP as it better aligns with the *used and useful* standard and provides rate protections to customers. Garrett also references the treatment in Nevada which aligns with AWECs proposal.[397]

AWEC's Cross-Answering Testimony

259 In cross-answering, AWEC witness Mullins opposes Staff's proposal to create separate provisional plant tariffs. AWEC's specific concern is regarding the potential design of the schedules which may negatively impact Schedule 25 (Extra Large General Service) and references a particular Schedule 25i customer that receives a discount under Schedule 25.[398]

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[394] Andrews, Exh. EMA-6T at 18:18-22:4.

[395] Andrews, Exh. EMA-6T at 23:6-26:2.

[396] Andrews, Exh. EMA-6T at 27:5-15.

[397] M. Garrett, Exh. MEG-9T at 5:1-6:13. While Garrett appears to agree with AWEC, it does not appear that Public Counsel formally adopted those adjustments to Public Counsel's proposed revenue requirement on cross-answering.

[398] Mullins, Exh. BGM-1T at 16:17-17:18.

Decision

260 The Commission declines to adopt AWEC's proposed project-by-project review process and proposal to limit the level of authorized plant to that in service at the time of filing. When CETA was enacted, the legislature amended RCW 80.04.240, mandating the Commission "establish an appropriate process to identify, review, and approve public service company property that becomes used and useful for service in this state after the rate effective date."[399]

261 On January 31, 2020, in establishing a process as mandated by the legislature, the Commission issued a Policy Statement in Docket U-190531, which establishes "a process for the provisional recovery in rates of rate-effective period property, subject to refund, where the property, investment or project in question does not meet the current standards for inclusion in rates prior to rates becoming effective."[400] The Policy Statement was clearly intended to provide flexibility and not be overly prescriptive.[401]

262 We agree with AWEC that Commission policy mandates that rate-effective period investment recovery is subject to and dependent on the request meeting longstanding ratemaking practices and standards.[402] We also recognize and agree with Staff, AWEC, and TEP that the process can and should be improved. However, we do not agree with AWEC that the solution should be to review provisional capital on a project-by-project basis. Rather, we agree with Staff, as supported by TEP and agreed to by Avista, that to allow for additional evaluation, the review process should be extended to six months.

263 Further, while not specifically addressed in post-hearing briefs, we agree with Staff regarding the classification of plant and naming conventions as addressed by Staff witness Erdahl.[403] Avista accepted Staff's position on classification in testimony prior to the evidentiary hearing, but opposed Staff's position that renaming of plant could cause double counting.[404] We do not agree. If during its review process, Staff encounters potential double counting, it would in turn raise concerns for the Commission. The potential risk of double counting outweighs any arguments to the contrary.

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[399] RCW 80.04.250(3).

[400] Docket No. U-190531, Policy Statement ¶ 20 (Jan. 31, 2020).

[401] *See*, Docket No. U-190531, Policy Statement ¶¶ 30-31 (Jan. 31, 2020)

[402] *See*, Docket No. U-190531, Policy Statement ¶¶ 28-29 (Jan. 31, 2020).

[403] Erdahl, Exh. BAE-1T at 9:1-5, 17-22.

[404] Andrews, Exh. EMA-6T at 11:4-12:12.

264 Staff also requests the Commission require Avista to use a separate tariff for provisional plant filings. The Commission declines to adopt Staff's request at this time. The Commission agrees with Avista that requiring a separate tariff now would add additional complexity and administrative burden to the process. As the Commission has noted, the intent of the Commission's policy following the changes to RCW 80.04.250 are to maintain adherence to longstanding ratemaking principles, while also maintaining flexibility and supporting a streamlined process.[405] Implementing a separate tariff sheet at this time would reduce flexibility and streamlining within the process. However, if review of provisional plant continues to be problematic, the Commission may revisit Staff's proposal.

265 We believe this approach is consistent with the intent of the legislature and Commission policy and that extending the review period will address several the concerns raised by Staff and TEP.

266 TEP raises two additional points: the first is to disallow new business cases from being included in the review, and the second is to enter a final order following conclusion of the review. First, we decline to disallow new business cases at this time. Allowing new business cases is consistent with the Commission's Policy Statement to allow flexibility and further the reduction of regulatory lag. However, the decision is non-precedential on this point and the Commission will continue to monitor the number and cost of new business cases in the future and may disallow their addition in the future if circumstances warrant doing so.

267 Second, we concur with TEP that there is a need for greater formality and transparency in the Provisional Plant review process. Despite our desire to maintain flexibility, and not be overly prescriptive, we provide further clarification on the Commission's expectations for Provisional Plant filings. Specifically, the Commission requires Avista, and will require other companies, to conform to the following when submitting Provision Plant filings:

1) Identify whether a business case is identified in the Clean Energy Implementation Plan (CEIP);
2) Identify whether a business case is required for CETA and/or CCA compliance;
3) Identify each new business case and provide a narrative for business need;
4) Provide information on an annual and cumulative rate-effective period basis;
5) Provide a narrative that explains the filing structure and how worksheets fit together; and

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[405] Docket No. U-190531, Policy Statement ¶ 28 (Jan. 31, 2020).

6) Maintain consistent naming conventions.

268 These requirements should allow for greater transparency and clarity for parties reviewing the filing. Additionally, in recognition of TEP's concerns, and our own concerns in this case and following consideration of provisional plant filings at a recent open meeting,[406] the Commission will require more formality in the review process. We require Avista and other utilities to present their future provisional plant filings for discussion and consideration at Open Meetings.

269 The Commission's intent in providing this additional guidance and requiring Provisional Plant filings to be presented through the Open Meeting process is to maintain flexibility, further streamline the process, and to adhere to the intent of the changed statutes, but also ensure transparency and clarity, to ensure confidence in the process, and to address the concerns of Staff, TEP, and others in the process. The Commission will continue to monitor this process moving forward and assess whether further changes are needed at a later time.

Decarbonization – Line Extension Allowances, Non-Pipe Alternatives, Customer Reporting, and Planning

270 Avista witness Jason R. Thackston references the Company's 2023 Natural Gas IRP[407] and summarizes the Company's approach to decarbonizing its natural gas system.

> The Company's clean energy future also encompasses natural gas resources, as natural gas is one of the cleanest burning fossil fuels, and plays a key role in reducing carbon emissions, particularly when used directly by customers in their homes rather than electricity generation to meet the same need. The Company's strategy includes diversifying and transitioning from conventional fossil fuel natural gas to RNG, hydrogen, other renewable fuels, and reducing consumption via conservation and energy efficiency. The Company will purchase carbon offsets as necessary to meet the CCA compliance obligations.[408]

271 Both NWEC and the Sierra Club take issue with this approach, and in particular criticize the Company's practices regarding line extension allowances (LEAs), residential gas equipment incentives, and analysis of non-pipe alternatives (NPAs).

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[406] *See*, Dockets UE-240779 and UG-240780. These dockets were discussed during the regularly scheduled November 7, 2024, Open Meeting, at which time TEP and the Commission expressed concerns over how the provisional plant process had been handled during the compliance period in June and July of 2024, *see also* Docket UE-220053.

[407] *See*, Docket UG-220244.

[408] Thackston, Exh. JRT-1T at 9:2-9.

Line extension Allowances

272 NWEC witness Gehrke testifies that in the 2022 General Rate Case (GRC), the Commission accepted and approved a stipulation that requires Avista to phase out natural gas line extension allowances (LEAs) by 2025. To ensure a glidepath to phasing out LEAs, NWEC recommends that the Commission require Avista to discontinue offering LEAs for Schedules 131, 132, and 146 on January 1, 2025. NWEC also recommends that the Commission require Avista to cease offering service under the Company's Rural Gas Service Connection (Schedule 154).[409]

273 According to NWEC, the 2022 GRC agreement outlined Avista's plan to gradually phase out natural gas LEAs over three years. Under the settlement, for 2023, LEAs would be determined using a net present value method based on a two-year timeframe. In 2024, the calculation would be based on a one-year timeframe. Finally, in 2025, the Company would not offer any allowance for natural gas line extensions.[410] The Coalition continues to support the agreement from the 2022 GRC.[411]

274 NWEC contends that Avista has only partially implemented the agreed-upon changes.[412] On December 14, 2022, the Company requested a revision of Schedule 151. In this tariff revision, the Company implemented the proposed reduction of the LEA for tariff Schedules 101, 102, 111, 112, and 116.[413] For Schedules 131, 132, and 146, the tariff states that Avista will calculate LEAs on a case-by-case basis.[414]

275 Sierra Club witness Dennison also notes that Avista still provides a subsidy for new buildings that rely on gas in the form of its electric LEA, which is available to both all-electric and mixed-fuel new construction projects.[415] Since Avista can still offer LEAs for mixed-fuel buildings, he says, new gas infrastructure may be built that could be considered a stranded asset in the near future. To close this "loophole," Dennison recommends the Commission direct Avista to only offer line extension allowances for

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[409] Gherke, Exh. WG-1T at 10:14-15.

[410] Gehrke, Exh. WG-1T at 11:3-7.

[411] Gehrke, Exh. WG-1T at 11:9.

[412] Gehrke, Exh. WG-1T at 11:12.

[413] Gehrke, Exh. WG-1T at 11:12-14.

[414] Gehrke, Exh. WG-1T at 11:15-16.

[415] *See e.g.*, Avista Schedule 51, Line Extension, Conversion, and Relocation Schedule: Washington.

new buildings that are fully electrified as this is in alignment with statewide decarbonization goals and mandates.

276 Sierra Club witness Dennison also notes that Avista still provides a subsidy for new buildings that rely on gas in the form of its electric LEA, which is available to both all-electric and mixed-fuel new construction projects.[416] Since Avista can still offer LEAs for mixed-fuel buildings, he says, new gas infrastructure may be built that could be considered a stranded asset in the near future. To close this "loophole," Dennison recommends the Commission direct Avista to only offer line extension allowances for new buildings that are fully electrified as this is in alignment with statewide decarbonization goals and mandates.

277 In its post-hearing brief, Avista reiterates that it does not oppose NWEC's proposal related to the line extension allowances for non-residential customers. However, it opposes Sierra Club's proposal to prohibit electric LEAs for customers installing natural gas or propane. Avista suggests that if such a policy matter were to be considered, that it should not be in this proceeding.[417]

278 AWEC also asks the Commission to reject this proposal. Witness Kaufman suggests that Sierra Club's recommendation may be at odds with RCW 80.28.090[418] and RCW 80.28.100.[419] AWEC says Sierra Club's recommendation may result in "an unreasonable preference for electric-only service under RCW 80.28.090, despite the fact that Avista maintains an obligation to provide natural gas service."[420] Moreover, Kaufman argues that the proposal would be inequitable because only a portion of customers would be eligible for the line-extension allowance, and in some cases customers not eligible for the extension could be double charged.[421]

Gas Equipment Incentives

279 Sierra Club witness Dennison recommends that Avista phase out mid-stream incentives for residential gas appliances like furnaces and water heaters that may prompt builders to

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[416] *See e.g.*, Avista Schedule 51, Line Extension, Conversion, and Relocation Schedule: Washington.

[417] Avista's Post-Hearing Brief, at ¶ 169.

[418] RCW 80.28.090 (Unreasonable Preference).

[419] RCW 80.28.100 (Rate Discrimination).

[420] Kaufman, LDK-6T at 6:20-7:1.

[421] Kaufman, LDK-6T at 7:20-8:2. AWEC offers a secondary recommendation that if the Commission accepts Sierra Club's recommendation, that the Commission exempt large non-residential customers under Electric Schedule 25 customers from this process.

install new gas infrastructure to serve these appliances.[422] For natural gas equipment appliances, Dennison recommends the Company re-appropriate 20 percent of the budgeted residential gas incentives in its current Biennial Conservation Plan (BCP)[423] to incentives for residential building envelope and electrification readiness measures as well as require the Company to offer information related to electrification for customers who inquire about natural gas rebates or incentives.

280 Avista opposes this proposal. Witness Bonfield states that under RCW 80.28.380 the Company must demonstrate that "the target will result in the acquisition of *all resources identified as available and cost-effective."*[424] He interprets "all to indeed mean all," thereby allowing Avista the ability to cast a wide net when it examines resources and conservation measures required by law. He states that if the Company were to accept Sierra Club's recommendation on this topic, it would be in violation of existing applicable decarbonization laws and rules.[425]

281 Moreover, Bonfield states that accepting this proposal would arbitrarily increase rates for electric customers. He notes that the Company has already dedicated $2 million (on an annual basis) from its CEIP to address electric customers' energy endeavors, many of which include building envelope upgrades to replace natural gas equipment with efficient electric equipment.[426]

282 NWEC also disagrees with Sierra Club's recommendation, noting that the 2024-2025 Biennial Conservation Plans (BCP) were just approved in January 2024.[427] Any substantive changes to these offerings, it says, should be made in the next BCP.

Non-Pipes Alternatives

283 Sierra Club witness Dennison argues that NPAs can decrease the need for expansion of any current gas infrastructure, which he argues represents substantial avoided costs.[428] Dennison says the 2022 GRC Settlement requires Avista to consider NPAs in its gas system distribution planning process in future IRPs, and requires the EEAG to weigh in on

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[422] Dennison, Exh. JAD-1T at 15:17-20.

[423] *See* Docket UG-230898.

[424] Bonfield, Exh. SJB-5T at 46:8-9 (emphasis in original).

[425] Bonfield, Exh. SJB-5T at 46:20-47:2.

[426] Bonfield, Exh. SJB-5T at 48:8-16.

[427] *See* Docket UG-230898.

[428] Dennison, Exh. JAD-1T at 20:10-12.

how Demand Side Management (DSM) programs can be used as NPAs.[429]

284 Although Avista is required to examine NPAs with the Energy Efficiency Advisory Group (EEAG), in a data request to the Company, Avista confirmed "it has not performed an analysis of non-pipe alternatives in WA."[430] Dennison concludes that Avista failed to evaluate the possibility of NPAs for specific projects and failed to engage with the EEAG in the 2023 IRP process on this very topic. When pressed for more information on the extent of Avista's analysis on potential NPAs, the Company informed Dennison that NPAs are "relatively new and the Company has little experience with NPAs to date."[431] Dennison argues Avista should have some familiarity with analyzing NPAs because the Oregon PUC ordered the Company to essentially do the same thing in its Order acknowledging Avista's 2023 Natural Gas IRP in Oregon.[432]

285 Dennison then recommends that Washington adopt Oregon's NPA framework which is more prescriptive than what the 2022 GRC Settlement Agreement requires, and which he believes addresses many of the concerns Avista raised in previous data responses.[433] He recommends that for the 2025 IRP, the Commission require Avista to perform analyses using this framework on at least five projects (even if they exceed $500,000) to gain experience with NPA analyses.

286 On rebuttal, Avista witness DiLuciano states that the 2022 Settlement agreement does not explicitly require any type of NPA analysis, but rather only to consider NPAs when conducting gas system planning. Therefore, he says, Avista has complied with the settlement agreement and has evaluated NPAs when considering reinforcement alternatives not related to safety, compliance, or road moves that exceed $500,000.[434] He says "[t]his process and methodology was presented to the Company's EEAG at its Fall 2023 meeting. At that time, no advisory group members expressed concern or offered suggestions on altering the proposed methodology."[435]

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[429] *See* Final Order 10/04, No. UE-220053, UG-220054, Appendix A, at 11-12.

[430] Dennison, Exh. JAD-1T at 24:14-15.

[431] Exh. JAD-9, Avista Response to Sierra Club Data Request SC-017.

[432] Exh, JAD-4, Oregon PUC, Order No. 24-156, No. LC 81 at Appendix A, P. 71.

[433] Dennison, JAD-1T at 28:5-16. The language included in the brackets within the quotation reflect Washington specific thresholds and requirements.

[434] DiLuciano, Exh. JDD-3T at 26:18-23.

[435] DiLuciano, Exh. JDD-3T at 26:20-23.

287 The Company does accept Sierra Club's recommendation to adopt the OPUC framework for NPA analyses but declines to do so in the 2025 IRP. Avista notes that the next IRP is due by April 1, 2025, leaving little time to complete such an analysis. Furthermore, the Company believes conducting these analyses for "practice" is not the best use of Avista's time and resources, which are ultimately paid by customers.[436]

288 Kaufman also addresses Sierra Club's recommendation to adopt the Oregon PUC framework to analyze NPAs. AWEC agrees that Avista should adopt the framework, but disagrees that the Commission should be overly prescriptive based on an entirely different proceeding that unfolded in a different state. AWEC recommends allowing Avista to maintain the ability to exercise discretion when it comes to conducting NPA analyses for Washington customers.[437]

Decarbonization Planning

289 Dennison highlights the settlement stipulations from the 2022 GRC discussed above and asserts that Avista has "continued on a business-as-usual trajectory" and "has not adequately begun making the transformative changes that will be needed to meet its decarbonization obligations…"[438] Dennison asserts this continued lack of attention to CCA obligations is reflected in Avista's 2023 IRP, as the Company indicates it intends to comply with the CCA by primarily relying on "CCA allowance purchases, with some synthetic methane in later years, a very small amount of energy efficiency, and no electrification."[439] Dennison believes that this approach will create significant financial risks for customers, and that Washington will exceed the CCA statewide emissions caps, especially as other utilities pursue similar strategies.[440] Dennison points to the most recent Cascade Natural Gas (CNG) IRP[441] that similarly relies on allowance purchases, and notes that although the Commission has not acknowledged Avista's IRP, it declined to acknowledge CNG's IRP for over-reliance on CCA allowance purchases.

290 To address this alleged deficiency, Dennison recommends the Commission direct Avista to complete a decarbonization plan by March 2027, with the following elements:

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[436] DiLuciano, Exh. JDD-3T at 30:23-28.

[437] Kaufman, Exh. LDK-6T at 10:2-13.

[438] Dennison, Exh. JAD-7:18-8:2.

[439] Dennison, Exh. JAD-1T at 8:5-7.

[440] Dennison, Exh. JAD-1T at 8:9-12.

[441] *See* Docket UG-220131.

1) Incorporate findings from the Company's Targeted Electrification Pilot,
2) Evaluate a range of decarbonization and CCA compliance measures including evaluation of building electrification as a proactive resource strategy,
3) Address opportunities to coordinate Avista's efficiency and electrification measures with available funds and programs including IRA and Washington's HEAR program,[442]
4) Analyze at least one scenario in which Avista's annual gas system emissions are no greater than its share of the statewide CCA emissions cap, without relying on additional allowances and estimate the percentage reduction in gas system throughput by 2030 and identify strategies that would decrease natural gas rate base by the same percentage by 2030.[443]

291 Dennison further recommends that, in alignment with the 2021 State Energy Strategy, the Commission require Avista to conduct a Targeted Electrification Pilot with targets to engage 5,000 customers through electrification assessments and for Avista to provide at least 1,000 rebates for electrification equipment and include provisions to conduct engagement and outreach to low-income customers or customers within Named Communities.

292 Avista responds that it believes the Preferred Resource Strategy selected in the 2023 Natural Gas IRP is a decarbonization plan, and provides one with the lowest reasonable cost while complying with all known laws, rules, and environmental policies. Because that plan is within the IRP, Avista believes any concerns with the Company's decarbonization efforts should occur within the context of the IRP.

293 AWEC also disagrees and believes Sierra Club relied on an erroneous interpretation of the CCA's requirements and reliance on the OPUC's criticism of Avista in their IRP proceeding. As such, AWEC asserts that Sierra Club 's recommendation essentially renders decarbonization a "planning goal."[444] AWEC says Avista's goal should be to meet CCA requirements in a cost-effective manner.[445] If the Commission mandates a plan, AWEC recommends a decarbonization study similar to that undertaken by Puget Sound Energy to identify cost-effective decarbonization measures.[446]

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[442] *See* Home Electrification and Appliance Rebates Program.

[443] Dennison, Exh. JAD-1T at 45:11-46:2.

[444] Kaufman, Exh. LDK-6T at 10:20-11:3

[445] Kaufman, Exh. LDK-6T at 12:8-17.

[446] AWEC's Post-Hearing Brief, at ¶ 111.

294 NWEC largely supports Sierra Club's recommendations. With regard to the Targeted Electrification Pilot, it recommends that the Pilot target 40 percent of its customers from low-income or Named Communities, which aligns with the federal Justice40 initiative and is a ,similar in construct to PSE's Targeted Electrification Pilot which has a 30 percent requirement.[447] NWEC also recommends that Avista be required to install a minimum of 25 no-cost, electric-only heat pumps during the pilot period.[448] Alternatively, if the Commission does not accept this recommendation, NWEC recommends the Commission require Avista to work with the EAAG and Conservation Resources Advisory Group (CRAG) to address low-income electrification efforts.[449]

Decision

295 Washington voters approved Initiative Measure No. 2066 in the recent General Election. In pertinent part, the initiative adds limits to the Commission's authority to approve, or approve with conditions, multiyear rate plans. Specifically, section 4 of the initiative amends RCW 80.28.425, adding the following limitations:

> (12) The commission shall not approve, or approve with conditions, a multiyear rate plan that requires or incentivizes a gas company or large combination utility to terminate natural gas service to customers.
>
> (13) The commission shall not approve, or approve with conditions, a multiyear rate plan that authorizes a gas company or large combination utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by implementing planning requirements that would make access to natural gas service cost-prohibitive.[450]

296 While the election occurred and its results were certified following the parties' submission of briefs in this proceeding, the initiative has the force of law, and the Commission must follow the initiative's directives, unless and until the effect of initiative is stayed or reversed by a court of law.

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[447] Gehrke, Exh. WG-8T at 4:7-12.

[448] Gerhke, Exh. WG-8T at 4:14-16.

[449] Gehrke, Exh. WG-8T at 5:4-12.

[450] Initiative Measure No. 2066, approved Nov. 5, 2024.

297 Sierra Club and NWEC propose a number of programs and changes to Avista's natural gas service both in response to Avista's 2023 Natural Gas IRP and provisions in the 2022 GRC Settlement, including natural gas decarbonization plans, changes to line extension allowances, or LEAs, non-pipe alternatives, or NPAs, and equipment incentives, many of which appear to run counter to the initiative's directives. We address each in turn.

Decarbonization Plan

298 Avista's strategy for natural gas decarbonization to comply with its CCA obligations is set forth in its 2023 Natural Gas IRP. This strategy includes diversifying and transitioning from conventional fossil fuel natural gas to RNG, hydrogen, other renewable fuels, and reducing consumption via conservation and energy efficiency. The Company will purchase carbon offsets as necessary to meet the CCA compliance obligations.[451] The Company's approach to decarbonization to meet its CCA compliance obligations was proposed in its 2023 Natural Gas IRP, and as it is not proposed in this proceeding for approval, we decline to address it.

299 Sierra Club's witness Dennison requests the Commission direct Avista to adopt a Decarbonization Plan, that among other elements, would "identify strategies that would decrease natural gas rate base by the same percentage by 2030," which we interpret to mean the removal of gas assets from its system, and the possible termination of customer usage of natural gas.[452] This element of the proposed plan would appear to be explicitly prohibited by the initiative. Without further briefing or legal analysis of the effect of the initiative on the Commission's authority and how companies may pursue decarbonization of their energy systems to meet CCA and CETA requirements while complying with the provisions of the initiative, we find it inappropriate to adopt Sierra Club's decarbonization proposal.

Line Extension Allowances

300 NWEC proposes the Commission require Avista to discontinue offering LEAs for Schedules 131, 132, and 146 on January 1, 2025, in keeping with the provisions of the 2022 GRC Settlement. NWEC also recommends that the Commission require Avista to no longer offer service under the Company's Rural Gas Service Connection (Schedule 154).[453] Sierra Club supports NWEC's proposals and recommends the Commission direct

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[451] Thackston, Exh. JRT-1T at 9:2-9.

[452] Dennison, Exh. JAD-1T at 45:11-46:2.

[453] Gherke, Exh. WG-1T at 10:14-15.

Avista to only offer LEAs for new buildings that are fully electrified, and no longer allow Avista to offer LEAs for mixed-fuel new construction projects.[454]

301 While Avista does not oppose NWEC's proposal relating to LEAs for non-residential customers, it opposes Sierra Club's proposal to prohibit electric LEAs for customers installing natural gas or propane. Avista suggests that the Commission should not determine such a policy decision in this proceeding.[455] AWEC is silent on NWEC's proposal but does not support Sierra Club's, arguing that limiting LEAs to electric-only customers to incentivize the curtailment of gas would be inequitable and possibly discriminatory.[456]

302 The elimination of LEAs for non-residential customers was originally agreed to in the 20222 GRC Settlement and neither Avista nor AWEC oppose this treatment. However, both Avista and AWEC object to the limitation of electric LEAs to electric-only customers. This proposal goes beyond what the parties appear to have agreed to in the 2022 GRC Settlement, and appears to be contrary to the prohibition in Initiative 2066 for the Commission to "approve, or approve with conditions, a multiyear rate plan that authorizes a gas company or large combination utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by implementing planning requirements that would make access to natural gas service cost-prohibitive." For these reasons, we reject Sierra Club's proposal.

Gas Equipment Incentives

303 Sierra Club recommends that Avista phase out mid-stream incentives for residential gas appliances like furnaces and water heaters that may prompt builders to install new gas infrastructure to serve these appliances.[457] Specifically, Sierra Club recommends Avista use 20 percent of the budgeted residential gas incentives for natural gas appliances in its current BCP and use this amount for incentives for residential building envelope and electrification readiness measures.[458] Sierra Club also recommends the funds be used for the Company to offer information related to electrification for customers who inquire about natural gas rebates or incentives.

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[454] *See e.g.*, Avista Schedule 51, Line Extension, Conversion, and Relocation Schedule: Washington.

[455] Avista's Post-Hearing Brief, at ¶ 169.

[456] AWEC's Post-Hearing Brief, at ¶¶ 105-7.

[457] Dennison, Exh. JAD-1T at 15:17-20.

[458] *See* Docket UG-230898.

304 NWEC opposes Sierra Club's recommendation to reappropriate funds for natural gas appliance incentives, noting that the 2024-2025 BCPs were just approved in January 2024, and any substantive changes to these offerings should be made in the next BCP.[459]

305 Avista opposes Sierra Club's proposal, arguing that pursuing the proposal would put the Company in violation of existing applicable decarbonization laws and rules.[460] The Company also argues that adopting the proposal would result in arbitrarily increasing rates for electric customers, and that the Company has already dedicated $2 million (on an annual basis) from its CEIP to address electric customers' energy endeavors.[461]

306 We reject Sierra Club's proposal as contrary to the BCPs that the Commission approved earlier this year. We do not reach the question of whether approving Sierra Club's proposal would be inconsistent with Initiative I-2066.

Non-Pipeline Alternatives

307 Turning to Non-Pipeline Alternatives (NPA), Sierra Club recommends that the Commission adopt the Oregon Public Utility Commission's (OPUC) NPA framework, which is more prescriptive than what is required in the 2022 GRC Settlement.[462] Sierra Club further recommends the Commission require Avista in its 2025 IRP, to perform NPA analyses using the Oregon framework on at least five projects (even if they exceed $500,000) to gain experience with NPA analyses.

308 Avista supports adopting the Oregon NPA analysis, and including NPA analysis in situations where an NPA is not selected, and where the project is unrelated to safety, compliance, or road moves and which exceeds a threshold of $500,000 for individual projects or groups of geographically related projects.[463]

309 The Commission acknowledges Avista's agreement to adopt the OPUC NPA framework, as well as Initiative I-2066.[464] The Commission has a statutory obligation to ensure fair

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[459] *See* Docket UG-230898.

[460] Bonfield, Exh. SJB-5T at 46:20-47:2.

[461] Bonfield, Exh. SJB-5T at 48:8-16.

[462] Dennison, JAD-1T at 28:5-16. The language included in the brackets within the quotation reflect Washington specific thresholds and requirements.

[463] Avista's Post-Hearing Brief, at ¶ 157.

[464] The implications of the passage of Initiative I-2066 remains uncertain. The initiative is currently being litigated and the parties were not asked to specifically brief I-2066 in this case. Despite this, the Commission expects Avista to evaluate NPAs within the law.

and reasonable rates for customers while promoting energy conservation all while balancing the will of Washington voters. We do not find that applying the Oregon NPA analysis runs counter to the provisions of the initiative that prohibit the Commission from authorizing "a gas company or large combination utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by implementing planning requirements that would make access to natural gas service cost-prohibitive." NPAs are planning tools to assist the utility in making cost-effective decisions and do not mandate fuel switching, restricting access to natural gas, or making gas service cost-prohibitive.

310 As such, the Commission understands the value of NPA analyses, as well as how demand response programs and energy efficiency programs result in conservation and by extension, lower costs for customers through avoided capital expenses. On balance, the Commission approves Avista's adoption of the OPUC framework on NPAs, with the following exceptions:

- Avista must examine the relationship between any NPA and the Climate Commitment Act (CCA), but may not assume that all CCA allowances will be purchased at the ceiling price.
- Avista must provide an explanation of the resulting investment selection (either the NPA or a traditional investment) that compares the costs of both projects, but Avista is not required to rank or score any NPA in its evaluation process.

311 Although the Company indicates it has completed a cursory NPA analysis in Oregon, the Company has not performed any such analysis in Washington. As the Commission foresees NPA analyses becoming more commonplace in the future, it is imperative that Avista gain familiarity with these types of analyses.

312 As such, the Commission orders Avista to conduct two NPA analyses on natural gas distribution projects related to customer growth for any potential projects that exceed $500,000 using the criteria otherwise adopted above. The Commission orders the Company to submit these analyses in a compliance filing for this docket no later than December 31, 2025.

Equity – Low-Income Assistance and Disconnections, Language Access Plan, and Energy Burden Analysis/Reporting

Equity

313 In the final order resolving the Company's 2022 GRC,[465] the Commission approved a Settlement Stipulation to include certain equity provisions and required Avista to demonstrate its progress towards incorporating the four tenets of equity[466] into its capital planning process. The Commission agrees with Avista that the Compliance Filing due December 31, 2024, is the correct venue to evaluate compliance with Settlement Stipulations from the 2022 GRC. Accordingly, as indicated in Avista's direct testimony, we expect the filing to: (1) "identify and prioritize the needs of Named Communities in capital planning;" (2) weigh "the distributional impacts the Company's business decisions and processes"[467] by addressing equity through its Customer Benefit Indicators (CBI),[468] Customer Experience Journey;[469] wildfire equity plan;[470] and (3) interconnect it to existing business policies, practices, and procedures.[471]

Low-Income Assistance Disconnections

314 In 2001 the Commission approved Avista's Low-Income Rate Assistance Program (LIRAP) to collect funding through "electric and natural gas tariff surcharges on Schedule 92 and 192,"[472] disburse funding to low-income households pursuant to WAC 194-40-030,[473] provide financial assistance to households unable to afford their energy bills and avert disconnection of utility services.

315 Avista provided extensive testimony regarding the benefits customers received in response to the implementation of its enhanced customer and bill assistance programs. In October 2023, Avista implemented My Energy Discount (MED), as part of its portfolio of

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[465] *See* Dockets UE-220053, et. al., Order 10/04, pgs. 24-28 ¶¶ 71-78.

[466] The four tenets of equity are distributional justice, procedural justice, recognition justice, and restorative justice.

[467] Thackston, Exh. JR-1T at 15:1-3.

[468] CBI metrics represent "equity areas identify by Avista's EAG that are most at risk to disproportional outcome" in conjunction with the Company's 2021 CEIP to monitor and track progress towards clean energy goals." Thackston, Exh, JRT-1T at 17:2-10.

[469] The Customer Experience Journey is a cross-functional team of employees that collaborate with customers to design a "human-centered Experience Design methodology" to focus on customer needs from the *outside in* rather the inside out. Thackston, Exh, JRT-1T at 17:12-20.

[470] Thackston, Exh, JRT-1T at 17:22-29. The equity wildfire equity plan will prioritize customer and community input for those living in rural and high-fire risk areas.

[471] Thackston, Exh. JRT-1T at 19:3-6.

[472] Dockets UE-240006 & UG-240007 (*consolidated*), Bonfield, Exh. SJB-1T at 16: 3-5.

[473] "'Low-income' means household incomes that do not exceed the higher of eighty percent of area median income or two hundred percent of federal poverty level, adjusted for household size." WAC 194-40-030.

assistance options under its LIRAP. MED's automatic enrollment mechanism eliminates critical barriers for customers that historically limited participation in providing aid to those in need. With these barriers reduced, Avista maintains that within the first three months of the program, customer saturation in the overall LIRAP increased by 10 percent;[474] and the Company provided more than $3.1 million to 26,306 customers,[475] which resulted in more customers being served in the first three months of MED's rollout than an entire program year.[476]

Decision

316 No party provided response testimony opposing Avista's enhanced customer and bill assistance programs. Thus, the Commission finds that the data Avista presented on MED's impacts over the ten-month period of October 2023 to July 2024 to be persuasive. During this period, Avista distributed approximately $14.9 million dollars in bill credits to approximately 41,110 active participants and the Company's saturation rates for its overall LIRAP programs rose to 29 percent.[477]

Disconnection Policies

317 Regarding Avista's existing disconnection policies, TEP testifies that Avista's use of credit codes as a determinant for service disconnections violates the equity tenets established by the Commission by inordinately burdening marginalized and vulnerable populations, including communities of color, low-income customers, customers without college degrees and more.[478] TEP explains that Avista relies on criteria, such as the number of times a customer has been past-due over the previous 12 months, and the number of months since the customer was last eligible for disconnection, as part of its calculation to determine a customer's credit code. This in turn sets a timeline for a customer's disconnection based on a past-due threshold amount that triggers the collections process.[479] TEP maintains that this approach results in customers with lower credit codes having lower disconnection thresholds and shortened timelines compared to customers with higher credit codes. TEP argues that any credit coding criteria related to a

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[474] Bonfield, Exh. SJB-1T at 23:20-24:1.

[475] Bonfield, Exh. SJB-1T at 19:11-17.

[476] Bonfield, Exh. SJB-1T at 19:2-6.

[477] Bonfield, Exh. SJB-5T at 7:12-13.

[478] Stokes, Exh. SNS-1T at 3:10-20.

[479] Stokes, Exh. SNS-1T at 9:15-10-7. See also Table 1, Exh. SNS-3, Avista Response to TEP DR 012.

customer's disconnection or arrearage history should be removed.[480] Instead, TEP recommends that the credit coding criteria be based only on two factors: (1) a customer's current arrearage amount; and (2) duration of time in arrears. TEP also recommends that Avista conduct a robust review of its existing credit codes with the (EAAG and Equity Advisory Group (EAG).[481]

318 On rebuttal, Avista rejects TEP's recommendation on the basis that its disconnection policies are sound and use of its credit codes "aim to reduce or eliminate potential disconnections through early intervention and collaborative solutions," which includes connecting customers to various assistance programs, outreach and translation efforts if necessary.[482] Avista highlights the effectiveness of its enhanced assistance programs and notes that 35,000 of the 41,000 customers enrolled in the MED have seen their credit score improve which has reduced both past-due notices and disconnections for customers. Avista further argues that TEP's viewpoint of distributional equity is "inconsistent with the holistic picture of the current conditions faced in those communities," and demonstrates a "fundamental misunderstanding of its credit code scoring methodology. [483] However, because Avista acknowledges that the term "credit code" may imply the use of a credit-scoring methodology, the Company agrees to revise its terminology with the EAAG and EAG to prevent confusion and better align with the approach it is taking "to analyze payment probability on all customer accounts." [484]

Decision regarding Avista's Disconnection Policies

319 As we noted in Dockets UE-220066 and U220067 (Consolidated) Order 32 and Docket UE-210918 Order 18, when there is a clear increase in arrearages overtime and a marginal impact in collecting such arrearages, a phased dunning approach is warranted,[485] but only after customers receive targeted outreach informing them of the Company's "bill assistance, arrearage management, and other programs for which they may be eligible."[486] Accordingly, we reaffirm the effectiveness of the dunning process as in the public interest because it motivates customers to obtain assistance, take prompt action on past-due

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[480] Stokes, Exh. SNS-1T at 3:10-13.

[481] Stokes, Exh. SNS-1T at 14:11-18.

[482] Bonfield, Exh. SJB-5T at 12:7-8.

[483]Bonfield, Exh. SJB-5T at 11:1-3.

[484] Bonfield, Exh. SJB-5T at 13:22-23 and 15:1.

[485] *WUTC v. Puget Sound Energy*, Dockets UE-220066 and UG-220067 (*Consolidated*) Order 32, Docket UG-210918 Order 18, at (May 16, 2024) at 15 ¶ 49.

[486] *WUTC v. Puget Sound Energy*, Dockets UE-220066 and UG-220067 (*Consolidated*) Order 32, Docket UG-210918 Order 18, at 17 ¶ 56.

balances, and avert service disconnection. For this reason, we reject TEP's proposal to prioritize customers for disconnection based on the current arrearage amount and the duration of current arrears.

320 While the Commission acknowledges Avista's acceptance of TEP's recommendation[487] to review its disconnection policies with EAAG and EAG, we are not ordering Avista to comply with any specific timelines as recommended in TEP's testimony.[488] However, we do require Avista to submit evidence documenting its collaboration with six months of the date of this order.

Low-Income Needs Assessment and Energy Burden Data Analysis

321 In direct testimony, both TEP and NWEC recommend that Avista update and refine its metrics to better understand the needs of its underserved customer base,[489] and conduct a new Low-Income Needs Assessment (LINA) requiring the Company to identify low-income customers by fuel type at the household level.[490] TEP explains this would result in Avista gaining a better understanding of energy burden by fuel type and allow it to tailor its outreach. NWEC also recommends that Avista conduct a new LINA that: (1) updates customer income data; (2) assesses energy burden for newly enrolled LIRAP customers; and (3) provides data for customers with fewer than 12 months of usage data in its Energy Burden Analysis (EBA) to simulate energy burden over time as a function of factors that increase customer bills.[491]

322 To further assess the extent of energy burden within Avista's service territory, TEP provides a "hyper-granular" analysis of un-affordability facing Avista's customers in light of the proposed rate increases in this MYRP. This analysis uses a stratified approach for multiple variables to isolate specific customer needs by breaking down geographic data to the Census Tract level, and then breaking down income levels in each Census Tract for quintiles[492] to identify the scope of affordability and assistance needs for mostly

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[487] Bonfield, Exh. SJB-5T at 18:30 - 19:6.

[488] Stokes, Exh. SNS-1T at 15:3-11.

[489] Stokes, Exh SNS-1T at 29:17-21.

[490] Stokes, Exh. SNS-1T at 29:17-21.

[491] Thompson, Exh. CT-1T at 20:6-16.

[492] The Census Bureau rank orders incomes from the highest to lowest in each geographical area. It then divides the rank ordering into five equal parts, each part of which is referred to as a "quintile". A quintile represents 20 percent of population for a given area. It should be noted that quintile ranges can change for each Census Tract. The lowest quintile of income in one Census

homogenous populations within specific Census Tracts. This analysis is then overlaid with the Department of Health Environmental Health Disparities Map[493] to denote Highly Impacted Communities (HIC) and Vulnerable Populations.[494] TEP relies on this data to show that Avista's current rates are unaffordable and that further proposed increases for 2025 and 2026 will only exacerbate unaffordability and increase the energy burden within Avista's service territory.[495] TEP further argues that this ultimately will result in increased disconnections that disproportionately impact customers with the lowest incomes[496] that reside in HICs.[497]

Decision on Low Income Needs Assessment and Energy Burden Data

323 TEP's analysis skillfully articulates the "breadth and depth"[498] of existing un-affordability by segmenting the population by income quintiles and fuel type.[499] While the insights gained from this robust analysis have immense value for the Commission, Avista, and external parties,[500] the evaluation lacks information on the other half of the energy burden equation. Namely, the evaluation does not incorporate any data related to the enhanced energy assistance programs that Avista rolled out in October 2023. For this reason, the Commission rejects TEPs recommendations to require Avista to use the stratification framework for an Energy Burden Analysis and Performance Based Ratemaking (PBR) for 2022 metrics 12, 13, 14, and 15 and 2024 metrics 7, 8, and 9.[501] However, we believe that the insights provided from the stratification framework are invaluable and should be explored with input from Avista, Staff, and other interested parties so that a holistic assessment of the scale of energy burden can be further evaluated in the current Commission-led rulemakings in Docket(s) U-210800 (for arrearage and assistance data) and U-210590 (for PBR metrics).

Tract may be $20,000 on average, whereas in a more affluent Census Tract, the lowest quintile may be $60,000 on average. Colton, Exh RDC-1T at 7-8.

[493] Information by Location | Washington Tracking Network (WTN)

[494] Colton, Exh RDC-1T at 7-8.

[495] Colton, Exh RDC-1T at 10-11.

[496] Colton, Exh. RDC-1T at 8:1-9.

[497] Colton, Exh RDC-1T at 8:20-30.

[498] Colton, Exh. RDC-1T at 12:3.

[499] Colton, Exh. RDC-1T at 52:3-17.

[500] Colton, Exh. RDC-1T at 48.

[501] See Appendix A, Docket Nos. UE-240006 and UG-240007, Commission Ordered Performance Metrics, at 9-10.

324 Further, because Avista agreed in its rebuttal testimony to maintain current reporting requirements for the annual Disconnection Reduction Reports and COVID-19 Arrearage and Assistance reporting in U-210800, and to expand the annual LIRAP reports, we agree that a new LINA and EBA are unnecessary at this time. It is important for the Commission and all interested parties to examine the full effects of Avista's Bill Discount Rate and Arrearage Management Plan, which will not be fully realized until October 2025. Only at that time will we have a comprehensive understanding of the full impacts and benefits these programs have on customers.

325 Accordingly, as set forth in Avista's rebuttal testimony, we expect the revisions in the Company's annual LIRAP reports to include:

1) An assessment of Energy Burden for customers participating in the MED program,[502] and an analysis of the revised program structure that became effective October 1, 2023.[503]

2) Updated saturation rates for low-income customers by fuel type, (beginning in early 2026);[504]

3) Updated reporting metrics that identify arrearage and disconnection demographics,[505] customer participation geography, demographics, data and trends, including impacts to named communities;[506] and

4) An analysis of the revised program structure that became effective October 1, 2023.[507]

326 On balance, we find that the above revisions and expanded reporting are sufficient at this time and would like to acknowledge the on-going work that investor-owned utilities are conducting in coordination with the Department of Commerce as required by RCW

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[502] Bonfield, Exh. SJB-5T at 26:8-12.

[503] Bonfield, Exh. SJB-5T at 27:28-38.

[504] Bonfield, Exh. SJB-5T at 27:44-28:5

[505] Bonfield, Exh. SJB-5T at 27:11-15.

[506] Bonfield, Exh. SJB-5T at 27:20-24.

[507] Bonfield, Exh. SJB-5T at 27:28-38.

19.405.120 to fully evaluate energy burden and assistance offerings.[508]

327 Additionally, to further refine data specific to investor-owned-utilities, the Commission directs Staff, investor-owned utilities, and other interested parties to collaborate and assess the potential use of the stratification methodology in the rulemakings in Dockets U-210800 and U-210590, and to explore various avenues to promote data accessibility.

328 The Commission also retains the current reporting requirements and cadence for the COVID-19 data in Docket U-210800 moving forward and will require Avista and other regulated energy utilities to continue providing Disconnection Reduction Reports, COVID-19 Data Reports, and PBR metrics until the conclusion of the two rulemakings in Dockets U-210800 and U-210590.

329 While the Commission wishes to promote accessibility, data security is paramount to ensuring trust as more customers use Avista's programs. The Commission acknowledges the value demographic data can have for utilities as they seek to identify and address disparities, inform program design and improvements, and measure the impacts across different groups.[509] Accordingly, the Commission requires Avista to work with the EAAG and EAG to establish a framework to collect and transmit customer demographic data (similar to the demographic data collected in the LIRAP[510]) for those enrolling in Distributed Energy Resource (DER) programs. However, given privacy concerns that impact the collection of demographic data, customer participation will not be required but instead will be optional and only collected after customer consent is provided.

Language Access Plan

330 Next, although TEP and NWEC recommend that Avista create a Language Access Plan (LAP) in coordination with the EAAG and EAG to increase participation in its LIRAP programs,[511] we find that Avista continues to make progress with its Multi-Language Strategy (MLS), that examines the needs of multilingual customers. This is evidenced by Avista's online web platform, which translate account, energy, safety and outage information in Spanish and ongoing efforts the Company is exploring to provide these same services online in other languages and in its mobile application and Interactive Voice Response systems. Avista is also layering its MLS with the Public Participation Plan

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[508] *See* Energy assistance for low-income households – Washington State Department of Commerce

[509] Thompson, Exh. CT-1T at 16:20-17:5.

[510] Thompson, Exh. CT-1T at 17:8-23.

[511] Stokes, Exh SNS-1T at 37:13-23 and 38:1-5.

(PPP) within the CEIP and is working with the EEAG and EAG to develop and prioritize other language access projects.[512]

331 While we recognize that Avista has not adopted a separate LAP, we believe its MLS achieves the same underlying goals given the on-going collaboration between Avista and relevant advisory groups. As such, we do not find any value in duplicating this work, especially since the effort related to language access is iterative. Therefore, we reject TEP and NWEC's recommendation that Avista develop a separate LAP but expect Avista to continue working towards addressing language access needs and meeting customers where they are.

The Multi-Year Rate Plan

332 Pursuant to RCW 80.28.425, Avista submits an MYRP that would begin with new base rates effective December 2024 (RY1) and December 2025 (RY2). For RY1, the proposed increases reflect an electric base rate relief of $79.3 million or 13.1 percent and natural gas base rate relief of $17.3 million or 13.6 percent effective December 2024. For RY2 of the rate plan, the proposed increases reflect an electric net request of $53.7 million or 11.7 percent and natural gas base rate relief of approximately $4.6 million or 3.2 percent effective December 2025.[1]

Table 1: Proposed Rate Increases for MYRP[2]

Fuel Type	RY1[3]	RY1 Increase	RY2	RY2 Increase
Electric	$79.3 Million	13.1 Percent	$53.7 Million	11.7 Percent
Natural Gas	$17.3 Million	13.6 Percent	$4.6 Million	3.2 Percent
Combined Total	**$96.6 Million**	**26.6 Percent**	**$58.3 Million**	**14.9 Percent**

Avista's Direct Testimony

333 This is the Company's second MYRP proposal since SB 5295 was enacted in 2021. Company witness Vermillion posits that "for the most part" the first MYRP[513] worked as intended with respect to recovery of capital investments, although the Company has not been able to fully recover its authorized rate of return under the MYRP format. Vermillion

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[512] Bonfield, Exh. SJB-5T at 33:1-6.

[513] Avista 2022 General Rate Case UE-220053 and UG-220054.

further testifies that although the MYRP construct allows for more timely cost recovery for capital additions, recovery of expenses continues to lag.[514]

334 Witness Vermillion acknowledges the larger increases proposed in RY1 by stating this request represents an attempt to "close the regulatory lag in Year 1 and set a proper base for a MYRP." Avista argues that it is extremely important that the Commission approve a revenue requirement that "gets the first year right." The Company opines that if the revenue requirement for RY1 is insufficient for the recovery of capital investment and/or expenses, even after inclusion of revenues expected in the first year of a rate plan, the utility would underearn in the first year having a "carry-over" effect in every subsequent rate year.[515]

Staff's Response Testimony

335 Staff witness Erdahl recommends the Commission reject Avista's proposed two-year MYRP.[516] Staff notes that RCW 80.28.425(9) requires the Commission to align, to the extent practical, the timing of approval of a MYRP of an electrical company with its CEIP filed pursuant to RCW 19.405.060. Under WAC 480-100-640(1), Avista is required to file its next CEIP by October 1, 2025, and Staff believes approval of this filing as a traditional rate case will allow Avista to develop its next rate case in conjunction with finalization of its CEIP.[517]

336 Staff asserts that MYRPs are intended to eliminate regulatory burden, yet 2024 is the second cycle in a row in which both Avista and Puget Sound Energy have simultaneously filed rate cases. This clustering of rate cases results in additional filings that create unnecessary burdens on the Commission, Staff, and intervenors. As such, Staff recommends denying Avista's proposed MYRP in order to offset the simultaneous rate cases and allow for more time and resources to be dedicated to individual rate cases which is in the public's interest. Further, Staff states that Avista is the natural candidate for moving the filing cycle given that it must file its CEIP in 2025, and PSE will not do so given the recent legislation in ESHB 1589.[518]

AWEC's Response Testimony

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[514] Vermillion, Exh. DPV-1T at 5:4-7.

[515] Exh. DPV-1T at 24:7-16.

[516] Erdahl, Exh. BAE-1T at 6:22.

[517] Erdahl, Exh. BAE-1T at 7:3-9.

[518] Erdahl, Exh. BAE-1T at 7:19-8:2.

337 Witness Mullins testifies that the MYRP construct may disincentivize the Company to rein in expenses. Mullins explains that:

> "… if a utility has an approved budget in a rate case, it will have an incentive to spend up to that budget to avoid needing to issue a refund to customers in an after-the-fact capital review…setting rates based on budgetary forecasts provides little assurance that those rates are just and reasonable because there is no objective way of determining the reasonableness of a budget. Thus, the utility has an incentive to inflate its budget in a rate case which, if approved, gives it a corresponding incentive to invest more capital than it otherwise would under an [sic] historical test year approach."[519]

338 Mullins substantiates this claim by noting that during the ratemaking process, neither the parties nor the Commission have the opportunity to objectively determine the reasonableness of a utility's capital spending. Mullins explains that in the spending reported in a compliance filing[520] to the 2022 GRC,[521] the actual spending does not match up with the capital forecasts provided by Avista in the beginning of the GRC. Mullins notes that although the initial forecasts and actual expenses are wildly different, Avista still claims these capital expenses were reasonable.

339 Mullins states that "setting utility rates based on budgets is problematic because there is no objective way to assess the reasonableness of a budget . . . ."[522] As such, Mullins recommends the Commission only include capital that is "demonstrated to be used and useful on or before the rate effective date of the respective rate years to be considered in the revenue requirement."[523]

340 AWEC's primary recommendation is to limit the capital investment allowed into rates for each year of the MYRP. However, witness Mullins recommends that approving a single year revenue requirement might be appropriate "given deficiencies in how Avista

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[519] Mullins, Exh. BGM-1T at 7:17-8:1.

[520] *See* e.g. Docket No. UE-220053 & UG-220054, Avista Compliance Filing (Provisional Capital for 2023), Attachment A, (March 29, 2024) (The absolute error in capital spending was 73.8%, yet Avista claims that it spent more than its forecast, warranting no adjustment to provisional capital included in rates in the 2022 GRC.)

[521] 2022 Avista GRC UE-220053 and UG-220054.

[522] Mullins, Exh. BGM-1T at 9:5-6.

[523] Mullins, Exh. BGM-1T at 9:21-22.

evaluated the removal of Colstrip 1 and 2 from rates."[524] Mullins acknowledges a single year revenue requirement may be more efficient given that the removal of Colstrip from rates is the single greatest factor in this proceeding.[525]

Avista's Rebuttal Testimony

341 Avista witness Christie rejects Staff's recommendation to only accept one year of the two-year rate proposal. Christie states that Staff justifies this recommendation by citing regulatory burden and alignment with the CEIP filing due next year. Christie argues that rejection of the MYRP would result in additional administrative burden requiring another filing to accomplish what the Company is attempting in this filing.[526]

342 Christie acknowledges the burden of simultaneous rate cases from multiple utilities but opines "[w]hile a staggering of major rate filings by utilities would relieve some of the administrative burden on Staff and the parties, it does not override the Commission's ultimate responsibility to provide timely rate relief where warranted."[527] Christie provides further argument in opposition of Staff's recommendation:

- Decreased credit ratings would impact customers through further absorption of lost return on equity of approximately 70 basis points;
- The Company does not have the means to file another rate case immediately following this filing;
- Rejecting the Company's MYRP is contrary to the intention of the MYRP statute, which is to provide certainty to the Company and its customers; and
- There are no meaningful investments or costs of compliance related to the CEIP included in this GRC (other than what was contemplated in the previous CEIP).[528]

AWEC's Cross Answering Testimony

343 AWEC witness Mullins acknowledges Staff's recommendation to reject the second year of the MYRP. While AWEC does not take a position, with witness Mullins noting that the majority of the revenue requirement in RY2 is driven by the removal of Colstrip from rates. AWEC states that if the Commission rejects RY2, it will still need to address the costs related to the removal of Colstrip at some point. Even in light of RCW 80.28.425(9), AWEC does not believe there is any practical benefit to aligning a MYRP with a CEIP and

[524] Mullins, Exh. BGM-1T at 13:5-7.

[525] Mullins, Exh. BGM-1T at 13:5-10.

[526] Christie, Exh. KJC-4T at 23:12-14.

[527] Christie, Exh, KJC-4T at 24:7-9.

[528] Christie, Exh. KJC-4T at 25:17-20.

asserts that simultaneous rate cases will likely occur in the future even if the Commission rejects RY2.[529]

Parties' Briefs

Avista's Brief

344 Avista disagrees with the proposals submitted in response to its multiyear rate plan (MYRP). To that point, Avista observes that "what sets this case apart are the dramatic changes in the landscape against which Avista operates" including, among other things, "proposals that would undermine the multiyear rate plan (MYRP) legislation, striking at its very core, i.e., rejection of more than a one year plan (Staff) or disruption of the "portfolio" approach to subsequent "provisional" capital review (AWEC)."[530]

345 The Company disagrees with Staff's argument that there is a burden associated with processing a two-year rate plan. Avista claims that "Staff's proposal to ignore Rate Year 2 (RY2) overlooks the fact that $54.2M of the $69.3M RY2 request on rebuttal is simply removal of Colstrip. The remaining $15M is mostly a continuation of capital and expense items already reviewed in Rate Year 1 (RY1)."[531] Avista goes on to claim a one-year plan would cause Avista to lose 9 to 12 months of additional rate relief that would be covered in RY2, and such a result would be, in effect, the Commission ordering zero rate relief for Rate Year 2.[532]

Staff's Brief

346 Staff reiterates its arguments that: 1) the Commission should deny Avista's MYRP and approve the filing as a traditional one-year rate case so that the Company's subsequent MYRP can align with its CEIP due October 1, 2025, ; and 2) the Commission should deny Avista's MYRP in order to ease the administrative crush on the Commission and interested parties, making for a better ratemaking process.[533] On brief, Staff introduces a third argument for rejecting Avista's MYRP. Specifically, Staff asserts that rejection of the

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[529] Mullins, Exh. BGM-8T at 15:8-12.

[530] Avista Post-Hearing Brief, at ¶ 2. The issue of the "portfolio" with regard to "provisional" capital review will be addressed elsewhere in this order. However, we note that in AWEC's testimony it also opposed the Company's MYRP. See Mullins, Exh. BGM-1T at 7:17-8:1.

[531] Avista's Post-Hearing Brief, at ¶ 11.

[532] Avista's Post-Hearing Brief, at ¶ 11.

[533] Staff's Post-Hearing Brief, at ¶ 6.

MYRP would allow the Commission to evaluate Avista's next MYRP in light of the equity report it will make in two months.[534]

347 With regard to the equity report, Staff states that "if the Commission approves a two-year rate plan, it will go four years between meaningful looks at equity in Avista's operations in the company's rate cases. Given the Legislature's incorporation of equity into ratemaking[535] and the Commission's directive that equity take center stage in utility operations,[536] the Commission should not accept that kind of a suspension in reviewing Avista's equity practices."[537] Staff concludes that the Commission "should treat this case as a traditional rate filing and review Avista's practices in light of its equity compliance filing in the company's next rate plan filing next year."[538]

AWEC's Brief

348 AWEC continues to contest the Company's MYRP based on the Company forecasting its expenses for its budget in a rate case versus recovering the actual expenses.[539] AWEC continues its argument that the MYRP disincentivizes the Company from reigning in expense, expanding its argument that the process incentivizes Avista to spend up to its capital forecast developed in its internal capital investment process.[540] Although Avista witness Andrews states, "The Company's long-standing practice has been to constrain the level of capital investment each year," AWEC is not convinced.[541] In fact, AWEC argues that the Commission's reliance on Avista's internal capital investment process "has the effect of making the regulated the regulator and bases the reasonableness of the Company's investments on its own internal recommendations."[542] AWEC raises similar concerns about Avista's forecasted budget expense versus actual incurred expense in its discussion of the Company's Miscellaneous O&M expense.[543]

Decision

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[534] Staff's Post-Hearing Brief, at ¶ 6.

[535] Staff's Post-Hearing Brief, at ¶18 (*citing*, RCW 19.405.010(6); RCW 80.28.425(1)).

[536] Staff's Post-Hearing Brief, at ¶ 18 (*citing*, Cascade at 19-20 ¶ 59).

[537] Staff's Post-Hearing Brief, at ¶ 18.

[538] Staff's Post-Hearing Brief, at ¶ 18.

[539] AWEC's Post-Hearing Brief, at ¶10; *See also*, Mullins, Exh. BGM-1T at 7:17-8:1.

[540] AWEC's Brief, ¶10.

[541] AWEC's Brief, ¶10 referencing Andrews, EMA-6T at 23:6-7.

[542] AWEC's Brief, ¶10.

[543] AWEC's Brief, ¶¶85-88.

349 In determining whether to approve the Company's MYRP, it is helpful to review the language of RCW 80.28.425, the Multi-Year Rate Plan statute. The pertinent language of RCW 80.28.425(1) provides:

> …[E]very general rate case filing of a gas or electrical company must include a proposal for a multiyear rate plan as provided in this chapter. The commission may, by order after an adjudicative proceeding as provided by chapter 34.05 RCW, approve, approve with conditions, or reject, a multiyear rate plan proposal made by a gas or electrical company or an alternative proposal made by one or more parties, or any combination thereof. The commission's consideration of a proposal for a multiyear rate plan is subject to the same standards applicable to other rate filings made under this title, including the public interest and fair, just, reasonable, and sufficient rates. In determining the public interest, the commission may consider such factors including, but not limited to, environmental health and greenhouse gas emissions reductions, health and safety concerns, economic development, and equity, to the extent such factors affect the rates, services, and practices of a gas or electrical company regulated by the commission.[544]

350 Additionally, and previous to the Multi-Year Rate Plan statute, RCW 80.28.020 conferred broad powers upon the Commission to establish just, reasonable, or sufficient rates for regulated utility companies, when the Commission determines that rates are insufficient to yield a reasonable compensation for the service rendered.[545] RCW 80.01.040(3) empowered the Commission to regulate in the public interest before RCW 80.28.425 further expanded those powers.[546]

351 As was stated previously, Avista filed its MYRP with effective dates of December 2024 for RY1 and December 2025 for RY2 seeking: 1) proposed increases reflecting an electric base rate relief of $79.3 million or 13.1 percent and natural gas base rate relief of $17.3 million or 13.6 percent in RY1; and 2) proposed increases reflecting an electric net request of $53.7 million or 11.7 percent and natural gas base rate relief of approximately $4.6 million or 3.2 percent in RY2.[547]

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[544] RCW 80.28.425(1).

[545] RCW 80.28.020.

[546] RCW 80.01.040(3).

[547] Vermillion, Exh. DPV-1T at 3:1-10.

352 Staff opposes the Company's MYRP and wants the Commission to approve Avista's filing as a traditional rate case in conjunction with finalization of its CEIP in October 2025.[548] Staff also believes that an Avista MYRP filed in 2025 would relieve and reduce regulatory burden upon the Commission, as well as reduce the burden upon Staff and intervening parties, as Avista and Puget Sound Energy (PSE) have simultaneously filed MYRPs. In short, Staff argues that staggering the MYRPs of Avista and PSE would be in the public interest.[549]

353 AWEC also opposes Avista's MYRP. AWEC argues that approval of Avista's forecasted budget related to its MYRP removes the incentive for the Company to limit expenses, and would encourage the Company to spend up to that approved budget. Moreover, AWEC believes that this would negatively impact ratepayers as rates would be based on forecasted budgets, and that the Company could subject ratepayers to inflated rates, as there is no incentive to control expenses.[550] AWEC opines that during the MYRP process, neither the parties nor the Commission have the opportunity to objectively determine the reasonableness of a utility's capital spending. AWEC adds "setting utility rates based on budgets is problematic because there is no objective way to assess the reasonableness of a budget . . . ."[551]

354 For the above reasons, Staff and AWEC recommend denial of the Company's MYRP, and both recommend treating Avista's filing as a traditional rate case for the Commission to approve only a single year of the Company's proposed rates.

355 Upon review of the evidence and testimony, we find Avista's arguments to be more persuasive. We are reminded that the purpose and intention of the MYRP statute is to provide stability and assurance to the Company *and* the ratepayer. To that point, we are persuaded that adopting Staff's proposal would result in the loss of up to a year of rate relief that is covered in RY2[552] as well as the effect of the removal of Colstrip in rates in RY2.[553]

356 Given that the parties and the Commission have fully litigated this case, restricting rate recovery to the first year would result in a waste of all of our resources, and would likely be considered credit negative by credit rating agencies. Contrary to Staff's and AWEC's

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[548] Erdahl, Exh. BAE-1T at 7:3-9.

[549] Staff's Brief, ¶6; Erdahl, Exh. BAE-1T at 7:19-8:2.

[550] Mullins, Exh. BGM-1T at 7:17-8:1.

[551] Mullins, Exh. BGM-1T at 9:5-6.

[552] Avista's Brief, ¶11.

[553] Avista's Brief, ¶11.

assertions, holding a full proceeding and ruling on Avista's current filing and directing the Company to make a subsequent filing in 2025, does not provide the Commission with regulatory relief, but actually compounds regulatory burden with back-to-back Avista rate cases. As such, we do not see alignment with Avista's CEIP as practical in this case, in accordance with RCW 80.28.425(9), given the regulatory burden.

357 We also believe that not only would there be a tremendous regulatory burden placed upon the Commission, but requiring a subsequent filing would also have a negative impact on the Company. Given the time, expense, and resources it would take to file another rate case on the heels of this one may unduly burden the Company financially. Again, we must also consider what the impact may be on the credit rating of the Company if we remove the certainty of the MYRP and instead approve a single year of rates. Ultimately, relieving the Commission and intervening parties of the regulatory burden on one hand may result in adverse impact on the ratepayers in the form of rates on the other hand if they have to absorb lost return on equity.

358 In light of the foregoing, and to ensure just, reasonable, or sufficient rates, we reject Staff's and AWEC's recommendation to deny the Company's MYRP and reject their recommendation to treat Avista's filing as a traditional rate case. We remind the parties that regulating in the public interest is not a one-sided proposition; we must consider the interests of Staff, the intervenors, the Company, and the ratepayers.[554] In this instance we believe that the adverse impact of denying the two-year MYRP on the Company would have also negatively impacted its customers as well. In addition, denying the MYRP would likely negatively impact the Company's financial ability to provide safe and reliable service. Therefore, we conclude that it is in the public interest to leave intact and accept a two-year MYRP for Avista.

Performance Measures and Other Reporting

Direct Testimony – Avista

Performance Metrics

359 The Company proposes to reduce the number of performance measures agreed to in the 2022 GRC Settlement. In that settlement, the Company agreed to report on 92 initial metrics and develop three additional metrics related to reliability.[555] In this proceeding, the Company proposes to edit several metrics to better align with how the data is presented

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[554] *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591, 603, 64 S. Ct. 281, 288, 88 L. Ed. 333, 345(1944).

[555] Bonfield, Exh. SJB-1T at 2:26 – 3:24.

and recommends eliminating metrics that: do not align with the regulatory goals, outcomes, and principles outlined in the Commission's Interim Policy Statement Addressing Performance Measures and Goals, Targets, Performance Incentives, and Penalty Mechanisms (Interim Policy Statement) in Docket U-210590; are similar to certain financial metrics ordered by the Commission in its 2022 GRC; and those that are reported elsewhere. This results in a total of 48 proposed metrics.[556]

360 Additionally, for the nine Commission-ordered metrics from the 2022 GRC, Avista proposes to adjust the reporting date to February 15 for publicly available data and then May 1 for the remaining date to coincide with the quarterly data.[557]

361 Finally, Avista recommends the Commission not establish any performance incentive mechanisms (PIM) within this proceeding. In the alternative, if the Commission finds a PIM is required by RCW 80.28.452(7) [*sic*], the Company proposes the same customer service PIM from its 2022 GRC.[558]

Recurring Reporting

362 As part of the 2022 GRC Settlement, the Company agreed to provide recommendations regarding the streamlining of existing reporting requirements. Avista proposes to eliminate the following reports:

- WA Distributed Generation Annual Report
- WA Electric and Natural Gas Decoupling Mechanism Report
- Energy & Emissions Intensity Metrics Report
- I-937 Report
- Critical Infrastructure Report
- Essential Utilities Services Contacts Report
- Annual Disconnection Reduction Report
- Monthly Credit & Collections COVID-19 Report
- Quarterly Credit & Collections COVID-19 Report

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[556] Bonfield, Exh. SJB-1T at 7:13 – 8:10.

[557] Bonfield, Exh. SJB-1T at 11:1-11. The Company was originally required to file twice in February and once in April until confidentiality due to FERC filings was an issue.

[558] Bonfield, Exh. SJB-1T at 11:14-18. The alternative PIM consists of six measures, a $500,000 incentive or penalty given certain performance, and approval for a Deferred Accounting Mechanism to address any incentive or penalty in the Company's next rate proceeding. Bonfield, Exh. SJB-1T at 11-15. We assume the statutory reference is for RCW is 80.28.425(7). No other party proposed establishing a PIM in this proceeding.

363 Witness Bonfield provides rationale for eliminating each report which includes duplicative information available elsewhere, consolidating information within another filing, uncertainty of the value of report, and that certain information can be made available by request.[559]

364 Further, Avista proposes to modify the reporting of the following three reports:

- Energy Recovery Mechanism Review Filing (annual and quarterly report rather than annual and monthly)
- Purchased Gas Adjustment Activity Reporting (quarterly instead of monthly)
- Natural Gas IRP and Workplan (aligning frequency with electric IRP with a progress report due two years after the IRP is filed).[560]

Staff's Response Testimony

365 Staff witness Erdahl recommends the Commission require Avista to maintain three of the metrics that the Company proposes to eliminate as the metrics were ordered by the Commission in the PacifiCorp 2023 GRC in Docket UE-230172.[561] Staff also proposes a new metric related to connection timelines for new service requests.[562] Erdahl argues the new metric is in the public interest to both ensure utility responsiveness during the current housing crisis and to support new state building codes related to Electric Vehicle Charging Infrastructure.[563]

366 Finally, Staff requests the Commission order Avista to continue filing its Critical Infrastructure Report. Erdahl testifies the Company proposed to eliminate this report in Docket U-210151 related to the Commission's Inquiry into Reducing the Administrative Burden, however, Erdahl notes the Commission did not relieve the Company of that filing requirement in that proceeding and should not do so here.[564]

NWEC's Response Testimony

367 As part of its effort to advance equity, NWEC witness Thompson proposes that Avista maintain two performance metrics related to non-pipe alternatives (NPAs). Thompson

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[559] Bonfield, Exh. SJB-1T at 27:12 – 28:20. See also Bonfield, Exh. SJB-4. Bonfield recognizes that a legislative change may be required related to the I-937 reporting requirement.

[560] Bonfield, Exh. SJB-1T at 28:23 – 29:14.

[561] Erdahl, Exh. BAE-1T at 12:3-16.

[562] Erdahl, Exh. BAE-1T at 13:5-14.

[563] Erdahl, Exh. BAE-1T at 13:17 – 14:11.

[564] Erdahl, Exh. BAE-1T at 12:17 – 13:2.

argues the clean energy targets mandated by CETA and the necessary balance between utility and customer-level resources that more directly benefit Named Communities supports NWEC's position. While NWEC proposes to maintain the metric that separately tracks emissions avoided by NPAs, it is amenable to eliminating this metric conditioned on Avista continuing to report the carbon intensity metric.[565]

368 Additionally, while not formally requesting a new metric, Thompson recommends the Commission require Avista to collect customer demographic data for all current and future DER program offerings like the data collected through its bill discount program. While Thompson provides that a customer may opt out of providing such information, the Company should not require such information to determine program enrollment eligibility. Finally, Thompson recommends Avista maintain its practice of de-identification and data aggregation to protect individual customer demographics.[566]

369 NWEC also responds to Avista witness Bonfield's proposal to eliminate the Annual Disconnection Reduction Report. Thompson does not agree with Bonfield's claim that the information is available in other reports. Rather, Thompson argues the same level of granularity does not exist in the COVID reporting, the CEIP, or PBR metrics and parties would lose useful information regarding the demographics of the disconnections.[567]

TEP's Response Testimony

370 TEP witness Stokes argues that Avista should maintain seven metrics that were proposed for elimination and provides edits for three of those metrics, modifies three metrics retained by Avista, requests a draft metric from the Interim Policy Statement be amended and required for Avista, and proposes one new metric.

371 Witness Colton provides analysis that crosses both equity issues and performance measures related to the affordability metrics, arrears and disconnections, and energy burden. Colton makes several recommendations including: (1) continuing to require certain affordability and energy burden metrics be reported by census tract and zip code; (2) using the stratification methodology proposed for the energy burden assessment for related PBR metrics; and (3) revising the arrears metric to include the accounts and dollars that were paid on time.[568]

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[565] Thompson, Exh. CT-1T at 14:13 – 16:17.

[566] Thompson, Exh. CT-1T at 16:20 – 18:11.

[567] Thompson, Exh. CT-1T at 19:4-18.

[568] Colton, Exh. RDC-1T at 51:13 – 52:29, 60:28 – 61:16. The impacted metrics include: Metric 12, 13, 14, and 15 for stratification, and Metric 4 related to arrears.

372 Colton argues that requiring both census tract and zip code reporting allows for "cross-tabulation of data."[569] For example, census data may be compared to the American Community Survey, while zip code data may be compared to the Census Bureau's Zip Code Tabulation Areas, providing the ability for more robust analysis.[570] Alternatively, if the Commission retains only census tract data, TEP recommends the Company be required to maintain "crosswalk files" that indicate the allocation of census tracts over zip codes.[571]

Summary of TEP metric recommendations

373 ***Metric for Clarification***
TEP recommends that Avista explicitly include natural gas in its reporting for residential disconnections.[572]

374 ***Interim Policy Statement Metric to Amend and Require for Avista***
TEP recommends the Commission amend its interim metric regarding the average residential bill by including low-income customers as a separate subset for the data reporting. Stokes argues this provides a better level of granularity about rate impacts to specific communities.[573]

375 ***Metrics to Maintain***
TEP disagrees with Avista's proposal to eliminate the Operations and Maintenance (O&M) metric. Stokes argues that this metric provides insight into the utility's financial management and may be helpful in comparing against other utilities' performance.[574]

376 TEP proposes the Commission require Avista to maintain two metrics related to energy burden and modify a third. Relying on Colton's analysis and testimony, Stokes argues that the two metrics that calculate high-energy burden should be maintained,[575] with the

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[569] Colton, Exh. RDC-1T at 57:17.

[570] Colton, Exh. RDC-1T at 55:9-19, 57:5 – 58:2.

[571] Colton, Exh. RDC-1T at 58:5-7.

[572] Stokes, Exh. SNS-1T at 18:19 – 19:5.

[573] Stokes, Exh. SNS-1T at 18:4-17.

[574] Stokes, Exh. SNS-1T at 25:1 – 26:6. Stokes provides a simple comparison of Avista and PSE data with no conclusions about the trend or underlying cause for the differences.

[575] Stokes, Exh. SNS-1T at 19:7-12. These metrics (originally designation as Metrics 13 and 14) were maintained by Avista on direct (Metrics 7 and 8) and combined into a single metric on rebuttal (Metric 8).

additional requirement of reporting by stratification provided by Colton.[576] Stokes then adopts TEP's proposal in the PBR docket to designate single-fuel energy burden at 2 percent for natural gas and 4 percent for electric.[577] Further, Colton recommends the Commission modify the arrearage metric to include the number of accounts and dollars that were paid on-time allowing interested persons to understand the substantiality of the arrears.[578]

377 Next, TEP addresses three Equitable Service metrics that it proposes to maintain and/or edit. First, witness Stokes recommends the Commission require Avista to continue reporting its metric related to low-income participation in DR, DER, and renewable energy programs. Stokes testifies the limited data available indicates little participation by low-income customers in these programs. However, with that limited data, Stokes testifies that conclusions about trends are not possible and believes this information is important to evaluate performance of these programs as part of the clean energy transition. Further, TEP recommends the Commission edit the language of this metric to replace the participation language with measuring by those directly benefitting from the program.[579]

378 The other two Equitable Service metrics are related to electric vehicle programs. Stokes provides the same rationale from the above metric to maintain the low-income participation in electric vehicle programs metric. Further, Stokes argues the language should be changed from electric vehicle to electric transportation programs as proposed in the PBR docket. Stokes testifies this change better reflects and strengthens the business case for utility investment in these technologies. TEP also proposes to modify this metric to replace the participation language with measuring those directly benefitting from the program.[580] Additionally, TEP argues the metric related to electric vehicle supply equipment be maintained. Stokes testifies this data is necessary to ensure Named Communities have equitable access to electric vehicle ownership and "contextualizes Avista's measurement of electric transportation spending."[581]

379 Finally, TEP proposes the Commission require Avista to maintain the metric related to NPAs and the metric related to incremental spending in Named Communities.[582] Stokes

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[576] Colton, Exh. RDC-1T at 60:1-4.

[577] Stokes, Exh. SNS-1T at 20:10-20.

[578] Colton, Exh. RDC-1T at 61:1-16.

[579] Stokes, Exh. SNS-1T at 21:12 – 22:9, 24:1-2.

[580] Stokes, Exh. SNS-1T at 22:12 – 24:7.

[581] Stokes, Exh. SNS-1T at 26:9-20.

[582] Stokes, Exh. SNS-1T at 27:8-11.

argues these metrics, "show[ ] whether Avista is equitably deploying financial resources that aid the transition away from gas service," and "measuring overall incremental spending in Named Communities shows whether Avista is making consistent, yearly investment that promote equity in its operations and support underserved customers."[583]

380 ***New Metric***

TEP proposes a new metric to report the net plant in service per customer for electric and natural gas. Stokes argues this metric would provide insight into capital investment trends and an indication of how a utility chooses to replace aging assets.[584]

Recurring Reporting Recommendations

381 TEP opposes Avista's elimination of the decoupling, disconnection, and COVID reports. Additionally, Colton contends that reported data is not easily accessible for the PBR metrics, disconnection and arrearage reports, or the energy burden analysis. Colton argues this information is useful to those outside the usual GRC parties, for example those groups working on affordable housing issues or agencies responsible for distributing federal funds. Therefore, TEP recommends the Commission require Avista to post these data sets and reports to their website rather than providing solely through various dockets with the Commission.[585]

382 Further, Colton makes a general recommendation that the affordability and energy burden related PBR metrics and reports discussed in their testimony be provided at a monthly data level. Colton testifies this granularity is necessary to understand the relationship of the data for the different seasons of the year. However, Colton does not necessarily propose the metric and reports be filed monthly but believes it reasonable to file the monthly data sets at a greater interval such as quarterly, semi-annually, or annually.[586]

383 Responding specifically to the COVID report, Colton contends that Avista witness Bonfield inaccurately represents the COVID information as duplicative of information provided in other reports. Colton testifies the following components are not otherwise available: (1) length of disconnection, number of disconnection notices, number of accounts, but for the moratorium that would have been disconnected; (2) information related to various fees charged in relation to disconnection or reconnection; (3) information about long-term payment arrangements; (4) information on medical payment

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[583] Stokes, Exh. SNS-1T at 27:14-16.

[584] Stokes, Exh. SNS-1T at 28:3-8.

[585] Colton, Exh. RDC-1T at 28:7 – 29:6.

[586] Colton, Exh. RDC-1T at 55:22 – 56:12.

arrangements; (5) information about customer deposits; (6) number of premises receiving bill assistance; and (7) past due balances by zip code.[587]

384 TEP also proposes three modifications to the COVID report. First, for the arrearage metric, Colton recommends including not only the dollar amount in arrears but also the number and dollar amount that were paid on time.[588] Second, in additional to reporting total arrears and age of the arrears, Colton proposes to require reporting by the number of accounts for both total and age of the arrears. Finally, Colton asserts that the name of the report should be changed to "Arrearage Report" or to "Arrearage and Disconnection Report" noting that the information is no longer only relevant due to the COVID pandemic and resulting economic state of emergency.[589]

385 Addressing the Disconnection Reduction Report, again Colton argues that Avista witness Bonfield incorrectly argues the information is duplicative. While Colton acknowledges one data point (total disconnections for nonpayment) is available through either the PBR metrics or COVID report, the remainder of the reporting requirements per the 2019 GRC settlement in Dockets UE-190334, UG-190335, and UE-190222, are not provided elsewhere.[590] Colton argues eliminating this required data will hinder the Commission and others in evaluating the affordability of Avista rates.[591]

386 Finally, Colton recommends that Avista include the number of disconnections for nonpayment, number of accounts in arrears, and the dollars of the arrears, and provide the data per their energy burden stratification recommendation contained in earlier sections of their testimony.[592]

387 Stokes proposes the Company maintain the Quarterly Decoupling Report arguing not all information contained in this report is available during the annual adjustment filing. The data not available in the annual filing includes the number of new customers excluded from decoupling, separately identifying the electric and gas weather components, and a workpaper that provides the native formula-based calculations supporting the annual adjustment. Alternatively, if the Commission discontinues this report, TEP proposes the

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[587] Colton, Exh. RDC-1T at 58:10 – 59:18.

[588] This same information was recommended in response to Metric 4 by witness Colton.

[589] Colton, Exh. RDC-1T at 60:28 – 62:3.

[590] Colton, Exh. RDC-1T at 62:8 – 63:10. *See* Table 17 at page 62 for the none required data points in the COVID report.

[591] Colton, Exh. RDC-1T at 63:12-18.

[592] Colton, Exh. RDC-1T at 64:5-8.

Company be required to include the information described above and the docket numbers, both electric and gas, for the annual decoupling reports filed within the past five years.[593]

Avista's Rebuttal Testimony

Performance Metrics

388 On rebuttal, witness Bonfield wholly changes the Company's position on performance metrics. The Company now proposes that the Commission should only require Avista to report on the performance metrics included in its August 2, 2024, Alternative Forms of Regulation Policy Statement for Initial Reported Metrics (Metrics Policy Statement). Further, the Company also adopts the timing for filing PBR metrics (annually with the Commission Basis Report).[594] Avista argues the Commission has now determined the appropriate metrics to evaluate utility performance during a MYRP, and that the annual filing significantly reduces administrative burden. Finally, Avista argues the Metrics Policy Statement renders both its direct case proposal and all other parties' proposals moot, and argues that because those parties also participated in the PBR docket, they had the opportunity for input on utility performance metrics.[595]

389 Avista also responds to NWEC's proposal to collect the demographic data for all existing and future DER programs. Bonfield contends the Company is unable to collect this information for two reasons. First, Bonfield testifies that many of Avista's DER programs are administered in partnership with community partners or at the distributor level, therefore, the Company does not have direct access to such data. If the Commission were to require the collection of this data, Bonfield contends the workload would be placed on those already resource constrained partners. Second, Bonfield argues the data that is available to the Company is distributed across multiple systems with inadequate security to protect customer information when sharing cross-departmentally. Finally, Bonfield asserts requiring this data collection would take time and financial resources to create a platform and require changes to partner processes as well.[596]

Recurring Reporting

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[593] Stokes, Exh. SNS-1T at 40:20 – 42:4.

[594] Commission Basis Reports (CBA) are required within four months of the end of a utility's fiscal year by WAC 480-100-257. All Washington regulated utilities follow a fiscal calendar year therefore CBA's must be filed no later than May 1 each year.

[595] Bonfield, Exh. SJB-5T at 38:14 – 39:17.

[596] Bonfield, Exh. SJB-5T at 28:10 – 30:13.

390 Bonfield both clarifies and revises the recurring reporting obligation discussed in direct testimony and acknowledges the Company's intent for each report was not entirely clear. Avista clarifies it proposed to eliminate the following reports:

- WA Distributed Generation Annual Report;
- Energy & Emissions Intensity Metrics Report [requires waiver from WAC 480-109-300(1)];
- Critical Infrastructure Report;
- Essential Utility Services Contracts Report [requires waiver from WACs 480-100-268 and 480-90-268];
- Equity Report;
- Monthly Credit & Collections COVID-19 Report; and
- Quarterly Credit & Collections

391 Further, Bonfield clarifies that direct testimony intended to modify the following reports:

- Commission Basis Report [remove wood pole reporting];
- PGA Activity Reporting [changed frequency which requires waiver from WAC 480-90-233(5)];
- MYRP Metrics [changed filing timeline][597]

392 ***Critical Infrastructure Report*** *- Response to Staff*
Avista disagrees with Staff's proposal to maintain the Critical Infrastructure Report, arguing it is unsure of the value of the information as much of the data remains static, and that Staff did not provide testimony establishing the need for the report. Further, simply combining the report with the reliability report as Staff recommends does not alleviate the burden of providing the information. Finally, Bonfield testifies that no action has been taken because of this report, but that the information can be made available upon request.[598]

393 ***Disconnection Reduction Report*** *– Response to NWEC and TEP*
Witness Bonfield agrees with NWEC and TEP, that not all information contained in the Disconnection Reduction Report is duplicative, therefore, Avista agrees to maintain the report until such time as a decision is made in the Commission's Customer Notice and Fees Rulemaking in Docket U-210800. However, Avista does not agree with TEP's recommended additions to the report or applying the stratification analysis. Bonfield

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[597] Bonfield, Exh. SJB-5T at 40:18 – 41:25. The decoupling report was not contained in this revised list. However, Bonfield provides later testimony explaining that omission when rebutting TEP's response position.

[598] Bonfield, Exh. SJB-5T at 42:10-17.

testifies that the additional information requested in this report is already provided either within the report or other reporting by the Company. Further, Bonfield argues the company has not previously performed the calculations using stratified energy burden and is uncertain of the additional value gained.[599]

394 ***COVID Reporting (monthly and quarterly)*** *– Response to TEP*
The Company also agrees to maintain the COVID Reporting until the Commission makes determinations in rulemaking docket U-210800, as with the Disconnection Report. Again, witness Bonfield does not agree with TEP's recommended modifications to the reports. First, Bonfield questions the value or use gained by adding the number of accounts and dollars that paid on time. However, Bonfield provides the rulemaking docket referenced above is a more appropriate setting to discuss this issue. Second, Bonfield contends the additional information requested (arrears by number of accounts and dollar amounts) is already available in either the COVID Reporting or within the Customer Benefit Indicators of its CEIP. Finally, Avista takes no position on the title of the report but believes the issue of potentially consolidating arrears and disconnection data is also more appropriate in the rulemaking proceeding.[600]

395 ***Decoupling Report*** *– Response to TEP*
Bonfield testifies the Quarterly Decoupling Report was already discontinued by the Commission in Order 01 of Docket U-210151. However, as requested by TEP, the Company will continue to include the information in all future decoupling annual adjustment filings.[601]

NWEC's Cross Answer

396 In cross-answering testimony, Thompson supports many of TEP's recommendations regarding performance measures, including five measures to maintain,[602] six measures to maintain and edit,[603] and includes TEP's proposed metric related to net plant per customer. Thompson argues that many of TEP's recommendations are easy to integrate, directly

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[599] Bonfield, Exh. SJB-5T at 42:20 – 43:11.

[600] Bonfield, Exh. SJB-5T at 43:14 – 44:9.

[601] Bonfield, Exh. SJB-5T at 44:12-21.

[602] One of the proposed metrics to maintain was not eliminated by Avista nor a recommendation from TEP to maintain (Metric 1) and another the Company agrees to maintain on rebuttal (Metric 26).

[603] The Company retains but consolidates two of the metrics being proposed to maintain and edit (Metrics 13 and 14).

align with the Commission's Interim Policy Statement, and provide a more robust reporting to better evaluate the deployment of clean energy in Named Communities.[604]

Parties' Briefs

Avista

397 In briefing, Avista proposes to modify two of its reporting metrics related to affordability and energy burden to align with the Commission's recent policy statement on reported performance metrics in Docket U-210590.[605] Avista further recommends that the Commission require the Company to report the metrics contained in the Commission's Initial Reported Performance Metrics contained in its August 2, 2024, policy statement.[606] Avista also argues that performance incentive mechanisms are unnecessary for the purpose of this rate case.[607] Finally, Avista agrees to maintain its Annual Disconnection Reduction and COVID-19 Arrearage reporting, but disagrees with Staff's position that it should maintain its Critical Infrastructure Report.[608]

Staff

398 Staff generally agrees with Avista's proposal to reduce the metrics it reports from 92 to 48 metrics, but it recommends that the Commission require Avista to retain four metrics and add one additional metric.[609] Staff argues that the Commission should require Avista to retain three metrics that the Commission recently required PacifiCorp to report, to facilitate comparison of utility performance, and another metric that is necessary to assess utility security.[610] Staff also requests that the Commission direct Avista to report a new metric related to connection timelines for new services requests for newly constructed dwellings.[611] Staff also urges the Commission to reject Avista's arguments that the Commission should limit reportable metrics to those metrics contained in the recent policy

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[604] Thompson, Exh. CT-4T at 6:9 – 7:12.

[605] Avista's Post-Hearing Brief, at ¶ 158.

[606] Avista's Post-Hearing Brief, at ¶ 158.

[607] Avista's Post-Hearing Brief, at ¶ 158.

[608] Avista's Post-Hearing Brief, at ¶ 158.

[609] Staff's Post-Hearing Brief, at ¶ 19.

[610] Staff's Post-Hearing Brief, at ¶ 19.

[611] Staff's Post-Hearing Brief, at ¶ 19.

statement on metrics, because the policy statement reflects a minimum, as opposed to a maximum, level of reporting.[612]

TEP

399 In briefing, TEP requests that the Commission order Avista to adopt a metric regarding low-income customer saturation rates by household and fuel type, as well as TEP's proposed affordability and equity metrics.[613]

Sierra Club

400 Sierra Club requests that if the Commission approves a performance incentive mechanism for Avista, that the Commission establish customer engagement targets of 5,000 home electrification assessments and 1,000 electrification rebates over an 18-month period related to Sierra Club's proposed targeted electrification pilot for Avista.[614]

NWEC

401 NWEC supports the inclusion of 51 performance metrics suggested by Avista in the event that the Commission declines to limit required metrics to those metrics contained in the August 2, 2024, Policy Statement.[615] Regarding collection of customer demographic information for current and future DER programs, NWEC agrees with Avista's proposal to raise this issue with the Company's applicable advisory groups.[616] NWEC further notes and appreciates Avista's agreement to maintain its annual customer Disconnection Reduction Report.[617]

402 Turning to Avista's energy burden analysis, NWEC discusses four points. First, NWEC argues that the Commission should require Avista to include updates to customer income and usage data as a basis for reporting saturation rate and other metrics in its annual LIRAP reports.[618] Second, NWEC agrees with Avista's decision to assess energy burden for customers enrolled in the LIRAP MED and include this information in its annual

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[612] Staff's Post-Hearing Brief, at ¶ 20.

[613] The Energy Project's Post-Hearing Brief, at ¶¶ 39, 58 (*citing*, Stokes, Exh. SNS-10).

[614] Sierra Club's Post-Hearing Brief, at ¶ 41.

[615] NWEC's Post-Hearing Brief, at ¶ 54 (*citing*, Bonfield, Exh. SJB-2; Bonfield, Exh. SJB-6).

[616] NWEC's Post-Hearing Brief, at ¶ 55.

[617] NWEC's Post-Hearing Brief, at ¶ 56.

[618] NWEC's Post-Hearing Brief, at ¶ 57.

LIRAP report.[619] Third, NWEC states that it is reasonable for Avista to include normalized household service data for customers with less than 12 months of usage data as part of its PBR reporting.[620] Lastly, NWEC indicates that Avista's proposal to discuss simulating energy burden over time as a function of factors that increase bills with its Energy Assistance Advisory Group to determine feasibility and value is reasonable.[621]

403 Finally, NWEC voices support for TEP witness Stokes' recommendations regarding Avista's disconnection policy, PBR metric reporting, low-income customer identification, language access, and the Company's quarterly decoupling report and incorporates the arguments made in its Cross-Answering Testimony.[622]

Decision

404 The Commission appreciates the Parties' thoughtful and constructive arguments regarding various proposed changes to the PBR metrics on which Avista will be required to report. As noted in the August 2024 Policy Statement regarding reported metrics, the process of selecting and refining utility metrics is iterative, and the Commission commends the continued efforts of the Parties to both revise existing metrics and propose new metrics for consideration.[623] The Commission fully anticipates that PBR metrics will continue to be reviewed and refined in the coming year and looks forward to additional robust discussion.

405 As a threshold matter, the Commission rejects Avista's invitation to limit reported metrics to only those metrics identified in the Commission's August 2024 Policy Statement. As explained in the Policy Statement, the metrics that were developed in that proceeding were not intended to be a final, comprehensive set of metrics for all utilities,[624] and the Commission fully encouraged parties to suggest new or additional metrics in the context of a multi-year rate plan proceeding.[625] Furthermore, while the Commission remains

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[619] NWEC's Post-Hearing Brief, at ¶ 57.

[620] NWEC's Post-Hearing Brief, at ¶ 57.

[621] NWEC's Post-Hearing Brief, at ¶ 57.

[622] NWEC's Post-Hearing Brief, at ¶ 58.

[623] *In re Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Policy Statement Addressing Initial Reported Performance Metrics, 3 ¶ 10 (Aug. 2, 2024) (Policy Statement Addressing Initial Reported Performance Metrics).

[624] Policy Statement Addressing Initial Reported Performance Metrics, 3 ¶ 10 ("In doing so, we reiterate our view that a comprehensive PBR framework cannot be established with finality at this juncture.").

[625] Policy Statement Addressing Initial Reported Performance Metrics, 5 ¶ 16.

sensitive to redundant reporting requirements, as utilities continue to report various metrics, the reported data may demonstrate that further adjustments and metrics are necessary to adequately and efficiently monitor a utility's operations and progress with state energy policies.[626] Therefore, it is inappropriate to limit reported PBR metrics to those identified in the August 2024 Policy Statement.

406 In reviewing the proposed changes to the reported metrics, the Commission has attempted to balance considerations of efficiency regarding the scope and quantity of data required by the metrics with the need to establish a reasonable baseline of data to evaluate utility performance. The Commission generally agrees with Avista's proposal to eliminate reporting requirements that are duplicative of data already reported elsewhere.[627] The Commission also considered additional modifications to reported metrics to consolidate and simplify the collection of data where possible. Similarly, in evaluating new or modified metrics proposed by the Parties, the Commission reviewed whether the reported data would be helpful to evaluate utility performance and whether the requested data could be found in existing reporting requirements.

407 Having considered all of the Parties' arguments regarding PBR metrics, the Commission determines that it is reasonable to require Avista to report on the metrics contained in the August 2024 Policy Statement, reduce the number of overall metrics reported to avoid duplication, and require the Company to report on several modified or new metrics. Appendix A, attached to this Order, contains a description of the changes to PBR metrics in this proceeding as well as additional reasoning for the decision to require, retain, modify, or remove a particular metric. Finally, the Commission declines to require any performance incentive mechanisms (PIMs) for Avista as part of this rate case and anticipates further discussion of how to best utilize PIMs after additional review and analysis of the baseline data reported by Avista and other regulated utilities in the context of either a future rate case or proceeding in Docket U-210590.

408 As shown in Appendix A, the Commission has reduced the number of PBR metrics on which Avista will be required to report to 33. These metrics consist of 12 metrics that have been refined or proposed during this proceeding and the 21 metrics contained in the Commission's Policy Statement Addressing Initial Reported Performance Metrics, including the metrics established pursuant to RCW 80.28.425(7).[628] In many cases, metrics were removed because the same information can be found in other reporting required by the Commission, such as information reported as part of Customer Benefit

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[626] Policy Statement Addressing Initial Reported Performance Metrics, 4 ¶ 12.

[627] Bonfield, Exh. SJB-1T at 7:12 – 8:15.

[628] Policy Statement Addressing Initial Reported Performance Metrics, 7 ¶ 22 – 21 ¶ 82.

Indicators, or were already incorporated into other required PBR metrics. The Commission also authorized the removal of metrics where no party opposed removal, as the lack of opposition suggests that the metric provides little value in reviewing Avista's operations. Similarly, the Commission declined to require a metric if the proposed measurement involved too many factors outside Avista's control because the metric would provide limited insight into the effect of Avista's operational decisions.

409 Similar to its review of PBR metrics, the Commission has attempted to balance the need for regular information from Avista to evaluate its performance with the goal of reducing the administrative burden on the Company caused by duplicative or inefficient reporting requirements. To that end, the Commission determines that it is reasonable to eliminate some of Avista's reporting requirements, consolidate duplicative requirements into other existing reporting obligations, and maintain other reporting until such time as the Commission may consider modifications with input from all utilities subject to the reporting. Appendix B, attached to this Order, contains the Commission's disposition of each reporting issue raised in this proceeding and the reasoning for the Commission's determination.

Cost of Capital

Avista's Direct Testimony

410 The Company's proposed capital structure is 51.5 percent debt and 48.5 percent equity, with a proposed cost of debt of 4.99 percent, a proposed 10.40 percent ROE, and a requested overall rate of return (ROR) in this proceeding of 7.61 percent.[629]

Avista Proposed Cost of Capital[630]				
	Amount	Percent	Cost	Component Cost
Total Debt	$2,743,700,000	51.5%	4.99%	2.57%
Common Equity	$2,588,899,805	48.5%	10.40%	5.04%
Total	$5,332,599,805	100%		7.61%

411 Company witness Christie explains that maintaining a 48.5 percent common equity ratio is necessary since Avista is dependent on raising funds in capital markets and a solid financial profile will assist the Company in accessing debt capital markets on reasonable terms.[631] Additionally, Christie contends that a 48.5 percent common equity ratio solidifies

[629] Christie, Exh. KJC-1T at 14:8-11.

[630] Christie, Exh. KJC-1T at 14:13-18.

[631] Christie, Exh. KJC-1T at 14:20-23.

Avista's current credit ratings and moves them closer to the long-term goal of having a corporate credit rating of BBB+.[632]

412 Company witness McKenzie also argues that a common equity ratio of 48.5 percent is a reasonable basis on which to calculate the overall rate of return for three primary reasons:

1) Avista's requested capitalization is consistent with the Company's need to support its credit standing and financial flexibility,[633]
2) The proposed common equity ratio is consistent with the range of capitalizations for the proxy utilities and their utility operating subsidiaries,[634] and
3) The requested capitalization reflects the importance of an adequate equity layer to accommodate operating risks and recognize the impact of off-balance sheet commitments, such as purchased power agreements.[635]

413 McKenzie notes that for the 22 firms in the Utility Group, common equity ratios on December 31, 2022, ranged between 33.0 percent and 63.5 percent and average 44.0 percent.[636] McKenzie elaborates that Value Line expects an average common equity ratio for the proxy group of utilities of 44.8 percent for its three-to-five year forecast horizon, with the individual common equity ratios ranging from 27.0 percent to 59.5 percent.[637]

414 McKenzie further notes that the Commission has previously observed that "[i]t is appropriate … to afford more weight to forward considerations than to historic conditions as we determine the appropriate equity ratio to be embedded in prospective rates."[638]

415 Christie testifies that the Company's proposed weighted average cost of equity is in-line with other utilities' authorized weighted average cost of equity, and that its present weighted average cost of equity is at the low end of actual, commission-authorized values.[639] Christie elaborates that if the Commission carries over the existing ROE of 9.4 percent and 48.5 percent equity component, the weighted cost of equity would be 4.56 percent.[640]

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[632] Christie, Exh. KJC-1T at 15:1-3.

[633] McKenzie. Exh. AMM-1T at 10:13-16.

[634] McKenzie. Exh. AMM-1T at 10:17-18.

[635] McKenzie. Exh. AMM-1T at 10:21-23.

[636] McKenzie, Exh. AMM-1T at 38:2-4.

[637] McKenzie, Exh. AMM-1T at 38:7-9.

[638] McKenzie, Exh. AMM-1T at 38:10-12.

[639] Christie, Exh. KJC-1T at 15:8-11.

[640] Christie, Exh. KJC-1T at 16:1-2.

416 Christie also contends that the proposed 10.40 percent ROE is reasonable to maintain Avista's financial integrity.[641] Witness McKenzie backs up this assertion by stating that four out of five cost of equity methods the Company implemented produced an ROE of 10.4 percent.[642] McKenzie posits that challenges to the Company's credit standing, pressure of funding more than $1.5 billion of capital expenditures over 2024-2026, Avista's reliance on hydroelectricity, the impact of the existing ERM on price volatility exposure to wildfire, and Avista's relatively small size support this conclusion.[643]

417 McKenzie emphasizes that if the upward shift in investors' risk perceptions and required rates of return for long-term capital is not incorporated in the allowed ROE, the results will fail to meet the comparable earnings standard that is fundamental in determining the cost of capital.[644]Further, McKenzie explains that other things equal, a higher debt ratio and lower common equity ratio, translates into increased financial risk for all investors.[645] McKenzie elaborates that a greater amount of debt means more investors have a senior claim on available cash flow, thereby reducing the certainty that each will receive their contractual payments, which is true for common shareholders as well.[646] Additionally, McKenzie asserts that a more conservative financial profile, in the form of a higher common equity ratio, is consistent with increasing uncertainties and the need to maintain the continuous access to capital under reasonable terms.[647]

418 Finally, McKenzie contends that in order to offset the debt equivalent associated with off-balance sheet obligations, the utility must rebalance its capital structure by increasing its common equity.[648]

419 The Company's requested overall cost of debt is 4.99 percent.[649] The Federal Funds Rate and Avista's short-term borrowing rate has increased about 525 basis points since the beginning of 2022.[650] Christie emphasizes that higher interest rates increase the cost of

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[641] Christie, Exh. KJC-1T at 16:6-7.

[642] McKenzie, Exh. AMM-1T at 6:19-20.

[643] McKenzie, Exh. AMM-1T at 7:6-28.

[644] McKenzie, Exh. AMM-1T at 37:3-5.

[645] McKenzie, Exh. AMM-1T at 37:12-13.

[646] McKenzie, Exh. AMM-1T at 37:13-18

[647] McKenzie, Exh. AMM-1T at 39:3-5.

[648] McKenzie, Exh. AMM-1T at 40:11-13.

[649] Christie, Exh. KJC-1T at 18:18.

[650] Christie, Exh. KJC-1T at 19:23, 20:1.

borrowing under the Company's $500 million revolving credit facility and are expected to increase the cost of issuing long-term debt over the next couple of years.[651]

420 Christie argues that if the Company were simply trying to grow its rate base to increase earnings, it could fully justify increasing its capital budget to well over $600 million over the next several years, but it is choosing not to, in order to balance investment need with customer affordability.[652]

Public Counsel's Response Testimony

Return On Equity

421 Public Counsel witness D. Garrett testifies that the average results of the three models it used to calculate ROE is 8.5 percent.[653] D. Garrett argues that with respect to regulated utilities, there has been a trend in which awarded returns fail to closely track with actual market-based cost of capital, which leads to results that are detrimental to ratepayers and the state's economy.[654]

422 D. Garrett argues that McKenzie's Capital Asset Pricing Model (CAPM) cost of equity is overstated due to McKenzie's overestimation of the Equity Risk Premium as well as an unnecessary size adjustment.[655] Additionally, D. Garrett contends that McKenzie conducts an additional unnecessary size adjustment and adds a flotation costs premium.[656] D. Garrett further contends that the Company's Empirical Capital Asset Pricing Model (ECAPM) further inflates that traditional CAPM's results.[657]

423 D. Garrett concedes that competitive firms maximize their value by minimizing their weighted average cost of capital, or WACC, but this is not the case for regulated utilities. [658] Under the regulated rate of return model, a higher WACC results in higher rates, all

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[651] Christie, Exh. KJC-1T at 20:2-4.

[652] Christie, Exh. KJC-1T at 34:8-12.

[653] Garrett, Exh. DJG-1T at 4:7-8.

[654] Garrett, Exh. DJG-1T at 7:3-6.

[655] Garrett, Exh. DJG-1T at 38:1-3.

[656] Garrett, Exh. DJG-1T at 38:3-4.

[657] Garrett, Exh. DJG-1T at 43:4-5.

[658] D. Garrett uses the terms "cost of capital" and "weighted average cost of capital, (WACC)," interchangeably throughout their testimony. Garrett, Exh. DJG-1T at 49:6-7.

else held constant.[659] Thus, because there is no incentive for a regulated utility to minimize its WACC, D. Garrett articulates that a Commission must ensure that the regulated utility is operating at the lowest reasonable WACC.[660]

424 D. Garrett testifies that according to the debt ratios recently reported in Value Line for the utility proxy group, the average debt ratio of the proxy group is 55 percent and the average equity ratio is 45 percent.[661] D. Garrett notes that this debt ratio is notably higher than Avista's proposed debt ratio of only 51.5 percent[662] arguing that this means that Avista has a lower level of financial risk relative to the proxy group, a discrepancy that D. Garrett believes can be mathematically accounted for through the Hamada Model.[663]

425 Since Avista's debt ratio is notably lower than that of the proxy group, D. Garrett argues that when Avista is "relevered" to match the proxy group, it results in a lower ROE than if Avista had been operating with a capital structure equal to that of the proxy group. D. Garrett concludes that according to the results of the Hamada model, if the Commission were to adopt the Company's proposed capital structure, its indicated cost of equity estimate (under the CAPM) would be 9.2 percent.[664]

Flotation Costs Adjustment

426 Additionally, D. Garrett disagrees with the Company's position of adding a flotation cost adjustment of .08 percent to its overall modeling results.[665] D. Garrett contends that flotation costs are not actual "out-of-pocket" costs for the Company,[666] the market already accounts for flotation costs,[667] and that it is inappropriate to add any additional basis points to an awarded ROE proposal that is already [668]

AWEC's Response Testimony

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[659] Garrett, Exh. DJG-1T at 51:1-3.

[660] Garrett, Exh. DJG-1T at 51:7-10.

[661] Garrett, Exh. DJG-1T at 52:14-16.

[662] Garrett, Exh. DJG-1T at 52:16-17.

[663] Garrett, Exh. DJG-1T at 52:17-20.

[664] Garrett, Exh. DJG-1T at 56:2-4.

[665] Garrett, Exh. DJG-1T at 44:3-6.

[666] Garrett, Exh. DJG-1T at 44:11.

[667] Garrett, Exh. DJG-1T at 44:19.

[668] Garrett, Exh. DJG-1T at 45:17-18.

427 AWEC witness Kaufman recommends that the Commission accept Avista's proposed cost of debt of 4.99 percent and capital structure with 48.5 percent equity and 51.5 percent debt,[669] and that Avista's return on equity be reduced from the current authorized amount of 9.4 to 9.25 percent.[670]

428 Kaufman testifies that investors currently expect the U.S. equity market to have total annual returns of 4 to 8 percent.[671] Kaufman asserts that when considering the Company's proposed proxy group of comparable investments, AWEC's cost of capital models support an ROE in the range of 8.3 to 9.3 percent.[672]

429 Kaufman states that the results of their cost of capital models differ from the Company's because AWEC excludes two models that are not consistent with financial theory, and used model inputs that more accurately represent investor expectations.[673] Kaufman urges the Commission give no weight to the Risk Premium or Expected Earnings models, as they believe those models are not grounded in market outcomes or consistent with financial theory.[674]

430 Kaufman states that AWEC would make the following changes to the Company's cost of capital modelling assumptions:

- AWEC assumes short term earnings growth converges to the long run GDP growth rate from five to 25 years in a linear manner, as it argues that it is mathematically implausible for firms to indefinitely grow at a rate greater than the GDP growth rate.[675]
- AWEC assumes that utility stock betas will move towards the industry average over time, rather than a beta of one.[676]
- AWEC excludes weeks with market returns more than three standard deviations from mean weekly returns.[677]

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[669] Kaufman, Exh. LDK-1CT at 21:3-4.

[670] Kaufman, Exh. LDK-1CT at 21:4-5.

[671] Kaufman, Exh. LDK-1CT at 21:5-8.

[672] Kaufman, Exh. LDK-1CT at 21:8-10.

[673] Kaufman, Exh. LDK-1CT at 23:3-4.

[674] Kaufman, Exh. LDK-1CT at 23:4-7.

[675] Kaufman, Exh. LDK-1CT at 23:10-13.

[676] Kaufman, Exh. LDK-1CT at 23:14-15.

[677] Kaufman, Exh. LDK-1CT at 23:16-17.

- AWEC uses a range for the equity risk premium from 5.0 to 6.9 percent.[678]
- AWEC excludes size premium adjustments from the ECAPM model.[679]

431 Kaufman opines that the ultimate question for the Commission is whether the proposed ROE is fair and reasonable, not whether the models are fair and reasonable.[680] While the justification of models and inputs are important, Kaufman argues that the Commission can also evaluate the ROE independently from the models.[681]

432 Witness Kaufman notes that AWEC's recommendation results in returns that are somewhat higher than investor expectations.[682] However, Kaufman argues that this recommendation is closer to investor expectation than the Company's proposal.[683] Further, Kaufman contends that AWEC's ROE recommendation of 9.25 percent is well above the short- and long-term returns expected for U.S. stocks, and reflects a return needed for an equity investment with greater than average risk.[684]

Discounted Cash Flow (DCF) Model

433 Kaufman asserts that poor credit of specific utilities should not be resolved through return on equity adders beyond that indicated by a market analysis.[685] Kaufman proposes two changes to the Company's Discounted Cash Flow (DCF) model:

- Consider short- and long-term growth forecasts; and
- Lengthen the second stage transition period from five to 20 years.[686]

434 Kaufman argues that the first recommendation reduces estimated cost of equity, while the second increases estimated cost of equity.[687] AWEC contends that net impact is an overall reduction in the estimated cost of equity.[688]

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[678] Kaufman, Exh. LDK-1CT at 23:18-19.

[679] Kaufman, Exh. LDK-1CT at 24:1-2.

[680] Kaufman, Exh. LDK-1CT at 27:4-6

[681] Kaufman, Exh. LDK-1CT at 27:6-7.

[682] Kaufman, Exh. LDK-1CT at 27:14-15

[683] Kaufman, Exh. LDK-1CT at 27:15-16.

[684] Kaufman, Exh. LDK-1CT at 28:6-8.

[685] Kaufman, Exh. LDK-1CT at 29:6-8.

[686] Kaufman, Exh. LDK-1CT at 29:17-18.

[687] Kaufman, Exh. LDK-1CT at 29:18-19.

[688] Kaufman, Exh. LDK-1CT at 29:20.

Capital Asset Pricing Model

435 Witness Kaufman also proposes two changes to the Company's CAPM:

- Kaufman argues that Avista's betas are biased and grossly misrepresent reasonable forecasts for utility stock betas. Instead, AWEC uses raw betas and betas adjusted to the industry average.[689]
- For its equity risk premium, AWEC uses two alternatives that are less susceptible to bias and more consistent with investor expectations and finance literature.[690]

436 Kaufman states that Avista's equity risk premium is 7.3 percent, while nearly all third-party estimates of the equity risk premium indicate it is between 3.0 and 6.0 percent.[691]

437 Witness Kaufman argues including firms with growth forecasts between -20 and 20 percent is less biased.[692] Kaufman refers to this symmetric filter as the "Corrected Avista Method." AWEC testifies that while the Corrected Avista Method remains theoretically unsound and inconsistent with investor expectations, it offers an improvement over Avista's methodology in its direct case.[693]

438 Kaufman asserts that a forward-looking risk premium can be implied from current market prices and expected cash flows.[694] Kaufman states that the implied equity premium of the trailing 12 months is the best predictor of the actual implied premium,[695] and that the January 2024 trailing 12-month period's implied equity risk premium is 4.6 percent.[696]

439 Kaufman also asserts that Avista's size premium model, instead of a standard CAPM model, is not supported by peer reviewed research.[697] Kaufman continues that, in general, the size premium refers to a highly contested theory that small firms offer a size premium that compensates investors for size related risk in addition to a market premium.[698]

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[689] Kaufman, Exh. LDK-1CT at 31:17-19.

[690] Kaufman, Exh. LDK-1CT at 32:1-3.

[691] Kaufman, Exh. LDK-1CT at 46:13-14.

[692] Kaufman, Exh. LDK-1CT at 47:3-4.

[693] Kaufman, Exh. LDK-1CT at 47:7-9.

[694] Kaufman, Exh. LDK-1CT at 52:7-8.

[695] Kaufman, Exh. LDK-1CT at 52:9-10.

[696] Kaufman, Exh. LDK-1CT at 52:10-11.

[697] Kaufman, Exh. LDK-1CT at 53:18-20.

[698] Kaufman, Exh. LDK-1CT at 53:22-23.

Kaufman contends that due to a lack of consensus on the existence of a size premium, it is not necessary to adjust Avista's cost of capital for a size premium.[699]

Floating Costs Adjustment

440 Kaufman finds Avista's floating costs unnecessary, and contends that they are a direct result of Avista's decision to manage its equity through dividends and issuances rather than through stock buybacks and retained earnings.[700] Kaufman further argues that while the Company provides evidence of historic flotation costs, it does not show that these costs were historically unrecovered.[701] Further, Kaufman contends that Avista fails to demonstrate that either stock issuances or flotation costs are necessary or expected in the test year.[702]

441 Finally, AWEC witness Kaufman argues that even if its cost of capital range of 8.5 percent to 9.5 percent were increased by Avista's 8 basis point flotation cost adjustment, its recommended cost of equity remains unchanged at 9.25 percent.[703]

Staff's Response Testimony

442 Staff witness Parcell testifies that the Company's proposed 48.5 percent common equity ratio is proper and incorporates this ratio into its own cost of capital analysis.[704] Based on this analysis, Parcell recommends a 9.5 percent ROE for each year of the MYRP, for both electric and natural gas utility operations.[705]

443 Parcell contends that Avista's bond ratings are similar to most electric utilities in the U.S.[706] Staff explains that this is evidenced by the relative Moody's and Standard & Poor's debt ratings, which indicate that the Company's ratings are similar to those of Staff's utility proxy group in developing their ROE recommendations.[707] Additionally, Parcell notes that Moody's and S&P regard Washington's recent legislation (ESSB 5295), in

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[699] Kaufman, Exh. LDK-1CT at 54:12-13.

[700] Kaufman, Exh. LDK-1CT at 56:5,9-11.

[701] Kaufman, Exh. LDK-1CT at 55:22, 56:1.

[702] Kaufman, Exh. LDK-1CT at 56:2-3.

[703] Kaufman, Exh. LDK-1CT at 56:18-20.

[704] Parcell, Exh. DCP-1T at 4:15-17.

[705] Parcell, Exh. DCP-1T at 6:12-14.

[706] Parcell, Exh. DCP-1T at 19:10.

[707] Parcell, Exh. DCP-1T at 19:10-13.

addition to other favorable regulatory mechanisms, as risk-reducing to the Company.[708] Witness Parcell recommends that the ROE established in this proceeding be set at a level that is no higher than the bottom of the market-determined ROE range for the proxy group, which is 9.5 percent.[709]

444 Parcell examined Avista's historic (2019-2023) capital structure ratios, which indicate that Avista has had a slightly declining equity ratio over the past five years.[710] Parcell notes that the Avista Utilities (Division) capital structure has also declined slightly, with equity ratios (including short-term debt) of about 48 percent or less over the past five years.[711] Parcell further notes that over the past several rate proceedings for Avista, all of the historic equity ratios used to determine cost of capital were less than 48.5 percent.[712]

445 Parcell argues that the capital structure used in Staff's analysis is similar to Avista's recent actual ratios including its 2023 capital structure, and is consistent with the capital structure of other electric and combination electric utilities.[713]

Discounted Cash Flow (DCF) Model

446 Parcell testifies that a range of 8.6 percent to 10.6 percent (9.6 percent mid-point) broadly represents the current DCF-derived ROE for the proxy group.[714] Parcell states that this range includes most of the DCF proxy group rates and exceeds the low and mean/median DCF rates.[715] Parcell recommends a more narrow range of 9.0 percent to 10.0 percent (9.5 percent mid-point), which exceeds the mean/median DCF result, excludes the singular highest DCF result, and includes many of the above-average DCF results.[716]

447 Parcell asserts that Avista uses four sets of DCF calculations collectively to produce DCF ROE results with a range of 9.2 percent to 10.7 percent, three of which are within Parcell's

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[708] Parcell, Exh. DCP-1T at 24:28-29.

[709] Parcell, Exh. DCP-1T at 25:17-20.

[710] Parcell, Exh. DCP-1T at 28:2,10-11.

[711] Parcell, Exh. DCP-1T at 28:11-13.

[712] Parcell, Exh. DCP-1T at 28:13-16.

[713] Parcell, Exh. DCP-1T at 31:18-19, 32:1.

[714] Parcell, Exh. DCP-1T at 38:1-2.

[715] Parcell, Exh. DCP-1T at 38:2-4.

[716] Parcell, Exh. DCP-1T at 38:6-8.

own DCF results (9.2 percent, 9.7 percent and 9.9 percent).[717] As a result, Parcell opines that its DCF ROE results and the Company's DCF ROE results are similar.[718]

Capital Asset Pricing Model

448 Parcell notes that the CAPM results collectively indicate a ROE of 10.7 percent for the proxy group but proposes the Commission give no weight to the CAPM modeling results in determining Avista's ROE.[719] Parcell highlights that McKenzie's testimony reaches CAPM conclusions of 11.7 percent to 11.8, which greatly exceeds Parcell's testimony.[720] Thus, Parcell finds the Company's CAPM results to be outliers that warrant no weight in determining Avista's ROE.[721]

449 Parcell disagrees with McKenzie's risk premium estimates and the "size premium" employed, as well as the use of ECAPM.[722] Similar to Kaufman, Parcell argues that Avista's 7.3 percent risk premium greatly exceeds the historic levels of risk premiums (4.9 percent to 6.4 percent), and that the Company offers no explanation as to why investors would expect such a dramatic increase.[723]

450 Finally, witness Parcell argues that inclusion of a small-firm adjustment is improper and results in an overstatement of the ROE for the proxy electric utilities.[724] While Parcell acknowledges that it may or may not be true that on an overall market basis, smaller publicly traded firms exhibit more risk than larger firms, it believes that such is not the case for regulated utilities.[725]

Comparable Earnings Analysis

451 Parcell testifies that their Comparable Earnings (CE) analysis indicates that the ROE for the proxy utilities is no more than 9.0 to 9.5 percent (9.25 percent mid-point).[726]

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[717] Parcell, Exh. DCP-1T at 38:18-19.

[718] Parcell, Exh. DCP-1T at 39:1-2.

[719] Parcell, Exh. DCP-1T at 39:14-15,17-19.

[720] Parcell, Exh. DCP-1T at 44:3-4.

[721] Parcell, Exh. DCP-1T at 44:4-6.

[722] Parcell, Exh. DCP-1T at 44:10-12.

[723] Parcell, Exh. DCP-1T at 45:1-4.

[724] Parcell, Exh. DCP-1T at 45:12-13.

[725] Parcell, Exh. DCP-1T at 45:18-22.

[726] Parcell, Exh. DCP-1T at 51:16-17.

Parcell states that the Company's Expected Earnings (EE) Approach is a form of the comparable earnings methodology.[727] According to Parcell, the Company's tabulation of Value Line's "expected" ROE for the proxy group shows an "Adjusted Return on Common Equity" average of 10.8 percent.[728]

452 Parcell argues that it is inappropriate to focus only on expected ROE without any reference to how such returns are perceived by investors.[729] Further, Parcell notes that the actual 2021, 2022, and 2023 median ROEs are less than the Company's 10.8 percent CE recommendation.[730] Parcell also notes that Staff's projected annual average and median ROEs are all less than Avista's 10.8 percent EE results.[731]

Risk Premium Model

453 Parcell argues that there are two primary problems with Company witness McKenzie's risk premium analyses, which have the effect of overstating the ROE for the proxy companies and Avista as:[732]

- The highest risk premium values over this period occurred in 2011-2022, corresponding to the post-Great Recession period,[733] and
- It is not proper to compare utility authorized ROEs in the 1970's and 1980's with current authorized ROEs.[734]

454 Parcell concludes that the risk premium result for Avista's ROE range is 9.8 percent to 10.8 percent (10.3 percent mid-point).[735]

Flotation Costs Adjustment

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[727] Parcell, Exh. DCP-1T at 52:12-13.

[728] Parcell, Exh. DCP-1T at 52:16-17.

[729] Parcell, Exh. DCP-1T at 52:21-22.

[730] Parcell, Exh. DCP-1T at 53:10-11.

[731] Parcell, Exh. DCP-1T at 53:12-13.

[732] Parcell, Exh. DCP-1T at 54:14-15.

[733] Parcell, Exh. DCP-1T at 54:16.

[734] Parcell, Exh. DCP-1T at 54:19-20.

[735] Parcell, Exh. DCP-1T at 59:18-19.

455 Similar to other parties, Parcell disagrees with the Company's proposal to add a flotation cost adjustment of .08 percent to the ROE calculation.[736] Parcell notes that flotation costs are known to investors and thus are reflected in the stock prices of companies and therefore any effect of flotation costs is incorporated in DCF ROE model results.[737] Thus, Parcell argues that there is no need to add flotation costs to the results of ROE models.[738] Parcell also notes that the Commission rejected Avista's request to include flotation costs in both the 2017 and 2020 GRCs.[739] Parcell finds that as in those cases, the Company has not demonstrated that it incurred flotation costs in this proceeding.[740]

Walmart's Response Testimony

456 Walmart witness Perry testifies that the Company's proposed ROE of 10.40 percent is excessive.[741] Perry argues that since the Company's most recent GRC was settled through a "black-box" settlement, Avista's current ROE is unclear.[742] Further, Walmart argues that the requested ROE of 10.4 percent exceeds the average reported electric and natural gas ROEs and the 9.4 percent ROE the Commission has authorized since 2021.[743]

457 Further, Perry contends that according to S&P Global data, of the 118 reported electric utility rate case ROEs authorized between 2021 and present the average ROE is 9.5 percent with a median of 9.5 percent.[744] For natural gas the average is 9.58 percent, with a median of 9.59 percent. Perry notes that the Company's requested ROE of 10.4 is significantly above the broader industry trends.[745]

458 Perry notes that the average ROE authorized for vertically integrated electric utilities in 2021 was 9.54 percent; 9.60 percent in 2022; 9.71 percent in 2023, and 9.72 percent thus far in 2024.[746]

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[736] Parcell, Exh. DCP-1T at 63:15-17.

[737] Parcell, Exh. DCP-1T at 64:1-3.

[738] Parcell, Exh. DCP-1T at 64:3-4.

[739] Parcell, Exh. DCP-1T at 64:7-11.

[740] Parcell, Exh. DCP-1T at 64:11-12.

[741] Perry, Exh. LVP-1T at 8:15-16.

[742] Perry, Exh. LVP-1T at 9:13-16.

[743] Perry, Exh. LVP-1T at 9:20, 10:1, 13:17-18.

[744] Perry, Exh. LVP-1T at 10:21, 11:1-4.

[745] Perry, Exh. LVP-1T at 11:4-6, 15:10-12.

[746] Perry, Exh. LVP-1T at 11:12-15.

459 Perry elaborates that the average ROE authorized for investor-owned gas utilities in 2021 was 9.56 percent; 9.53 percent in 2022; 9.58 percent in 2023. and 9.93 percent thus far in 2024.[747] As such, Perry again argues that the Company's proposed 10.40 percent ROE is counter to broader industry trends.[748]

460 Perry states that if the Commission approved an electric ROE of 9.62 percent for Avista, it would reduce the Company's propose electric revenue requirement increase for RY1 by $11.6 million, or 15.1 percent, inclusive of taxes.[749] For natural gas, Perry states that an authorized ROE of 9.58 percent would reduce the Company's proposed natural gas revenue requirement increase for RY1 by $3.1 million, or 17.9 percent, inclusive of taxes.[750]

Avista's Rebuttal Testimony

461 On rebuttal, Christie maintains the Company's proposed cost of capital: a rate of return of 7.61 percent, a capital structure of 48.5 percent equity and 51.5 percent debt, a 4.99 percent cost of debt, and a 10.4 percent ROE.[751]

462 Christie contends that the ROE recommendations of other parties' COC witnesses ("Other Witnesses") fall well below a fair and reasonable level for the Company's electric and gas operations.[752] Christie argues that the Other Witnesses' analyses are undermined by errors and methodological flaws and fall below accepted benchmarks.[753] Christie asserts that adjusting national authorized ROEs for electric utilities to reflect current capital market conditions, in and of itself, implies an ROE of approximately 10.43 percent.[754]

463 Further, Christie argues that adjusting previous ROEs approved by the Commission to account solely for increases in bond yields implies a current return on equity of 10.43 percent.[755] Further, adjusting the risk premium of 5.01 percent to the averaged Baa utility bond of 5.83 percent as of June 2024 results in an implied return on equity of 10.84

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[747] Perry, Exh. LVP-1T at 15:15-17.

[748] Perry, Exh. LVP-1T at 15:17-18.

[749] Perry, Exh. LVP-1T at 12:6-7, 13:1-2.

[750] Perry, Exh. LVP-1T at 16:6-7, 17:1-2.

[751] Christie, Exh.KJC-4T at 18:13-15.

[752] Christie, Exh.KJC-4T at 19:15-17.

[753] Christie, Exh.KJC-4T at 19:17-19.

[754] Christie, Exh.KJC-4T at 19:19-21.

[755] Christie, Exh.KJC-4T at 20:1-2.

percent.[756] Christie notes that the expected returns for the Other Witnesses' own proxy groups fall in the range of approximately 10.0 percent to 10.7 percent.[757] Finally, Christie testifies that the Company's earned ROE has fallen below its authorized ROE in 11 of the past 14 years, in many cases by a substantial margin, especially without the means to address regulatory lag since 2018.[758] Christie argues that these factors further support Avista's 10.40 percent ROE request in this case.[759]

Response to Staff Testimony

464 McKenzie argues that Staff's recommendation contains numerous flaws that lead to a significant downward bias, including:[760]

- Staff's criteria for its proxy group are arbitrary, unnecessarily restrict the size of the group, and undermine the reliability of the analyses;[761]
- Staff's DCF analysis relies on historical data, including growth rates based on dividends and book value; the decision to average individual growth rates together to compute a single DCF estimate for each company; computational shortcomings in the retention growth calculation, and subjectively excluding a 10.6 percent DCF result as an outlier;[762]
- Staff's CAPM analysis relies on historical data when the ROE estimation process is clearly forward-looking; adopting an improper methodology to calculate the historic market risk premium; failure to account for the impact of firm size, and subjectively excluding a 10.7 percent CAPM result as an outlier;[763]
- Staff's CE analysis relies on historical data in a process that is forward-looking; considers market-to-book (M/B), and fails to apply an essential mid-year adjustment factor; and[764]
- Staff's selective exclusion of available data in its risk-premium approach results in subjective bias.[765]

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[756] Christie, Exh.KJC-4T at 20:11-14.

[757] Christie, Exh.KJC-4T at 20:2-5.

[758] Christie, Exh.KJC-4T at 22:13-15.

[759] Christie, Exh.KJC-4T at 20:14-15.

[760] McKenzie, Exh. AMM-15T at 3:6-7.

[761] McKenzie, Exh. AMM-15T at 3:8-10.

[762] McKenzie, Exh. AMM-15T at 3:11-15.

[763] McKenzie, Exh. AMM-15T at 3:17-22.

[764] McKenzie, Exh. AMM-15T at 3:23-27.

[765] McKenzie, Exh. AMM-15T at 3:28-29.

465 In addition to the perceived modeling flaws, McKenzie provides several other arguments opposing Staff's recommended ROE. First, McKenzie asserts that utility bond yields are now approximately 260 basis points higher than when the Commission authorized Avista's current ROE of 9.40 percent, suggesting that even a gradual move towards a fair ROE requires far more than a 10-basis point increase.[766] Second, witness McKenzie contends the Commission made no specific adjustment to Avista's 9.40 percent ROE on the basis of the Company's MYRP, despite the enactment of ESSB 5295 five months prior.[767]

466 Regarding Staff's DCF model, Avista argues that historical growth rates can differ significantly from the forward-looking growth rate required by the DCF model.[768] The Company explains that to the extent historical trends for utilities are meaningful, they are already captured in projected growth rates.[769] Further, McKenzie contends that Staff simply calculated the average of the individual growth rates with no consideration for the reasonableness of the underlying data.[770] As such, the Company asserts that Staff's DCF analysis included individual growth rates that do not reflect investors' expectations.[771]

467 Responding to Staff's CAPM model, McKenzie opines that Staff analysis is based entirely on historical, not projected, rates of return, significantly understating investors' required rate of return.[772] McKenzie also takes issue with Staff calculating its equity risk premium using the *total* return for Duff & Phelps' (Kroll's) long-term government bond series[773]. As a result, the Company concludes that two of three historical market risk premium (MRP)s and the resulting CAPM cost of equity estimate are all understated.[774] Finally, McKenzie contends that averaging Staff's 7.82 percent MRP with the 7.17 percent long-horizon historical MRP reported by Kroll results in an average of 7.5 percent.[775] Substituting this average MRP into Staff's CAPM study results in an average return on equity of 11.7 percent.[776]

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[766] McKenzie, Exh. AMM-15T at 32:16-20.

[767] McKenzie, Exh. AMM-15T at 35:9-11.

[768] McKenzie, Exh. AMM-15T at 39:3-4.

[769] McKenzie, Exh. AMM-15T at 39:4-5.

[770] McKenzie, Exh. AMM-15T at 43:6-7.

[771] McKenzie, Exh. AMM-15T at 43:7-9.

[772] McKenzie, Exh. AMM-15T at 46:12-13, 47:5.

[773] McKenzie, Exh. AMM-15T at 51:11-15.

[774] McKenzie, Exh. AMM-15T at 51:15-16.

[775] McKenzie, Exh. AMM-15T at 52:3-5.

[776] McKenzie, Exh. AMM-15T at 52:5-6.

468 McKenzie acknowledges that arguments regarding the implications of a M/B ratio greater than 1.0 in comparative earnings analyses are not uncommon, however, the Company is not aware of a single instance in recent history where a state regulator has relied on M/B ratios as the basis to evaluate a fair ROE.[777] Further, McKenzie emphasizes that the fallacy of relying on M/B ratios in evaluating cost of equity estimates has been explicitly recognized and characterized by FERC as "academic rhetoric."[778]

469 Witness McKenzie contends that Staff subjectively chooses to truncate the data available in its risk premium approach by ignoring all observations prior to 2012.[779] By choosing a truncated period for its risk premium study, McKenzie argues that Staff unnecessarily introduces a subjective bias that undermines the credibility of its analysis.[780]

470 McKenzie notes that the fact that Staff's expected earnings results exceed authorized returns says nothing about the validity of its expected earnings ROE estimate.[781]

471 Finally, McKenzie maintains that flotation costs are legitimate expenses and that unless a discreet adjustment is made to recognize them, they will not be recovered in the rate setting process.[782]

Response to Public Counsel

472 In response to Public Counsel, McKenzie finds Public Counsel's recommendation of an ROE of 8.50 percent extreme, and that the Commission should reject Public Counsel's conclusions and recommendations in their entirety.[783] The Company provides the following reasons to support this conclusion:

- Public Counsel's DCF approach ignores projected earnings growth rates; relies on a "sustainable" growth DCF model that wrongly assumes investors anticipate every firm in the electric utility industry to mimic a long-term growth forecast for GDP; and fails to remove illogical estimates;[784]

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[777] McKenzie, Exh. AMM-15T at 67:4-6.

[778] McKenzie, Exh. AMM-15T at 67:6-8.

[779] McKenzie, Exh. AMM-15T at 68:12-13.

[780] McKenzie, Exh. AMM-15T at 67:13-15.

[781] McKenzie, Exh. AMM-15T at 71:10-12.

[782] McKenzie, Exh. AMM-15T at 73:11-12.

[783] McKenzie, Exh. AMM-15T at 4:1-2.

[784] McKenzie, Exh. AMM-15T at 4:4-9.

- Public Counsel's CAPM application uses unreliable, illogical, and undocumented inputs, relies on historical data that is inconsistent with this method's assumptions, and fails to incorporate the size adjustment;[785]
- Public Counsel's suggestion that Avista's capital structure would distinguish the Company's overall investment risk from other electric utilities is incorrect, and the "Hamada" adjustment to its CAPM results is deeply flawed and should be given no weight;[786] and
- Public Counsel's analysis fails to apply the risk premium approach.[787]

473 McKenzie highlights that Public Counsel's recommendation is 130 basis points below the average allowed ROE for other vertically integrated electric utilities in 2023.[788] McKenzie further argues that such an outcome would fall well below the returns available from comparable-risk investments and undermine the Company's financial integrity.[789]

474 McKenzie explains that the practical impact of Public Counsel's approach is that differences in ROE are explained only by differences in dividend yield, which violates basic tenets of securities valuation and the DCF model.[790]

475 McKenzie further argues that the fundamental difference between the Company's CAPM analysis and Public Counsel's is that the Company's looks to the future return expectations, while Public Counsel's "implied equity risk premium" methodology is based on historical data.[791] As a result, McKenzie asserts that Public Counsel's methodology is inconsistent with the assumptions of the CAPM.[792]

476 McKenzie also refutes Public Counsel's contention that Avista's risk premium approach is not market based.[793]

477 Witness McKenzie argues that a fair ROE is not evaluated in a vacuum; it is predicated on analyses for a group of comparable risk utilities, with the relative reliance on equity

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[785] McKenzie, Exh. AMM-15T at 4:10-12.

[786] McKenzie, Exh. AMM-15T at 4:13-15.

[787] McKenzie, Exh. AMM-15T at 4:16-17.

[788] McKenzie, Exh. AMM-15T at 77:21, 78:1-2.

[789] McKenzie, Exh. AMM-15T at 78:2-4.

[790] McKenzie, Exh. AMM-15T at 90:1-3.

[791] McKenzie, Exh. AMM-15T at 95:4-6.

[792] McKenzie, Exh. AMM-15T at 95:9-10.

[793] McKenzie, Exh. AMM-15T at 102:14, 18-20.

financing being only one factor considered in this overall assessment.[794] As a result, McKenzie contends that there is simply no basis for Public Counsel's proposed CAPM adjustment based only on variations in equity ratios between individual utilities.[795]

Response to AWEC

478 McKenzie testifies that AWEC's recommendation to reduce Avista's ROE from 9.40 percent to 9.25 percent makes no economic sense since investors' required rate of return has increased significantly since the Company's last litigated rate proceeding.[796] Additionally, McKenzie lists the following reasons in support of its position:

- The return benchmarks cited by AWEC provide no meaningful basis to evaluate a fair ROE for Avista;[797]
- There is no support for the assumptions of AWEC's three-stage DCF model;[798]
- AWEC's constant growth DCF application is based on the incorrect notion that investors expect growth for all utilities to converge to a long-term forecast of growth in GDP;[799]
- AWEC's beta-calculations are subjective and results-oriented, which run counter to those published by reputable sources;[800] and
- The two MRPs AWEC used to apply the CAPM either lack any clear foundation or were based on illogical modifications. Additionally, AWEC's CAPM results are downward biased because Kaufman fails to account for the implications of firm size.[801]

479 McKenzie asserts that AWEC's proposal to decrease Avista's ROE when capital costs have demonstrably increased shows that its recommendation is divorced from fundamental financial principles and should be given no weight.[802] McKenzie further argues that

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[794] McKenzie, Exh. AMM-15T at 107:12-14.

[795] McKenzie, Exh. AMM-15T at 107:14-15, 108:1.

[796] McKenzie, Exh. AMM-15T at 4:20-23.

[797] McKenzie, Exh. AMM-15T at 4:25-26.

[798] McKenzie, Exh. AMM-15T at 5:1-2.

[799] McKenzie, Exh. AMM-15T at 5:3-6.

[800] McKenzie, Exh. AMM-15T at 5:7-10.

[801] McKenzie, Exh. AMM-15T at 5:11-15.

[802] McKenzie, Exh. AMM-15T at 114:7-10.

AWEC's 4.0 to 8.0 percent market return range is meaningless and cannot be used to make the case that its ROE recommendation is conservative.[803]

480 McKenzie also argues that there is no basis for AWEC's assertion that the use of the current five-year betas in the CAPM "overinflates utility cost of capital."[804]

Response to Walmart

481 McKenzie argues that although Walmart does not conduct any analysis or provide an explicit ROE recommendation, it expresses concern over Avista's ROE request based on a comparison with historical allowed ROEs and customer impact consideration.[805] McKenzie contends that comparisons with historical allowed ROEs are overly simplistic and fail to account for the significant increase in long-term capital costs.[806]

482 McKenzie argues that the cost of equity is established in competitive capital markets, and Walmart's suggestion that Avista's ROE might be artificially suppressed to minimize customer impacts ignores the requirements of regulatory standards, and the long-term harm that can result if investor confidence is undermined.[807] Further, McKenzie contends that while Walmart's data on allowed ROEs can be useful in the Commission's deliberations, it is not a substitute for the detailed analyses presented in its direct testimony.[808] Finally, McKenzie refutes Walmart's suggestion that a lower ROE is to customers' benefit.[809] McKenzie argues that while a downward-biased ROE may provide the illusion of "savings" in the form of a lower revenue requirement in the short-term, the long-term impact of an inadequate ROE can work to the disadvantage of customers.[810]

Avista's General Rebuttal of the Other Parties

483 McKenzie argues that the 8.50 percent to 9.50 percent ROE recommendations of the Other Witnesses fall approximately 93 to 193 basis points below national average authorized ROEs, once adjusted for current interest rates.[811] Additionally, McKenize contends that the

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[803] McKenzie, Exh. AMM-15T at 115:3-4.

[804] McKenzie, Exh. AMM-15T at 121:18-20.

[805] McKenzie, Exh. AMM-15T at 5:18-20.

[806] McKenzie, Exh. AMM-15T at 5:22-24.

[807] McKenzie, Exh. AMM-15T at 5:25-28.

[808] McKenzie, Exh. AMM-15T at 135:5-6.

[809] McKenzie, Exh. AMM-15T at 135:19-20.

[810] McKenzie, Exh. AMM-15T at 135:20, 136:1-2.

[811] McKenzie, Exh. AMM-15T at 6:8-10.

ROE disparity is even more evident when considering that utility bond yields have *increased* approximately 250 basis points since the Commission approved an ROE of 9.40 percent for Avista.[812]

484 McKenzie explains that trends in 30-year Treasury bonds and utility bonds are relevant indicators for evaluating cost of equity.[813] Witness McKenzie states that trends in these bond yields since Avista's last rate proceeding demonstrate a substantial increase in the returns on long-term capital demanded by investors.[814] Additionally, McKenzie notes that key interest rate benchmarks indicate that investors' required return on debt securities has increased an average of 170 basis points from September 2021 to June 2022, and another 99 basis points to June 2024.[815]

485 Thus, McKenzie argues that the cost of capital—both debt and equity—has increased significantly since the Commission authorized the current ROE of 9.40 percent.[816] Further, McKenzie contends that there is no evidence risks associated with increased cost levels for capital projects have been mitigated by any offsetting risk since the Commission entered its final order in the 2022 GRC.[817]

486 Additionally, McKenzie argues that the Other Witnesses do not address the implications of declining utility credit ratings, increased financial pressures, or the heightened risk posed by wildfires in their ROE recommendations. Nor does McKenzie believe their recommendations reflect the significant upward trend in capital costs since Avista's last litigated rate proceedings.[818]

487 McKenzie testifies that the ROE recommendations of Public Counsel and AWEC are unmoored from fundamental principles of finance and violate the basic, common-sense relationship between interest rates and the cost of equity.[819] McKenzie finds it inconceivable that the Company's ROE could have decreased when other capital costs have significantly increased.[820]

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[812] McKenzie, Exh. AMM-15T at 6:10-12.

[813] McKenzie, Exh. AMM-15T at 7:15-18.

[814] McKenzie, Exh. AMM-15T at 8:12-15.

[815] McKenzie, Exh. AMM-15T at 9:5-6.

[816] McKenzie, Exh. AMM-15T at 14:14-16.

[817] McKenzie, Exh. AMM-15T at 15:7-10.

[818] McKenzie, Exh. AMM-15T at 16:13-16.

[819] McKenzie, Exh. AMM-15T at 17:5-7.

[820] McKenzie, Exh. AMM-15T at 17:4-5.

488 McKenzie states that despite interest rates having increased substantially—which means the cost of equity has climbed—Staff is arguing that Avista's ROE should be increased by just 10 basis points, while Public Counsel and AWEC are arguing for a reduction.[821] McKenzie believes that these outcomes are not credible and would violate accepted principles of finance.[822] Therefore, Company witness McKenzie argues that the Commission should specifically reject the ROE recommendations of Public Counsel and AWEC on this basis.[823]

489 McKenzie also argues that adjusting historical average allowed ROEs from 2020 to Q1 2024 to reflect current capital market conditions results in an implied cost of equity of 10.43 percent, therefore substantiating that the non-Company ROE recommendations are insufficient.[824]

490 Finally, McKenzie reiterates that the average ROEs for the non-utility group reported in direct testimony range from 10.5 percent to 11.0 percent, and average 10.8 percent.[825] McKenzie asserts that a comparison of objective risk indicators shows the non-utility group to be less risky than the utility group or Avista, and thus these ROE results provide a conservative guideline for a fair ROE.[826]

Parties' Briefs

Avista's Brief

491 In its brief, Avista reiterated that Avista's earned ROE has fallen below its authorized ROE in 11 of the past 14 years, in many cases by a substantial margin, especially without the means to otherwise address regulatory lag since 2018, with an attrition adjustment.[827] The

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[821] McKenzie, Exh. AMM-15T at 20:8-10

[822] McKenzie, Exh. AMM-15T at 20:11.

[823] McKenzie, Exh. AMM-15T at 20:11-13.

[824] McKenzie, Exh. AMM-15T at 24:1-4.

[825] McKenzie, Exh. AMM-15T at 31:7-9.

[826] McKenzie, Exh. AMM-15T at 31:9-11.

[827] Avista's Post-Hearing Brief, at ¶ 30. Moody's noted that "the lag in cash flow recovery and limited revenue increases have pressured Avista's credit metrics particularly during a time when the sector faced material headwinds from higher natural gas prices and other cost pressures." (Moody's Investors Service, Avista Corp., update to credit analysis, Credit Opinion (Aug. 16, 2023)). Similarly, S&P reported the prospect of lowering Avista's ratings over the next 12 to 24 months if financial metrics are pressured by "regulatory lag." (S&P Global Ratings, Avista Corp., Ratings Direct, Ratings Score Snapshot (Dec. 8, 2023)). (Christie, Exh. KJC-4T at 22:17-19).

Company took issue with the other parties' recommendations for Avista's ROE, [828] specifically that the Other Witnesses' ROE recommendations fall below accepted benchmarks.[829]

492 Avista also argues that the Other Witnesses' ROE analyses are undermined by errors and methodological flaws, including, among other things: 1) failure to account for significantly higher capital costs, declining creditworthiness, and rising risk exposures, such as wildfires; 2) errors in the specification of their proxy groups; and 3) unsupported growth rate assumptions in the application of the discounted cash flow ("DCF") model that do not reflect investors' expectations.[830] Avista then details and addresses the particulars of recommendations by each of the Other Witnesses.[831]

Staff's Brief

493 Staff argues that the Company's conclusions are unsupported in McKenzie's testimony and contradictory with his past testimony before this Commission.[832] Staff asserts that the Company's recommendations concerning its ROE are quite simply in direct contrast to the objective facts presented by the parties in this case. Staff concedes that Avista is deserving of a moderate rate increase, as stated above, but argues the wildly inflated numbers McKenzie presented are contrary to both Commission precedent and reasoned policy. [833]

494 Additionally, with regard to bond yields, Staff argues that Avista's testimony is contradictory with current bond trends and primarily the result of McKenzie's continued use of the disfavored CAPM. Staff alleges that the CAPM has been deemphasized by the Commission.[834] Staff claims that witness McKenzie goes beyond just using the CAPM but creates an ECAPM by substituting actual betas with hypothetical ones for the chosen proxy group, skewing an already flawed model.[835] Staff rejects Avista's proposed 10 basis point increase of the Company's ROE using ECAPM.[836]

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[828] Avista's Post-Hearing Brief, at ¶¶ 31-45.

[829] Avista's Post-Hearing Brief, at ¶ 32.

[830] Avista's Post-Hearing Brief, at ¶ 32.

[831] Avista's Post-Hearing Brief, at ¶¶ 33-45.

[832] Staff's Post-Hearing Brief, at ¶ 38.

[833] Staff's Post-Hearing Brief, at ¶ 40.

[834] Staff's Post-Hearing Brief, at ¶ 41-42 (*citing*, *Wash. Utils. & Transp. Comm'n v. Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 100 (Sept. 27, 2021)).

[835] Staff's Post-Hearing Brief, at ¶ 42 (*referencing*, McKenzie, AMM-1T, at 47:8-9).

[836] Staff's Post-Hearing Brief, at ¶ 45.

495 Next, Staff argues that contrary to Avista's assertions, the Company is actually financially healthy with an improving credit rating.[837] Staff adds that Avista also has no fears of lessened access to capital. As McKenzie testified, Avista's 10.4 percent return on equity is not a requirement to obtain funding.[838] Staff alleges that Avista's capital structure through its last case was 48.5 percent common equity, the same as the proposed structure in this case.[839] Yet, Avista's actual common equity ratio stands at 46.2 percent, well below its current authorized rate.[840] Thus, Staff asserts that "by keeping its true equity lower, it can charge ratepayers at an already inflated hypothetical rate structure of 48.5 percent while pocketing the difference."[841]

496 Staff contends that, contrary to Avista's argument, expansion of infrastructure is immaterial to ROE or cost of capital considerations.[842] Further, Staff argues against the Company's position that "constructive" and "supportive" regulation necessitates a higher ROE, and that constructive regulation is not relevant to this case.[843] Staff also rejects Avista's attrition claim, and claims that the Company has not conducted and presented studies demonstrating such attrition, nor has it shown any particularized reasonings for why that attrition was outside the realm of the Company's control.[844]

497 Staff asserts that the Commission has a history of applying gradualism to ROE in rate cases, including in Avista's own prior cases. Staff asserts that this approach benefits ratepayers and utilities alike, and the Commission should reaffirm its use for ROE considerations.[845]

Flotation Costs

498 Staff asserts that the Commission should reject Avista's flotation adjustment as the Commission has denied this particular type of adjustment in prior litigated cases involving

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[837] Staff's Post-Hearing Brief, at ¶¶ 45-46.

[838] Staff's Post-Hearing Brief, at ¶ 47 (*referencing*, McKenzie, TR, at 151:7-13).

[839] Staff's Post-Hearing Brief, at ¶ 47.

[840] Staff's Post-Hearing Brief, at ¶ 47 (*referencing*, Parcell, DCP-1T, at 30:16-17).

[841] Staff's Post-Hearing Brief, at ¶ 47.

[842] Staff's Post-Hearing Brief, at ¶ 48.

[843] Staff's Post-Hearing Brief, at ¶ 49.

[844] Staff's Post-Hearing Brief, at ¶ 50.

[845] Staff's Post-Hearing Brief, at ¶ 53.

Avista.[846] Staff argues that flotation costs are a known factor and are therefore already incorporated into investor evaluations of stock by the ROE models used to calculate a company's authorized return.[847] Staff posits that adding flotation costs to rates would be redundant and would in essence ask ratepayers to pay for flotation costs twice, once when the costs were naturally incorporated in rates, and the second time through the Company's proposed added adjustment.[848] Staff also argues that that the Company has not presented a rationale or argument as a basis for the Commission to change its position on flotation costs from prior cases.[849]

Public Counsel's Brief

499 Public Counsel states that the Commission should set a ROE that is limited to Avista's actual cost of capital.[850] In that vein, Public Counsel argues that a more accurate ROE given current economic realities would be 8.5 percent, resulting in an overall ROR of 6.86 percent, as opposed to the Company's proposed 10.4 percent ROE, which would result in an overall ROR of 7.61 percent.[851] Public Counsel adds that there is evidence in this record that Avista's awarded rates have consistently exceeded the rates that are necessary for capital acquisition and higher than are warranted by Avista's business risk.[852] Public Counsel alleges that Avista's claim of under earning and attrition have not interfered with the Company's access to capital or its financial soundness.[853]

500 Public Counsel argues that the Commission should accept its recommendation to lower the Company's ROE from 9.4 percent, and that appropriate range for Avista's ROE is is 8.0 percent to 9.2 percent.[854] Public Counsel believes that lowering Avista's ROE will not affect its financial performance.[855]

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[846] Staff's Post-Hearing Brief, at ¶ 54; *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-170485 & UG-170486, Order 07/02, at 30 ¶ 75; *Avista*, Dockets UE-200900 & UG-200901, Final Order 08/05, at 38 ¶ 99.

[847] Staff's Post-Hearing Brief, at ¶ 55.

[848] Staff's Post-Hearing Brief, at ¶ 55.

[849] Staff's Post-Hearing Brief, at ¶ 56.

[850] Public Counsel's Post-Hearing Brief, at ¶ 2 and ¶ 79.

[851] Public Counsel's Post-Hearing Brief, at ¶79 (*referencing*, Christie, Exh. KJC-4T at 18:13–15).

[852] Public Counsel's Post-Hearing Brief, at ¶ 86.

[853] Public Counsel's Post-Hearing Brief, at ¶ 87.

[854] Public Counsel's Post-Hearing Brief, at ¶ 89 (*referencing*, Garrett, Exh. DJG-1T at 3 Figure 1).

[855] Public Counsel's Post-Hearing Brief, at ¶ 95.

501 Public Counsel contends that the Commission should discount Avista's modeling because it does not accurately predict or explain investor behavior, and because the Company's witness admits that his modeling and testimony are not useful to the Commission in achieving the goals of *Bluefield* and the Commission's test.[856] Public Counsel then goes on to detail its additional reasons for its position that the Commission should not rely on McKenzie's financial modeling, which allegedly result in bias and overstated growth forecasts.[857]

Flotation Costs

502 Consistent with other party witnesses, Public Counsel argues that the Commission should reject Avista's request for flotation costs. [858] Public Counsel adds that "these costs are not out-of-pocket costs for the Company, and the Commission has no metric by which to determine which party would have negotiated to capture that additional value; i.e. would the stock price have dropped or risen slightly."[859] Public Counsel opines that only competition could fairly make that allocation.[860]

AWEC's Brief

503 AWEC argues that Avista's ROE should be lowered from its current level of 9.4 percent and set at 9.25 percent.[861] AWEC makes a similar argument to Staff that the Commission should give little weight to usage of CAPM and ECAPM, based the Commission's recent skepticism about those models.[862] AWEC also takes issue with Avista's models for Risk Premium and Expected Earnings as AWEC claims that FERC has rejected use of both models.[863] AWEC does not take issue with Avista's DCF model but rather the results of its analysis, which yielded a cost of equity range between 9.2 percent and 11.9 percent, an exceedingly broad range. AWEC believes that this range is too broad.[864] AWEC opines that its DCF results are more accurate as they yield a range between 8.5 percent and 9.2

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[856] Public Counsel's Post-Hearing Brief, at ¶ 96 referencing McKenzie, TR. at 151:1–6.

[857] Public Counsel's Post-Hearing Brief, at ¶¶ 82-83, 97-101.

[858] Public Counsel's Post-Hearing Brief, at ¶ 93 referencing Garrett, Exh. DJG-1T at 45:1–4.

[859] Public Counsel's Post-Hearing Brief, at ¶ 93 referencing Garrett, Exh. DJG-1T at 45:5–16.

[860] Public Counsel's Post-Hearing Brief, at ¶ 93.

[861] AWEC's Post-Hearing Brief, at ¶ 13.

[862] AWEC's Post-Hearing Brief, at ¶ 15.

[863] AWEC's Post-Hearing Brief, at ¶ 17.

[864] AWEC's Post-Hearing Brief, at ¶ 18.

percent, which is also in line with Public Counsel and Staff's models. Consequently, AWEC posits that its recommended 9.25 percent is reasonable.[865]

Flotation Costs

504 As with other witnesses, AWEC recommends that the Commission reject Avista's flotation cost adjustment, as it did in Avista's 2020 general rate case.[866] AWEC claims that "while Mr. McKenize attempted to respond to the Commission's criticism of this adjustment in that case by showing Avista's actual flotation costs, Avista fails to show both that it did not recover these flotation costs through its authorized rates and that Avista will incur flotation costs in the test year."[867]

Walmart's Brief

505 Walmart contends that Avista's request for an ROE of 10.40 percent is not just and reasonable.[868] In support of its position, Walmart cites to its testimony in which it alleges that the nationwide average ROE is 9.5 percent,[869] and that the average ROE for vertically integrated utilities authorized from 2021 through the present is 9.62 percent,[870] well below Avista's proposed ROE of 10.40 percent.[871] Walmart believes that increased costs to retailers, in the form of higher energy costs resulting from a high ROE, will result in passing through higher prices to retail consumers.[872] For these reasons, Walmart requests that the Commission deny Avista's proposed ROE of 10.40 percent and set a just and reasonable ROE.[873]

Decision

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[865] AWEC's Post-Hearing Brief, at ¶ 19-20.

[866] AWEC's Post-Hearing Brief, at ¶ 14; See also Docket Nos. UE-200900, UG-200901, UE-100894 (*Consolidated*), Order 08-05 ¶ 96 ("2020 GRC Order").

[867] AWEC's Post-Hearing Brief, at ¶ 14.

[868] Walmart's Post-Hearing Brief, at p. 1.

[869] Walmart's Post-Hearing Brief, at p. 2 citing Perry, Ex. LVP-1T at 11:2.

[870] Walmart's Post-Hearing Brief, at p. 2 citing Perry, Ex. LVP-1T at 11:12.

[871] Walmart's Post-Hearing Brief, at p. 2.

[872] Walmart's Post-Hearing Brief, at p. 1.

[873] Walmart's Post-Hearing Brief, at p. 2.

506 In determining cost of capital, the Commission is guided by the longstanding precedent of the *Hope*[874]and *Bluefield*[875] cases. The Commission will analyze service on debt as well as the return to the equity owner, which should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.[876] Moreover, "what the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience. There must be a fair return upon the reasonable value of the property at the time it is being used for the public."[877]

507 Based on this guidance of the *Hope* and *Bluefield* cases, in *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, we stated that "a utility's cost of capital has three main components: capital structure, return on equity, and cost of debt. Taking all these factors into account, it is possible to describe the utility's overall rate of return (ROR), also known as the weighted average cost of capital (WACC)."[878]

Cost of Capital (ROE)

508 As was stated previously, Avista proposes a capital structure of 51.5 percent debt and 48.5 percent equity, a proposed cost of debt of 4.99 percent, a proposed 10.40 percent ROE, and a requested overall ROR in this proceeding of 7.61 percent.[879] Avista contends that the proposed 10.40 percent ROE is reasonable to maintain Avista's financial integrity.[880] Avista supports this assertion by stating that four out of five cost of equity methods they implemented produced an ROE of 10.4 percent.[881] Avista also alleges that its earned ROE has fallen below its authorized ROE in 11 of the past 14 years, in many cases by a substantial margin, especially without the means to address regulatory lag since 2018.[882]

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[874] *Fed. Power Comm'n v. Hope Nat. Gas Co.,* 320 U.S. 591, 64 S. Ct. 281, 88 L. Ed. 333 (1944).

[875] *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n,* 262 U.S. 679, 43 S. Ct. 675, 67 L. Ed. 1176 (1923).

[876] *Federal Power Com. v. Hope Natural Gas Co.,* 320 U.S. 591, 603 (1944).

[877] *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. at 690.

[878] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Dockets UE-230172 & UE-210852, Order 08, ¶ 112 (Mar. 19, 2024); See also *Bluefield*, 262 U.S. at 689-90.

[879] Christie, Exh. KJC-1T at 14:8-11.

[880] Christie, Exh. KJC-1T at 16:6-7.

[881] McKenzie, Exh. AMM-1T at 6:19-20.

[882] Christie, Exh.KJC-4T at 22:13-15.

509 In turn, Staff does not contest the Company's capital structure, i.e., equity ratio, nor does Staff contest Avista's cost of debt.[883] However, Staff does contest Avista's proposed ROE. Staff argues that the Company's proposed increase, from 9.4 percent to 10.4 percent, represents a significant departure from recent ROEs the Commission has approved for Avista.[884] Staff further argues that Avista's proposed ROE is not supported by testimony and is inconsistent with Commission policies.[885] An example, among others, Staff provides as inconsistent with the Commission's policies is the Company's use of CAPM and ECAPM to calculate ROE.[886] Staff recommends a 9.5 percent ROE for each year of the MYRP, for both electric and natural gas utility operations, a 10 basis point increase to ROE.[887]

510 Similar to Staff, Public Counsel does not contest the Company's equity ratio, nor does it contest Avista's cost of debt, but does contest Avista's proposed ROE (10.4 percent) and its overall ROR (7.61 percent).[888] Public Counsel argues that a more accurate ROE, given current economic realities would be 8.5 percent, resulting in an overall ROR of 6.86 percent.[889] Public Counsel, like Staff, also takes issue with Avista's financial modeling, and argues that the Commission should continue to lower Avista's ROE to be consistent with the actual cost of capital.[890]

511 AWEC also disagrees with Avista's modeling claiming that the Commission is skeptical of the CAPM and ECAPM models on which Avista relies.[891] AWEC states that of the other forms of modeling Avista uses, discounted cash flow, is one acceptable to the Commission. However, AWEC disputes the inputs Avista uses in its DCF modeling to arrive at the range for its ROE, between 9.2 percent and 11.9 percent.[892] AWEC believes that this range is too broad, and that a range of 8.5 and 9.3 percent from AWEC's DCF

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[883] Staff's Post-Hearing Brief, at ¶ 32.

[884] Staff's Post-Hearing Brief, at ¶ 33.

[885] Staff's Post-Hearing Brief, at ¶ 41-51.

[886] Staff's Post-Hearing Brief, at ¶ 41-45.

[887] Parcell, Exh. DCP-1T at 6:12-14.

[888] Public Counsel's Post-Hearing Brief, at ¶ 79.

[889] Public Counsel's Post-Hearing Brief, at ¶ 79 referencing Garrett, MEG-3 (schedule 3.10) and MEG-4 (scheduled 4.10).

[890] Public Counsel's Post-Hearing Brief, at ¶¶ 89-101.

[891] AWEC's Post-Hearing Brief, at ¶ 16.

[892] AWEC's Post-Hearing Brief, at ¶ 18.

calculations is more in line with the results from Public Counsel's and Staff's DCF models. AWEC recommends a ROE of 9.25 percent.[893]

512 Walmart opposes Avista's proposed ROE and asserts that the increased cost to retailers like Walmart can put pressure on consumer prices and on the other expenses required by a business to operate, and this can result in passing through higher prices to consumers.[894] Walmart contends that Avista's 10.4 percent ROE is too high compared to the nationwide ROE average of 9.5, and the authorized average ROE for vertically integrated utilities has been 9.62 percent since 2021.[895] Walmart suggests an ROE of 9.62 percent [896] for Avista's electric operation and 9.58 percent for Avista's gas operation.[897]

513 After reviewing the evidence and testimony, we reject Avista's proposed ROE. In its brief, Staff raises the principle of gradualism that this Commission has articulated in prior proceedings. Staff makes a valid point that gradualism protects ratepayers and utilities alike, and that the Commission should reaffirm its use for ROE considerations.[898] We agree. In past proceedings, including those involving Avista, we have relied on this principle. Specifically, the Commission has said, "We must evaluate all cost of capital evidence offered and consider other relevant principles and factors such as the general state of the economy, investment cycles in the industry, and the principle of gradualism to determine, consistent with the public interest, a reasonable range of returns and what specific ROE within that range is appropriate for determining Avista's revenue requirements."[899]

514 Even with economic factors Avista cites, approving an ROE at 10.4 percent, a 100 basis point increase from the Company's current 9.4 percent ROE, is against this principle and we cannot in good conscience and in our statutory duty approve such a steep increase absent extreme circumstances that we do not see here. Doing so certainly would not be in the public interest.

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[893] AWEC's Post-Hearing Brief, at ¶ 20.

[894] Walmart's Post-Hearing Brief, at p. 1.

[895] Walmart's Post-Hearing Brief, at p. 2.

[896] Perry, Exh. LVP-1T at 12:6-7, 13:1-2.

[897] Perry, Exh. LVP-1T at 16:6-7, 17:1-2.

[898] Staff's Post-Hearing Brief, at ¶53.

[899] *Wash. Utils. & Transp. Comm'n v. Avista Corp*, Dockets UE-200900, UG-200901 & UE-200894, Order 08/05, ¶ 97 (September 27, 2021); *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-121697 & UG-121705 *(Consolidated)*, Order 15, Dockets UE-130137 & UG-130138 *(Consolidated)*, Order 14, Final Order on Remand, 16, ¶ 32 (Jun. 29, 2015) [hereinafter PSE Remand Final Order].

515 However, we also reject the ROEs recommended by Staff, Public Counsel, AWEC, and Walmart. The parties through their witnesses have utilized analytical tools with which we are well-acquainted, including DCF, CAPM, ECAPM, and CE. The models yielded results for ROE ranging from as low as 8 percent calculated by Public Counsel to a high of 11.8 percent calculated by Avista. We observe that the range of results is due to a similar approach to modeling from Avista's rate case in Docket UE-200900 wherein we noted "the wide-ranging results are directly attributable to the experts' selection of proxy groups and reliance on different sources for growth rates, discount rates, and market risk premiums."[900] The difference here at least is that the witnesses' analyses produced a 380-basis point range of possible returns rather than the 450-basis point range from the prior Avista rate case.

516 Despite the range of possible returns, we note that Staff and Walmart offer to raise Avista's ROE slightly higher with Staff at 9.5 percent for gas and electric for RY1 and RY2, and Walmart at 9.62 percent for electric for RY1 and RY2 and 9.58 percent for gas in RY1 and RY2. Public Counsel and AWEC would actually reduce Avista's ROE to 8.5 percent and 9.25 percent, respectively. These proffered ROEs are either too low or do not adjust high enough to address the current conditions facing Avista.

517 While we cannot go as high as the 10.4 percent level for ROE the Company requests, for previously stated reasons, we recognize that upward adjustment is needed to address the challenges the Company faces and to ensure it remains a viable entity able to provide reliable and adequate service to its customers. The challenges of remaining credit worthy and acquiring capital for continued operation are very real. In fact, these challenges go to the heart of the Commission's responsibility, which is to assure confidence in the financial integrity of the utility company, to maintain its credit rating and to attract capital, so that it can continue to provide service for the public convenience.[901]

518 Given this precedent and our adherence to it, we approve raising Avista's ROE to 9.8 percent for electric and gas operations for both RY1 and RY2. We believe doing so serves two purposes. First, we remain consistent with the principles of gradualism and protect the ratepayers from rate shock, which we believe would have been the case if we had approved Avista's ROE at 10.4 percent. Second, approving a higher ROE allows the Company to maintain its credit rating, attract needed capital, and continue to be a viable

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[900] *Avista Corp*, Dockets UE-200900, UG-200901 & UE-200894, Order 08/05, ¶ 98.

[901] *Federal Power Com. v. Hope Natural Gas Co.,* 320 U.S. 591, 603 (1944); *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. at 690.

utility, providing service to its ratepayers, pursuant to the precedent established in the *Hope* and *Bluefield* cases.

519 In short, the ratemaking process, where agencies similar to the Commission seek to establish just and reasonable rates, involves a balancing of the investor and consumer interests.[902] We believe that approving Avista's ROE at 9.8 percent strikes that balance between investor and consumer interests, and therefore is in the public interest.

520 Given that no party contested Avista's proposed capital structure of 51.5 percent debt and 48.5 percent equity, we approve the Company's proposed capital structure. Similarly, no party contested the Company's proposed cost of debt of 4.99 percent. Based on our decision to increase the Company's ROE to 9.8 percent, Avista's overall rate of return, or ROR, will be 7.32 percent.

Flotation Costs

521 Flotation costs are incurred when a company issues new securities.[903] These costs are incurred by the investors with the sale of these new securities,[904] and include services such as legal, accounting, and printing costs, as well as the fees and discounts paid to compensate brokers for selling the stock to the public.[905] Avista asserts that it should be offered an opportunity to recover flotation costs, which it believes are a legitimate expense incurred to provide equity capital.[906] Avista proposes an 8-basis point increase to its ROE based on flotation costs.[907]

522 Staff, Public Counsel and AWEC all argue for rejection of flotation costs because they are a known factor already incorporated into investor evaluations of stock by the ROE models used to calculate a company's authorized return, and because the Commission has rejected inclusion of flotation costs in ROE in prior proceedings.[908] Staff posits that adding flotation costs to rates would be redundant and would in essence ask ratepayers to pay for

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[902] *Federal Power Com. v. Hope Natural Gas Co.,* 320 U.S. at 603.

[903] *Avista Corp.*, Dockets UE-170485 & UG-170486, Order 07/02, at fn. 80.

[904] McKenzie, AMM-1T, at 49:4-11.

[905] McKenzie, AMM-1T, at 49:4-11.

[906] Avista's Post-Hearing Brief, at ¶ 33.

[907] McKenzie, AMM-1T at 54:4-11.

[908] Staff's Post-Hearing Brief, at ¶¶ 55, 56; Public Counsel's Post-Hearing Brief, at ¶ 93; AWEC's Post-Hearing Brief, at ¶ 14.

flotation costs twice, once when the costs were naturally incorporated in rates, and the second time through Avista's proposed added adjustment.[909]

523 Public Counsel adds that "these costs are not out-of-pocket costs for the Company, and the Commission has no metric by which to determine which party would have negotiated to capture that additional value; i.e. would the stock price have dropped or risen slightly."[910] AWEC also recommends that the Commission reject the Company's flotation cost adjustment as it does not provide adequate evidence to support its request.[911]

524 We agree with Staff, Public Counsel, and AWEC, and reject Avista's proposed flotation cost adjustment. In Avista's 2017 rate proceeding the Commission rejected Avista's request for flotation costs, reasoning that "while these costs may be legitimate adjustments made during the underwriting process, the Company had failed to demonstrate the level of flotation costs it had actually incurred during the test year."[912] The Commission reiterated this standard in Avista's 2020 case and rejected Avista's proposed flotation cost adjustment. In that matter, the Commission stated, "we remain unpersuaded in this case that we should include any flotation adjustment without a compelling showing."[913]

525 We remain unpersuaded in this case as well. Avista's witness McKenzie acknowledged the precedent from the 2017 and 2020 rate cases and admitted that our concerns stated in those proceedings were not addressed in this one.[914] Based on the lack of evidentiary support, we have no choice but to reject the Company's proposed flotation adjustment.

Cost of Service, Rate Spread and Rate Design

Avista's Direct Testimony

526 Avista proposes rate increases for residential customers under Schedules 1 & 101 and argues that the Company's fixed costs do not vary with customer usage and are therefore customer allocated costs.[915] Company witness Miller further argues it is important for

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[909] Staff's Post-Hearing Brief, at ¶ 55.

[910] Public Counsel's Post-Hearing Brief, at ¶ 93 referencing Garrett, Exh. DJG-1T at 45:5–16.

[911] AWEC's Post-Hearing Brief, at ¶ 14.

[912] *Avista Corp.*, Dockets UE-170485 & UG-170486, Order 07/02, at ¶76.

[913] *Avista Corp*, Dockets UE-200900, UG-200901 & UE-200894, Order 08/05, ¶96.

[914] McKenzie, AMM-1T at 53:18-54:21.

[915] Miller, Exh. No. JDM-1T at 32:5-11. We note that every reference to Schedule 1 in this section also applies to Schedules 7 and 8 (TOU Pilot).

charges to accurately reflect the actual costs incurred to serve customers.[916]To further detail, Avista proposes increasing the Basic Monthly Charge (BMC) for electric residential customers from $9.00 to $15.00 in Rate Year 1 (RY1) and $20.00 in Rate Year 2 (RY2), and for natural gas residential customers from $9.50 to $15.00 in RY1 and $20.00 in RY2.[917]

527 Avista bases its rate spread recommendation on its proposal for an electric revenue increase of $77.0 million (13.0 percent) in RY1 over current base tariff rates in effect and an increase of $78.1 million (11.7 percent) in RY2, and for natural gas customers proposes a revenue increase of $17.3 million (13.6 percent) in RY1 and $4.5 million (3.2 percent) in RY2.[918]

528 Avista proposes to spread this rate increase through an equal increase of 13.1 percent for the base tariff rates for each electric customer class (except the 12.8 percent increase for Schedule 25) and on the gas side proposes an equal increase of 11.7 percent for all customer classes.[919] Avista justifies this proposal based on the size of the increase and argues a uniform increase will make modest improvements towards more evenly distributed return ratios.[920]

Staff's Response Testimony

529 Staff argues that the Company did not justify including a broader range of costs in its proposed BMC calculation.[921] Citing prior Commission guidance and policies regarding gradualism, Staff recommends a $1.00 increase for residential gas and electric customers to bring the Company's basic charge closer to cost parity without too sharp of an increase to the basic charge.[922]

Public Counsel's Response Testimony

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[916] Miller, Exh. No. JDM-1T at 32:21-23.

[917] Miller, Exh. No. JDM-1T at 32:5-11.

[918] Miller, Exh. No. JDM-1T at 32:5-11.

[919] Miller, Exh. No. JDM-4 (schedule 25 has a proposed increase of 12.8 percent).

[920] Miller, Exh. No. JDM-1T at 2:8-12.

Parity Ratio: Schedule revenue to cost ratio divided by system's revenue to cost ratio.

Return Ratio: Schedule rate of return divided by overall rate of return.

[921] Hillstead, Exh. No. KMH-1T at 26:8-15.

[922] Hillstead, Exh. No. KMH-1T at 27:14-18.

Basic Charge

530 Public Counsel recommends that the Commission reject the Company's proposed increase in customer charges for both residential electric and natural gas general service. Public Counsel witness Dismukes criticizes the Company for including non-customer related activities into its cost allocation for calculating the basic charge.[923]

531 Public Counsel's calculation for what is necessary to recover customer related costs in the basic charge amounts to $9.93 for electric schedule 1 in RY1 and $11.44 for gas schedule 101 in RY1.[924] Beyond the arguments for using those figures, Dismukes asserts that higher basic charges reduce incentives for customers to conserve. Furthermore, Public Counsel's analysis estimates that low-use electric residential customers would see an increase of 15.57 percent if the Company's proposal were to go into effect compared to the proposed average rate increase for all residential customers of 13.02 percent.[925] For low-use gas customers, the bill increase would be 9.19 percent with the Company's proposal, as opposed to a 6.74 percent average rate increase for all residential customers.[926] Public Counsel highlights the close correlation between having low usage and being low income to support its position.

AWEC's Response Testimony

532 AWEC witness Kaufman begins the discussion of rate spread by referencing Staff's "recent practice of characterizing deviations from rate parity of less than 0.05 as within the margin of error, more than 0.1 as unreasonable, more than 0.2 as excessive, and deviations more than 0.3 as grossly excessive."[927] AWEC argues for rate increases described in Table 4 and 5.

[923] Dismukes, Exh. No. DED-1T at 9:13-17.

[924] Dismukes, Exh. No. DED-1T at 9-10.

[925] Dismukes, Exh. No. DED-3.

[926] Dismukes, Exh. No. DED-4.

[927] Kaufman, Exh. No. LDK-1CT at 10:17-11:1.

Table 4: Recommended Electric Rate Change as Percent of Average[928]

Schedule	Parity (AWEC COS)	% of Avg. Change RY1	% of Avg. Change RY2
Residential Service 1	0.85	51	150
General Service 11-12	1.18	125	75
Large Gen. Service 21-22	1.21	150	50
XL Gen. Service 25	1.30	200	25
Pumping Service 31-32	1.06	100	100
Street/Area Lights 41-48	1.08	100	100
Gen. EV 13	0.27	0	200
Large Gen. EV 23	0.14	0	200

Table 5: Recommended Gas Rate Change as Percent of Average[929]

Schedule	Parity (AWEC COS)	% of Avg. Change RY1
Gen. Service 101	0.97	100
Large Gen. Service 111	1.21	50
Interruptible 131	1.34	25
Transport 146	0.74	150

533 Kaufman also notes that the Company's rate spread usually includes Colstrip costs and rate impacts. Kaufman expresses concern that when the Colstrip tracker retires there will be rate impacts that would result in the residential rate schedule moving further below rate parity.[930]

Rate Design- Schedule 25 Special Contracts

534 In addition to its proposals for rate spread, AWEC proposes several changes to the rate design for Schedule 25 that do not affect other rate schedules.[931] These include:

- Increasing demand charges by 50 percent in RY1 and 25 percent in RY2.

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[928] Kaufman, Exh. No. LDK-1CT at 12.

[929] Kaufman, Exh. No. LDK-1CT at 12.

[930] Kaufman, Exh. No. LDK-1CT at 13:10-14:2.

[931] Extra Large General Service (electric).

- Increasing the discount for usage greater than 115 kV primary voltage discount from $1.93 to $4.39 ($6.10 if AWEC's recommended COSS allocation is not adopted); and
- Modifying the discount to apply to customers served through substations not owned by the Company.[932]

The Energy Project's Response Testimony

535 TEP recommends the Commission reject Avista's proposal to increase customer charges for residential and commercial electric customers as well as general service gas customers. TEP witness Colton offers an in–depth study related to Avista's rate proposals using a "stratification approach" which is further detailed in his testimony related to equity. In short, Colton suggests that Avista's proposal to increase the BMC will disproportionately impact lower income households who typically have lower average usage levels and therefore would pay proportionally more with a higher basic charge.[933]

NWEC's Response Testimony

536 NWEC witness McCloy recommends the Commission reject Avista's proposal to increase customer charges for residential and commercial electric customers as well as general service gas customers.[934] McCloy argues the purpose of the fixed charge is not to pay the utility's total fixed costs. Instead, McCloy advocates for fixed charges to focus on recovery for customer service, metering, and billing.

537 McCloy further testifies that the Company's proposed use of the customer charge complicates decoupling mechanisms, arguing that any costs can be considered a fixed cost over a long enough period of time. Recovering more revenue from a large basic charge does help decouple revenue from sales, but McCloy argues that this is not a preferred decoupling strategy. McCloy characterizes a high fixed charge as raising the "floor" for utility revenues, without benefiting customers.[935]

538 McCloy also references in testimony an upcoming decision in California related to income-based fixed charges. NWEC encourages future consideration of creative rate

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[932] Kaufman, Exh. No. LDK-1CT at 16-17.

[933] Colton, Exh. No. RDC-1T at 65:10-15.

[934] McCloy, Exh. No. LM-1T at 3:2.

[935] McCloy, Exh. No. LM-1T at 9:10-15.

design proposals that can bolster low-income affordability, but asserts more evidence is needed for supporting such a novel idea.[936]

539 NWEC witness Gehrke recommends using the generation allocator S01 to allocate costs for Colstrip consistent with Commission rule and deviating from the Settlement regarding Colstrip allocation.[937] Gehrke argues the S01 allocation would better match cost of service principals.[938]

Walmart's Response Testimony

Rate Spread

540 Walmart's witness Perry testifies in support of aligning rates more closely with the cost of service for each rate class.[939]

541 Perry identified that Avista's proposed electric revenue allocation brings each class closer to cost of service but that parity ratios remain too far away from parity. While Perry supports Avista's initial proposed revenue requirement, they assert that with a lower revenue requirement Walmart would support maintaining the initial increase allocated to Schedule 1, equal increases to Schedules 13, 23, and 31/32, and all remaining revenue collected through an equal increase split between schedules 11/12, 21/22, and 25.[940] Walmart supports the Company's rate spread proposal for gas service.[941]

Avista's Rebuttal Testimony

542 On rebuttal, Avista agrees to modify its basic charge proposal to reflect Staff's recommendation of a $1.00 increase to the basic charge for residential customers on both the gas and electric side. Avista asserts that it continues to believe in better aligning fixed costs and basic charges and offers this compromise in the spirit of reducing the number of contested issues.[942]

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[936] McCloy, Exh. No. LM-1T at 10:1-5.

[937] Gehrke, Exh. No. WG-1T at 9:20-23.

[938] Gehrke, Exh. No. WG-1T at 10:3-8.

[939] Perry, Exh. No. LVP-1T at 18:10-12.

[940] Perry, Exh. No. LVP-1T at 23:1-6.

[941] Perry, Exh. No. LVP-1T at 23:15-18.

[942] Miller, Exh. No. JDK-8T at 13:1-6.

543 Avista does not oppose changes to the rate design of the Electric Extra Large General Service in Schedule 25 but suggests a more modest change. Rather than a 50 percent increase followed by a 25 percent increase in demand charges, Avista suggests a 25 percent increase for RY1 and RY2.[943]

544 Avista insists that the Commission should not consider party positions relitigating a decision from a Full Multiparty Settlement Stipulation.[944] Company witness Miller points out that NWEC offered supplemental testimony supporting the Colstrip Tracker and Schedule 99 as part of the Settlement Agreement in that docket.

NWEC's Cross Answering Testimony

545 NWEC does not support AWEC's proposal to alter the Company's treatment of Colstrip.[945]

Public Counsel's Cross Answering Testimony

546 Public Counsel witness Dismukes argues that the Company overstates the necessity of increasing the BMC and urges the Commission to reject Staff's recommendation to raise residential basic charges by $1.00.

547 According to Public Counsel, Avista recovers "82.4 percent of customer-related costs for electric Residential Service and 51 percent of customer-related costs for natural gas general service customers."[946] Dismukes further argues that decoupling mechanisms already allow the utility to reconcile volumetric rates with changes in volumetric use.[947] Finally, Dismukes reiterates that increases in the BMC impact low-income customers disproportionately.[948]

548 Dismukes opposes AWEC's proposed rate spread.[949] Public Counsel highlights that AWEC did not factor in its proposal the full rate increase the Commission approved in Avista's most recent GRC. Dismukes elaborates that the "AWEC proposal would add

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[943] Miller, Exh. No. JDK-8T at 15:16-21.

[944] Miller, Exh. No. JDK-8T at 16:16-21.

[945] Gehrke, Exh. No. WG-8T at 11:11-16.

[946] Dismukes, Exh. No. DED-10T at 8:18-20.

[947] Dismukes, Exh. No. DED-10T at 8:20-21.

[948] Dismukes, Exh. No. DED-10T at 9:7-16.

[949] Dismukes, Exh. No. DED-10T at 3.

compounding disproportionate rate increases to low-load factor customers before it is fully known what the relative cost of providing electric service to different customer classes will be going forward."[950] Dismukes recommends the Commission accept the Company's proposal to equally allocate any potential rate change across all customer classes.

549 Public Counsel also opposes AWEC's proposal to include Colstrip costs and revenues into rate spread considerations.[951]

AWEC's Cross Answering Testimony

550 Kaufman notes that NWEC's reallocation of Schedule 99 would lead to Schedule 25 receiving an increase of 15.5 percent rather than 11.7 percent. Kaufman notes that this would be significant because Schedule 25 already is above parity, and a higher-than-average rate increase would grow the gap in parity.[952] AWEC suggests "spreading the combined revenue from base rates and Schedule 99 according to the approved allocation, then subtracting the generation-based allocation of Schedule 99 from the combined revenue to determine the appropriate base rate revenue" as a method to alleviate that concern.[953]

Parties' Briefs

Avista

551 In the Company's post-hearing brief, Avista suggests the Commission does not need to approve either Avista or AWEC's Cost of Service Study in this proceeding, but rather should recognize that both are directionally similar and accurate for setting rates.[954]

552 On electric rate spread, the Company is supportive of AWEC's proposed rate spread for RY1 and RY2. Avista acknowledges that Schedules 11/12, 21/22, and 25 are overpaying while Schedule 1 is underpaying.[955] However, Avista argues the Commission should reject AWEC's positions related to Schedules 13, 23, and 99. Avista also argues for an equal percentage increase for Schedules 13 and 23 consistent with its original filing. Avista

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[950] Dismukes, Exh. No. DED-10T at 3:13-16.

[951] Dismukes, Exh. No. DED-10T at 7:12.

[952] Kaufman, Exh. No. LDK-6T at 3:10-17.

[953] Kaufman, Exh. No. LDK-6T at 3:21-22.

[954] Avista's Post-Hearing Brief ¶¶ 159-60.

[955] Avista's Post-Hearing Brief ¶ 161.

further maintains that Schedule 99 should not be factored into rate spread because the tariff is separate and distinct, and the allocation was agreed to in a prior settlement.[956]

553 Similarly, for natural gas rate spread, Avista is supportive of AWEC's position because the Cost-of-Service Studies that both the Company and AWEC performed show Schedules 111/112 and 131/132 are overpaying and Schedule 146 is underpaying.[957]

554 Regarding rate design, Avista is supportive of Staff's proposal for $1.00 increases to residential basic minimum charges for both electric and gas customers. Further, the Company supports AWEC's recommendation related to Schedule 25 demand charges, but recommends the Commission approve a 25 percent increase for RY1 and RY2, instead of the 50 percent increase in RY1 AWEC proposes to support full-cost recovery while reducing variability of rate changes to Schedule 25 customers. The Company is also supportive of AWEC's proposed increase to the greater than 115 kV discount from $1.93 to $4.39 for Schedule 25 customers.[958]

555 Finally, Avista argues the Commission should disregard the arguments NWEC put forward regarding Colstrip Schedule 99, on the basis that the allocation is part of a settlement, to which NWEC was a signatory.[959]

Staff

556 Staff reiterates its argument that the Commission should reject Avista's original rate design proposal and adopt the proposed $1.00 increase to basic charges for residential electric and gas customers. Staff argues that after discovery, they could not validate the Company's claims regarding the basic charge and that Staff's proposal matches the principle of setting the basic charge to recover "direct customer costs."[960]

Public Counsel

557 Public Counsel requests the Commission adopt an equal rate spread for electric and gas customers. While Public Counsel concedes it cannot refute Avista's class cost of service

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[956] Avista's Post-Hearing Brief ¶ 163.

[957] Avista's Post-Hearing Brief ¶ 164.

[958] Avista's Post-Hearing Brief ¶¶ 165-67.

[959] Avista's Post-Hearing Brief ¶ 168.

[960] Staff's Post-Hearing Brief ¶¶ 116-18.

study showing a 0.86 rate parity, they argue that the Commission should "exercise caution and approve an equal allocation."[961]

558 Public Counsel presents four reasons for adopting an equal rate spread. First, an asymmetric rate spread would have outsized impacts on parity and may overshoot its goal. Second, Public Counsel asserts the class cost of service study has not completely captured the impacts of the last rate adjustment because of "pancaking" rate cases. Third, the removal of Colstrip and move towards renewables energy is moving residential ratepayers towards parity as they carry less of Colstrip and more of the costs from renewables. Fourth, residential ratepayers are already troubled by recent increases and potential overcorrections would intensify inequities from rate increases.[962]

559 Regarding rate design, Public Counsel argues the Commission should reject Avista's proposal to increase the basic charge. Public Counsel argues the basic charge should not be increased because Avista overstates costs attributable to customer-related activities, stating 82.4 and 51 percent of costs for electric and gas customers respectively is recovered through existing basic charges. Further, Public Counsel reasons that shifting costs from variable to fixed reduces conservation incentives, and that an increase is not necessary with a decoupling mechanism. Finally, Public Counsel argues that Staff's $1.00 increase should be rejected for the same reasons.[963]

AWEC

560 AWEC argues in its post-hearing brief that the Commission should adopt the rate spread Avista proposes in its Rebuttal Testimony. AWEC opposes Public Counsel's approach for an equal spread of revenue requirement on the basis that Public Counsel did not provide any supporting evidence or perform its own cost of service study and maintains that its suggested approach could in fact exacerbate the existing class parity levels.[964]

561 Additionally, AWEC argues that the Commission should adopt its three recommended changes to Schedule 25, as modified by Avista, which AWEC asserts are unopposed. The changes include (1) increasing demand charges for energy blocks 1 and 2 by 25 percent in RY1 and 25 percent in RY2, (2) increasing the primary voltage discount from $1.93/kW to

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[961] Public Counsel's Post-Hearing Brief ¶ 128.

[962] Public Counsel's Post-Hearing Brief ¶¶ 129-34.

[963] Public Counsel's Post-Hearing Brief ¶¶ 135-36.

[964] AWEC's Post-Hearing Brief ¶¶ 72-80.

$4.39/kW, and (3) changing language in Schedule 25 to make the primary voltage discount applicable to customers served through third party substations.[965]

NWEC

562 NWEC reiterates its argument to alter Schedule 99 rate spread to the generation allocator S01 as detailed in witness Gehrke's testimony. NWEC argues that it has reevaluated its position, even though it supported the Schedule 99 allocation as part of a settlement.[966] NWEC explains that since the Commission adopted the settlement without conditions, made the settlement part of the Order, it may go back and amend the allocation pursuant to its authority under RCW 80.04.210 and WAC 480-07-875.[967] NWEC argues in favor of its Schedule 99 adjustment by asserting that the reallocation would be consistent with the Commission's cost of service methodology.[968]

563 Finally, NWEC opposes the basic minimum charge increases proposed by both Avista and Staff on the basis that the increase is not mandated by rule, law, or governing principle, exceeds those of other Washington regulated utilities and disproportionately impacts marginalized customers.[969]

Decision

564 The Commission finds Public Counsel's recommended approach to rate spread to be the most reasonable and equitable in this case and therefore rejects the rate spreads put forward by AWEC and Avista. The Commission also agrees with Staff and Avista that a $1.00 increase to the minimum charge for electric and gas customers is supported by the record. The Commission further finds that the three adjustments AWEC proposed for Schedule 25, as modified by Avista, should be adopted. However, AWEC's proposals regarding Schedule 13 and 23 should be rejected, as should the proposals from AWEC and NWEC for modifications to Schedule 99 allocations and calculation in rate spread.

565 Regarding rate spread, the Commission recognizes that some rate classes are not within the range of parity that Staff has recently used to evaluate deviations from rate parity.[970]

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[965] AWEC's Post-Hearing Brief ¶¶ 82-83 (Oct. 28, 2024).

[966] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, NWEC's Post-Hearing Brief ¶¶ 29-30, 34-35 (NWEC's Post-Hearing Brief).

[967] NWEC's Post-Hearing Brief ¶ 32 (Oct. 28, 2024).

[968] NWEC's Post-Hearing Brief ¶¶ 28, 37.

[969] NWEC's Post-Hearing Brief ¶¶ 39-41.

[970] *See*, Kaufman, Exh. No. LDK-1CT at 10:17-11:1.

While the Commission finds the framework instructive and helpful, it is not mandated that each class falls within a certain range when looking at rate parity ratios, and as highlighted in Public Counsel's arguments, there are a number of factors likely to impact parity ratios over the rate effective period. While we acknowledge that the cost-of-service study does not capture all the increases from Avista's last rate case, as noted in Public Counsel's post-hearing brief, early results show parity improving.[971]

566 We also recognize and agree with Public Counsel that the 2025 removal of Colstrip from rates is likely to impact parity, and adopting a differential allocation in this case may in fact have impacts not fully reflected in the record before us. Because of this, the Commission finds Public Counsel's recommendation for an equal allocation is fair, just, and reasonable, and that Avista's next cost of service study shall account for removal of Colstrip from rates.

567 On rate design, the Commission agrees with Staff, as supported by Avista, that electric and gas basic charges should be increased by $1.00 each. As Avista asserts, and Staff to some degree confirms, Avista's current basic charge does not meet the fixed costs components of the basic charge. Staff calculated the components of the electric basic charge to be $10.93 and the natural gas components to be $18.60, and the $1.00 increase for gas and electric basic service charge will move the charges closer to customer fixed costs.[972]

568 While Public Counsel, NWEC, and TEP do not support an increase to the basic charge due to its disincentive to conserve and other impacts such an increase may have on marginalized customers, the record supports an increase. We agree with Staff that the basic charge is intended to recover "direct customer costs."[973] While NWEC is correct that no law requires an increase, it is within the Commission's discretion to order an increase here. We are further in agreement with Staff, that a $1.00 increase for electric and gas customers, is consistent with the principle of gradualism and is a fair, just, and reasonable increase at this time.

569 AWEC's three adjustments to Schedule 25, as modified by Avista, are unopposed and should be adopted. Those include (1) increasing demand charges for energy blocks 1 and 2 by 25 percent in RY1 and 25 percent in RY2, (2) increasing the primary voltage discount

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[971] AWEC's Post-Hearing Brief ¶ 131 (*citing*, Dismukes, Exh. DED-10T at 3:19-4:3, 5:1-6; Miller, Tr. Vol. III at 327:16-23).

[972] Hillstead, Exh. KMH-1T at 27:4-28:10.

[973] *PacifiCorp*, Dockets UE-140762, UE-140617, UE-131384 & UE-140094, at 91 ¶ 216.

from $1.93/kW to $4.39/kW, and (3) changing language in Schedule 25 to make the primary voltage discount applicable to customers served through third party substations.

570 Finally, we decline to adopt AWEC's proposal to include Colstrip in rate spread, NWEC's proposal to reallocate Schedule 99, and AWEC's proposals related to Schedules 13 and 23. For the proposals related to Colstrip, we agree with Avista that both AWEC and NWEC were signatories to the original settlement, and that the settlement should not be amended at this time. While we agree with NWEC that the Commission has the authority to order changes to the settlement, we decline to do so now and there is no compelling reason within this record to disturb what is settled. Finally, we agree with Avista and find Schedules 13 and 23 are newly adopted and should have time to mature. Accordingly, an equal percentage of base revenue increase is appropriate, consistent with our approach to rate spread generally, and Avista's original filing.

Return on Purchase Power Agreements

Avista's Direct Testimony

571 Avista witness Kinney testifies that pursuant to RCW 80.28.410(2)(b) the Company has included interest on qualifying PPAs (Chelan, Clearwater III and Columbia Basin Hydro) at the Company's proposed rate of return in this general rate case of 7.61 percent.[974] Kinney testifies that its pro forma adjustment includes interest totaling $2.16 million included for RY1 (2025).[975] This reflects interest to be deferred in 2024 and recovered in 2025 ($0.66 million), and incremental interest in 2025 of $1.5 million.[976] Schultz testifies that the net impact of this adjustment decreases Washington electric net operating income (NOI) by $1,706,000.[977]

572 In RY2 (2026) Kinney states that it included $2.34 million in total PPA interest, resulting in incremental increase of $176,000 above RY1 levels.[978] The net impact of this adjustment decreases Washington electric NOI by $139,000.[979]

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[974] Kinney, Exh. SJK-1T at 49:13-15.

[975] Kinney, Exh. SJK-1T at 49:15-17.

[976] Kinney, Exh. SJK-1T at 49:17-18.

[977] Schultz, Exh. KJS-1T at 86:20-21.

[978] Kinney, Exh. SJK-1T at 49:18-20.

[979] Schultz, Exh. KJS-1T at 95:16-17.

NWEC's Response Testimony

573 NWEC witness Gehrke recommends that the Commission reject Avista's proposal to provide an incentive for purchased power agreements. Gehrke states that aside from citing RCW 80.28.410(2)(b), Avista does not provide additional rationale for the inclusion of the incentive, one that NWEC argues will cost customers several million dollars over the rate plan.[980]

574 Gehrke does not believe that Washington statute requires the Commission to provide a return on PPAs.[981] RCW 80.28.410(2) states the utility "may…defer for later consideration by the Commission," costs included in subsections (a) and (b) – the latter including a rate of return for PPAs.[982] Gehrke testifies that "[l]ater consideration by the Commission" indicates that the Commission retains its broad discretion to approve or reject a proposal to receive a return on PPAs.[983]

575 Additionally, Gehrke highlights that the Oregon Public Utilities Commission (OPUC) analyzed the premise that an inherent bias exists in utility resource procurement, one that favors utility ownership of generation assets over PPAs due in part to an inability to earn a return on PPAs.[984] Witness Gehrke states that while the OPUC agreed that such a bias exists, it had no evidence as to its size or impact on rates and thus warned about the potential for incentives on PPAs to greatly outweigh the impact of the bias.[985]

576 Gehrke argues that Avista makes no showing that a bias exists, nor does the Company make any attempt to quantify that bias. NWEC further argues that it is possible, even likely, that rewarding Avista with a full rate of return for CETA-compliant PPAs would overcompensate the utility at the expense of customers.[986]

577 NWEC witness Gehrke contends that rather than using utility financing (debt or equity) to fund PPAs, Avista contracts with a third-party power plant owner and pays for the resource over the contract's duration.[987] Gehrke states that regardless of the method used to acquire

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[980] Gehrke, Exh. WG-1T at 2:14-17.

[981] Gehrke, Exh. WG-1T at 3:13-14.

[982] Gehrke, Exh. WG-1T at 3:14-16.

[983] Gehrke, Exh. WG-1T at 3:16-19.

[984] Gehrke, Exh. WG-1T at 4:1-5.

[985] Gehrke, Exh. WG-1T at 4:8-24, 5:1-2.

[986] Gehrke, Exh. WG-1T at 5:5-7.

[987] Gehrke, Exh. WG-1T at 5:15-17.

capital for a purchased power agreement project, the contracted price is structured to cover the capital costs associated with the agreement, including a return on investment.[988] Gehrke specifies that these costs are paid for by customers through the power cost rates.[989] Gehrke thus argues that under Avista's proposal customers would be charged for two financing costs, which is not appropriate for cost-based pricing.[990]

578 Gehrke contends that if the Commission concludes that it is inclined to provide the incentive, RCW 80.28.410(2)(b) allows for "a rate of return of no less than the authorized cost of debt and no greater than the authorized rate of return for the electrical company."[991] Gehrke further contends that in order to protect customers and keep CETA compliance costs low, if the Commission decides to authorize a return, it should allow a return for PPAs only equal to the cost of debt.[992]

579 Gehrke argues that since Avista must demonstrate that it acted prudently in order to recover costs associated with the lowest reasonable-cost resource, it is counterintuitive that adding additional costs to a contracted resource via a newly established return would result in a greater acquisition of contracted resources.[993] Gehrke emphasizes that Avista must choose the lowest-cost resource that fits the resource need, which is true with or without a return added for PPAs.[994]

580 In conclusion, Gehrke recommends that the Commission reject Avista's proposal to include a rate of return for PPAs.[995] In the alternative, should the Commission feel compelled to provide an incentive, Gehrke believes that the Commission should set the rate of return for PPAs at the cost of debt for the Company.[996]

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[988] Gehrke, Exh. WG-1T at 6:1-4.

[989] Gehrke, Exh. WG-1T at 5:17-18.

[990] Gehrke, Exh. WG-1T at 5:18-20.

[991] Gehrke, Exh. WG-1T at 6:13-17.

[992] Gehrke, Exh. WG-1T at 6:17-19.

[993] Gehrke, Exh. WG-1T at 7:6-10.

[994] Gehrke, Exh. WG-1T at 7:10-12.

[995] Gehrke, Exh. WG-1T at 7:15-16.

[996] Gehrke, Exh. WG-1T at 7:16-18.

Staff's Response Testimony

581 Staff witness Hillstead does not agree that the Company should use a ROR of 7.61 percent for calculating the interest in its PPA adjustment.[997] Hillstead argues that the 7.61 percent is a computation based on the Company's proposed capital structure which includes an ROE of 10.4 percent.[998] Hillstead further argues that using a rate of 7.61 percent results in an inflated interest expense and thus a higher revenue requirement.[999]

582 Hillstead testifies that it has concerns with the Company's methodology for this adjustment. The first issue is that pro forma adjustments are to be known and measurable, not assumptions.[1000] The second issue in the Company's use of 7.61 percent, is that this rate of return has not been authorized by the Commission and is solely based on the Company's proposed capital structure.[1001]

583 Hillstead recommends that the interest rate for this adjustment be at Avista's cost of long-term debt, per Staff witness Parcell's capital structure recommendations, which is 4.93 percent.[1002] This is the appropriate rate to use because PPAs are contracts, not capital investments.[1003] In Hillstead's view, the lower end of the range should be used absent adequate justification by the Company for the use of the upper end of the range.[1004] Hillstead contends that the Company has made no such justification for the upper end of the range.[1005]

NWEC's Cross-Answering Testimony

584 Gehrke argues that the Commission is not compelled to grant an incentive on CETA PPA costs and retains broad ratemaking authority.[1006] Additionally, in PSE's GRC, Gehrke

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[997] Hillstead, Exh. KMH-1T at 17:9-10.

[998] Hillstead, Exh. KMH-1T at 17:10-12.

[999] Hillstead, Exh. KMH-1T at 17:12-13.

[1000] Hillstead, Exh. KMH-1T at 17:17-18.

[1001] Hillstead, Exh. KMH-1T at 17:18-20.

[1002] Hillstead, Exh. KMH-1T at 18:11-14.

[1003] Hillstead, Exh. KMH-1T at 18:14-15.

[1004] Hillstead, Exh. KMH-1T at 18:15-16.

[1005] Hillstead, Exh. KMH-1T at 18:16-17.

[1006] Gehrke, Exh. WG-8T at 10:22 and 11:1-2.

states that The Energy Project is making a similar argument regarding the language of RCW 80.28.410 and that NWEC concurs with this position.[1007]

Avista's Rebuttal Testimony

585 Avista witness Andrews does not agree with NWEC's assertion that a return on PPAs does not "follow traditional cost-based ratemaking."[1008] Andrews argues that rather than being a cost-based item, the return is essentially a performance-based incentive, created by the Legislature, which serves to compensate utilities for securing clean energy PPAs over potentially more expensive self-build options.

586 Andrews testifies that Senate Bill 5116 states, in reference to the transition to clean energy, that the "legislature declares that utilities in the state have an important role to play in this transition, and must be fully empowered, through regulatory tools and incentives, to achieve the goals of this policy."[1009] Andrews argues that the purposeful inclusion of "a rate of return of no less than the authorized cost of debt and no greater than the authorized rate of return of the electrical company…," is such an incentive.[1010]

587 Avista witness Andrews further argues that incentives of any type are meant to drive certain behaviors and that for CETA, an incentive rate of return will help drive adoption of clean energy PPAs and/or remove any bias towards selecting self-build options.[1011]

588 Company witness Andrews argues that the findings of the Oregon Public Utility Commission are not relevant in this instance.[1012] Andrews states that witness Gehrke cites an investigation – from 2010 – where the OPUC found it to be inconclusive as to whether customers were harmed by paying an incentive rate of return as compared to the savings from the mitigation of a self-build bias.[1013] Andrews argues that such a "stale" proceeding in Oregon should not be used to supplant the legislature's intent upon the passage of CETA, that allows for an incentive rate of return.[1014]

[1007] Gehrke, Exh. WG-8T at 11:2-6.

[1008] Andrews, Exh. EMA-6T at 50:5-9.

[1009] Andrews, Exh. EMA-6T at 50:11-14.

[1010] Andrews, Exh. EMA-6T at 50:14-16.

[1011] Andrews, Exh. EMA-6T at 51:1-6.

[1012] Andrews, Exh. EMA-6T at 51:9-10.

[1013] Andrews, Exh. EMA-6T at 51:10-12.

[1014] Andrews, Exh. EMA-6T at 51:18-20.

589 Andrews states that it has filed a 4.99 percent cost of debt, which has been supported (or not opposed) by the parties in this case.[1015] Witness Andrews testifies that Staff witness Hillstead states that the cost of long-term debt is 4.93 percent.[1016] While Andrews concedes that this is correct, it contends that what is contemplated in the law is the "authorized cost of debt", not authorized cost of long-term debt.[1017] As such, Andrews argues that if the Commission were to authorize a return on PPAs at the authorized cost of debt, 4.99 percent would be the appropriate value.[1018]

Parties Briefs

Avista

590 In its post-hearing brief, Avista reiterates its previously stated position, that the Commission should authorize the Company's Pro Forma Power Purchase Agreement Interests Adjustments as proposed (3.23 RY1 and 5.12 RY2).[1019] Avista opposed NWEC's proposal to remove interest; and Staff's proposal to limit interest to the Company's cost of debt.

Staff

591 In opposition, Staff's brief reiterates that the return on CETA-qualifying PPAs should be limited to the Company's authorized cost of debt.[1020] Staff notes that RCW 80.28.410(2)(b) controls, and provides a range between an authorized cost of debt and its authorized rate of return. Staff notes, that this range is difficult to square with NWEC proposal to not allow any return of these costs. Staff's brief concluded by noting how the Commission has broad discretion in determining appropriate deferred costs of capital; and the Company bears the burden of showing proposed rates are fair, just, reasonable and sufficient. Staff avers that Avista has not provided a sufficient showing as to why the high-end of the range would be appropriate here. [1021]

[1015] Andrews, Exh. EMA-6T at 52:11-12.

[1016] Andrews, Exh. EMA-6T at 52:12-13.

[1017] Andrews, Exh. EMA-6T at 52:13-14.

[1018] Andrews, Exh. EMA-6T at 52:14-16.

[1019] Avista's Post-Hearing Brief, at ¶ 113.

[1020] Staff's Post-Hearing Brief, at ¶¶ 106-109.

[1021] Staff's Post-Hearing Brief, at ¶¶ 106-109.

NWEC

592 In its brief, NWEC reiterates its previously stated position that approving a rate of return for PPAs executed for CETA compliance is not legally required of the Commission. NWEC rejects both Staff and Avista's proposals here, because the "burden to demonstrate that an incentive is necessary" has not been met.[1022] NWEC points out that other performance-based ratemaking constructs are being reviewed in an ongoing proceeding, citing to Docket U-210590. NWEC urges the Commission to exercise its discretion to reject this rate of return, because it will increase costs for customers. NWEC emphasizes that an incentive is inappropriate – because Avista is already required to choose the lowest-cost resource that fits the resource needs.

TEP

593 In its brief, TEP proffers that RCW 80.28.410 uses permissive language, such that the Commission has the discretion to determine whether "any" cost recovery is appropriate. TEP goes on to identify three reasons why authorizing a rate of return inappropriate here.[1023] First, TEP contends that capital costs are already included in the PPA contract price, such that customers would be forced to pay twice for capital costs of such projects; TEP describes this as a "phantom cost of capital." [1024] Second, TEP argues that approving a rate of return would raise the cost of contracting for clean energy – which is against the state's clean energy policy. Finally, TEP highlights that Avista bears the burden and has not demonstrated any convincing arguments for this incentive. [1025]

Decision

594 The Commission finds it appropriate to allow a return on Avista's PPA. The plain language of RCW 80.28.410 gives the Commission the discretion to allow such costs to be deferred and is intended to incentivize PPAs, as they often are the lowest cost resource. The PPAs at issue are for resources which need to be procured and these PPAs are the lowest reasonable cost resources available. The statute contemplates returning a range between the cost of debt and the authorized rate of return. *See* RCW 80.28.410(2)(b). This return is meant to incentivize procurement of resources at the lowest reasonable cost to aid the utilities in meeting Washington's long-term decarbonization goals. In reviewing the record, we conclude that Avista did not present a case warranting the authorized rate of return, and as such, we agree with Staff that the lower end of the spectrum, the cost of

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[1022] NWEC's Post-Hearing Brief, at ¶¶ 12-27.

[1023] TEP's Post-Hearing Brief, at ¶¶ 27-33.

[1024] TEP's Post-Hearing Brief, at ¶ 59.

[1025] TEP's Post-Hearing Brief, at ¶¶ 32-33.

debt, is appropriate here, and that the appropriate cost of debt is 4.93 as proposed by Staff. We believe that 4.93 percent is the appropriate cost of debt given the statutory intent for utilities to enter long-term PPAs to provide service to their Washington customers, with the expectation that those resources reduce GHG emissions to meet Washington's long-term emissions targets.

Targeted Electrification Pilot

Avista's Direct Testimony

595 Avista witness Thackston describes the Company's strategy for natural gas decarbonization as diversifying and transitioning from conventional fossil fuel natural gas to RNG, hydrogen, other renewable fuels, and reducing consumption via conservation and energy efficiency. Witness Thackston further adds that the Company will also purchase carbon offsets as necessary to meet CCA compliance obligations.[1026]

Sierra Club's Response Testimony

596 Witness Dennison's testimony urges Avista to conduct a robust Targeted Electrification Pilot program to advance electrification.[1027] Dennison specifically identifies (1) non-pipe alternatives (NPAs) analysis, (2) identifying ways to incorporate electrification into its CCA compliance strategy, and (3) opportunities to coordinate electrification efforts with other electrification programs and policies as experiences that would help Avista.

597 Dennison continues to more fully describes each of these benefits:

- NPAs can avoid costs related to replacing, upgrading, or expanding gas system infrastructure; avoid the risk of future stranded assets; reduce gas consumption and emissions.[1028]
- CCA compliance requires reducing GHG emissions, Dennison cites electrification as one of the most "promising, cost-effective strategies for reducing [emissions]."[1029]
- Finally, Dennison claims targeted electrification will help coordinate electrification efforts to make the most of investments. Sierra Club specifically mentions

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[1026] Thackston, Exh. JRT-1T at 9:5-9.

[1027] Dennison, Exh. JAD-1T at 31:3-5.

[1028] Dennison, Exh. JAD-1T at 20:13-18.

[1029] Dennison, Exh. JAD-1T at 31:20-23.

incentives, state & federal rebates and tax credits as incentives that would be easier to access.[1030]

598 Dennison also cites PSE's targeted electrification pilot as a success.[1031] Dennison mentions provisions of the PSE settlement agreement that resulted in the creation of the pilot, including directives to PSE to demonstrate material benefits to low-income participants, enroll eligible participants in bill assistance programs, and include appropriate low-income customer protections.[1032]

599 Dennison identified accomplishments of the PSE electrification pilot in testimony including:

- 7,712 home electrification assessments with 30 percent reaching Named Communities.
- 852 heat pump rebates distributed.
- 14 low-income direct install weatherization and electrification projects and identified candidates for small business and multi-family retrofit projects.
- Development of a joint pilot with Seattle City Light aiming to install heat pumps in 20 homes through the Low-Income Weatherization Program.

600 Dennison made four recommendations for a potential pilot program including:[1033]

Customer Engagement targets
Dennison recommends a target of engaging 5,000 customers through home electrification assessments and providing at least 1,000 rebates for electrification equipment between June 2025 and December 2026.

Provisions to engage low-income customers and Named Communities
Dennison suggested that language from ESHB 1589 about the inclusion of low-income electrification programs in large combination utilities' Integrated System Plans (ISPs) could inform similar provisions for Avista. Dennison further adds that target numbers for low-income and Named Communities participation could be beneficial.

[1030] Dennison, Exh. JAD-1T at 32:5-13.

[1031] Dennison, Exh. JAD-1T at 33:5-6.

[1032] Dennison, Exh. JAD-1T at 33:7-16.

[1033] Dennison, Exh. JAD-1T at 34:4-13.

Provisions for public reporting
Dennison recommends a report summarizing the results of the pilot by January of 2027; including information about the number of customers engaged through each measure, the number and types of equipment incentives provided, the Company's cost for providing each measure, and lessons learned.

Provisions to incorporate the Pilot into Avista's decarbonization and CCA compliance strategies
Dennison recommends using the lessons from an electrification pilot to inform a Gas System Decarbonization Plan for the Company. The witness further adds that the costs of the pilot should be treated as CCA compliance costs and shared between gas customers and shareholders, this would be different than how costs for PSE's pilot were treated.

Avista's Rebuttal Testimony

601 The Company does not support the proposal for the Commission to require a targeted electrification pilot. Witness Bonfield claims, "If or when electrification is cost-effective, the Company will pursue it as part of its [Preferred Resource Strategy] PRS".[1034] Witness Bonfield offers that in the Company's 2025 Natural Gas IRP, it plans to refine electrification assumptions to include "an end use model to estimate a customer's decision with equipment at its end of life and new building code requirements."[1035]

NWEC's Cross Answering Testimony

602 NWEC testifies in support of a targeted electrification pilot, citing the "valuable experience in integrating electrification into the CCA compliance strategy."[1036]

603 In response to the Seirra Club's suggestion that "it may be appropriate to set a target for the number of electrification retrofits performed in low-income households and Named Communities through the Pilot. This and other aspects of the Pilot related to low-income and Named Community participation could be informed by input from the Company and other parties," witness Gehrke recommends:[1037]

[1034] Bonfield, Exh. SJB-5T at 56:10-11.

[1035] Bonfield, Exh. SJB-5T at 56:12-14.

[1036] Gehrke, Exh. WG-8T at 2:22-23.

[1037] Gehrke, Exh. WG-8T at 3:8 – 5:13.

- A program target of 40 percent of its customers from low-income or Named Communities.
- A minimum of 25 no-cost, high-efficiency electric-only heat pump installations to low-income and Named Community customers.
- Avista should acquire operational experience in conducting electric-only heat pump installations for its customers.
- If the recommendations above are not adopted, NWEC encourages the Company to consult with its Energy Assistance Advisory Group and Conservation Resources Advisory Group on low-income electrification programming.

AWEC's Cross Answering Testimony

604 AWEC does not mention targeted electrification directly in cross-answering testimony, however, AWEC notes that "[n]o additional direction from the Commission is required to obligate Avista to appropriately plan to meet long-term CCA compliance obligations cost-effectively. While the proposal does not add to Avista's planning burden, prescribing certain decarbonization planning requirements risks biasing the decarbonization plan towards ineffective solutions."[1038]

Parties' Briefs

Avista

605 In briefing, Avista reiterates that it does not support Sierra Club's proposal that the Company be required to perform a targeted electrification pilot.[1039]

Sierra Club

606 Sierra Club requests that the Commission require Avista to conduct a targeted electrification pilot with various specific targets, similar to the Puget Sound Energy electrification pilot following its 2022 general rate case.[1040] Sierra Club states that a targeted electrification program would yield several benefits related to decarbonization, CCA compliance, leveraging additional sources of funding, and synergy with Avista's NPA analyses.[1041]

[1038] Kaufman, Exh. LDK-6T at 12:8-14.

[1039] Avista's Post-Hearing Brief, at ¶ 158.

[1040] Sierra Club's Post-Hearing Brief, at ¶¶ 39-40.

[1041] Sierra Club's Post-Hearing Brief, at ¶ 40.

607 Sierra Club further recommends that if the Commission approves a performance incentive mechanism (PIM) for Avista, that such a mechanism be tied to Avista meeting customer engagement targets related to the targeted electrification pilot.[1042] Sierra Club suggests that its proposed PIM would aid the Commission's evaluation of Avista's efforts to advance state climate policy as reflected in RCW 80.28.425.[1043] Sierra Club also proposes that the targeted electrification pilot be considered as a CCA compliance cost and recovered from Avista's gas customers.[1044] Sierra Club notes that NWEC is supportive of the proposed targeted electrification pilot, as the pilot will aid Avista in meeting CCA emissions goals and advancing equity, and agrees with NWEC's proposals for additional compliance actions regarding the pilot.[1045]

608 Sierra Club disagrees with Avista's proposal to review electrification in the context of its IRP for three reasons. Sierra Club raises concerns with (1) Avista's electrification analysis in its IRP, (2) the delay in waiting for future IRP processes, and (3) the distinct purposes of a pilot project as compared to the IRP process, suggesting that the IRP system-level analysis is ill-suited to identifying smaller scale projects.[1046]

NWEC

609 NWEC is generally supportive of Sierra Club's proposal to require Avista to implement a targeted electrification pilot and, similar to Sierra Club, asserts that such a pilot would assist Avista in meeting its CCA obligations and promote equity in the context of decarbonization.[1047] NWEC recommends that the Commission adopt Sierra Club's proposal, with modified thresholds to require that the program target 40 percent of customers from low-income or Named Communities and a minimum of 25 no-cost high efficiency electric-only heat pump installations to low-income and Named Community customers.[1048] In the alternative, NWEC recommends that the Commission require Avista to consult with its Energy Assistance Advisory Group and Conservation Advisory Group regarding a timeline that would align with other targeted electrification programming.[1049]

[1042] Sierra Club's Post-Hearing Brief, at ¶ 41.

[1043] Sierra Club's Post-Hearing Brief, at ¶ 41.

[1044] Sierra Club's Post-Hearing Brief, at ¶ 42.

[1045] Sierra Club's Post-Hearing Brief, at ¶ 43 (Oct. 28, 2024) (citing Gehrke, Exh. WG-8T at 4:7-16, 5:4-13).

[1046] Sierra Club's Post-Hearing Brief, at ¶ 44.

[1047] NWEC's Post-Hearing Brief, at ¶¶ 43-45.

[1048] NWEC's Post-Hearing Brief, at ¶ 45.

[1049] NWEC's Post-Hearing Brief, at ¶ 45.

Decision

610 The Commission declines to require Avista to implement a targeted electrification program in this proceeding. Although the aims of Sierra Club and NWEC are laudable, the Commission determines that the benefits of future electrification may be adequately addressed as part of the Company's IRP process, as suggested by Avista witness Bonfield.[1050] Furthermore, similar to the decision concerning the request that the Company adopt a decarbonization plan, directing an electrification pilot would appear to be explicitly prohibited by I-2066. The Commission believes that it would be prudent to withhold further consideration of an electrification pilot until a future GRC, where the Commission will have the benefit of full testimony and briefing regarding how the pilot would promote state emissions policy goals in light of I-2066. To the extent that a component of the requested electrification pilot would have required an analysis of non-pipeline alternatives, we do not find that analyses of non-pipeline alternatives are necessarily prohibited by I-2066 in the abstract. Indeed, earlier in this Order, we directed the Company to conduct two NPA analyses on natural gas distribution projects related to customer growth for any potential projects that exceed $500,000.

Wildfire Expense Balancing Account

Avista's Direct Testimony

611 In Avista's 2020 GRC, the Commission approved a two-way Wildfire Expense Balancing Account to track the variability in Avista's wildfire expenses against an established baseline, with deferral of the difference in actual wildfire expenses, up or down, over the 10-Year Wildfire Resiliency Plan.[1051] The authorized wildfire expense baseline was first set at $3.1 million for Washington electric operations, effective October 1, 2021, and updated to $5.1 million in Dockets UE-220053, *et. seq.,* with any deferrals above or below this level to be deferred for later return to or recovery from customers.[1052]

612 In this proceeding, the Company is proposing to increase its annual baseline to $8.3 million for each year of its proposed two-year rate plan.[1053] This is based on projected annual wildfire expenses of $14.9 million is 2025 and $13.8 million in 2026, on a system basis. Washington's share of these expenses, excluding labor, result in the proposed $8.3

[1050] Bonfield, Exh. SJB-5T at 55:22 – 56:16.

[1051] Andrews, Exh. EMA-1T at 17:19 – 18:2.

[1052] Andrews, Exh. EMA-1T at 18:2-5 and 18:16-18.

[1053] Andrews, Exh. EMA-1T at 19:4-6.

million annual baseline amount.[1054] Avista states that the proposed increase in the baseline is primarily caused by its enhanced risk-based vegetation management program, which includes 100 percent risk-tree identification annually, and which has resulted in a "much bigger and more expensive proposition than originally anticipated."[1055]

613 In addition, the Company requests carrying charges on its existing deferred Wildfire balance, any new deferred balances going forward, and while any balances are being amortized.[1056] The Company claims that in its original request for the deferral mechanism it inadvertently proposed "no interest on the unamortized Wildfire deferral balances," however its original intent was to accrue interest as the balances were being amortized and recovered from, or returned to customers.[1057] Avista notes that the Commission approved the balancing account deferral and amortization without carrying charges of any kind.[1058] The Company argues that carrying charges are appropriate due to the large deferral balances it has experienced in recent years, the higher carrying costs it has experienced to cover all its operating costs, as well as its delayed recovery of wildfire costs.[1059] The Company proposes that its carrying charges be based on its actual cost of debt, updated semi-annually on January 1, and July 1 each year, effective December 21, 2024 (Rate Year 1).[1060]

Staff's Response Testimony

614 Staff does not contest Avista's proposed increase to its Wildfire Balancing Account baseline, from $5.1 million to $8.3 million annually.[1061] Staff also does not contest Avista's proposal to accrue interest on its deferred balance, because "the circumstances were outside of the utility's control and the costs were unexpected and significant."[1062] Staff notes, however, that since the balancing account's creation in 2020, it is becoming increasingly difficult for Staff to distinguish between spending that is specific to wildfire

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[1054] Andrews, Exh. EMA-1T at 19:6-10.

[1055] Andrews, Exh. EMA-1T at 20:13 – 21:11.

[1056] Andrews, Exh. EMA-1T at 24:11-17.

[1057] Andrews, Exh. EMA-1T at 24:2-10.

[1058] Andrews, Exh. EMA-1T at 24:8-10.

[1059] Andrews, Exh. EMA-1T at 24:11-13.

[1060] Andrews, Exh. EMA-1T at 24:16-17.

[1061] Erdahl, Exh. BAE-1T at 26:7-10.

[1062] Erdahl, Exh. BAE-1T at 26:14-16.

risk mitigation and "spending which results in other shared benefits, such as enhanced reliability and reduced storm damage."[1063]

615 Staff offers two proposals for Avista's next GRC: (1) to fold into base rates all wildfire mitigation costs that result in other shared benefits; and (2) "to clearly identify and report learnings from any enhanced grid hardening (i.e., undergrounding) wherever those projects are located on Avista's electric transmission and distribution grid."[1064] Staff identifies costs that it believes would be considered exclusively related to mitigation of wildfire risk and properly contained in a future balancing account, including: weather monitoring and establishment of prescribed system operating parameters; undergrounding of equipment in high-fire risk areas; identification and removal of risk trees (accelerated vegetation management); and the development of public power cutoff protocols and mechanisms.[1065] Staff argues that standard vegetation management and grid hardening benefit not only wildfire resilience, but also system reliability and storm damage mitigation, and would be more properly included in base rates in the future.[1066] Staff further argues for eventual phasing out of the wildfire balancing account completely, stating that, because these practices have been codified and are becoming a typical part of doing business for all electric utilities in the state, a tracker is not necessary for such costs and they should instead become a part of base rates.[1067]

Avista Rebuttal Testimony

616 Avista does not agree with Staff's proposal to discontinue the wildfire expense balancing account.[1068] The Company agrees that these costs are becoming a normal part of its operations but does not agree with Staff's contention that a tracker is no longer necessary and should instead become embedded in base rates in its next GRC.[1069] Avista argues that the use of a balancing account protects both the customers and the Company, as it allows the Company to defer and recover any excess costs over the established baseline, and to refund to customers the difference if the costs are less than the baseline.[1070] Also, Avista argues that the tracker allows the Company to react to any future needs identified in its

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[1063] Erdahl, Exh. BAE-1T at 26:19 – 27:5.

[1064] Erdahl, Exh. BAE-1T at 27:14-19.

[1065] Erdahl, Exh. BAE-1T at 28:3-6 and *generally* Howell, Exh. DRH-3.

[1066] Erdahl, Exh. BAE-1T at 28:14-16.

[1067] Erdahl, Exh. BAE-1T at 28:18 – 29:3.

[1068] Andrews, Exh. EMA-6T at 32:18-22.

[1069] Andrews, Exh. EMA-6T at 30:13 – 31:1.

[1070] Andrews, Exh. EMA-6T at 31:2-10.

Wildfire Resiliency Plan, and to pass along any benefits, which "are not easily identified or quantified in real time, let alone estimated into the future in order to in include in the next GRC."[1071] The Company requests that the Commission allow the Wildfire Expense Balancing Account tracker to continue, at least through 2029, over its 10-year Wildfire Resiliency Plan, as previously approved by the Commission in Dockets UE- 200900, *et. al*.[1072]

Parties' Briefs

Avista's Brief

617 Avista requests the Commission approve the Company's electric Wildfire Expense Adjustment 3.24,adjusting the Company's wildfire expense and Wildfire Expense Balancing Account baseline to $8.3 million over the Two-Year Rate Plan, including a carrying charge at the Company's cost of debt on the deferred balances (current and on-going), and during amortization of these deferred balances, as-filed by the Company.[1073] The Company alleges that these adjustments are supported by Staff, and are uncontested by the remaining parties.[1074] In addition, the Company requests the Commission allow the Wildfire Expense Balancing Account "tracker" to continue beyond this GRC, at least through 2029, as this tracker acts as protection for customers and the Company, if costs expected over the life of the Wildfire Plan vary from that included in base rates.[1075]

Staff's Brief

618 Staff takes no issue with adjusting the Wildfire Expense Balancing Account baseline, nor approval of a carrying charge for the account's balances, but also recommends that the Commission order Avista to do two things: (1) move costs not strictly and exclusively related to mitigating wildfire risk out of the balancing account and into base rates; and (2) report on its experience with grid hardening.[1076] Staff notes that Avista seems to agree to report on grid hardening, but rejects moving cost not strictly and exclusively related to mitigating wildfire risk out the wildfire balancing account. Staff takes issue with Avista's position that a tracker would provide dollar-for-dollar recovery or refund for any deviation between actual costs and what is built into rates. But the Commission does not allow for a

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[1071] Andrews, Exh. EMA-6T at 32:5-14.

[1072] Andrews, Exh. EMA-6T at 32:18-21.

[1073] Avista's Brief, ¶145.

[1074] Avista's Brief, ¶145; Erdahl, Exh. BAE-1T, at 26:12-16.

[1075] Avista's Brief, ¶145; Andrews, Exh. EMA-6T at 28-32.

[1076] Staff's Brief, ¶112 referencing Erdahl, Exh. BAE-1T at 27:12-19.

tracker for every cost, and it should not, given the incentive distorting effects noted by AWEC witness Mullins.[1077]

619 Staff goes further by recommending that Avista remove non-wildfire-specific costs from the tracker,[1078] and leaving in the tracker costs incurred specifically needed to address wildfire dangers, such as expedited vegetation management or undergrounding facilities in high-risk areas.[1079] Staff suggests that many of the costs Avista is recovering through the tracker are providing shared benefits, such as those incurred generally for reliability, instead providing benefits to address wildfire expenses and costs.[1080]

Decision

620 In Avista's 2020 rate case, we determined that Avista's circumstances concerning wildfires are extraordinary and justified exercising the Commission's discretion to use regulatory tools such as balancing accounts, trackers, or deferrals.[1081] As such, we found that Avista had shown that use of a Wildfire Balancing Account was justified, and we expected that implementation of the account would remove much uncertainty regarding wildfire expenses, both for the Company and for customers.[1082] "Our intent in authorizing the account is to track and review actual wildfire expense, encourage the utility to take actions to address the increasing threat of wildfires to the utility and its customers with the knowledge that prudent expenditures will be recovered and at least a portion will be included in rates currently authorized for recovery, and ensure fairness to Avista's customers by monitoring the incremental wildfire expenses collected from them."[1083]

621 The Commission authorized Avista to initiate the Wildfire Expense Balancing Account in October of 2021 and established a baseline of $3.1 million for the balancing account.[1084] The Commission directed that modifications to the mechanics of the account, such as the application of a new base level of wildfire expense, additional requirements, or performance-based metrics, should be considered in GRCs, in order to monitor wildfire

[1077] Staff's Brief, ¶¶113-114 referencing Mullins, Exh. BGM-1T at 64:20-65:1.

[1078] Staff's Brief, ¶¶115 referencing Erdahl, Exh. BAE-1T at 27:14-16.

[1079] Staff's Brief, ¶¶115 referencing Erdahl, Exh. BAE-1T at 28:1-10.

[1080] Staff's Brief, ¶¶ 115.

[1081] *Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 256.

[1082] *Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 257.

[1083] *Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 257.

[1084] *Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 257.

expenses.[1085] In Avista's 2022 rate case, the Commission approved a new baseline for the balancing account of $5.1 million. [1086]

622 None of parties, including Staff, contest the Wildfire Expense Balancing Account baseline being raised to $8.3 million over the Two-Year Rate Plan, nor does any party contest the carrying charge related to the Company's cost of debt on the deferred balances. The only issue is Staff's recommendation to remove non wildfire specific costs from the tracker, such as standard vegetation management and grid hardening, because they benefit not only wildfire resilience, but also system reliability and storm damage mitigation, and would be more properly included in base rates in the future.[1087] Staff does support Avista's inclusion of expedited vegetation and undergrounding facilities in high-risk areas.[1088]

623 The Company argues that the use of a balancing account protects both the customers and the Company, as it allows the Company to defer and recover any excess costs over the established baseline, and to refund to customers the difference if the costs are less than the baseline.[1089] Also, Avista argues that the tracker allows the Company to react to any future needs identified in its Wildfire Resiliency Plan, and to pass along any benefits, which "are not easily identified or quantified in real time, let alone estimated into the future in order to in include in the next GRC."[1090]

624 With regard to the non-wildfire costs that result in shared benefits for reliability that should be removed from the Wildfire Balancing Adjustment, we disagree with Staff and reject their recommendation. As the Company points out, the balancing account in its present form allows Avista to react to any future needs identified in its Wildfire Resiliency Plan. As we have seen with the unpredictable nature of wildfires, what may be non-fire risk area today may turn into a fire-risk area tomorrow. Avista's standard undergrounding and standard vegetation management protects against this very real, possible outcome, given the unpredictability of wildfires. The Commission is hesitant to limit the Company's flexibility in that regard. Therefore, we reject Staff's recommendation to remove standard undergrounding in non-fire risk areas and standard vegetation management from Avista's Wildfire Balancing Adjustment.

[1085] *Avista Corp*, Dockets UE-200900 & UG-200901, Order 08/05, 39 ¶ 258-259.

[1086] *Wash. Utils. & Transp. Comm'n v. Avista Corp,* Dockets UE-220053 & UG-210584, Order 10/04, ¶ 147 (December 12, 2022).

[1087] Erdahl, Exh. BAE-1T at 28:14-16.

[1088] Staff's Brief, ¶115.

[1089] Andrews, Exh. EMA-6T at 31:2-10.

[1090] Andrews, Exh. EMA-6T at 32:5-14.

625 As none of the parties contest the Wildfire Expense Balancing Account baseline being raised to $8.3 million over the Two-Year Rate Plan, we accept Avista's proposed new level for the balancing account's baseline. Furthermore, as none of the parties contest the proposal to recover carrying charges at cost of debt, we accept Avista's proposal in that regard.

Insurance Expense Balancing Account and Pro Forma Insurance Expense

Avista Direct Testimony

626 Avista proposes to continue the use of its insurance expense balancing account, which defers actual insurance expense above or below its approved baseline, for later return to or recovery from customers.[1091] The Company proposes to increase its currently authorized baseline from $8.3 million to $12.8 million (WA Electric) and from $1.7 to $2.3 million (WA Natural Gas) for its proposed two year rate plan.[1092] Avista witness Andrews notes that the Commission's approval of the balancing account was non-precedential per the approved Settlement, and that the Commission conditioned its approval, requiring Avista to "document its action to seek out, negotiate, and attain the best insurance at the lowest costs."[1093] Avista witness Schultz argues that Avista met this condition in its annual insurance expense balancing account filing beginning September 1, 2023.[1094]

627 Andrews argues that the Company continues to experience extraordinary and volatile conditions currently and expects this to continue through its proposed two-year rate plan.[1095] Andrews explains that the Company's proposed baseline increase is based on its Pro Forma Adjustment 3.12, which contains expected increases in insurance premiums for general liability, directors and officers (D&O) liability, property insurance, and other insurance expense.[1096] Andrews states that the Company will update any 2023/2024 estimated amounts used in its proposal later in the proceeding once further actual invoices become available.[1097] Andrews notes that the Company incurred approximately $14.6 million in insurance expense during the test year, approximately $0.9 million below its

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[1091] Andrews, Exh. EMA-1T at 24:23 – 25:2 and at 25:16-17.

[1092] Andrews, Exh. EMA-1T at 25:2-5.

[1093] Andrews, Exh. EMA-1T at 25:17 – 27: 20. *See also* Dockets UE-220053, *et. al.,* Order 10/04 ¶¶ 144-146.

[1094] Andrews, Exh. EMA-1T at 27:22-28. *See also* Andrews Exh. EMA-5C.

[1095] Andrews, Exh. EMA-1T at 28:1-7.

[1096] Andrews, Exh. EMA-1T at 28:14-19.

[1097] Andrews, Exh. EMA-1T at 29:8-11.

2023/2024 authorized baseline, but reflecting an increase of 119 percent above 2020 levels.[1098]

628 Also, as with proposal with the Wildfire Expense Balancing Account, Avista proposes to accrue interest at the Company's actual cost of debt on any existing deferred balances, any new deferred balances going forward, and while being amortized.[1099]

Staff Response Testimony

629 Staff witness Erdahl agrees that Avista should be allowed to continue its insurance balancing account, because "there has not been evidence of conditions becoming more stable." Erdahl notes that the balancing account protects the ratepayers and the Company from over or under-collection of insurance expense.[1100] Staff also supports Avista's proposed increase to its baseline, and its request to accrue interest on its deferred balance.[1101]

AWEC's Response Testimony

630 AWEC witness Mullins contests the continuation of the balancing account, arguing that as a matter of policy and in the interest of ratepayer protections, the Commission should limit the number of true-up mechanisms granted to Avista.[1102] Mullins argues that the dollar-for-dollar recovery of such a mechanism removes "the Company's incentive to seek out, negotiate, and attain the best insurance at the lowest costs."[1103] Mullins notes that the insurance expense balancing account was created as part of the Commission's approval of a multi-party settlement in its last rate case, and therefore represents a compromise of the settling parties, subject to the Commission's additional reporting requirements that conditioned its approval.[1104] Mullins states that AWEC and other parties have since gained additional understanding of the administrative burdens that multi-year rate plans impose on the parties, and the additional work required for both Avista and reviewing parties related to these additional reporting requirements.[1105] Mullins argues that this additional

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[1098] Andrews, Exh. EMA-1T at 30:3-14.

[1099] Andrews, Exh. EMA-1T at 33:1-18.

[1100] Erdahl, Exh. BAE-1T at 32 5-8.

[1101] Erdahl, Exh. BAE-1T at 32:10 – 33:3.

[1102] Mullins, Exh. BGM-1T at 64:15-20.

[1103] Mullins, Exh. BGM-1T at 64:20 – 65:1.

[1104] Mullins, Exh. BGM-1T at 65:3-6.

[1105] Mullins, Exh. BGM-1T at 65:6-10.

reporting "introduces ambiguity in terms of what actions are available or appropriate upon review of Avista's documentation."[1106] Mullins believes that this additional burden, along with the lack of incentive for Avista to manage its insurance expenses between rate cases, supports discontinuance of the balancing account.[1107]

631 Mullins does not dispute inclusion of Avista's forecasted insurance expense in base rates, and notes "AWEC's opposition is to the use of the single-issue ratemaking to recover these costs."[1108]

Public Counsel's Response Testimony

632 Public Counsel witness M. Garrett disputes the directors and officers portion of Avista's insurance expense proposal, arguing that a 50/50 cost allocation between customers and shareholders is appropriate.[1109] M. Garrett's adjustment would reduce operating expenses by $237,000 (WA Electric) and $75,000 (WA Natural Gas).[1110] M. Garrett argues that D&O liability insurance generally protects the assets of a company's directors and officers from financial impacts of litigation resulting from their actions taken on the corporation's behalf, and also shields shareholders, Board members, and senior leadership from legal action resulting from their decisions.[1111] M. Garrett argues that the costs of a director or officer's negligent acts are not a necessary cost of providing utility service, and because they have a fiduciary duty to put the interests of shareholders first, some of these costs should be borne by shareholders, including D&O liability insurance.[1112]

633 M. Garrett argues that a 50/50 allocation between customers and shareholders, as opposed to the 90/10 allocation proposed by Avista is more appropriate, as both groups benefit from the Company holding D&O liability insurance.[1113] M. Garrett notes that several state regulatory commissions have required equal sharing of these costs, including Arkansas, California, Nevada, New Mexico, Florida, and New York, and that Connecticut previously allowed only 25 percent of these costs in rates.[1114]

[1106] Mullins, Exh. BGM-1T at 65:10-12.

[1107] Mullins, Exh. BGM-1T at 65:12-14.

[1108] Mullins, Exh. BGM-1T at 65:15-19.

[1109] M. Garrett, Exh. MEG-1T at 34:6-7.

[1110] M. Garrett, Exh. MEG-1T at 34:7-12.

[1111] M. Garrett, Exh. MEG-1T at 28:15-18.

[1112] M. Garrett, Exh. MEG-1T at 29:3-7.

[1113] M. Garrett, Exh. MEG-1T at 30:1-12.

[1114] M. Garrett, Exh. MEG-1T at 30:16 – 34:3.

AWEC's Cross Answering Testimony

634 In Cross-Answer testimony directed at Staff, Mullins argues that under the balancing account approach, insurance costs are updated annually on November 1st each year, resulting in more rate volatility and unpredictability for customers.[1115] Mullins also argues that this methodology could create a windfall for Avista, noting that the balancing account is not subject to an earnings test, and should Avista earn at or above its rate of return and also experience a material increase in its insurance costs, it will still be allowed to recover these costs, even when such recovery is not necessary to ensure healthy earnings for the utility.[1116] Mullins argues that under a scenario where the balancing account is removed, the Company still has the ability to file for a deferral to track and recover any excessive insurance costs.[1117] Mullins argues that this approach could be subject to an earnings test, preventing potential windfall, and that any recovery would be granted in conjunction with its next rate case, eliminating AWEC's rate volatility concerns.[1118]

Avista Rebuttal Testimony

635 Regarding Mullins's proposed discontinuation of the insurance expense balancing account, Andrews disagrees with the assertion that the true-up mechanism is single-issue ratemaking, results in additional administrative burden, and removes Avista's incentive to manage its insurance costs.[1119] Noting the findings of the Commission in the final order of the Company's 2022 GRC, and reiterated by Staff in its response testimony, Andrews argues that "the volatility experienced by Avista, and the utility industry, is extraordinary and outside the Company's control."[1120] Andrews argues that tracking mechanisms such as this were created for this very reason, as protection for the Company and customers from extraordinary circumstances and volatility in certain expenses.[1121]

636 Regarding M. Garrett's proposal to split the cost of D&O insurance equally between shareholders and customers, Avista witness Schultz argues that M. Garrett's proposal

[1115] Mullins, Exh. BGM-8T at 20:5-8.

[1116] Mullins, Exh. BGM-8T at 20:11-14.

[1117] Mullins, Exh. BGM-8T at 20:15-19.

[1118] Mullins, Exh. BGM-8T at 20:19-24.

[1119] Andrews, Exh. EMA-6T at 37:3-7.

[1120] Andrews, Exh. EMA-6T at 37:7-10.

[1121] Andrews, Exh. EMA-6T at 37:10-12.

should be rejected.[1122] Schultz argues that M. Garrett's analysis focuses on the findings of seven states, but ignores the other 43 states, and argues that it is *this* Commission's findings that are most relevant to Avista.[1123] Schultz states that the Company has consistently applied the reduction of 10 percent for D&O insurance since ordered by the Commission in Avista's 2009 rate case.[1124] Schultz argues that Avista's Board of Directors is focused primarily on utility operations, and that based on the actual time the Board dedicates to the utility, "a 90%/10% sharing of these fees is conservative."[1125]

Parties' Briefs

Avista's Brief

637 Avista states that the Commission should approve the Company's electric and natural gas Insurance Expense Adjustments 3.12, updating the Company's insurance expense and its proposed Insurance Expense Balancing Account baselines, over the Two-Year Rate Plan, to $12.8 million for electric, and $2.3 million for natural gas, as filed by the Company.[1126] The Company requests approval of the Pro Forma Insurance Expense as well as the approval of the D&O Insurance expense sharing at its current level of 90percent/10 percent, as opposed to the 50/50 proposed by Public Counsel.[1127] Avista seeks the inclusion of a carrying charge at the Company's cost of debt on the deferred balances (current and on-going), and during amortization of these deferred balances, was supported by Staff, and uncontested by the other parties.[1128]

Staff's Brief

638 In its brief, Staff supports approval of: 1) the continuation of Avista's insurance balancing account;[1129] 2) an increase to its baseline;[1130] and 3) a carrying charge on the current

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[1122] Schultz, Exh. KJS-5T at 54:2-6.

[1123] Schultz, Exh. KJS-5T at 54:10-12.

[1124] Schultz, Exh. KJS-5T at 54:12 – 55:3.

[1125] Schultz, Exh. KJS-5T at 55:4-6.

[1126] Avista's Brief, ¶146.

[1127] Avista's Brief, ¶146 referencing M. Garrett, Exh. MEG-1T, at 34:4-12.

[1128] Avista's Brief, ¶146 referencing M. Garrett, Exh. MEG-1T, at 32:18 – 33:3.

[1129] Andrews, Exh. EMA-1T at 24:20-25:5.

[1130] Andrews, Exh. EMA-1T at 24:20-25:5. Avista specifically seeks to increase the baseline from $8.271 million to $12.795 million for electric operations and from $1.746 million to $2.247 for natural gas operations.

deferred balance and any future deferrals.[1131] Staff notes that AWEC opposes the Insurance Expense Balancing Account as a single-issue ratemaking mechanism. Staff does not agree with AWEC's position and points out that the insurance market has been volatile for companies. Staff opines that the Commission's reporting requirements will allow the parties to verify that Avista is taking all efforts toto minimize its insurance costs. [1132] Staff asserts that the Commission should allow Avista to continue the account, adjust the baseline, approve the carrying charge, and continue in effect the reporting requirements for the account.[1133]

Public Counsel's Brief

639 Public Counsel reiterates that they favor a 50 percent or less rather than a 90 percent allocation of insurance expenses.[1134]

AWEC's Brief

640 AWEC rejects Avista's proposal to continue the Insurance Expense Balancing Account because it believes that balancing accounts constitute single-issue ratemaking and allows Avista dollar-for-dollar recovery of insurance expense.[1135] AWEC cites to Commission precedent for the premise that "single-issue ratemaking is generally disfavored as it allows for specific ratemaking treatment for a single or small subset of costs, regardless of whether other costs have gone up or down during the same period, and "risks over-earning by the company and over-paying by the customers."[1136] AWEC opines that Avista forecast the insurance expense within the confines of the MYRP, instead of truing up the expense through the balancing account.[1137]

Decision

641 In Avista's 2022 rate case, and as part of settlement, the parties agreed to the establishment of a non-precedential Insurance Balancing Account. The Commission approved the

[1131] Staff's Brief, ¶110 referencing Andrews, Exh. EMA-1T at 33:12-18.

[1132] Staff's Brief, ¶111 referencing Erdahl, Exh. BAE-1T at 30:10-32:1.

[1133] Staff's Brief, ¶111; Andrews, Exh. EMA-6T at 37:13-38:6 (agreeing to continue reporting on measures Avista has taken to minimize insurance costs).

[1134] Public Counsel's Brief, ¶106.

[1135] AWEC's Brief, ¶104.

[1136] AWEC's Brief, ¶104 citing *In re Avista Corporation*, Docket UG-060518, Order 04 at 11 (Feb. 1, 2007).

[1137] AWEC's Brief, ¶104.

settlement and the Insurance Balancing Account.[1138] In that case, Public Counsel opposed the establishment of the Insurance Balancing Account on the grounds that generally, authorizing a pass-through guaranteeing a company recovery of its costs in a certain area removes the business incentive for the company to control those costs.[1139] However, in the present case, it is AWEC that seeks discontinuance of the Insurance Balancing Account,[1140] raising the same arguments that Public Counsel raised in Avista's 2022 rate case.[1141]

642 In Avista's 2022 rate case we found that Avista had demonstrated unprecedented increases and volatility in its insurance costs, and that the insurance expense increases in recent years are "extraordinary" and "volatile" and caused an under-recovery of approximately $5.3 million in 2022.[1142] Moreover, we held that Avista demonstrated that it had taken and is taking appropriate steps to try to control these costs, but had shown unprecedented recent increases in insurance that were largely out of its control. These increases had been driven primarily by the Company's general liability premiums, which cover wildfire risk and property insurance premiums, and which tend to react to insurance industry losses due to natural disasters.[1143] Further, we agreed that these costs had increased due to factors outside the Company's control and despite the Company's best efforts under its Wildfire Resiliency Plan.[1144]

643 Based on the evidence and testimony, we reject AWEC's recommendation to discontinue and accept Avista's proposal to continue the Insurance Balancing Account. Similar to the circumstances in 2022, we again see a volatile insurance market due to the increase of recent natural disasters, including the persistent presence of wildfires. We note that Avista witness Andrews stated in her testimony that "the volatility experienced by Avista, and the utility industry, is extraordinary and outside the Company's control."[1145] In addition, we note Staff witness Erdahl's testimony that, "there has not been evidence of conditions

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[1138] *Avista,* Dockets UE-220053, *et. al.,* Order 10/04 ⁋140.

[1139] *Avista,* Dockets UE-220053, *et. al.,* Order 10/04 ⁋140; See also Mullins, Exh. BGM-1T at 64:20-65:1.

[1140] Mullins, Exh. BGM-1T at 64:15-20.

[1141] Mullins, Exh. BGM-1T at 65:15-19.

[1142] *Avista,* Dockets UE-220053, *et. al.,* Order 10/04 ⁋141; Andrews, Exh. EMA-1T at 66:16-19 and Exh. EMA-7T 28:5-11.

[1143] *Avista,* Dockets UE-220053, *et. al.,* Order 10/04 ⁋141; See also Andrews, EMA-1T at 64:2-74:19; Brandkamp, Exh. REB-1CT at 3:22-8:12.

[1144] *Avista,* Dockets UE-220053, *et. al.,* Order 10/04 ⁋141; See also Andrews, EMA-1T at 64:2-74:19; Brandkamp, Exh. REB-1CT at 3:22-8:12.

[1145] Andrews, Exh. EMA-6T at 37:7-10.

becoming more stable," and that the balancing account protects the ratepayers and the Company from over or under-collection of insurance expense.[1146] Therefore, because of the continued volatility of market conditions beyond Avista's control the Insurance Balancing Account shall continue.

644 We turn to the baseline for the Company's Insurance Balancing Account. Avista proposes adjusting the Insurance Expense Balancing Account baselines, over the Two-Year Rate Plan, to $12.8 million for electric, and $2.3 million for natural gas, as filed by the Company.[1147] No other parties contest Avista's proposed adjustments. Additionally, given the current market and environment, increasing the Insurance Expense Balancing Account baselines is appropriate. Therefore, we approve increasing Insurance Expense Balancing Account baselines to $12.8 million for electric, and $2.3 million for natural gas.

645 Next, Avista has proposed to recover carrying charges at its cost of debt. No Party contests Avista's proposal. We grant Avista's proposal to recover its carrying charges at its cost of debt.

Association Dues

Public Counsel's Response Testimony

646 While not addressed in Avista's direct testimony, Public Counsel witness M. Garrett proposes full disallowance of Avista's industry association dues paid to the American Gas Association (AGA) and the Edison Electric Institute (EEI), which would reduce the as-filed revenue requirement by approximately $140,000 for AGA dues and $252,000 for EEI dues.[1148] M. Garrett argues that Avista has not adequately demonstrated that its "request for recovery of these dues relates to customer interests rather than lobbying and broader industry advocacy efforts."[1149]

647 M. Garrett maintains that in recent years, regulatory commissions and legislators nationwide are raising concerns of utilities inappropriately passing along costs of political activities and "industry self-promotion to captive customers,"[1150] since a significant

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[1146] Erdahl, Exh. BAE-1T at 32 5-8. In Order 10/04 ⁋144, the Commission established that overcollection or undercollection would be subject to rebate or surcharge.

[1147] Avista's Brief, ¶146.

[1148] M. Garrett, Exh. MEG-1T at 24:12-17. *See also* Exh. MEG-3 Sch. 3.8 and Exh. MEG-4 Sch. 4.8.

[1149] M. Garrett, Exh. MEG-1T at 24:10-13.

[1150] M. Garrett, Exh. MEG-1T at 15:16-18.

portion of the industry association dues relate to payments for lobbying efforts and political activities.[1151] M. Garrett argues that given there is significant overlap between the services these associations provide for the public interest and those which advocate for their members' private interests, these expenses should be removed until "a clear distinction between these services" can be made.[1152] M. Garrett also refers to IRS regulations that require these associations to report amounts spent on lobbying activity, but argues that the narrow definition for "lobbying" is not sufficient to determine how much of EEI's and AGA's efforts are "more appropriately described as advocating for its members' private interests to federal, state, and local officials and policymakers."[1153]

648 Additionally, in light of growing concerns, M. Garett highlights that FERC recently opened a Notice of Inquiry (NOI) to examine this issue, and he cites to a recent appellate court decision holding that "*indirect* influence expenses (*e.g.,* industry associations that provide public policy advocacy services on behalf of dues-paying members) should be recorded [below the line]."[1154] M. Garett also cites to state public utility commissions in Kentucky, Minnesota, California, and Avista's recent rate case in Oregon, where industry association dues were disallowed, in full or in part.[1155] M. Garret also cites to legislation enacted in Colorado, Connecticut, New York, and Maine, as instructive to prohibit utilities from recovering expenses for trade or industry association dues from retail customers.[1156]

Sierra Club's Cross Answering Testimony

649 In its Cross-Answer testimony, Sierra Club witness Dennison supports Public Counsel's proposed 100 percent removal of industry association dues, noting agreement with the arguments put forth by Garrett above.[1157] Dennison also highlights that Sierra Club led a coalition of 17 organizations that called for Avista to end its membership with the AGA on the basis of AGA's opposition to policymakers misleading the public by failing to disclose their financial backers. Specifically, in a letter to Avista, the AGA in relevant part stated it "opposed local, state, and federal building decarbonization policies, deployed tactics and experts that were previously used by big tobacco companies to cast doubt about the health

[1151] M. Garrett, Exh. MEG-1T at 16:1-2.

[1152] M. Garrett, Exh. MEG-1T at 16:6-13.

[1153] M. Garrett, Exh. MEG-1T at 17:19 – 18:4.

[1154] M. Garrett, Exh. MEG-1T at 19:10 – 20:4.

[1155] M. Garrett, Exh. MEG-1T at 21:11 – 22:2.

[1156] M. Garrett, Exh. MEG-1T at 23:13-17.

[1157] Dennison, Exh. JAD-12T at 9:5-6.

harms of burning gas indoors, and mislead policymakers and the public by failing to disclose its financial support for these efforts."[1158]

Avista's Rebuttal Testimony

650 Avista witness Schultz asserts that all costs associated with political activities and lobbying efforts paid to the EEI and AGA are booked "below-the-line" and charged directly to shareholders, and that all other costs related to membership are directly related to utility operations, and therefore properly recoverable from ratepayers.[1159] Schultz argues that EEI and AGA provide "public policy leadership, critical industry data, market opportunities, strategic business intelligence, and one-of-a-kind conferences and forums, among other things."[1160] Schultz also asserts that "Washington ratepayers benefit from Avista's involvement in these organizations because they provide an opportunity for Company's employees: (1) to stay abreast of critical electric and natural gas industry issues issue specific to utilities: (2) to access to volumes of information on industry data; and (3) to foster networking opportunities within those industries."[1161]

651 Schultz provides some specific examples of how Avista and its customers benefit from Avista's membership in EEI and AGA, including its participation in EEI's Reliability Technical Committee (RTC), EEI's Reliability Executive Advisory Committee (REAC), EEI's Spare Transformer Equipment Program (STEP), AGA's Peer Review, AGA's Technical Committees and Technical Discussion Groups, and AGA's Field Operations Committee.[1162] Schultz cites to a specific example of a customer benefit received through its membership. Namely AGA deployed its National Mutual Aid Program during the Williams Pipeline dig-in that occurred in November 2023, which allowed Avista to quickly restore services to its 36,000 natural gas customers after the pipeline was damaged.[1163] Through this program, Schultz states, AGA helped coordinate over 300 mutual aid workers from eight natural gas utilities across six states, which enabled Avista to restore service to customers in less than a week.[1164]

[1158] Dennison, Exh. JAD-12T at 8:1-7.

[1159] Schultz, Exh. KJS-5T at 59:6-12.

[1160] Schultz, Exh. KJS-5T at 59:15-17.

[1161] Schultz, Exh. KJS-5T at 59:17-21.

[1162] Schultz, Exh. KJS-5T at 60:1 – 61:24.

[1163] Schultz, Exh. KJS-5T at 61:27-33.

[1164] Schultz, Exh. KJS-5T at 61:34 – 62:3.

652 Finally, Schultz disputes M. Garrett's statement that in Avista's recent general rate proceeding in Oregon, the commission disallowed industry association dues. The Oregon case was an all-party settlement, whereby as part of the "give-and-take," Avista agreed to remove these costs for settlement purposes.[1165] As such, Schultz explains that the disallowance and approval of a settlement agreement "are two very different things and should give the Commission pause"[1166] in reviewing the arguments put forward by M. Garrett and the Sierra Club. For these reasons, Schultz concludes that Avista's industry association membership dues are prudently incurred and that Public Counsel's proposed removal of such costs from revenue requirement should be rejected.[1167]

Decision - Association Dues

653 While the Commission acknowledges that an overlap can exist between the services associations provide for the public interest and those which advocate for their members' private interests in lobbying, absent any evidence in the record that demonstrate the dues Avista pays go directly toward private interest and lobbying, we find this argument speculative. More importantly, Avista identified a direct nexus to the benefits its customers received through its membership in these groups, including deployment of AGA's National Mutal Aid Program during the Williams Pipeline incident, which enabled the Company to coordinate over 300 mutual aid workers from eight natural gas utilities across six states to restore service to customers in less than a week. Additionally, because it is unclear to what degree it is Avista's responsibility to perform an audit for each association's costs and services, and because FERC's NOI into this issue is pending, we reject Public Counsel and Sierra Club's proposal to disallow Avista's industry association dues paid to AGA and EEI.

Investor Relations Expense

Public Counsel's Response Testimony

654 Public Counsel witness M. Garrett proposes an adjustment to Avista's investor relations expense, arguing that a 50/50 split of these costs between shareholders and ratepayers is appropriate.[1168] M. Garrett's adjustment would result in a revenue requirement reduction of $201,000 (WA Electric) and $60,000 (WA Natural Gas).[1169]

[1165] Schultz, Exh. KJS-5T at 62:5-13.

[1166] Schultz, Exh. KJS-5T at 62:13-16.

[1167] Schultz, Exh. KJS-5T at 62:18-19.

[1168] M. Garrett, Exh. MEG-1T at 36:7-9.

[1169] M. Garrett, Exh. MEG-1T at 36:9-12.

655 M. Garrett argues that "shareholders and customers both benefit when the Company incurs expenses to disseminate information about Avista's current and future earnings and investments to the larger investment community in a timely manner," noting that customers benefit when the Company can access capital at a lower price, and shareholders benefit through higher share prices.[1170] Based on this, M. Garrett believes a 50/50 split is appropriate.[1171]

Avista's Rebuttal Testimony

656 Avista witness Schultz offers on rebuttal that the effect of a 90/10 adjustment would be a reduction in revenue requirement of approximately $40,000 (WA Electric) and $12,000 (WA Natural Gas).[1172]

657 Schultz argues that the proposal to split these costs 50/50 is "completely unreasonable."[1173] As an investor-owned utility, Schultz argues, Avista raises approximately half of its funds used to serve its customers through equity markets, and as a result is required to meet certain rules and requirements that set forth how Avista operates, including "the development and issuance of quarterly and annual financial reports, which is facilitated by investor relations."[1174] Schultz explains that Avista's investors, who are its owners, provide the funds necessary to operate its business for the benefit of its customers and that its investor relations team facilitates its compliance with Securities and Exchange Commission (SEC) requirements, financial reporting, and communication with the investment community.[1175]

658 Schultz also argues that Public Counsel's proposed 50/50 split is arbitrary and unsupported by evidence.[1176] Schultz notes that, unlike when Avista had significant non-utility operations in the past which may justified a lower percentage sharing, Avista is now comprised almost entirely of utility operations, with only a small set of passive investments under Avista Capital.[1177]

[1170] M. Garrett, Exh. MEG-1T at 36:3-7.

[1171] M. Garrett, Exh. MEG-1T at 36:7-9.

[1172] Schultz, Exh. KJS-5T at 35:9-12.

[1173] Schultz, Exh. KJS-5T at 49:6-9.

[1174] Schultz, Exh. KJS-5T at 49:9-14.

[1175] Schultz, Exh. KJS-5T at 49:16 – 50:4.

[1176] Schultz, Exh. KJS-5T at 50:12-14.

[1177] Schultz, Exh. KJS-5T at 50:15-19.

659 However, Schultz does believe that after review of the arguments made by M. Garrett, some degree of adjustment is appropriate, and Avista offers a 90/10 split, which is consistent with Avista's rationale for having 90 percent of the costs associated with its Board of Directors allocated to utility customers.[1178] Schultz states that "given a small portion of the overall Company is related to non-utility activities, it is reasonable to assert that a portion should be recognized as non-utility."[1179]

Decision – Investor Relations

660 The Commission finds that Avista's revised offer provided on rebuttal of a 90/10 split is a reasonable middle-ground as opposed to the 50/50 split proposed by Public Counsel. The Company's proposal is also consistent with the 90/10 allocation of Avista's Directors' and Officers' liability insurance policy.

Working Capital

AWEC's Response Testimony

661 AWEC Witness Mullins argues that Avista inappropriately includes interest-bearing accounts within its Working Capital. Mullins testifies that although the Company claims to deduct the interest associated with the two specific accounts in question, Avista errs in its calculation of the net interest and is unable to track the interest specific to electric and natural gas operations. He argues, too, that the historical period will not accurately reflect the expected interest earned during the rate plan as interest is not earned based on an average balance and is subject to changing condition in the commodities market.[1180] Further, Mullins testifies the Company's working capital model contained hardcoded balances and therefore AWEC was unable to duplicate Avista's calculation. However, Mullins estimates the impacts of AWEC's recommendation would reduce the revenue requirement by approximately $2.5 million for electric and $311,000 for natural gas.

Avista's Rebuttal Testimony

662 Company witness Andrews refutes AWEC's proposed adjustment to Working Capital testifying that Avista used the methodology for excluding interest-bearing portions of accounts used for commodity trades in its 2019 GRC in consolidated dockets UE-190334,

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[1178] Schultz, Exh. KJS-5T at 50:5-8.

[1179] Schultz, Exh. KJS-5T at 50:9-10.

[1180] Mullins, Exh. BGM-1T at 26:3 – 28:2, 29:6-22.

UG-190335, UE-190222. Andrews argues this methodology was proposed by Commission Staff and approved by the Commission.[1181]

663 Additionally, Andrews rejects AWEC's contention that the Company is unable to accurately identify the interest-bearing portion of the two accounts nor unable to identify the impacts to electric and natural gas operations independently. Witness Andrews references Company witness Schultz's calculations of the Working Capital adjustment (1.03 ISWC Adjustment) that specifically identify that 92 percent of the accounts are non-interest-bearing and identifies specific dollar amounts for the electric and natural gas share of the interest-bearing portion of the accounts.[1182]

664 Further, Andrews disagrees with AWEC's position that historical account balances are not an indicator of future balances. While Andrews agrees that the events that occurred in winter 2022 were extraordinary, the collateral balances have not returned to pre-2022 levels. With continued changing market conditions, which have resulted in more market transactions over the past five years, collateral balance baselines are anticipated to remain elevated. Therefore, Andrews contends that margin rates have also not returned to pre-2022 levels. Finally, Andrews argues the Company appropriately uses historical balances in its Working Capital adjustment as it not feasible to project the hundreds of balance sheet accounts that flow into this adjustment. Andrews states that allowing a party to "cherry pick" accounts to reduce working capital is inappropriate; while some accounts may decline from historical balances, others may just as likely increase.[1183]

665 Finally, witness Andrews provides testimony that generally supports the inclusion of working capital as a mechanism to mitigate regulatory lag. Andrews claims otherwise the Company would be required to incur a greater lost return beyond what it has already absorbed.[1184]

Parties' Briefs

Avista

666 Avista argues that the Commission should approve its Investor Supplied Working Capital (ISWC) Restating Adjustment 1.03 and reject AWEC's proposal to remove the Wells and Mizuho account balances from the adjustment. Avista states that it complied with the

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[1181] Andrews, Exh. EMA-6T at 45:3-15.

[1182] Andrews, Exh. EMA-6T at 46:15 – 47:5.

[1183] Andrews, Exh. EMA-6T at 47:9 – 48:8.

[1184] Andrews, Exh. EMA-6T at 49:3-19.

methodology that the Commission approved in Dockets UE-190334, UG-190335, and UE-190222 by removing the minimal interest-bearing portion of these accounts such that they represent expected ISWC balances during the effective period of the multi-year rate plan.[1185] The Company further notes that it has experienced a lost return of over $6.3 million in 2023 due to increased ISWC balances as a result of increased power supply margin account balances, resulting in substantial regulatory lag.[1186]

AWEC

667 AWEC recommends that the Commission adopt an adjustment to reflect the removal of Avista's Wells and Mizuho interest-bearing accounts. AWEC states that while the method Avista used in this proceeding is consistent with the method used in Dockets UE-190334, UG-190335, and UE-190222, the Commission did not expressly adopt that methodology in its order.[1187] AWEC argues that Avista's methodology is inappropriate for two reasons. First, AWEC contends that because there are factors that influence the accounts' earned interest beyond the account balances, it is inappropriate to conclude that a portion of the balances do not earn interest.[1188] Second, AWEC contends that the two accounts' performance during the historical period are not representative of anticipated performance during the rate effective period of the rate plan.[1189]

668 AWEC further disagrees with Avista's assertion that AWEC's proposed adjustment is selectively interpreting accounts and maintains that its recommendation is grounded in RCW 80.28.425(3)(b)'s requirement to determine the fair value of property during the rate effective period of the rate plan.[1190] AWEC assert that Avista's adjustment fails to properly forecast the balances of the Wells and Mizuho accounts in the rate effective period because Avista did not adjust its historical data to account for the influence of unusual

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[1185] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, Avista's Post-Hearing Brief ¶ 112 (Oct. 28, 2024).

[1186] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, Avista's Post-Hearing Brief ¶ 112 (Oct. 28, 2024).

[1187] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 95 (Oct. 28, 2024).

[1188] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 96 (Oct. 28, 2024).

[1189] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 96 (Oct. 28, 2024).

[1190] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 97 (Oct. 28, 2024).

market prices during the winter of 2022-2023.[1191] AWEC contends that Avista's power supply forecasts demonstrate that the conditions that caused high prices during the winter of 2022-2023 are unlikely to reoccur during the rate effective period of the rate plan.[1192] Instead, AWEC maintains that margin prices will be effectively zero based on the data from 2020 to 2021, and consequently Avista's recommended approach does not comply with RCW 80.28.425(3)(b).[1193] Finally, AWEC argues that regulatory lag does not provide a justification for adopting Avista's proposed treatment of its Wells and Mizuho accounts because regulatory lag is within the control of the Company.[1194]

Decision

669 The Commission rejects AWEC's proposed revision to Avista's working capital Restating Adjustment 1.03. As an initial matter, the Commission disagrees with AWEC's assertion that the methodology used by Avista for its working capital adjustment is not precedential. As AWEC acknowledges in its briefing, the methodology used by Avista in this case is the same methodology used in Dockets UE-190334, UG-190335, and UE-190222.[1195] While the methodology was not explicitly discussed in the order, it was in fact used during the case and incorporated into the final outcome, and the Company has used that methodology in all of its subsequent rate cases.[1196] Consequently, it was deemed fair, just, reasonable, and sufficient by the Commission and AWEC's arguments to the contrary are unpersuasive.

670 In its brief, AWEC argues that the Commission should reject Avista's methodology in part because the extraordinary prices that occurred during the winter of 2022-2023 are not representative of how the working capital accounts will perform during the rate effective period.[1197] However, it is clear from Avista's testimony that it considered several factors other than just the winter 2022-2023 prices, including elevated power and gas prices

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[1191] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 97 (Oct. 28, 2024).

[1192] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 97 (Oct. 28, 2024).

[1193] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 97 (Oct. 28, 2024).

[1194] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 98 (Oct. 28, 2024).

[1195] Id., at ¶ 95.

[1196] Andrews, Exh. EMA-6T at 45:6-15.

[1197] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 96 (Oct. 28, 2024).

relative to past years, greater price volatility, and the impacts of significant market events.[1198] The Commission further shares Avista's concerns that attempting to forecast an adjustment to its ISWC is not reasonably feasible, given that it consists of hundreds of balance sheets.[1199]

671 Although AWEC argues that its adjustment method is more reasonable because it forecasts the likely performance of the accounts during the rate effective period, there does not appear to be supporting analysis for AWEC's forecast beyond a citation to witness Mullins' testimony.[1200] In turn, witness Mullins states in testimony "[a]s can be seen, in the winter of 2022-2023, the margin balances were extraordinary, whereas in the past they hovered close to zero."[1201] Contrary to AWEC's assertions, this observation, standing on its own, does not support the conclusion that the margin balances will in fact be close to zero during the rate effective period. Furthermore, even assuming that AWEC's forecast was accurate, it is not appropriate to adjust some, but not all, of the accounts in Avista's ISWC, because the limited adjustments will not reasonably reflect the performance of the entire ISWC during the rate-effective period.

672 Finally, the Commission disagrees with AWEC's assertion that its proposed methodology is the only methodology that complies with RCW 80.28.425(3)(b). The Commission notes that pursuant to RCW 80.28.425(3)(d), "[i]n ascertaining and determining the fair value of property of a gas or electrical company pursuant to (b) of this subsection . . . the commission may use any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates." This statute affords the Commission broad discretion regarding an appropriate methodology, provided that the method is "reasonably calculated" to arrive at rates that are fair, just, reasonable, and sufficient. Consequently, the Commission has discretion to authorize a methodology that considers historical performance, even in the absence of a forecast. The Commission has done so in the past on this issue and determines that it is reasonable to do so again based on the record developed in this proceeding. The Commission accepts Avista's proposed Restating Adjustment 1.03.

[1198] Andrews, Exh. EMA-6T at 47:9 – 48:2.

[1199] Andrews, Exh. EMA-6T at 48:13 - 20.

[1200] *WUTC v. Avista Corp.*, Dockets UE-240006 & UG-240007, AWEC's Post-Hearing Brief ¶ 97, fn. 242, 247 (Oct. 28, 2024) (citing Mullins, Exh. BGM-1T at 28:12-13).

[1201] Mullins, Exh. BGM-1T at 28:12-13.

FIT/DFIT/ITC Adjustment

673 We note that Avista filed a petition in Dockets UE-200896 and UG-200896, requesting the Commission authorize a change to its accounting for federal income tax expense for certain plants and defer the associated change in tax expense (Tax Customer Credit) on October 30, 2020, the same date it filed its 2020 GRC in Dockets UE-200900 and UG-200901.

674 In its order granting the petition, the Commission authorized Avista to change its accounting method for plant related to IDD#5 mixed service costs (inventory costs) and for meters from normalization to flow-through treatment. Additionally, Order 01 authorized the deferral for the associated change in tax expense. The Commission found the proposed accounting treatment had no immediate impact on rates, and that the treatment of unprotected ADFIT and EDIT (including the Tax Customer Credit) would be addressed within the context of the 2020 GRC.

675 The 2020 GRC resulted in a partial multiparty settlement, however, the Tax Customer Credit remained contested. In its final order, the Commission ordered that Avista begin returning the benefit to customers as of the rate effective date over a two-year period through separate tariff schedules. However, as the balance of the Tax Customer Credit would not reach zero at the end of that two-year period, the Commission temporarily ordered a new 10-year amortization schedule for that remaining balance subject to reexamination in the subsequent GRC.

676 On December 12, 2022, the Commission issued its final order in that subsequent GRC which resulted in a full multiparty settlement.[1202] The settling parties agreed the Residual Tax Customer Credit be returned to customers using the same tariff schedules created in the 2020 GRC over a two-year period beginning with the rate effective date of the 2022 GRC. At that time, the residual amounts were $27.6 million for electric and $12.5 million for natural gas.[1203]

[1202] Public Counsel opposed certain aspects of the settlement, but the Residual Tax Customer Credit was not one of those issues.

[1203] *WUTC v. Avista*, Dockets UE-220053, UG-220054, and UE-210854 *(consolidated)*, Order 10/04 ¶¶ 58-61 (Dec. 12, 2022). The settlement provided no additional information regarding continued tax deferrals or further residual credits, nor did it discuss how or when to discontinue those deferrals and associated tariff schedules and subsequently including any remaining balances into rate base.

AWEC Response Testimony

677 In this proceeding, AWEC proposes the Commission now require Avista to fully transition to flow-through accounting rather than continuing the deferral process.[1204] Mullins argues these benefits are no more uncertain than any other tax provision. Therefore, Mullins contends this is the appropriate proceeding to discontinue the deferrals, and on a going-forward basis, include the benefits as a reduction to rate base. Mullins proposes a one-time offset to RY2 for electric to mitigate the rate increase associated with the Colstrip retirement. For natural gas, Mullins recommends the amount be amortized over the two-year rate plan. However, AWEC recognizes residual balances will remain in that account and recommends maintaining the tariff schedules to refund that ending balance to customers.[1205]

678 Additionally, Mullins takes issue with the Company including a carrying charge at its full cost of capital on the residual balances. Mullins argues that the Commission never authorized such treatment. AWEC recommends eliminating the carrying charge, which in combination with the full transition in tax treatment, results in a reduction in revenue requirement of approximately $5.7 million for electric and $5.4 million for natural gas.[1206]

Avista's Rebuttal Testimony

679 Witness Andrews disagrees with AWEC's recommendations, testifies that witness Mullins erred in his recalculation of the tax benefit amount owed to customers, and argues that the Commission through approval of the two preceding rate cases accepted the Company's appropriate inclusion of the carrying charge.

680 First, Andrews reasons the Commission's approval of the deferral treatment ensures customers receive dollar-for-dollar actual tax benefits and keeps the Company whole.[1207] Next, Andrews testifies that if the Commission were to decide to end the deferrals in December 2024, that the end-of-period balances would result in a debit balance (due from customers) of $0.5 million for electric and a credit balance of $2.4 million for natural gas, and require an adjustment to the test period liability balances to reflect the revised ADFIT

[1204] Mullins, Exh. BGM-1T at 36:6-19.

[1205] Mullins, Exh. BGM-1T at 37:7-38:3, 39:14-18.

[1206] Mullins, Exh. BGM-1T at 38:10-11, 39:2-3, 39:5-10.

[1207] Andrews, Exh. EMA-6T at 57:14-19, 71:16-72:1.

level resulting in an increase in rate base of $30.1 million and $11.6 million for electric and natural gas, respectively and by extension the revenue requirement.[1208]

681 Addressing the carrying charge, Andrews contends the customers have received the benefit of lower rate base over the course of the deferral and subsequent amortizations. If the Company did not include the full cost of capital, Avista would be "penalized" for the return on that understated rate base in the amount of $9.7 million.[1209] Further, Andrews argues the treatment, including the return, were presented in its workpapers in both the 2020 and 2022 GRC proceedings. Andrews submits that no party contested those calculations during either rate case and subsequently, the Commission approved that treatment through its final orders in those proceedings.[1210]

682 Finally, while Avista proposes to continue the current deferred accounting treatment, Andrews offers that if the Commission prefers to end the Customer Tax Credit deferred accounting that it allows the Company to do so in the next GRC. Andrews argues this will allow the Company to fully account for this change.[1211]

Parties' Briefs

AWEC

683 In its brief, AWEC notes that "the remaining balances due to customers, at least based on Avista's calculation, will decline effectively to zero by December 31, 2024."[1212] AWEC agrees with Avista's calculation of associated accumulated deferred income taxes. However, AWEC opposes the perpetual deferral of the annual impacts of the flow-through accounting.[1213] Instead, AWEC recommends to the Commission that the associated flow-through benefits be considered in base rate revenue requirement, which AWEC contends would be consistent with the accounting application approved by the Commission in Dockets UE-200895/UG-20089. [1214] AWEC challenges Avista's characterization of its

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[1208] Andrews, Exh. EMA-6T at 58:13. Andrews notes correcting AWECs balances results in an increase to Mullins revenue requirement by $2.8 million and $1.1 million for electric and natural gas, respectively. Andrews, Exh. EMA-6T at 58:13-15.

[1209] Andrews, Exh. EMA-6T at 67:6-10, 68:6-8, 70:6-12.

[1210] Andrews, Exh. EMA-6T at 72:9-73:10.

[1211] Andrews, Exh. EMA-6T at 60:7-12.

[1212] *WUTC v. Avista Corp.*, Dockets 240006 & 240007, AWEC's Post-Hearing Brief ¶ 59 (Oct. 28, 2024).

[1213] AWEC's Post-Hearing Brief, at ¶ 60.

[1214] AWEC's Post-Hearing Brief, at ¶ 61.

accounting application. [1215] Further, AWEC notes how this process did not result in benefits to ratepayers in 2024.[1216]

Avista

684 In its brief, Avista reiterates its opposition to AWEC's proposal that Avista transition fully to flow-through accounting of its 2025 estimated tax deductions associated with IDD#5 and meter expenditures.[1217] Avista emphasizes that the process is to the benefit of customers, citing to the $3.4 million saved over 2022 and 2023.[1218] At bottom, Avista contends that the current "accounting for these tax credits has kept customers whole – returning no more, no less owed them."[1219]

Decision

685 We acknowledge AWEC's point that extending these deferrals in perpetuity would be inappropriate. However, we are not persuaded that a change is necessary at this time. Therefore, we reject AWEC's proposal to immediately end the deferral and eliminate the carrying charge. Instead, we accept Avista's alternative proposal to end the deferral in Avista's 2026 general rate case.

Electric and Natural Gas Adjustments (3.03) Pro Forma EDIT Reverse South Georgia Method (RSGM) Expense

686 Briefly, we turn to the issue Avista presented related to the Electric and Natural Gas Adjustments (3.03) Pro Forma EDIT RSGM Expense. The Company's proposed adjustment revises the Company's test year Excess Deferred Income Tax (EDIT) expense levels for a change in its method of accounting for the reversal of long-term tax benefits from the Average Rate Assumption Model (ARAM) to the RSGM. Andrews provides supporting documentation in Exh. EMA-4 to justify the accounting change. The exhibit contains an internal memo that recognizes an inadvertent error related to cost of removal that was not properly accounted for as required by the IRS. This adjustment increases the RY1 electric and natural gas revenue requirement by $122,000 and $181,000,

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[1215] AWEC's Post-Hearing Brief, at ¶ 62.

[1216] AWEC's Post-Hearing Brief, at ¶ 64.

[1217] Avista's Post-Hearing Brief, at ¶ 115.

[1218] Avista's Post-Hearing Brief, at ¶ 116.

[1219] Avista's Post-Hearing Brief, at ¶ 117.

respectively; with an incremental increase of approximately $1 million for electric in RY2 associated with removing Colstrip EDIT from base rates on January 1, 2026.[1220]

Decision

687 We note that no party has contested this adjustment. However, as the reversal of protected EDIT was addressed in the Company's 2017 GRC and the Commission specifically ordered the use of ARAM, the Commission addresses the change in accounting methodology for the record in this proceeding. Furthermore, the Tax Cut and Jobs Act (TCJA) of 2017 required that protected EDIT be returned due to the change in corporate tax rate.[1221] While ARAM is the most common methodology, when certain information is not known (e.g., the age of assets) then the RSGM may be utilized to avoid violating the normalization rules and passing back EDIT more rapidly or to a greater extent than under the ARAM.

688 The Commission has reviewed Avista's testimony and supporting documentation filed in this proceeding and is satisfied that the Company is required by law to change the method of accounting. Additionally, changing the methodology in this proceeding avoids a violation of the Safe Harbor provision that allows a Company to change its methodology at its next available opportunity. Accordingly, the Commission accepts the Company's change in accounting methodology.

Misc. Restating Non-Utility/Non-Recurring Expenses

AWEC's Response Testimony

689 Witness Mullins recommends the Commission remove two cost items as non-recurring: (1) wildfire litigation, and (2) patent and patent application costs. Mullins rationale is simply that wildfire litigation is not an ongoing expense, and that the Company has a history of developing venture corporations, and therefore, customers should not bear the burden of those costs.[1222]

[1220] Andrews, Exh. EMA-1T at 14:15-15:7.

[1221] Tax Cuts and Jobs Act (TCJA, P.L. 115-97).

[1222] Mullins, Exh. BGM-1T at 34:3-12.

Avista Rebuttal Testimony

690 Company witness Schultz responds to AWEC's recommendations regarding the non-utility/non-recurring restating adjustment.[1223] First, Schultz testifies that the Company does not include any patent-related costs that are non-utility or related to a subsidiary. To the contrary, Schultz argues that Avista pursues innovation and protects those pursuits through patents providing several project examples such as the Company's Digital Exchange Platform, real time optimization of Avista hydro facilities, an invention to facilitate load disaggregation, and enhanced outage management and electric operations.[1224]

691 Second, witness Schultz argues that the Company must maintain some level of legal expense for a variety of categories, with wildfire litigation being a continuing expense and normal course of business given the nature of those cases. Schultz provides four examples of wildfire litigation that occurred in the historical period and are expected to continue through the rate plan period.[1225] Further, Schultz contends it is in the best interest of the Company and its customers that Avista "defend its interests and pursue those rights…."[1226]

Parties' Briefs

Avista

692 In its briefing, Avista rejects AWEC's characterization of legal and wildfire litigation costs as "non-recurring." [1227] Avista explains that in the normal course of business, the company becomes involved in "various claims, controversies, disputes and other contingent matters, including wildfire litigation." In fact, Avista contends that it "has been conservative and understated legal expenses in this case." [1228] In support of this, Avista explains that the requested legal expenses are lower than the level actually experienced in 2023.

[1223] The Company did make a correction to this adjustment to exclude a single invoice as non-utility. This correction lowered the revenue requirement by $2,000 for electric and $1,000 for natural gas. Schultz, Exh. KJS-5T at 25:10-17.

[1224] Schultz, Exh. KJS-5T at 36:14-21.

[1225] Schultz, Exh. KJS-5T at 37:25-38:7.

[1226] Schultz, Exh. KJS-5T at 38:10.

[1227] Avista's Post-Hearing Brief, at ¶ 98.

[1228] Avista's Post-Hearing Brief, at fn. 130.

AWEC

693 In its briefing, AWEC continues to recommend that the Commission adjust Avista's revenue requirement to remove non-recurring legal expenses incurred in the test period.[1229] AWEC argues that the Company's list of incidents amount to "Specific, discrete cases that will most certainly conclude."[1230] AWEC rejects the normalization of such costs and requests that they be excluded from rates. AWEC goes on to state that the patents do not provide a benefit to ratepayers, and thus litigation expense to protect them do not "meet the used and useful standard."[1231] In support of this, AWEC proffers that a competing utility's infringement of Avista's patent does not harm ratepayers.

Decision – Litigation Costs

694 We reject AWEC's proposed adjustment to remove wildfire and patent litigation expenses as non-recurring. Litigation costs generally are part of the cost of doing business. However, we note that costs may become unreasonable, at which point such costs would be excluded from rates.

Miscellaneous Pro Forma Adjustments – Non-Executive Labor, Employee Benefits, and Incentive Pay Pro Forma Labor, Non-Executive Adjustments

Avista's Direct Testimony

695 Avista Pro Forma Adjustment 3.05 proposes increases in base pay for non-executive Union and non-Union employees.[1232] This base pay reflects a portion of Avista employees' total compensation package, which also includes pay-at-risk incentives (see Pro Forma Incentives Adjustment 3.08), which aim to "provide competitive compensation in the marketplace."[1233] Avista witness Schultz states that base pay levels are determined through consultation with third-party firms that compare Avista's compensation levels with other organizations in the utility industry, and other industries regionally and nationally.[1234]

[1229] AWEC's Post-Hearing Brief, at ¶ 100.

[1230] AWEC's Post-Hearing Brief, at ¶ 101.

[1231] AWEC's Post-Hearing Brief, at ¶102.

[1232] Schultz, Exh. KJS-1T at 56:3 and 57:5-7.

[1233] Schultz, Exh. KJS-1T at 56:3-6.

[1234] Schultz, Exh. KJS-1T at 56:9-11.

Based on these surveys, salary recommendations are presented to the independent Compensation Committee of the Board of Directors, for consideration and approval.[1235]

696 Specifically, Avista's non-executive non-Union base pay adjustment annualizes the impact of the actual pay increases effective March of 2023, and include expected increases for March 2024,[1236] and a final increase for non-Union employees that its Board will approve in the first quarter of 2024."[1237] Avista also included an estimated prorated March 2025 increase for total labor expense levels in RY1.[1238]

697 For Union employees, Avista proposes an increase to annualize the effect of the 3.5 percent increase that occurred in 2023, and notes that the Company is currently negotiating 2024 merit increases, which it expects will be finalized during the pendency of the case.[1239] In lieu of final amounts which will be available upon ratification of its Union contract, Avista proposes that its estimated merit increases for 2024 and 2025, be consistent for its non-Union employees.[1240]

698 The effect of this adjustment is an expense increase, resulting in a decrease in Net Operating Income (NOI) of approximately $5.2 million (WA Electric) and $1.4 million (WA Natural Gas).[1241]

699 Avista's related adjustment for RY2, Pro Forma Adjustment 5.02, reflects incremental increases in Union and non-Union wages and salaries for 2026,[1242] the Company's adjustment annualizes its estimated 2025 wage increases and includes the prorated salary increases expected in March 2026 for both Union and non-Union employees.[1243] The effect of this adjustment would in turn result in a decrease in NOI of approximately $2.1 million (WA Electric) and $0.6 million (WA Natural Gas).[1244]

[1235] Schultz, Exh. KJS-1T at 56:20 – 57: 3.

[1236] Schultz, Exh. KJS-1T at 57:8-9.

[1237] Schultz, Exh. KJS-1T at 57:8-13.

[1238] Schultz, Exh. KJS-1T at 57:13-15.

[1239] Schultz, Exh. KJS-1T at 57:16-21.

[1240] Schultz, Exh. KJS-1T at 57: 19-20.

[1241] Schultz, Exh. KJS-1T at 58:1-3.

[1242] Schultz, Exh. KJS-1T at 92:3-6.

[1243] Schultz, Exh. KJS-1T at 92:6-9.

[1244] Schultz, Exh. KJS-1T at 92:9-10.

Staff's Response Testimony

700 Staff contests Avista Pro Forma Adjustment 3.05, on the basis that Avista's adjustment uses estimated wage increases for its Union and non-Union employees for 2024 and 2025, which are not known and measurable.[1245] Staff witness Hillstead contends that the amounts used in Avista's pro forma adjustment for non-Union employees differ slightly from the wage increases approved by Avista's Board of Directors for March 1, 2024 and March 1, 2025, which were approved after Avista's initial filing.[1246] Accordingly, Staff proposes a pro forma adjustment reflecting the actual approved non-Union wage increases for 2024 and 2025.[1247]

701 Regarding base pay increases for Union employees, Hillstead notes that the Union increases for 2024 and 2025 cannot be quantified, as the contract has not yet been ratified.[1248] Pending finalization of the contract, Staff proposes removal of Avista's proposed Union pay increases for 2024 and 2025, but states that they would support inclusion of these amounts should those costs become known and measurable on rebuttal.[1249]

702 In total, Staff's proposed adjustment would result in a revenue requirement reduction of approximately $1.85 million (Combined WA Electric and WA Natural Gas) in RY1.[1250]

Avista's Rebuttal Testimony

703 On rebuttal, Schultz explains that Avista came to agreement with the Union and ratified the contract on July 31, 2024, granting a 5 percent merit increase effective March 2024, which will be retroactively paid, and a 5 percent increase effective March of 2025.[1251] Avista initially estimated and based its pro forma adjustment on a 4 percent merit increase for both 2024 and 2025,[1252] and then updated the adjustment, which resulted in an expense

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[1245] Hillstead, Exh. KMH-1T at 11:10-18.

[1246] Hillstead, Exh. KMH-1T at 12:2-6. *See also* Hillstead, Exh. KMH-6C.

[1247] Hillstead, Exh. KMH-1T at 12:7-8.

[1248] Hillstead, Exh. KMH-1T at 12:9-11.

[1249] Hillstead, Exh. KMH-1T at 12:14-17.

[1250] Hillstead, Exh. KMH-1T at 10:1 (Table 3 – Impact of Contested Adjustments on NOI and Revenue Requirement).

[1251] Shultz, Exh. KJS-5T at 40:15 – 41:6.

[1252] Shultz, Exh. KJS-5T at 41:9-10.

increase from the Union employee portion of its initial proposal of $417,000 (WA Electric) and $126,000 (WA Natural Gas).[1253]

704 Regarding the non-Union portion of its pro forma adjustment, Schultz notes that Staff has accepted and incorporated the Board approved pay increase in its adjustment, which results in a reduction in expense of approximately $338,000 (WA Electric) and $89,000 (WA Natural Gas) when compared to the non-Union portion of Avista's initial proposal.

705 Schultz notes Staff's silence on its RY2 Pro Forma Adjustment (5.02), as Staff does not support a multi-year rate plan (MYRP).[1254] The Company has included in this adjustment, a 3 percent merit increase for 2026 for both Union and non-Union employees, which represents the minimum increase approved by the Board for its non-represented employees.[1255] The Company argues that it is appropriate to apply this increase to its Union employees as well, as "the bargaining unit typically will not accept a merit increase less than that of non-Union employees," and notes that over the past five years, Union merit increases have exceeded the Board approved minimums.[1256] When compared to Avista's as-filed adjustment, Avista's revised proposal would increase its RY1 expense slightly, by $80,000 (WA Electric) and by $37,000 (WA Natural Gas), and would reduce expense in RY2 by $541,000 (WA Electric) and by $147,000 (WA Natural Gas).[1257]

Decision - Pro Forma Labor and Non-Executive Adjustments

706 We accept Avista's Pro Forma Adjustments 3.05 and 5.02, as revised on rebuttal. Avista's revised adjustments appropriately reflect the Union wage increase that became effective July 31, 2024, which granted a 5 percent merit increase effective March 2024, and a 5 percent increase effective March of 2025. Avista's revised adjustments also incorporate a reduction from its initial proposal to its non-Union wage increase, which was approved by the Board after the Company's initial filing. For RY2 the Company's adjustment includes a 3 percent merit increase for both Union and non-Union employees, based on the Board approved minimum. Staff indicated its support for the use of the Board approved minimum in RY2 during the evidentiary hearing.[1258]

[1253] Shultz, Exh. KJS-5T at 41:13-17.

[1254] Shultz, Exh. KJS-5T at 40:1-2.

[1255] Shultz, Exh. KJS-5T at 42:13-14.

[1256] Shultz, Exh. KJS-5T at 42:12 – 43:8.

[1257] Shultz, Exh. KJS-5T at 40:3-9.

[1258] TR at 408:10 – 409:2.

Pro Forma Employee Benefits

Avista's Direct Testimony

707 Avista proposes Pro Forma Adjustment 3.07 which adjusts its test year retirement plan expenses and medical insurance expenses for active and retired employees to the amounts expected in RY1.[1259] Avista calculates its adjustment based on estimates determined annually by Willis Towers Watson, an independent actuarial company which deals with Avista's retirement plan, and by Mercer, which deals with its medical plans.[1260]

708 Regarding the retirement portion of its adjustment, the Company included only its test year level of actual pension expense but plans to update its adjustment to reflect a prorated amount for RY1 based on an updated actuarial report expected in first quarter of 2024.[1261] Avista witness Schultz notes that the Company has made changes to its overall retirement plan, and proposes an increase consistent with its proposed labor increases prorated for the rate effective period, resulting in an increase in 401(k) expense of $749,000 (Total System).[1262]

709 Schultz notes that Avista has closed its defined benefit pension plan to all non-Union employees as of January 1, 2024, and for Union employees effective January 1, 2024, and a defined contribution 401(k) plan replaced the defined benefit pension plan for employees hired after these cutoff dates.[1263]

710 Schultz also discusses Avista's pension settlement and related amortization, which is a component of its adjustment, and was authorized for a 12-year amortization beginning January 1, 2023, as approved in Avista's last rate case.[1264] Schultz notes that the test year contained six months of this amortization, and Avista proposes to annualize this amount within its pro forma adjustment.[1265]

[1259] Shultz, Exh. KJS-5T at 59:3-6.

[1260] Shultz, Exh. KJS-5T at 59:6-8.

[1261] Shultz, Exh. KJS-5T at 60:15-19.

[1262] Shultz, Exh. KJS-5T at 61:2-5.

[1263] Shultz, Exh. KJS-5T at 61: 9-18.

[1264] Shultz, Exh. KJS-5T at 62: 13-20.

[1265] Shultz, Exh. KJS-5T at 62: 20 – 63: 1.

711 Regarding the medical benefits contained in its adjustment, Avista similarly plans to update its adjustment based on updates from its consultant that it expects to receive in the first quarter of 2024 and will adjust its medical expense once received.[1266]

712 Pro Forma Adjustment 5.03 represents the RY2 portion of Avista's employee benefits expense adjustment.[1267]

AWEC's Response Testimony

713 AWEC disputes Avista's pro forma employee benefits adjustment, and proposes its own adjustment based on an updated actuarial report received in response to a data request.[1268] AWEC witness Mullins argues that the pension and other post-employment benefit costs were materially lower in the updated actuarial report than the values Avista used for its pro forma adjustment.[1269] AWEC argues that Avista did not properly include the full reduction to its benefits expense calculation, as provided through the updated actuarial report, and instead relied on test period expense levels.[1270]

714 AWEC's proposed adjustment would result in a combined reduction in expense of approximately $1.6 million in RY1 and $0.4 million in RY2.[1271]

Public Counsel's Cross-Answer Testimony

715 In cross-answer testimony directed at AWEC witness Mullins, Public Counsel witness M. Garrett adopts Mullins' proposed adjustment.[1272] M. Garrett agrees with Mullins rationale, arguing that "the Company did not include the full reduction in its pension expense on an on-going basis" as reflected in the results of the updated actuarial report.[1273]

[1266] Shultz, Exh. KJS-5T at 64: 4-10.

[1267] Shultz, Exh. KJS-5T at 92: 11-14.

[1268] Mullins, Exh. BGM-1T at 21: 2-3.

[1269] Mullins, Exh. BGM-1T at 21: 6-7.

[1270] Mullins, Exh. BGM-1T at 21: 9-19.

[1271] *See* Mullins, Exh. BGM-1T at 22: 5 (Table 4). Sum of WA Electric and WA Natural Gas impacts.

[1272] M. Garrett, Exh. MEG-9T at 2: 8-10.

[1273] M. Garrett, Exh. MEG-9T at 3: 2-11.

Avista – Rebuttal Testimony

716 Schultz argues that AWEC's adjustment omitted an update to health insurance, post-retirement medical expense, 401(k) expense, as well as the pension amortization expense originally included in the Company's adjustment.[1274] Avista also notes a discrepancy in Mullin's testimony, in which Mullins states that both pension and post-retirement medical expenses were updated per the updated actuary reports, when in fact, Mullins only updated pension expense.[1275] Avista argues that Mullins appears to have chosen only to include the one update that reduced expense, ignoring other components that increased expense.[1276]

717 Schultz argues that Avista has accurately reflected the full effect of the pension settlement and amortization, as well as the updated actuarial report's findings in its adjustment, which has been updated on rebuttal.[1277] Schultz also notes that Mullins has accepted Avista's RY2 adjustment (Pro Forma Adjustment 5.03).[1278] Schultz urges the Commission to reject AWEC's proposal and adopt Avista's revised adjustment, the expense impact of which is shown below:[1279]

Table No. 17 – PF Employee Benefits Expense – As Filed versus Rebuttal

Pro Forma Employee Benefits Expense - As-Filed vs. Rebuttal (Adjs. PF 3.07 & PF 5.03)						
	As-Filed		Rebuttal		Variance	
	RY1 2025	RY2 2026	RY1 2025	RY2 2026	RY1 2025	RY2 2026
WA Electric	$ 131,936	$ 463,696	$ 299,016	$ 164,105	$ 167,080	$ (299,591)
WA Natural Gas	$ 41,764	$ 146,782	$ 94,653	$ 51,947	$ 52,889	$ (94,835)
Total	**$ 173,700**	**$ 610,478**	**$ 393,669**	**$ 216,052**	**$ 219,969**	**$ (394,426)**

Decision

718 We accept Avista's Pro Forma Pension Adjustment 3.07, which the Company revised on rebuttal and AWEC agreed to in briefing. The Commission agrees with Avista that AWEC's originally proposed adjustment improperly excluded updates to health insurance, post-retirement medical expenses, and 401(k) expenses and pension amortization expense

[1274] Schultz, Exh. KJS-5T at 47: 2-5.

[1275] Schultz, Exh. KJS-5T at 47: 9-12.

[1276] Schultz, Exh. KJS-5T at 48: 13-16.

[1277] Schultz, Exh. KJS-5T at 48: 10-11 and 18-19.

[1278] Schultz, Exh. KJS-5T at 48: 21 – 49:2.

[1279] Schultz, Exh. KJS-5T at 29: 10-18 (Table No. 17).

originally included in the Company's adjustment.[1280] Additionally, we accept the updated employee pension and medical insurance expenses based on the updated actuarial reports Avista provided on rebuttal.

Pro Forma Incentives

Avista's Direct Testimony

719 In its Pro Forma Incentive Adjustment 3.08, the Company proposes to deviate from its traditional six-year average methodology, and instead proposes an adjustment based on forecasted incentive payouts, which would result in an expense increase of $1.2 million (WA Electric) and $0.4 million (WA Natural Gas).[1281] Avista witness Schultz argues that the six-year average of actual incentive expense "is simply not representative of the level of incentive expense the Company is forecasted to incur in RY1 (and carrying into RY2)."[1282]

720 Schultz explains that the Company's incentive program, which consists of the non-executive short-term incentive plan (STIP) and the executive STIP, "provide incentives and focus employees on stated goals, while recognizing and rewarding employees for their contributions toward achieving those goals."[1283] The Company has included 100 percent of its non-executive STIP costs and approximately 40 percent of its executive STIP costs (excluding metrics related to earnings per share and non-regulated activity targets).[1284]

Staff's Response Testimony

721 Staff contests Avista's proposed pro forma adjustment to incentive expenses, arguing that the proposed methodology deviates from the previously established six-year average methodology and the Commission's established standard for pro forma adjustments.[1285] Staff witness Hillstead argues that Avista's proposal assumes that the forecasted incentive pay is certain, when it cannot be due to the nature of incentive pay, and can therefore only be known and measurable in retrospect.[1286] Hillstead references Avista's 2017 GRC in

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[1280] Schultz, Exh. KJS-5T at 47:2-5.

[1281] Schultz, Exh. KJS-1T at 65: 1-13.

[1282] Schultz, Exh. KJS-1T at 65: 6-8.

[1283] Schultz, Exh. KJS-1T at 65:22 – 66: 4.

[1284] Schultz, Exh. KJS-1T at 67: 4-6.

[1285] Hillstead, Exh. KMH-1T at 13: 11-18.

[1286] Hillstead, Exh. KMH-1T at 14: 2-6.

which the Company proposed a similar adjustment using budgeted projections.[1287] Hillstead notes that Staff contested this adjustment and proposed using a six-year average of actual incentive payouts as the methodology for its adjustment, which the Company ultimately accepted.[1288]

722 In this case, Staff analyzed the Company's actual incentive distributions between 2017 and 2022, the six years that comprise the six-year average, and found large variations between targeted and actual payouts.[1289] Hillstead states that the Company may be correct in its speculation that incentive payments will be significantly higher than its current six-year average, but argues that the Company will have the opportunity to include these actual payouts as part of the six-year methodology in a future GRC.[1290]

723 Staff recommends full disallowance of Avista's proposed pro forma adjustment and to maintain the level of incentive expenses at the six-year average, as reflected in Avista's Restating Adjustment 2.13.[1291] Staff's proposed disallowance would result in an approximate $1.2 million reduction in total revenue requirement.[1292]

Avista's Rebuttal Testimony

724 Schultz argues that Avista's pro forma incentive adjustment meets the standard of a pro forma adjustment and believes it is appropriate to increase incentive expense beyond the normal six-year average methodology, arguing that its adjustment is more representative of what the Company expects to incur in RY1 and RY2.[1293] Schultz argues that incentive expense is based on a percentage of each individual's salary, and that as these salaries increase each year, incentive expense naturally increases with it.[1294] Schultz notes Staff's acceptance of Avista's pro forma non-executive non-Union labor increases through 2025, and that Staff considers them to be known and measurable, and which are a larger increase than the "conservative levels" the Company is proposing with this adjustment.[1295]

[1287] Hillstead, Exh. KMH-1T at 14: 7-9.

[1288] Hillstead, Exh. KMH-1T at 14: 9-13.

[1289] Hillstead, Exh. KMH-1T at 14: 14-17.

[1290] Hillstead, Exh. KMH-1T at 15: 1-4.

[1291] Hillstead, Exh. KMH-1T at 14: 19-21.

[1292] Hillstead, Exh. KMH-1T at 10:1 (Table 3 – Impact of Contested Adjustments on NOI and Revenue Requirement).

[1293] Schultz, Exh. KJS-5T at 52: 2-8.

[1294] Schultz, Exh. KJS-5T at 52: 11-13.

[1295] Schultz, Exh. KJS-5T at 52: 13-16.

725 Schultz argues that the six-year average methodology understated the amounts "from the get-go, since labor will increase through RY1 and RY2."[1296] Schultz notes that Avista's six-year average payout percentage from 2017-2022 is 95 percent for non-officer and 98% for officers, and that if the Company were to apply these payout percentages to its planned labor increases in 2025 and 2026, the result would be much higher than the "reasonable and conservative" adjustment it proposes here, which is based solely on its expected 2024 incentive payouts.[1297] Schultz argues that it "simply cannot leave a combined $1.6 million of incentive expense unaccounted for and create yet more regulatory lag."[1298] Schultz states that Avisa's incentive compensation is a critical component of its total compensation philosophy necessary to recruit and retain qualified employees, and as such, "customers should have this benefit reflected in their retail rates."[1299]

Decision

726 We agree with Staff on his issue. While Avista's proposed adjustment is based on contracts tied to specific incentives in 2024, Staff correctly points out that the contracts in the record have not been performed. Accordingly, there is no guarantee that those incentive amounts will be paid.[1300]

727 The 2024 expected incentive payments remain pending employee performance on contracts, and thus the amounts remain unknown and unmeasurable. As we have said throughout this order, *pro forma* adjustments generally must meet the known and measurable standard, and not be based on speculation, estimates, or forecasts. The incentive adjustment proposed by Avista is based on estimates and forecasts, and therefore does not meet the known and measurable standard. Avista must continue to use the six-year rolling average methodology with no escalation factor for the incentive adjustment, consistent with the historic known and measurable methodology.

[1296] Schultz, Exh. KJS-5T at 52: 18 – 53: 1.

[1297] Schultz, Exh. KJS-5T at 53: 1-8.

[1298] Schultz, Exh. KJS-5T at 53: 12-13.

[1299] Schultz, Exh. KJS-5T at 53: 13-16.

[1300] *See*, Staff's Post-Hearing Brief, at ¶¶ 104-05.

Miscellaneous Issues

Electric Property Rent

728 AWEC witness Mullins recommends that the Commission adopt a higher level of rent from Electric Property for Avista for RY1, based on revenue growth trends observed in Avista's FERC Account 454 and increased pole costs.[1301] Mullins recommends the Commission increase rent from Electric Property by $2.1 million in RY1. Mullins recommends an increase of $0.2 million in RY2, a rate of growth that is equal to the expected growth in distribution plant. [1302] Public Counsel witness M. Garrett adopts and supports Mullin's adjustment to rents from electric property. [1303]

729 Andrews agrees with Mullins' proposal to include a higher level of rent from Electric Property but does not agree with the magnitude of change AWEC proposed. On rebuttal, Avista includes an additional $0.6 million of electric revenue requirement for RY1 and $0.2 million for RY2.[1304]

730 Andrews disagrees with the rationale Mullins used to calculate the increase in rent from Electric Property in RY1,[1305] and instead uses updated data from a completed audit to project revenue growth for calendar year 2024 to arrive at the $0.6 million increase in Rent from Electric Property in RY1.[1306] Andrews states that Avista adopts the 5.6% growth rate proposed by Mullins for RY2 and calculates an increase of $0.2 million in Rent from Electric Property for RY2. [1307]

731 In briefing, Avista disagrees with AWEC's adjustment proposed in its response testimony, arguing that AWEC's adjustment is based on an atypical, one-time back-billing of joint users for unauthorized attachments.[1308] Avista recommends that the Commission approve the Company's proposed Pro Forma Adjustments AWEC1 (RY1) and AWEC2 (RY2), which have been updated to include more recent data regarding pole attachments,[1309] and

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[1301] Mullins, Exh. BGM-1T at 23:4 – 25:3.

[1302] Mullins, Exh. BGM-1T at 25:4 – 26:1.

[1303] M. Garrett, Exh. MEG-9T at 2:5-11, 4:11-14.

[1304] Andrews, Exh. EMA-6T at 53:5-11.

[1305] Andrews, Exh. EMA-6T at 53:16 – 54:20.

[1306] Andrews, Exh. EMA-6T at 55:1-56:4.

[1307] Andrews, Exh. EMA-6T at 56:5-10.

[1308] Avista's Post-Hearing Brief, at ¶ 114 (citing Mullins, Exh. BGM-1T at 24:9 – 26:1).

[1309] Andrews, Exh. EMA-6T at 53:18 – 55:19.

to reflect incremental joint use revenue from other utilities.[1310] The effect of these adjustments is to increase other electric revenue by $600,000 in RY1 and $200,000 in RY2.[1311]

Decision

732 While Public Counsel continues in brief to urge the Commission to adjust Avista's revenues to reflect AWEC's electric property rental concerns,[1312] AWEC changes its position. After reviewing Avista's rebuttal testimony, AWEC agrees with the revised electric property rental revenue to $600,000 in RY1 and $200,000 in RY2.[1313] Given this resolution of the issue, the Commission accepts the adjustment Avista proposes on rebuttal and to which AWEC agrees, resulting in increases to other electric revenue by $600,000 in RY1 and $200,000 in RY2.[1314] The additional analysis provided on rebuttal to support its revised adjustment is appropriate. The analysis is based on updated, more recent data regarding pole attachments.[1315] Avista also removes one-time back-billing costs from the calculation of revenues related to electric property rents because those costs are unlikely to reoccur during the rate effective period.[1316] Finally, with respect to the anticipated growth rate for RY2, the Commission notes that Avista has adopted Mullins' proposed growth rate proposed.[1317]

Coyote Springs

733 On rebuttal, Avista revised its proposal related to overhaul expenses for Coyote Springs 2. The Company's original request for the recovery of expenses of the Coyote Springs 2 (CS2) overhaul in direct testimony,[1318] required every 32,000 fired-hours, was uncontested by intervening parties.[1319] After the Company filed direct testimony, the Company determined the actual run hours of CS2 have been greater than anticipated and may require the maintenance overhaul to occur in 2025 instead of 2026. To account for this

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[1310] Avista's Post-Hearing Brief, at ¶ 114.

[1311] Avista's Post-Hearing Brief, at ¶ 114.

[1312] Public Counsel's Post-Hearing Brief, at ¶ 102.

[1313] AWEC's Post-Hearing Brief, at ¶ 94 (citing Andrews, Exh. EMA-6T at 7:4-15).

[1314] Andrews, Exh. EMA-6T at 7:4-15; AWEC's Post-Hearing Brief, at ¶ 94 (Oct. 28, 2024).

[1315] Andrews, Exh. EMA-6T at 53:18 – 55:19.

[1316] Andrews, Exh. EMA-6T at 56:1-4.

[1317] Andrews, Exh. EMA-6T at 56:5-10.

[1318] Andrews, Exh. EMA-6T at 47:7 – 53:35.

[1319] Andrews, Exh. EMA-6T at 74:8 – 75:8.

change, the Company requests that the Commission approve the deferral of Washington's share of the actual costs of the overhaul when the overhaul occurs, regardless of if it occurs in 2025 or 2026. The Company is not requesting any other changes to its proposed amortization expense in RY2.[1320]

734 Specifically, Avista requests that the Commission defer the actual Washington share of Coyote Springs 2 major maintenance, with a carrying charge of actual cost of debt on both the deferred balance and during a four-year amortization period. [1321] Avista states that the maintenance will be required in either 2025 or 2026 depending on the usage of Coyote Springs 2 and its proposed amortization period will last from July 2026 to June 2030.[1322] The Commission accepts Avista's uncontested adjustment related to Coyote Springs 2.

Directors' Fees

735 Avista requests a 90/10 split of directors' total compensation between ratepayers and shareholders,[1323] while AWEC and Public Counsel argue that it should be a 50/50 split of cash compensation with a full disallowance of stock compensation.

736 AWEC witness Mullins recommends the Commission allow Avista to recover only 50 percent of directors' fees from ratepayers, and that no stock compensation provided to directors be included in the revenue requirement.[1324] He cites the Commission practice of allowing a 50 percent recovery of directors' fees established in Avista's 2015 general rate case, in Docket UE-150204.[1325] Similarly, Public Counsel witness M. Garrett recommends that the Commission allow Avista to recover 50 percent of directors' fees from ratepayers, and that no stock compensation provided to directors be included in the revenue requirement.[1326] M. Garrett argues that the directors' compensation should come from value that they add through maximizing Avista's long-term earnings, as they represent shareholders and not ratepayers.[1327]

[1320] Andrews, Exh. EMA-6T at 75:9 – 76:16.

[1321] Avista's Post-Hearing Brief, at ¶ 121.

[1322] Avista's Post-Hearing Brief, at ¶ 121.

[1323] *WUTC v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-240006 & UG-240007 (*consolidated*), filed Revisions to Tariff WN U-28 (Electric) and Tariff WN U-29 (Natural Gas) (Jan. 18, 2024).

[1324] Mullins, Exh. BGM-1T at 32:12-17.

[1325] Mullins, Exh. BGM-1T at 31:3-13.

[1326] M. Garrett, Exh. MEG-1T at 27:8-14.

[1327] M. Garrett, Exh. MEG-1T at 27:14 – 28:6.

737 In rebuttal and on brief, Avista rejects the recommendation from AWEC and Public Counsel. Avista argues that the Company's structure has changed significantly since the Commission established a 50/50 split between shareholders and customers as part of the general rate case in Dockets UE-090134 & UG-090135, and that the Company has divested from other interests and is now comprised almost entirely of utility operations.[1328] Schultz also argues that the complex regulatory environment in which the Company operates further justifies increased recovery of directors' fees from ratepayers.[1329]

738 Schultz also claims that the Commission has never excluded director stock compensation specifically from rates. Schultz explains that the overall compensation given to directors is a mix of cash and stock subject to the preference of each director, and that the overall value of the compensation is recorded to FERC Account 930.2.[1330]

739 On briefing, AWEC argues that Avista's request to recover 90 percent of its directors' fees from ratepayers is contrary to the Commission's precedent of splitting the recovery equally between ratepayers and shareholders.[1331] AWEC maintains that an equal division of directors' fees between ratepayers and shareholders is appropriate because directors prioritize the interests of shareholders in the event of a conflict between shareholders' and ratepayers' interests.[1332] AWEC further notes that in Avista's 2009 general rate case, the Commission determined that the Board of Directors provided services that benefited ratepayers to the same extent as it benefited shareholders without relying on the time directors spent on utility activities rather than non-utility activities.[1333] Additionally, AWEC contends that even acknowledging that utility operations have become more complex over time, Avista has not demonstrated that the skills necessary for complex operations provide additional benefits to ratepayers relative to shareholders.[1334] As such, AWEC recommends that the Commission continue to allocate director cash compensation equally between ratepayers and shareholders.

740 As to director stock compensation, AWEC requests that the Commission disallow the portion of directors' fees associated with stock compensation because the purpose of stock

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[1328] Avista's Post-Hearing Brief, at ¶ 107, fn. 148.

[1329] Schultz, Exh. KJS-5T at 55:10 – 58:3.

[1330] Schultz, Exh. KJS-5T at 58:4-17.

[1331] AWEC's Post-Hearing Brief, at ¶ 89.

[1332] AWEC's Post-Hearing Brief, at ¶ 89.

[1333] AWEC's Post-Hearing Brief, at ¶ 90.

[1334] AWEC's Post-Hearing Brief, at ¶ 90.

compensation is to align directors' interests with those of shareholders.[1335] Furthermore, AWEC contends that providing stock compensation to directors results in a dilution of shareholder equity, which is not a cost that is includable in a revenue requirement calculation and should be excluded from the revenue requirement.[1336]

741 Public Counsel argues that the Commission should only allow Avista to recover 50 percent of the cash compensation of its Avista's Board of Directors from ratepayers and to wholly preclude recovery of the Board of Directors' stock-based compensation.[1337] Public Counsel maintains that investor-owned utility directors and officers are biased toward their shareholders' interests, as these executives owe a fiduciary duty to their shareholders, but not toward ratepayers.[1338] Public Counsel suggests that, as a result of the tension between maximizing shareholder value and maintain low rates, as well the high level of Avista's executive compensation relative to publicly-owned utility executives, it is reasonable for ratepayers and shareholders to each bear 50 percent of the cost associated with director-level compensation.[1339] Public Counsel further contends that because the primary value of Avista's Board of Directors is to the shareholders, a focus on shareholder value is inappropriate in the context of regulated monopoly, and that the Board of Directors must prioritize maximizing public value.[1340]

742 Turning to Avista's D&O liability insurance, Public Counsel states that while such insurance is useful in attracting and retaining effective management personnel, other jurisdictions have authorized an equal division of insurance related expenses between ratepayers and shareholders.[1341] Public Counsel maintains that the main beneficiary of these insurance policies are shareholders and losses to the ratepayer are not compensable, as payments from these policies only go to Avista, and that the benefits of attracting qualified managers are ancillary to this benefit.[1342] Consequently, Public Counsel argues that the Commission should only allow Avista to recover 50 percent of its D&O liability insurance costs from ratepayers.

[1335] AWEC's Post-Hearing Brief, at ¶ 91.

[1336] AWEC's Post-Hearing Brief, at ¶ 92.

[1337] Public Counsel's Post-Hearing Brief, at ¶ 104.

[1338] Public Counsel's Post-Hearing Brief, at ¶ 105.

[1339] Public Counsel's Post-Hearing Brief, at ¶ 105.

[1340] Public Counsel's Post-Hearing Brief, at ¶ 105.

[1341] Public Counsel's Post-Hearing Brief, at ¶ 106.

[1342] Public Counsel's Post-Hearing Brief, at ¶ 106.

Decision

743 The Commission authorizes Avista to recover 90 percent of its D&O liability insurance for recovery through rates. Inclusion of this amount is consistent with Commission precedent established in Avista's 2009 general rate case and is a reasonable component of executive benefits intended to attract and retain qualified officers and directors.[1343] While both AWEC and Public Counsel note that other state regulators have allocated D&O liability insurance equally between shareholders and ratepayers or required ratepayers to bear less of the costs than shareholders, the Commission addressed this issue in Avista's 2009 GRC.[1344] As in that proceeding, those decisions offer limited insight into how to allocate insurance costs in the context of this proceeding, and only represent a small subset of other state regulatory jurisdictions.[1345] Furthermore, the Commission disagrees with Public Counsel's assertion that D&O insurance provides no benefit to ratepayers, as the insurance will shield ratepayers from financial harm in the event of shareholder litigation against Avista's Board of Directors. Consequently, the Commission is not persuaded that it should alter its precedent with respect to the allocation of D&O liability insurance in this case.

744 Turning to the issue of directors' fees, and the Commission rejects Avista's proposal to increase the recovery of directors' fees from ratepayers from 50 percent to 90 percent. According to Avista, the directors' allocation of time on utility vs. non-utility activities demonstrate that the directors' activities predominantly benefit ratepayers, such that it is appropriate for ratepayers to bear a larger proportion of directors' fees.[1346] However, the allocation of director time to utility functions does not necessarily imply that the function is for the benefit of ratepayers, because a director's fiduciary duties to shareholders may result in a director taking utility action that is to the benefit of shareholders, but not ratepayers. As such, the Commission does not find that the allocation of director time and the complexity of utility operation support changing Commission precedent with respect to the allocation of directors' fees. Absent further evidence and argument as to why the Commission should modify its precedent, the Commission will continue to allow 50 percent of directors' fees to be recovered from ratepayers.[1347]

[1343] *WUTC v. Avista Corp.*, Dockets UE-090134, UG-090135, & UG-060518, Order 10, 56-57 ¶ 137 (Dec. 22, 2009).

[1344] *WUTC v. Avista Corp.*, Dockets UE-090134, UG-090135, & UG-060518, Order 10, 56 ¶ 136 (Dec. 22, 2009).

[1345] *WUTC v. Avista Corp.*, Dockets UE-090134, UG-090135, & UG-060518, Order 10, 56 ¶ 136 (Dec. 22, 2009).

[1346] Avista's Post-Hearing Brief, at ¶ 109.

[1347] *WUTC v. Avista Corp.*, Dockets UE-150204 & UG-150205, Order 5, 76 ¶ 220 (Jan. 6, 2016).

745 The Commission also rejects Public Counsel and AWEC's request to exclude stock compensation from the recovery of directors' fees from ratepayers. Assuming without deciding that stock compensation is solely intended to incentivize directors to prioritize the interests of shareholders over ratepayers, this consideration alone does not demonstrate that stock compensation provides no benefit to ratepayers because, as witness Mullins points out, shareholder interests may overlap with ratepayer interests.[1348] In these circumstances, director activities can be characterized as providing a benefit to ratepayers. Furthermore, as Avista points out, the Commission has not previously excluded stock compensation from director compensation in past rate cases and stock compensation is recorded as a utility expense.[1349] Consequently, the Commission declines to entirely preclude the recovery of stock compensation to directors from ratepayers based on the record in this case.

Labor - Executive (3.06 Pro Forma Labor Exec)

746 Public Counsel witness M. Garrett recommends that ratepayers should be responsible for test year salaries of Avista's executives, but that shareholders should pay for the proposed payroll escalations contained in Avista's pro forma adjustment. M. Garrett's recommendation reduces electric O&M expense by $60,000, and the gas O&M expense by $19,000.[1350]

747 M. Garrett justifies this position by stating that investor-owned utility (IOU) executive salaries are higher than those at consumer-owned utilities (COU) and cooperative utilities, claiming that this difference shows that increased executive salaries are not necessary costs to provide utility service. M. Garrett also suggests that the Commission open an investigatory docket to examine differences in compensation between IOUs, COUs, and cooperative utilities, and require Avista to provide COU and cooperative compensation data in its next GRC.[1351]

748 On rebuttal, Schultz testifies that its Pro Forma Labor Executive adjustment has been updated to remove retired officers and reflect the current estimated breakdown of utility and non-utility responsibilities, 96 percent to ratepayers and 4 percent to shareholders, as well as to include the Board of Director approved labor increases.[1352] On rebuttal, the

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[1348] Mullins, Exh. BGM-1T at 31:16-20.

[1349] Schultz, Exh. KJS-5T at 6-11.

[1350] M. Garrett, Exh. MEG-1T at 9:12-22, M. Garrett, Exh. MEG-4.

[1351] M. Garrett, Exh. MEG-1T at 7:6 – 9:11.

[1352] Schultz, Exh. KJS-5T at 28:6-15.

overall increase of the revenue requirement proposed by Avista above test period levels for RY1 is $115,000 for electric and $37,000 for natural gas.[1353]

749 In response to Public Counsel's criticisms of Avista's pay structure, Schultz argues that a significant portion of executive compensation is linked with goals related to specific items of corporate performance that will likely produce shareholder value, and it is that compensation that is charged to shareholders. Schultz claims that the appropriate amount of compensation for utility activity is charged to ratepayers. Avista rejects Public Counsel's recommendations to remove increased pro-forma executive compensation and for the Commission to require a study comparing executive compensation between IOUs, COUs, and cooperative utilities.

750 Both Avista and Public Counsel continue their arguments on brief. Avista disagrees with Public Counsel's request to decrease director compensation based on the difference between compensation between IOU executives and publicly-owned utility executives.[1354] Avista argues that executive compensation is based on the particular responsibilities of each officer, and divided into utility and non-utility activities.[1355] Avista maintains that an executive compensation survey is unnecessary because Avista completed a compensation survey in Dockets UE-110876 & UG-110877.[1356] Avista further argues that its proposed increases to executive compensation in this case are reasonable relative to similarly sized investor-owned utilities and notes that M. Garrett appears to agree with this assessment.[1357]

751 Public Counsel requests that the Commission require Avista's shareholders pay for the proposed adjustments related to director compensation, resulting in a $60,000 decrease to electric revenue and a $19,000 decrease to gas revenue.[1358] Public Counsel argues that the differences in compensation between publicly-owned utility executives and IOU executives is due to the fact that IOU executives owe dual fiduciary duties to both shareholders and utility customers.[1359] Public Counsel asserts that the difference in pay between investor-owned and publicly-owned executives provides a reasonable estimate of

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[1353] Schultz, Exh. KJS-5T at 28:23-27.

[1354] Avista's Post-Hearing Brief, at ¶¶ 101-02.

[1355] Avista's Post-Hearing Brief, at ¶ 101 (See also, Schultz, Exh. KJS-5T at 44:7-14).

[1356] Avista's Post-Hearing Brief, at ¶ 101, fn. 139.

[1357] Avista's Post-Hearing Brief, at ¶ 102 (see also, M. Garrett, Exh. MEG-1T at 7:8-9).

[1358] Public Counsel's Post-Hearing Brief, at ¶ 103.

[1359] Public Counsel's Post-Hearing Brief, at ¶ 103. Based on arguments presented in further briefing, we understand Public Counsel to mean that Avista' executives do not have fiduciary duties to their ratepayers.

the additional value that IOU executives provide to shareholders, and consequently that Avista's shareholders should bear those costs.[1360] Public Counsel further recommends that the Commission order Avista to conduct an executive salary survey, including compensation data from both publicly-owned and investor-owned utilities.[1361]

Decision

752 We reject Public Counsel's proposed revisions to Adjustment 3.06 and decline to order Avista to perform a compensation survey. As Avista explains, its updated adjustment only includes the portion of executive activity attributable to utility functions (as opposed to non-utility/shareholder functions) and excludes retired officers.[1362] Furthermore, we agree with Avista that IOU executive compensation is not directly comparable to publicly-owned utility executive compensation due to the different responsibilities and relatively greater complexity involved operating an IOU.[1363] Additionally, that Avista's executive compensation appears reasonable relative to other IOU executives supports the conclusion that Avista's proposed executive compensation adjustment is appropriate.[1364] Finally, given that Avista previously performed a compensation survey in Dockets UE-110876 and UG-110877, the Commission declines Public Counsel's request to require an additional compensation survey.

Decoupling

753 Avista witness Anderson proposes to extend the Company's electric and natural gas decoupling mechanisms, without modifications, through calendar year 2026, citing benefits experienced by customers and the Company to date and a lack of adverse impacts.[1365]

754 No party opposes Avista's request. Though the Company requests that the extension continues through 2026,[1366] Staff supports extending decoupling until Avista's next rate case or until the Commission comes to a decision in Docket U-210590. Staff witness Erdahl explains that the Commission is currently evaluating the merits of decoupling

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[1360] Public Counsel's Post-Hearing Brief, at ¶ 103.

[1361] Public Counsel's Post-Hearing Brief, at ¶ 103.

[1362] Schultz, Exh. KJS-5T at 28:7-15, 44:10-14.

[1363] Schultz, Exh. KJS-5T at 46:7-15.

[1364] M. Garrett, Exh. MEG-1T at 7:8-9.

[1365] Anderson, Exh. JCA-1T 15:22 – 25:2.

[1366] Anderson, Exh. JCA-1T 15:24 – 16:1.

mechanisms, and that deciding the matter here would be premature.[1367] AWEC also supports Avista's proposal to continue its revenue decoupling mechanisms during the multi-year rate plan.[1368]

755 Similarly, NWEC supports Avista's proposal to continue the revenue decoupling mechanisms for the term of the MYRP. Witness McCloy clarifies that the transitions of performance-based ratemaking and electrification may warrant a discussion to modernize the mechanism.[1369]

756 While TEP does not comment on Avista's proposal to extend its decoupling mechanism through 2025, Stokes does comment on Avista's proposal to discontinue its Quarterly Decoupling Report. If the Commission allows the Company to discontinue its Quarterly Decoupling Reports, it recommends that the relevant information from those reports should be included in all future annual adjustment filings.[1370] NWEC supports TEPs request, stating that all Quarterly Decoupling Report information should be included in a consolidated, accessible manner in future decoupling rate adjustment filings.[1371]

757 On rebuttal, witness Bonfield accepts witness Stokes' recommendation, stating that "the Company will make sure all information from the quarterly reports is included in all future annual adjustment filings."[1372] Avista requests that the Commission approve the Company's request to extend its current electric and natural gas decoupling mechanisms through the multi-year rate plan until the end December 31, 2026 as uncontested by the Parties.[1373]

Decision

758 The Commission accepts Avista's proposal to continue its decoupling mechanism during its MYRP. The Commission anticipates that further discussion of whether to remove or modify the mechanisms will occur during Avista's next general rate case or in the context of Docket U-210590.

[1367] Erdahl, Exh. BAE-1T 33:12 – 34:2

[1368] AWEC's Post-Hearing Brief, at ¶ 59.

[1369] McCloy, Exh. LM-1T 14:4 – 15:2

[1370] Stokes, Exh. SNS-1T 40:17 – 42:4

[1371] Thompson, Exh. CT-4T 11:18 – 12:11.

[1372] Bonfield, Exh. SJB-5T 44:10-21

[1373] Avista's Post-Hearing Brief, at ¶ 124.

Pro Forma Miscellaneous O&M Adjustment

Avista's Direct Testimony

759 This adjustment reflects escalated increases in certain Company operations and maintenance (O&M) and administrative and general (A&G) expenses, from the historical test year ending June 30, 2023, through RY1, not otherwise pro formed within the Company's electric or natural gas Pro Forma Studies.[1374] The Company applied an annual escalation rate of 6.3 percent for electric and 4.57 percent for natural gas operations by FERC account to certain O&M and A&G annual test period balances as of June 30, 2023, through December 2025 (or 2.5 years).[1375]

760 This adjustment increases RY1 Washington expenses by $8,876,000 for electric and $1,634,000 for natural gas and decreases RY1 Washington NOI by $7,012,000 for electric and $1,291,000 for natural gas.[1376]

761 For RY2, Avista proposes Pro Forma Miscellaneous O&M Expense to reflect escalated increases in certain Company O&M and A&G expenses, to reflect incremental expenses in RY2, beyond RY1 levels, effective December 2025, through December 2026, not otherwise pro formed within the Company's electric or natural gas Pro Forma Studies.[1377] The Company applied the same escalation growth rate used in RY1 of 6.3 percent for electric and 4.57 percent for natural gas operations to escalate RY2 amounts above RY1 levels.[1378]

762 This adjustment increases RY2 Washington expenses by $3,550,000 for electric and $653,000 for natural gas and decreases RY2 Washington NOI by $2,805,000 for electric and $516,000 for natural gas.[1379]

AWEC's Response Testimony

763 AWEC contends that Avista's proposal to apply annual escalation factors of 6.30 percent for electric services and 4.57 percent for gas services to the Historical Period non-labor

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[1374] Schultz, Exh. KJS-1T at 72:1-4.

[1375] Schultz, Exh. KJS-1T at 72:4-7.

[1376] Schultz, Exh. KJS-1T at 72:15-17.

[1377] Andrews, Exh. AMM-1T at 12:4-8.

[1378] Andrews, Exh. AMM-1T at 12:8-11.

[1379] Andrews, Exh. AMM-1T at 12:11-13.

O&M results is concerning as the escalation percentages are well above expected inflation over the rate plan period.[1380]

764 AWEC argues that the trend Avista used was based on total O&M expense, excluding power supply costs, not on non-labor O&M expense.[1381] AWEC argues that the percentages that Avista calculated are not representative of an escalation factor that reasonably can be applied to non-labor O&M expense.[1382]

765 AWEC witness Mullins asserts that Avista's operating expenses for electric services actually declined by 2.39 percent in 2023 and natural gas non-labor O&M expense declined by 3.3 percent.[1383] Given these reductions and AWEC's experience in the 2022 GRC, Mullins questions the veracity of what Mullins describes as aggressive non-labor O&M escalation assumptions included in Avista's filing.[1384]

766 AWEC recommends including no rate escalation in RY 1, and a modest inflationary escalator for RY 2. The inflationary adjustment AWEC recommends for RY 2 is 2.3 percent, which represents the mid-point Personal Consumption Expenditures inflation forecast of the Federal Reserve, Federal Open Market Committee.[1385]

Public Counsel's Response Testimony

767 Public Counsel witness M. Garrett states that Avista's annual escalation rates substantially overstate current inflation expectations through 2026.[1386] Instead, M. Garrett calculated an annual rate of 2.5 percent as a more reasonable inflation expectation through 2026 for the Company's electric and gas operations.[1387]

768 According to Public Counsel, adjusting the electric utility's O&M escalation rate to 2.5 percent reduces the revenue requirement by $5.624 million for RY1 and by an additional $2.249 million for RY2.[1388] Public Counsel also testifies that the adjustments to reduce the

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[1380] Mullins, Exh. BGM-1T at 15:10-12.

[1381] Mullins, Exh. BGM-1T at 16:2-3.

[1382] Mullins, Exh. BGM-1T at 16:5-7.

[1383] Mullins, Exh. BGM-1T at 19:5-6.

[1384] Mullins, Exh. BGM-1T at 19:6-9.

[1385] Mullins, Exh. BGM-1T at 19:17-20.

[1386] M. Garrett, Exh. MEG-1T at 11:4-5.

[1387] M. Garrett, Exh. MEG-1T at 12:3-4.

[1388] M. Garrett, Exh. MEG-1T at 14:28-29 and at 15:1-2.

gas utility's O&M escalation rate to 2.5 percent reduce the revenue requirement $778 thousand for RY1 and an additional $170 thousand for RY2.[1389]

Staff's Response Testimony

769 Staff contends that Avista's adjustment does not meet the Commission's standard of a pro forma adjustment because the escalated increase is not known nor is it measurable. In addition, the changes in the adjusted O&M expenses had significant fluctuations between 2018 and 2023.[1390]

770 Because the Company failed to provide evidence that the O&M expenses will escalate at the level proposed in the rate year, Staff recommends including only the incremental known and measurable 2023 O&M expenses not already included in the Company's test year, and to disallow any escalation component.[1391]

Avista's Rebuttal Testimony

771 The Company modified its Pro Forma Miscellaneous O&M Adjustments 3.14 and 5.06, in response to Public Counsel data request, PC-DR-297. This modification was intended to reflect actual known changes in expense through end of 12 months ending in December 2023 (12ME December 2023), above the test period expense, which ended in June 2023 (12ME 6.2023). The Company also revised its annual historical O&M growth average to include 2023 results (2019-2023), resulting in escalation growth rates of 4.57 percent for electric and 4.28 percent for natural gas, above the actual results for the twelve-month test year ending December 2023 (12ME 12.2023).[1392]

772 Witness Andrews further states that updating Avista's actual results to reflect known and measurable increases in the specific O&M and A&G expenses as of 12ME 12.2023 produces an increase in actual electric O&M /A&G expense of $5.9 million above test period levels, and shows a reduction in actual natural gas O&M / A&G expense of $468,000.[1393]

773 Avista explains that if it were simply to support revised values for these expenses at 12ME 12.2023, for electric operations, Avista's electric pro forma Adjustment 3.14 would drop

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[1389] M. Garrett, Exh. MEG-1T at 15:5-7.

[1390] Hillstead, Exh. KMH-1T at 16:7-10.

[1391] Hillstead, Exh. KMH-1T at 16:13-16.

[1392] Andrews, Exh. EMA-6T at 39:10-15.

[1393] Andrews, Exh. EMA-6T at 39:16-19.

by $3.0 million, from a level of $8.9 million to $5.9 million. For natural gas, Avista's pro forma Adjustment 3.14 would drop by $2.1 million, from an increase of $1.6 million to a decrease of $0.5 million.[1394]

774 Additionally, the Company states that it now supports Public Counsel's proposed inflationary rate of 2.5 percent annually through 2026.[1395]

775 With respect to Pro Forma Adjustments 3.14 and 5.06, Avista argues that the Commission should approve its revised escalation adjustments from its rebuttal testimony that incorporate both updated expenses from the 2023 test period and a 2.5 percent growth rate as proposed by Public Counsel witness M. Garrett in RY 1 and RY 2.[1396] The result of these changes on rebuttal to Avista's electric and natural gas revenue requirement in RY1, is an increase of $143,000 for electric, and a reduction of $1.5 million for natural gas.[1397] For RY2, these changes reduce the Company's electric and natural gas revenue requirements by $2.1 million for electric and $323,000 for natural gas.[1398]

Decision

776 The Commission authorizes a 2.5 percent escalation adjustment for Avista's Pro Forma Adjustments 3.14 (RY1) and 5.06 (RY2), as originally proposed by Public Counsel witness M. Garrett.[1399]

777 Pursuant to Commission rule and precedent, a pro forma adjustment gives effect for the test period to all known and measurable changes that are not offset by other factors.[1400] Under this standard, an event that causes a change to revenue, expenses, or rate base must be "known" to have occurred during or after the historical 12 months of actual results of operations.[1401] The "known" component of the standard requires that the effect of the event will be in place during the rate effective period.[1402] Furthermore, the amount of the change must be "measurable," which traditionally has meant that the amount cannot be an

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[1394] Andrews, Exh. EMA-6T at 40:5-7.

[1395] Andrews, Exh. EMA-6T at 43:16-17.

[1396] Avista's Post-Hearing Brief, at ¶ 111.

[1397] Andrews, Exh. EMA-6T at 44:13-15.

[1398] Andrews, Exh. EMA-6T at 44:15-16.

[1399] M. Garrett, Exh. MEG-1T at 11:12 – 13:6.

[1400] WAC 480-07-510(3)(c)(ii).

[1401] *WUTC v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 21 ¶ 45 (Dec. 22, 2009).

[1402] *WUTC v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 21 ¶ 45 (Dec. 22, 2009).

estimate, projection, a product of a budget forecast, or some similar exercise of judgment, even informed judgment, concerning future revenue, expense, or rate base.[1403] There are, however, exceptions to this general rule, for example in the context of attrition adjustments and power cost modeling forecasts.[1404] Finally, pro forma adjustments must be matched with offsetting factors, factors that diminish the impact of the known and measurable event, so as to avoid overstating or understating the known and measurable change.[1405]

778 Avista witness Andrews testified that the purpose of the escalation adjustment was to react to the anticipated effect of inflation during the rate effective period of the rate plan.[1406] No Party in this proceeding contends that inflation will not impact Avista's O&M expenses during the rate effective period. Therefore, it is fair to conclude that the effect of inflation on Avista's O&M expenses is "known."

779 Turning to the "measurable" prong of the analysis, the Commission determines that although Avista's proposed adjustment is based on a projected forecast of the effect of inflation, this adjustment, similar to power cost modelling forecasts, falls within the exception to the usual precision required of pro forma adjustments. While the Commission agrees that it is inappropriate to base this adjustment on Avista's own historical data on this record, it is reasonable to rely on the inflation data published by the Federal Reserve, in addition to other governmental sources, to forecast the likely effect of inflation during the rate effective period.[1407] Reliance on this data strikes the appropriate balance between allowing Avista to insulate itself from the anticipated effect of inflation and encouraging Avista to control costs to the benefit of ratepayers. As such, the forecast of inflation data is "measurable" within the exception to the Commission's general pro forma standard and supports an adjustment of 2.5 percent for both RY1 and RY 2 of Avista's multi-year rate plan.

780 Finally, the Commission is satisfied that Avista considered offsetting factors related to its updated test year ending in December 2023. Avista witness Schultz's testimony contains

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[1403] *WUTC v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 21 ¶ 45 (Dec. 22, 2009).

[1404] *WUTC v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 21 ¶ 49 (Dec. 22, 2009) (power cost modeling); *WUTC v. Avista Corp.,* Dockets UE-120436 & UG-120437, and UE-110876 & UG-110877, Order 09/14, 26-28 ¶¶ 70-73 (Dec. 26, 2012) (attrition adjustment).

[1405] *WUTC v. Avista Corp.*, Dockets UE-090134 & UG-090135, Order 10, 21 ¶ 46 (Dec. 22, 2009).

[1406] Andrews, Exh. EMA-1T at 13:8-14; Andrews, Exh. EMA-6T at 42:17 – 43:5.

[1407] M. Garrett, Exh. MEG-1T at 11:1 – 13:6. See also, M. Garrett, Exh. MEG-1T at 13:2-3, fn. 8 (noting that a 2.5 percent inflation rate is consistent with numerous publicly available sources, including Office of Management and Budget, Congressional Budget Office, Federal Reserve's Open Market Committee, and several Federal Reserve Banks).

information reflecting both electric and natural gas offsets for the Company's position on rebuttal, including direct O&M offsets.[1408] Although Public Counsel asserts in briefing that Avista did not properly consider offsetting factors related to its updated test year proposed on rebuttal, they do not direct the Commission's attention to any specific deficiencies or omissions in Avista's rebuttal analysis. Therefore, the Commission finds that Avista's analysis properly incorporates consideration of offsetting factors.

781 In reaching this outcome, the Commission is mindful of RCW 80.28.425(3)(c), which provides that the Commission "shall ascertain and determine the revenues and operating expenses for rate-making purposes of any gas or electrical company for each rate year of the multi-year rate plan." RCW 80.28.425(3)(d) further states in "projecting the revenues and operating expenses of a gas or electrical company pursuant to (c) of this section, the commission may use any formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates." Based on this authority, and the pro forma adjustment analysis described above, the Commission determines that it has the discretion to authorize an inflation escalator adjustment to the miscellaneous expenses contained in Avista's Adjustments 3.14 and 5.06. On the record developed in this proceeding, the Commission chooses to exercise this discretion to approve a 2.5 percent escalation increase to the expenses in Adjustments 3.14 (RY1) and 5.06 (RY2). The Commission further orders Avista to provide the workpapers demonstrating its full calculations of offsetting factors related its updated test year and adjustments as part of a compliance filing in this docket.

FINDINGS OF FACT

782 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the Parties and the reasons therefore, the Commission now makes the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

783 (1) The Commission is an agency of the state of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric and natural gas companies.

784 (2) Avista is a "public service company," an "electrical company," and a "gas company" as those terms are defined in RCW 80.04.010 and used in Title

[1408] Schultz, Exh. KJS-5T at 17:1 – 18:15; 31:10 – 32:2.

80 RCW. Avista provides electric and natural gas utility service to customers in Washington.

785 (3) Avista's currently effective rates were determined by the Commission's Final Order approving a full multiparty settlement in *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-220053, UG-220054 & UE-210854 *(Consolidated)*, Order 08/05 (Dec. 12, 2022).

786 (4) In May of 2020, Avista issued its Wildfire Resiliency Plan. On October 30, 2020, Avista filed with the Commission revisions to its currently effective Tariffs WN U-28, Electric Service, and WN U-29, Natural Gas Service, and also filed its Petition with the Commission to request accounting and ratemaking treatment of costs associated with its Wildfire Resiliency Plan.

787 (5) Avista requests an increase in its annual electric revenue requirement of approximately $28.5 million (5.38 percent), and an increase to its annual natural gas revenue requirement of approximately $10.7 million (10.14 percent).

788 (6) On September 30, 2024, through October 1, 2024, the Commission held an Evidentiary Hearing before Administrative Law Judges James E. Brown II and Connor A. Thompson, who presided along with the Commissioners.

789 (7) The Commission finds it would be premature to conduct prudency reviews of CCA costs and compliance on an annual basis.

790 (8) During Avista's annual submission of updates to its CCA tracker tariff, the Company shall submit and present information pertaining to where CCA costs are being included in decision making to include, but not be limited to IRPs, CEIPs, dispatch, power purchase, carbon market transactions, and capital projects.

791 (9) CCA allowance prices and costs in dispatch, market purchases, and market sales, and the Commission's policy surrounding their inclusion in NPE, should be addressed in Docket U-230161 so that policy and implementation is consistent for all regulated utilities, and each impacted utility has an opportunity to comment on the issue.

792 (10) The Commission finds that the modeling errors should be addressed by the parties before the Commission adjusts the dead and sharing bands under the ERM.

793 (11) The Commission finds that the modeling errors should be addressed by the parties, and that the forecast error adjustment is not just, reasonable, or sufficient at this time.

794 (12) Because Avista no longer collects GHG revenues in the WEIM since the CCA's implementation, we find that AWEC's adjustment should be rejected.

795 (13) Avista uses an approved methodology to calculate non-energy WEIM benefits and therefore we reject the adjustments proposed by AWEC and supported by Staff for including additional non-energy benefits.

796 (14) The Commission finds that because the CAISO estimate does not account for the opportunity cost of leaving the bilateral market, it should not be used to calculate WEIM benefits for Avista at this time as the evidence suggests its adoption would likely result in an overestimation of benefits not likely to be realized.

797 (15) The Commission finds that the Colstrip transmission assets should remain in rates at this time.

798 (16) The Commission finds that each of AWEC's proposals related to Colstrip as it relates to the ERM and NPE should be rejected.

799 (17) The Commission finds that the adjustment for COB proposed by AWEC to account for COB margins was agreed to during the evidentiary hearing and should be made.

800 (18) The provisional plant review process should continue to be assessed on a portfolio rather than project-by-project basis.

801 (19) To allow for additional evaluation of provisional capital filings, the review process should be extended to six months.

802 (20) Classification of plant and naming conventions should remain consistent throughout the provisional capital review and general rate case process.

803 (21) A separate provisional plant tariff is not necessary at this time.

804 (22) Allowing new business cases is consistent with the Commission's Policy Statement to allow flexibility and further the reduction of regulatory lag.

805 (23) The Commission finds Public Counsel's recommendation for an equal allocation is fair, just, and reasonable, and that Avista's next cost study shall account for removal of Colstrip from rates.

806 (24) Avista provided insufficient evidence to support its request to include its proposed flotation cost adjustment in its calculation for return on equity.

807 (25) Avista's proposed flotation cost adjustment should be rejected from its calculation for return on equity.

808 (26) The Commission finds that a $1.00 increase to the minimum charge for electric and gas customers is supported by the record.

809 (27) AWEC's proposals regarding Schedule 13 and 23 should be rejected, and an equal percentage of base revenue increase is appropriate, consistent with our approach to rate spread generally and Avista's original filing.

810 (28) AWEC's three adjustments, as modified by Avista, to Schedule 25 are unopposed and should be adopted. Those include (1) increasing demand charges for energy blocks 1 and 2 by 25 percent in RY1 and 25 percent in RY2, (2) increasing the primary voltage discount from $1.93/kW to $4.39/kW, and (3) changing language in Schedule 25 to make the primary voltage discount applicable to customers served through third party substations.

811 (29) Sierra Club's proposal to require a decarbonization plan is inappropriate given the subsequent passage of Initiative 2066.

812 (30) Sierra Club and NWEC's proposals relating to line extension allowances are inappropriate given the subsequent passage of Initiative 2066.

813 (31) In light of the record evidence, the Commissions adopts the Non-Pipeline Alternatives framework used by the Oregon Public Utilities Commission, with some modification as an appropriate balance. The first modification we deem appropriate is that Avista must examine the relationship between any NPA and the Climate Commitment Act and should not assume that all CCA allowances will be purchased at the ceiling price. Second, Avista is required to provide an explanation of the resulting investment selection (either the NPA or a traditional investment) that compares the costs of both projects, but Avista is not required to rank or score any NPA in its evaluation process. Avista must conduct at least two NPA analyses on natural gas distribution projects related to customer growth for any potential projects that exceed $500,000, using the criteria described above.

814 (32) In October of 2020, Avista filed with the Commission in Docket UE-200894 a petition for an accounting order authorizing the accounting and ratemaking treatment of the costs associated with the Company's Wildfire Resiliency Plan.

815 (33) The record evidence demonstrates that Avista continues to face increased wildfire threats, risks, costs, and other circumstances.

816 (34) The record evidence demonstrates that Avista has been taking incremental wildfire actions above normal activities, and that the circumstances it faces are extraordinary.

817 (35) The record evidence demonstrates that the base level of Avista's wildfire expense of its Wildfire Balancing Account should be adjusted to $8.3 million and applied across Avista's two-year rate plan.

818 (36) AWEC failed to demonstrate that removal of standard undergrounding in non-fire risk areas and standard vegetation management is appropriate.

819 (37) The record evidence demonstrates that Avista's proposal to recover carrying charges related to the Wildfire at its cost of debt is appropriate.

820 (38) The record evidence demonstrates that increasing Avista's Insurance Expense Balancing Account baselines to $12.8 million for electric and $2.3 million for natural gas is appropriate.

821 (39) D&O insurance benefits both customers and shareholders as part of the compensation package necessary to attract and retain qualified directors and officers and allocating 90 percent to customers and 10 percent to shareholders is appropriate.

822 (40) The performance measures outlined in Appendix A and their related reporting requirements are fair, just, and reasonable, consistent with applicable law, in the public interest, and will provide necessary information to allow the Commission to evaluate Avista's operations during the MYRP.

823 (41) The modified recurring reporting requirements outlined in Appendix B are fair, just, and reasonable, consistent with applicable law, in the public interest, and will provide necessary information to continue evaluating Avista's operations.

824 (42) The evidence supports Avista's proposed capital structure of 51.5 percent debt and 48.5 percent equity as reasonable and resulting in fair, just, reasonable, and sufficient rates.

825 (43) The evidence supports Avista's proposed return on equity of 9.8 percent as reasonable and resulting in fair, just, reasonable, and sufficient rates.

826 (44) The evidence supports Avista's proposed overall rate of return of 7.32 percent as reasonable and resulting in fair, just, reasonable, and sufficient rates.

827 (45) Staff's proposed rate of return of 9.5 percent is unreasonably low and not supported by persuasive cost of capital modeling.

828 (46) Public Counsel's proposed rate of return of 8.5 percent is unreasonably low and not supported by persuasive cost of capital modeling.

829 (47) AWEC's proposed rate of return of 9.25 percent is unreasonably low and not supported by persuasive cost of capital modeling.

830 (48) Walmart's proposed rate of return of 9.62 percent for electricity and 9.58 percent for gas are unreasonably low and not supported by persuasive cost of capital modeling.

831 (49) Avista provided insufficient evidence to support its request to include its proposed flotation cost adjustment in its calculation for return on equity.

832 (50) Avista's proposed flotation cost adjustment should be rejected from its calculation for return on equity.

833 (51) The Commission finds it appropriate to allow a return on Avista's Power Purchase Agreements. The Commission further finds that the appropriate rate is the company's cost of debt.

834 (52) The record evidence is insufficient to demonstrate that Avista should be required to engage in a targeted electrification pilot as proposed by Sierra Club.

835 (53) The record evidence is insufficient to demonstrate that AWEC's proposed adjustment to Avista's Working Capital Restating Adjustment (ISWC Adjustment 1.03) will result in rates that are fair, just, reasonable, and sufficient.

836 (54) The record evidence demonstrates that Avista's proposed Working Capital Restating Adjustment (ISWC Adjustment 1.03) is based on a methodology

previously approved by the Commission and is reasonably calculated to result in rates that are fair, just, reasonable, and sufficient.

837 (55) AWEC's proposal to adjust Avista's wildfire and patent litigation costs as non-recurring is not appropriate in light of the record evidence.

838 (56) AWEC's proposal to modify Avista's accounting of deferred tax credits balances is inappropriate in light of the record evidence.

839 (57) The record evidence demonstrates that Avista's proposed adjustment to electric property rent as revised on rebuttal is reasonable and appropriate.

840 (58) Avista's proposal to defer the actual Washington share of Coyote Springs 2 major maintenance is uncontested and supported by the record.

841 (59) The record evidence does not support AWEC and Public Counsel's proposal to exclude 50 percent of Avista's Directors' and Officers' liability insurance. Because Directors' and Officers' liability insurance benefits both customers and shareholders as part of the compensation package necessary to attract and retain qualified directors and officers, allocating 90 percent to customers and 10 percent to shareholders is appropriate.

842 (60) The record evidence does not support Avista's proposal to increase the ratepayer share of directors' fees from 50 to 90 percent. Avista has not demonstrated that the Commission should alter its precedent of allocating directors' fees equally between ratepayers and shareholders, as established in Avista's 2009 GRC.

843 (61) The record evidence does not support AWEC and Public Counsel's proposal to wholly exclude stock compensation from Avista's directors' fees.

844 (62) The record evidence supports including 50 percent of Avista's directors' fees in rates, consistent with the Commission's precedent established in Avista's 2009 GRC.

845 (63) The record evidence does not support Public Counsel's proposal to adjust Avista's executive compensation. Public Counsel has not demonstrated based on the evidence in this case that the publicly-owned utility executive compensation is directly comparable to investor-owned utility executive compensation.

846 (64) Public Counsel has not demonstrated that requiring Avista to conduct an executive compensation survey including data from publicly-owned utility executives is reasonable or appropriate based on the evidence in this case. Public Counsel has not demonstrated based on the evidence in this case that the publicly-owned utility executive compensation is directly comparable to investor-owned utility executive compensation and Avista has previously performed an executive compensation survey in Dockets UE-110876 and UG-110877.

847 (65) The incentive adjustment 3.08 shall utilize the six-year rolling average methodology with no escalation factor, consistent with historic known and measurable methodology.

848 (66) Avista's proposal to continue its revenue decoupling mechanisms during the multi-year rate plan is uncontested and adequately supported by the record.

849 (67) The record evidence demonstrates that Avista's proposed 2.5 percent escalation adjustment for Pro Forma Adjustments 3.14 and 5.06 is intended to respond to the known effect of inflation during the rate effective period, that inflation is measurable in a similar manner to other adjustments such as Avista's power cost modeling, and that Avista has incorporated offsetting factors into its proposed adjustment.

850 (68) The Commission finds that it is reasonable to require Avista to file its workpapers supporting its pro forma adjustments regarding its updated test year ending in December 2023, as part of a compliance filing within 45 days of this Order.

851 (69) Based on the evidence in the record and the Commission's denial of the forecast error adjustment, the Commission authorizes a Washington Total Power Supply Base of $34,116,983 for rate year 1, and $85,733,975 for rate year 2.

CONCLUSIONS OF LAW

852 Having discussed above all matters material to this decision, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

853 (1) The Commission has jurisdiction over the subject matter of, and Parties to, this proceeding.

854 (2) Avista is an electric company, a natural gas company, and a public service company subject to Commission jurisdiction

855 (3) At any hearing involving a proposed change in a tariff schedule the effect of which would be to increase any rate, charge, rental, or toll theretofore charged, the burden of proof to show that such increase is just and reasonable will be upon the public service company. RCW 80.04.130 (4). The Commission's determination of whether the Company has carried its burden is adjudged based on the full evidentiary record.

856 (4) Avista's existing rates for electric and natural gas service are neither fair, just, reasonable, nor sufficient, and should be adjusted prospectively after the date of this Order.

857 (5) Avista shall submit and present information pertaining to where CCA costs are being included in decision making to include, but not limited to Integrated Resource Plans (IRPs), Clean Energy Implementation Plans (CEIPs), dispatch, power purchase, carbon market transactions, and capital projects. This annual report will be addressed and acknowledged through the Open Meeting process and will help the Commission assess a utility's progress and decision making leading up to the Commission's prudency determination at the conclusion of the compliance period

858 (6) CCA allowance prices and costs in dispatch, market purchases, and market sales, and the Commission's policy surrounding their inclusion in NPE, should be addressed in Docket U-230161 affording opportunity to comment from all regulated utilities.

859 (7) The Commission denies Avista's and Staff's proposals to modify the ERM at this time.

860 (8) The Commission denies Avista's forecast error adjustment as it fails to meet the known and measurable standard.

861 (9) Avista shall convene a workshop series with interested parties to address modeling inputs, power supply modeling methodology, use of AURORA, and a changing energy landscape. These conversations should include discussions regarding inclusion of CCA costs and addressing the forecast error as well as other issues raised by the parties in this proceeding.

862 (10) The EIM benefits calculation methodology proposed by Avista, resulting in $6.6 million in benefits is just and reasonable.

863 (11) Avista's transmission assets are used and useful and the Company has provided evidence and testimony showing that they will remain so.

864 (12) There is insufficient evidence supporting the need for an update to the Colstrip mark-to-market valuation and the Commission does not find that the benefits would outweigh the costs of an additional rate proceeding to update that valuation.

865 (13) Consistent with the Commission's Used and Useful Policy, the provisional plant review process should continue to be conducted on a portfolio basis, with a six-month review period, with consistent classification of plant and naming conventions, and shall not be tracked through a separate tariff at this time.

866 (14) In spite of our desire to maintain flexibility, and not be overly prescriptive, we wish to provide further clarification on the Commission's expectations for provisional plant filings. Specifically, Avista must conform to the following:

1) Identify if a business case is identified in the Clean Energy Implementation Plan (CEIP);
2) Identify if a business case is required for CETA and/or Climate Commitment Act (CCA) compliance;
3) Identify each new business case and provide a narrative for business need;
4) Provide information on an annual and cumulative rate-effective period basis;
5) Provide a narrative that explains the filing structure and how worksheets fit together; and
6) Maintain consistent naming conventions.

867 (15) The Commission finds Public Counsel's recommendation for an equal allocation is fair, just, and reasonable, and that Avista's next cost of service study shall account for removal of Colstrip in rates.

868 (16) Avista proposed a multi-year rate plan as required by RCW 80.28.425.

869 (17) The Commission should approve Avista's filing as a multi-year rate plan and not as a traditional rate case filing.

870 (18) The Commission should authorize and require Avista to make a compliance filing in these consolidated dockets to recover in prospective rates its revenue deficiency of $11.882 for rate year 1 and an incremental $68.9 million in rate year 2, for electric operations before offsetting Colstrip factors, and an increase of $14.2

million in rate year 1 and an incremental $4.0 million for rate year 2, for natural gas operations as provided in Appendix C (electric) and Appendix D (natural gas).

871 (19) A $1.00 increase to the minimum charge for electric and gas customers is supported by the record and is just, reasonable, and sufficient.

872 (20) Avista must revise Schedule 25 to include (1) increasing demand charges for energy blocks 1 and 2 by 25 percent in RY1 and 25 percent in RY2, (2) increasing the primary voltage discount from $1.93/kW to $4.39/kW, and (3) changing language in Schedule 25 to make the primary voltage discount applicable to customers served through third party substations.

873 (21) For the proposals related to reallocating Colstrip and including Colstrip in rate spread calculations, we agree with Avista that both AWEC and NWEC were signatories to the original settlement, and that settlement should not be amended at this time.

874 (22) The Commission should authorize a capital structure of 48.5 percent equity and 51.5 percent debt, a cost of debt of 4.99 percent, and an ROE of 9.8 percent, resulting in a ROR of 7.32 percent.

875 (23) The flotation costs incurred by the Company's investors are not expenses the ratepayers shall bear.

876 (24) In the recent election, voters approved Initiative Measure No. 2066, which in pertinent part states:

> (12) The commission shall not approve, or approve with conditions, a multiyear rate plan that requires or incentivizes a gas company or large combination utility to terminate natural gas service to customers.
> (13) The commission shall not approve, or approve with conditions, a multiyear rate plan that authorizes a gas company or large combination utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by implementing planning requirements that would make access to natural gas service cost-prohibitive.

877 (25) The Commission should adopt the non-pipeline alternatives framework described in paragraph 809, as fair, just, reasonable, sufficient and in the public interest.

878 (26) While the consideration of equity pursuant to RCW 80.20.425(1) is distinct from the legal requirements pertaining to low-income customer programs, the

Commission's equity analysis naturally focuses on low-income customer programs, among other broader social, economic, and environmental impacts related to utility rates, services, and practices.

879 (27) Avista has demonstrated sufficient evidence of its continued dedication to promoting equitable outcomes by agreeing to: (1) retain the reporting requirements in accordance with U-210800; (2) collaborate with EAAG and EAG on its disconnection policies and its multilingual MLS strategy; and (3) obtain customer demographic information for DER on an optional basis. The Commission therefore rejects TEP's recommendations that Avista:

1) Prioritize customers for disconnection based on only current arrearage amount and duration of current arrears;
2) Develop a separate LAP in coordination with EAG and EAAG;
3) Provide a new LINA/EBA and report data in its disconnection reduction report using the stratification framework.
4) Publish its stratification and data reporting on its website.

880 (28) The Commission is legally obligated by RCW 80.28.425(7) to determine a set of performance measures that will be used to assess Avista's operations under the MYRP.

881 (29) The Commission's determination of a set of performance measures need not be based upon a company's initial filing, the record testimony and evidence, or the proposals made by a company or party throughout the proceeding.[1409]

882 (30) The Commission should adopt the performance measures outlined in Appendix A and Avista should be authorized and required to make necessary and sufficient future compliance filings in accordance with the directions and conditions of this Order.

883 (31) Avista should be authorized and required to make an annual compliance filing to report the performance measures outlined in Appendix A for each year of the MYRP (beginning January 1 and ending December 31 of each year) as an appendix or appendices to its annual Commission Basis Reports.[1410]

[1409] See RCW 80.28.425(7).

[1410] *In re Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Policy Statement Addressing Initial Reported Performance Metrics, 3-4 ¶ 11 (Aug. 2, 2024).

884 (32) Avista should be authorized and required to make recurring reporting filings consistent with the Commissions modifications outlined in Appendix B.

885 (33) The plain language of RCW 80.28.410 gives the Commission discretion to allow a return on power purchase agreements costs to be deferred.

886 (34) Sierra Club's proposal to require Avista to engage in a targeted electrification pilot should be rejected.

887 (35) AWEC's proposal to remove Avista's interest-bearing Wells and Mizuho accounts from Avista's cash working capital should be rejected.

888 (36) The Commission should authorize Avista's Working Capital Restating Adjustment (ISWC Adjustment 1.03) as reasonably calculated to result in rates that are fair, just, reasonable, and sufficient.

889 (37) Avista's litigation costs related to wildfire and patent litigation are fair, just, reasonable and in the public interest.

890 (38) Avista's accounting of deferred tax credit balances is fair, just, reasonable, and in the public interest.

891 (39) The Commission should authorize Avista's proposed adjustment to electric property rent as revised on rebuttal.

892 (40) The Commission should authorize and order Avista's proposed deferral regarding Coyote Springs 2 major maintenance costs.

893 (41) Avista's Wildfire Balancing Account should be authorized with a baseline of wildfire expense of $8.3 million, over Avista's two-year rate plan.

894 (42) Avista's proposal to recover carrying charges on the Wildfire Balancing Account at its cost of debt should be approved by the Commission.

895 (43) Avista's Insurance Expense Balancing Account should be authorized with baselines of $12.8 million for electric, and $2.3 million for natural gas.

896 (44) Public Counsel and AWEC's proposal to exclude 50 percent of Directors' and Officers' liability insurance should be rejected.

897 (45) Avista's proposal to require increase ratepayers' share of directors' fees from 50 to 90 percent should be rejected.

898 (46) Public Counsel and AWEC's proposal to exclude stock compensation from Avista's directors' fees should be rejected.

899 (47) The Commission should authorize Avista to recover 50 percent of its directors' fees in rates.

900 (48) The non-executive labor incentive adjustment proposed by Avista, is based on estimates and forecasts, and therefore does not meet the known and measurable standard.

901 (49) Public Counsel's proposal to adjust Avista's executive compensation based on comparisons to publicly-owned utility executive compensation should be rejected.

902 (50) Public Counsel's request to require Avista to conduct an executive compensation survey including data from publicly-owned utility executives should be rejected.

903 (51) Avista's proposal to continue its revenue decoupling mechanism during the multi-year rate plan should be accepted.

904 (52) The Commission should authorize Avista's proposed 2.5 percent escalation adjustment for Pro Forma Adjustments 3.14 and 5.06.

905 (53) Avista should be authorized and required to make a compliance filing within 45 days of this Order to provide the workpapers supporting its pro forma adjustments regarding its updated test year ending in December 2023.

906 (54) The Commission Secretary should be authorized to accept by letter, with copies to all Parties to this proceeding, filings that comply with the requirements of this Order.

907 (55) The Commission should retain jurisdiction over the subject matter and the Parties to effectuate the terms of this Order.

908 (56) Based on the evidence in the record and the Commission's denial of the forecast error adjustment, the Commission authorizes a Washington Total Power Supply Base of $34,116,983 for rate year 1, and $85,733,975 for rate year 2.

ORDER

THE COMMISSION ORDERS:

909 (1) The proposed tariff revisions Avista Corporation, d/b/a Avista Utilities, filed in these dockets on January 18, 2024, and suspended by prior Commission order, are rejected.

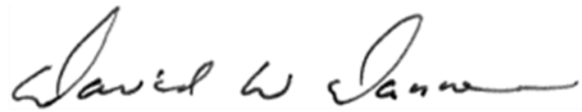
910 (2) Avista Corporation, d/b/a Avista Utilities, is authorized and required to make compliance filings in this docket including all tariff sheets that are necessary and sufficient to effectuate the terms of this Order.

911 (3) The Commission Secretary is authorized to accept by letter, with copies to all Parties to this proceeding, filings that comply with the requirements of this Order.

912 (4) The Commission retains jurisdiction to effectuate the terms of this Order.

DATED at Lacey, Washington, and effective December 23, 2024.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

MILT DOUMIT, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.