

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF
RESPONSE TO DATA REQUEST

DATE PREPARED: October 26, 2015
DOCKET: UE-150204/UG-150205
REQUESTER: Bench

WITNESS: Christopher Hancock
RESPONDER: Christopher Hancock
TELEPHONE: (360) 664-1312

Bench Request No. 14: Staff: With regard to Staff response to bench request No. 8, please reconcile the net operating income, rate base, and revenue requirement impacts provided in the response to the amounts shown in Mr. Hancock's exhibits CSH-2 at page 10, column 4.01 and CSH-3 at page 9, column 4.01.

Response:

Mr. Hancock used column headings in the response to Bench Request 8 that are inconsistent with those in exhibits CSH-2 and CSH-3. He apologizes for this inconsistency. To clarify, the headings in the response to Bench Request 8 may be translated as:

- a) "Rev – Exp" is net operating income;
- b) "Rate Base impact" is the change in rate base; and
- c) "NOI impact" is the sum of net operating income plus the return on the rate base. This sum may be considered as the amount required to yield the authorized rate of return.
- d) "Revenue requirement impact" is the revenue requirement.

"Net Operating Income", as used in CSH-2 and CSH-3, is revenue minus expenses, prior to accounting for the effects of rate base changes. "NOI impact", as used in the response to Bench Request 8, does take into consideration the effects of rate base changes. This latter definition is useful because it produces the amount that is "grossed up" to determine the revenue requirement. The Commission typically uses the definition adopted in CSH-2 and CSH-3.

Bench Request 8 only requested the impacts of Staff's proposed 14 capital additions. CSH-2 (Electric) Adjustment 4.01 consists of those fourteen capital projects plus two other items of relatively minor size: a reduction in rate base of \$738,000 related to CDA Legal Costs;¹ and a tax expense titled Amortization ITC – Noxon.² Collectively, these amount to a \$20,078 change in net operating income, CSH-2, page 10, line 30. When combined with the return on the reduction in rate base of \$738,000, the result is an "NOI impact" of -\$73,878.

¹ See Bench Request 9 response, filename BR 9 WP - 1) CAP SUMMARY-WA – CSH.xlsx, worksheet E-CAP SUMMARY, cell W26.

² See CSH-2, page 10, line 29.

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Miscellaneous CSH-2 Adj. 4.01 Items				
Item Name	Rev - Exp	Rate base impact	NOI impact	Revenue requirement impact
CDA Legal Costs	-7	-738	-47	-76
Amortized ITC - Noxon	27	0	-27	-44
	\$ 20,078	\$ (738,000)	\$ (73,878)	\$ (119,158)

Bench Request 8 only displayed the impacts of the 14 capital additions, and not these two relatively minor items present in electric Adjustment 4.01. This explains the difference between the NET OPERATING INCOME figure on CSH-2, page 10, line 30, and the “Rev – Exp” column in the response to the Bench Request. This also explains the difference between the total “Rate base impact” figure in the response to Bench Request 8 and the figure provided in CSH-2, page 10, line 48 (titled “Total Rate Base”). Because the revenue requirement calculation is ultimately dependent on net operating income and rate base, a different revenue requirement figure resulted as well.

To reiterate, CSH-2, Adjustment 4.01 includes the 14 capital additions as well as these two minor items. Bench Request 8 addressed only the 14 capital additions.

The orange cells in the images below show the reader the \$20,000 difference in “Rev – Exp” in the response to Bench Request 8, and CSH-2, page 10, line 30:

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2	AVISTA UTILITIES			
3	WASHINGTON ELECTRIC RESULTS - PRO FORMA			
4				
5	TWELVE MONTHS ENDED SEPTEMBER 30, 2014			
6	(000'S OF DOLLARS)			Contested
7				Planned
8	Line		Results of	Capital Add
9	No.	DESCRIPTION	Operations	2015 EOP
10		Adjustment Number	1.00	4.01
11		Workpaper Reference	E-ROO	E-CAP15
42	21	Depreciation/Amortization	16,215	4,550
43	22	Taxes	0	-
44	23	Total Admin. & General	59,790	4,550
45	24	Total Electric Expenses	544,855	4,928
46				
47	25	OPERATING INCOME BEFORE FIT	138,783	(4,928)
48				
49		FEDERAL INCOME TAX		
50	26	Current Accrual	28,537	(1,725)
51	27	Debt Interest	0	(545)
52	28	Deferred Income Taxes	7,383	-
53	29	Amortized ITC - Noxon	(120)	(27)
54				
55	30	NET OPERATING INCOME	\$102,983	(2,631)

From CSH-2, page 10

A	B	C	D	E	F	G
1	Marginal impacts of 14 pro forma capital projects, as recommended by Staff (Electric)					
2	ER	Project name	Rev - Exp	Rate base impact	NOI impact	Revenue requirement impact
3	2060	Wood Pole Mgmt	-37	3648	303	488
4	2470	Dist Grid Modernization	-16	1566	130	210
5	3005	Gas Distribution Non-Revenue Blanket	0	0	0	0
6	3007	Isolated Steel Replacement	0	0	0	0
7	3008	Aldyl -A Pipe Replacement	0	0	0	0
8	3306	Goldendale HP	0	0	0	0
9	7101	COF HVAC Improvmt	0	1	0	0
10	4140	Nine Mile Redevelopment	-9	3029	230	371
11	4152	Little Falls Powerhouse Redevelopment	-7	2300	175	282
12	4161	CG HED U#1 Refurbishment	0	0	0	0
13	4162	PF S Channel Gate Replacement	0	0	0	0
14	6203	Clark Fork Implement PME Agreement	-19	6306	479	772
15	5005	Information Technology Refresh Program	-363	2140	519	838
16	5138	Customer Information System (CIS) Replacement	-2200	39843	5105	8234
17			\$ (2,651,344)	\$ 58,833,286	\$ 6,940,290	\$ 11,194,017

These figures in thousands of dollars

From Bench Request 8 response

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The image below reconciles the response to Bench Request 8 and CSH-2, page 10:

Reconciliation of Bench Request 8 response and CSH-2, page 10					
ER	Item name	Rev - Exp	Rate base impact	NOI impact	Revenue requirement impact
2060	Wood Pole Mgmt	-37	3648	303	488
2470	Dist Grid Modernization	-16	1566	130	210
3005	Gas Distribution Non-Revenue Blanket	0	0	0	0
3007	Isolated Steel Replacement	0	0	0	0
3008	Aldyl -A Pipe Replacement	0	0	0	0
3306	Goldendale HP	0	0	0	0
7101	COF HVAC Improvmt	0	1	0	0
4140	Nine Mile Redevelopment	-9	3029	230	371
4152	Little Falls Powerhouse Redevelopment	-7	2300	175	282
4161	CG HED U#1 Refurbishment	0	0	0	0
4162	PF S Channel Gate Replacement	0	0	0	0
6103	Clark Fork Implement PME Agreement	-19	6306	479	772
5005	Information Technology Refresh Program	-363	2140	519	838
5138	Customer Information System (CIS) Replacement	-2200	39843	5105	8234
N/A	CDA Legal Costs	-7	-738	-47	-76
N/A	Amortized ITC - Noxon	27	0	-27	-44
TOTAL (In dollars)		\$ (2,631,266)	\$ 58,095,286	\$ 6,866,413	\$ 11,074,859
		Line 30	Line 48	N/A	Line 50
CSH-2, Page 10 Figures (thousands of \$)		-2631	58095		11075
Converted to Dollars		-2631000	58095000		11075000
Difference from above table		\$ (266)	\$ 286		\$ (141)
Percent error		0.0101%	0.0005%		-0.0013%

These figures in thousands of dollars

The image below reconciles the response to Bench Request 8 and CSH-3, page 9:

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Reconciliation of Bench Request 8 response and CSH-3, page 9					
ER	Item name	Rev - Exp	Rate base impact	NOI impact	Revenue requirement impact
2060	Wood Pole Mgmt	0	0	0	0
2470	Dist Grid Modernization	0	0	0	0
3005	Gas Distribution Non-Revenue Blanket	-12	1607	129	209
3007	Isolated Steel Replacement	-4	452	37	59
3008	Aldyl -A Pipe Replacement	-17	2329	187	302
3306	Goldendale HP	0	0	0	0
7101	COF HVAC Improvmt	0	0	0	0
4140	Nine Mile Redevelopment	0	0	0	0
4152	Little Falls Powerhouse Redevelopment	0	0	0	0
4161	CG HED U#1 Refurbishment	0	0	0	0
4162	PF S Channel Gate Replacement	0	0	0	0
6103	Clark Fork Implement PME Agreement	0	0	0	0
5005	Information Technology Refresh Program	-102	595	145	234
5138	Customer Information System (CIS) Replacement	-612	11079	1419	2289
		\$ (746,322)	\$ 16,063,738	\$ 1,917,369	\$ 3,092,530
		Line 31	Line 47	N/A	Line 50
	CSH-3, Page 9 Figures (thousands of \$)	-746	16065		3091
	<i>Converted to Dollars</i>	-746000	16065000		3091000
	<i>Difference from above table</i>	\$ (322)	\$ (1,262)		\$ 1,530
	<i>Percent error</i>	0.0432%	-0.0079%		0.0495%

These figures in thousands of dollars

SUMMARY

To summarize, the differences in the figures in the response to Bench Request 8 and those figures in exhibits CSH-2 and CSH-3 are due to the following:

- Bench Request 8 only addressed the 14 capital additions endorsed by Staff, whereas electric Adjustment 4.01 includes those 14 projects and two minor items;
- Two different formulations of the term net operating income were used, one of which included return on rate base effects.