Exh. DPV-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-240006

DOCKET UG-240007

DIRECT TESTIMONY OF

DENNIS P. VERMILLION

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, employer, and business address.

A. My name is Dennis P. Vermillion, and I am employed as the Chief Executive Officer of Avista Corporation (Avista or Company) and serve as a member of Avista's Board of Directors. I also serve as the Chairman of the Board of Directors for Avista's subsidiary Alaska Electric Light and Power Company. My business address is 1411 East Mission Avenue, Spokane, Washington.

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

A. Yes. I received a Bachelor of Science degree in electrical engineering from Washington State University in 1985. I started working for Avista in 1985 and have held numerous positions in energy trading, marketing, risk management, power transmission contracting, and resource planning and coordination. I was appointed as President and Chief Operating Officer of Avista Energy in 2001. I was appointed Vice President of Energy Resources for Avista Utilities in 2007 at the close of the sale of Avista Energy.

In 2009, I was appointed President of Avista Utilities, and later in January 2018 was appointed President of Avista Corporation and began serving on Avista Corporation's Board of Directors. On October 1, 2019, I was promoted to the role of President and Chief Executive Officer. Since October 1, 2023, I serve solely as the Chief Executive Officer, with Heather Rosentrater serving as President in addition to her duties as Chief Operating Officer.

I currently serve as a board member for Edison Electric Institute (EEI), American Gas Association (AGA), Washington Roundtable, and the Avista Foundation. I formerly served on the board of Spokane County United Way and was a past chairman of the Spokane County

Campaign.

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

A. In my testimony I provide an overview of the Company and our focus on the customer. I will then provide the necessary context for the Commission and interested parties to understand Company issues and pressures, its financial performance and pressures, and the need for timely rate relief. Next, I will summarize the Company's proposal in this filing – a Two-Year Rate Plan – and address our ongoing need to make capital investments, which continues to be the primary driver behind this and the Company's most recent general rate cases. Later, I discuss our continued focus on communicating with customers, our overall customer satisfaction, and our customer support programs. Finally, I introduce the other Company witnesses who support this general rate case filing. A table of contents for my testimony is as follows:

Q. Are you sponsoring exhibits in this proceeding?

A. Yes. I am sponsoring Exh. DPV-2 which provides maps showing Avista's electric and natural gas service areas, including natural gas fields, trading hubs and major pipelines.

Q. Would you, at the outset, please provide a brief synopsis of the rate relief being requested, which we will later return to in more detail?

A. Yes. In this filing, the Company is proposing a Two-Year Rate Plan, which would begin with new base rates effective December 2024 (Rate Year 1) and December 2025 (Rate Year 2). For Rate Year 1, the proposed increases reflect an electric base rate relief of approximately $77.1 million, or 13.0% (12.6% on a billed basis), and natural gas base rate relief of $17.3 million, or 13.6% (6.3% on a billed basis), effective December 2024.

For Rate Year 2 of the Two-Year Rate Plan, the proposed increases reflect an electric net request of $53.7 million, or 11.7% (7.8% on a billed basis after taking into account the proposed reduction in electric Schedule 99 reflecting certain reductions related to Colstrip[1]), and natural gas base rate relief of approximately $4.6 million, or 3.2% (1.6% on a billed basis), effective December 2025.

II. OVERVIEW OF AVISTA

Q. Would you please briefly describe Avista?

A. Yes. Avista is primarily an electric and natural gas utility with certain other business ventures. Avista has two reportable business segments as follows:

> (1) Avista Utilities – an operating division of Avista Corporation, comprising the regulated utility operations in Washington, Idaho, Oregon, and Montana. Avista provides electric distribution and transmission, and natural gas distribution services in parts of eastern Washington and northern Idaho. Avista also provides natural gas distribution service in parts of northeastern and

[1] Concurrent with the Rate Year 2 electric effective date of December 2025, the Company proposes to reduce the rates associated with Schedule 99, "Colstrip Tracker" to reflect the removal of certain costs associated with Colstrip Units 3 and 4, in compliance with the law, as discussed further by Company witness Ms. Andrews. In order to effectuate the change in base rates on the assumed Rate Year 2 effective date of December 21, 2025, and the mandatory change in Tariff Schedule 99 to remove the costs associated with Colstrip prior to January 1, 2026, the Company will file on or before October 21, 2025, to align the Colstrip Tariff 99 reduction and the Rate Year 2 base rate change, to become effective on December 21, 2025. This will allow for the Commission to authorize one net bill change for customers.

southwestern Oregon.

(2) Alaska Electric Light and Power Company (AEL&P) – a regulated utility providing electric services in Juneau, Alaska that is a wholly-owned subsidiary and the primary operating subsidiary of Alaska Energy and Resources Company (AERC).

3. Other Businesses – venture fund investments, real estate investments, as well as certain other investments made by Avista Capital, which is a direct, wholly-owned subsidiary of Avista Corp.

Q. Would you please briefly describe Avista Utilities?

A. Yes. Avista Utilities serves approximately 410,000 retail electric and 377,000 retail natural gas customers in a 30,000 square mile service territory covering portions of Washington, Idaho, and Oregon. Of that amount, approximately 268,000 electric and 177,000 natural gas customers are in Washington. Avista Utilities has a net rate base (electric and natural gas) of approximately $4.3 billion (on a system basis), with electric retail revenues of $885 million (system) and natural gas retail revenues of $511 million (system). Serving our customers are approximately 1,800 regular and seasonal employees.

Q. Please describe Avista's current business focus for its utility operations.

A. Our strategy continues to focus on our energy and utility-related businesses, with strategic initiatives aligned across four focus areas: our customers, our people, performance, and innovation. We continue to place emphasis upon our customer focus as being central to all that we do to ensure our services are safe, responsible, and affordable.

III. CONTEXT FOR AVISTA'S RATE CASE

Q. This is the Company's second proposed Multi-Year Rate Plan (MYRP) under SB 5295.[2] Do you believe the first MYRP worked as intended?

A. For the most part, yes, especially with respect to the recovery of capital investments. First, one of the primary goals for the Company in lending its support to the referenced legislation was to make improvements to the lag it was experiencing with capital additions in the prior regulatory construct. In our last case, and as proposed in this case, the Company was able to include in rates the level of capital additions that are in service for customers during the rate effective periods. Further, this level of capital was, and is, fully supported with a detailed record provided both during the pendency of the case, as well as through the annual capital review process approved by the Commission. The Company, having gone through the first capital prudency review process in 2023, believes that the process was very effective, and ultimately allowed more timely cost recovery related to prudent capital additions. Our recovery of expenses, however, continues to lag, as shown in the rates of return achieved, provided by Company witness Ms. Schultz.

Q. Has the Company been able to earn its authorized return given the improvements you noted above related to reduced regulatory lag?

A. Unfortunately no, the Company has faced significant headwinds during our current MYRP. As discussed by Company witness Mr. Christie, inflationary pressures significantly increased our operating costs, resource costs, and cost of materials. These pressures have compounded the lag experienced by the Company in terms of overall cost recovery, negatively impacting the expected return by investors. Second, the Federal Reserve

[2] Engrossed Substitute Senate Bill 5295, discussed later in my testimony.

has aggressively increased interest rates in an attempt to bring inflation down to their 2% target. Avista uses its credit facility to fund day-to-day operations, and as a result of the Federal Reserve's increase in rates, our borrowing rate has increased nearly 500 basis points in less than two years, far above the level set in the last general rate case.

Coupled with rising interest rates, the extreme volatility in the energy markets in late 2022 also negatively impacted Avista because it required the Company to post historically substantial amounts of cash collateral, which put a significant strain on our liquidity. The Company borrowed on the credit facility to post the required collateral at higher cost than what is currently included in rates. In short, the Company has been exposed to higher interest expense associated with higher power supply and natural gas costs until they are recovered through the regulatory process.

Q. Please provide an overview of Avista's financial situation.

A. As Mr. Christie discusses, the cost pressures from inflation and rising interest rates, along with other increased operating expenses, have negatively impacted Avista. Over the last two years, these cost headwinds have impacted Avista's financial performance. In addition, another major headwind impacting Avista's financial performance is higher resource costs as a result of poor hydro performance in 2023. The higher resource costs absorbed through the Energy Recovery Mechanism (ERM) has reduced earnings significantly in 2023.

Our financial performance has also negatively impacted investor and sell-side analyst sentiment, and in turn, our stock performance. Standard and Poor's (S&P) has placed Avista's credit rating on "negative outlook" due to the expectation that Avista's weakening financial performance will cause our metrics to fall below their downgrade thresholds because of inflation, rising interest rates, and regulatory lag. The Company's weakening financial performance, deterioration in credit metrics, and poor stock performance highlights again the challenging environment in which we are operating and the importance of a supportive regulatory environment.

Q. Are these conditions unique to Avista?

A. In my view, the confluence of pressures are especially acute for Avista. First, as Company witness Mr. McKenzie shows in his testimony[3], Avista is the second smallest investor-owned utility, with only Hawaiian Electric being smaller, due primarily to the impact of the fire on Maui. Nor are we large enough to absorb the operational risks of power market fluctuations, wildfire risk, and the impact of substantial increases in fixed costs. We are being subjected to the same cost pressures that other utilities are facing, in part, but simply do not have the size to absorb those costs given the lack of growth in our service territories. This necessitates filings such as this one.

On top of that, we are faced with significant new regulatory and governmental mandates - significant both in terms of numbers and scope. Compliance with such mandates such as the Clean Energy Transformation Act and the Climate Commitment Act take significant effort and resources. This is important work but is layered on top of our "traditional" work – maintaining and/or upgrading infrastructure, recruiting and retaining strong, qualified employees, and serving our customers in the manner they deserve.

Finally, making us even more unique is our outsized exposure to the environment in which we serve. We are among the cleanest utilities in the United States, due to our substantial hydro resources. But even as this testimony is being prepared, we are facing extremely low snowpack for the coming year. That of course may lead to even higher fire risk this summer.

[3] Exh. AMM-1T, Figure 3

I am proud of our employees as they find ways to use their ingenuity to mitigate as much as possible the impacts a poor water year will have on power supply costs and availability, and of course of all of our work to mitigate fire risk as detailed by Company witness Mr. Howell.

Q. How is the Company proposing to address the headwinds noted above?

A. I mentioned earlier that the traditional headwind that Avista faced was regulatory lag associated with capital investment. We tried over a number of years to address such lag, including pro forma capital adjustments, proposed capital trackers, and the attrition mechanism. It appears that the application of SB 5295 in our first MYRP has provided the necessary relief related to capital lag (of course knowing that the Company still maintains the burden of proof that the capital included in rates is prudent and supported by an adequate evidentiary record).

So, for the other headwinds, the Company is proposing in this case a number of ratemaking changes. First, as discussed in great detail by Company witnesses Mr. Kinney and Mr. Kalich, the energy markets have changed significantly leading to substantial volatility. With the uncertainty in market liquidity, emission policy implementation, and resource adequacy, market dynamics have changed with significant volatility occurring during any unplanned event such as colder or warmer weather. These conditions can't be predicted when setting net power supply expense. With authorized power supply expenses being determined using forward market prices as much as 35 months prior to the actual operating day with a multi-year rate filing, power supply costs simply cannot be forecasted accurately this far in advance, especially during volatile market conditions. As such, the Company is proposing a change to the Energy Recovery Mechanism, moving to a single 95% customer / 5% Company (95/5) sharing level applied to the difference between actual and authorized power supply costs.

Second, the Company has updated its proposed cost of debt to reflect higher borrowing costs and has also proposed a meaningful increase in the authorized return on equity. As Mr. Christie discusses, Avista is on negative watch from credit rating agencies, and on "sell" from most of our equity analysts. This negative sentiment comes at a time where we are financing substantial capital additions on behalf of our customers. As Mr. McKenzie notes, considering capital market expectations, the exposures faced by Avista, and the economic requirements necessary to maintain financial integrity and support additional capital investment even under adverse circumstances, he believes a 10.88 percent return on equity is appropriate. It is his opinion that the 10.4 percent ROE requested by the Company represents a conservative ROE for Avista.

Q. How critical is strong regulatory support with the issues Avista is facing?

A. Strong regulatory support is paramount. We appreciate this Commission and its approval of two new "tracker" mechanisms related to insurance and wildfire expenses. But to address the concerns of the investment and rating agency communities, for the reasons noted above, we believe the Commission could signal its support for the Company through approving the recovery of costs in this case, with a higher return on equity, and with the proposed modifications to the ERM.

Q. What else is the Company doing in an effort to solidify its financial situation outside of filing this general rate case?

A. First, the Company is seeking timely cost recovery from its other jurisdictions, having recently completed general rate cases in Idaho and Oregon. Second, the Company is focused on cost management and its effect on our customers' bills. We continue to aggressively manage costs to achieve the appropriate balance of providing safe and reliable service at cost-effective rates, along with a high level of customer satisfaction, while attempting to improve the financial condition of the Company. We are focused on long-term, sustainable savings to continuously improve our service to customers and manage costs into the future.

Q. How is a focus on cost management instilled throughout the organization?

A. I believe that all of us at Avista are committed to providing safe, responsible, and affordable natural gas and electric service. One way to keep our employees focused on these goals is to have a portion of their compensation be at-risk, payable only with the achievement of certain customer-centered metrics. This "pay-at-risk" component, in the form of our Short-Term Incentive Plan, keeps our employees focused on:

- O&M Cost per Customer (O&M CPC) - The O&M CPC is a measure that focuses on controlling costs and driving efficiencies in order to keep our costs reasonable for our customers. The metric is based on targeted O&M expense and number of customers. These components are combined to create the O&M CPC metric.

- Customer Satisfaction - This measure is derived from a Voice-of-the-Customer Survey, which is conducted each quarter by an independent agency. The rating measures the customer's overall satisfaction with the service they received during a recent contact with the Company's contact center and/or service center.

- Reliability - This measure tracks how quickly the Company restores outages, how frequently customers are affected by outages and what percent of customers experience more than three sustained outages per year. The Company combined three common industry indices in order to balance our focus.[4]

- Response Time – This measure tracks how quickly the Company responds to dispatched natural gas emergency calls. The primary objective is

[4] This index combines Customer Average Interruption Duration Index (CAIDI), System Average Interruption Frequency Index (SAIFI) and Customer Experiencing Multiple Interruptions (CEMI3). CEMI3 measures the percentage of customers that experience more than three sustained outages in the year.

> customer and public safety while consistently treating customers the same throughout our service territory.

We believe these metrics are intertwined, in that effective cost management aids in keeping our costs reasonable for our customers, which in concert with reliable service and appropriate response to disruptions in service, results in a positive experience for our customers as measured in the Company's Voice-of-the-Customer survey. In the end, we were very purposeful in choosing metrics we believe incentivize our employees to diligently execute cost management and efficiencies throughout the organization, while keeping our focus on safe and reliable electric and natural gas service.

Q. Earlier you mentioned continuous improvement. What initiatives has the Company employed in this area?

A. Avista is always looking for improvements in the way it provides service to its customers, as well as ways to reduce the costs of those services. Beginning several years ago, Avista actively engaged in Business Process Improvement (BPI). The goal of BPI is to give our employees the tools that allow for a mindset of continuous improvement through the elimination of waste. The Company embarked in 2020 on a new "Business Transformation" program. Business Transformation is an enterprise-wide, aspirational effort to create break-through, lasting value for our customers, employees, and shareholders by transforming the way we work and becoming a more adaptable organization. In short, we aim to "Aspire, Activate & Adapt for a thriving future." We aspire to create and deliver new value and sustained growth for <u>our customers</u> and shareholders, to activate <u>our people</u> to reimagine how we work, and adapt and <u>perform</u> with agility in a rapidly evolving world.

Q. Ultimately, how will the benefits of Business Transformation affect your

electric and natural gas operations and customers in Washington?

A. The aspirations we have set forth under this long-term transformational program will help us make further progress in managing rising costs and help us meet our goal to provide affordable energy service to our customers. We must continue to evolve to become an even more adaptable organization that operates with focus, agility, accountability, and transparency.

Q. Has the Company reflected a level of cost savings in this case?

A. Yes. As discussed by Company witness Ms. Andrews, we have incorporated cost savings across the board for all capital projects that are not otherwise related to mandates or growth. Avista has incorporated direct O&M offsets related to certain capital projects, and incorporated a 2% efficiency adjustment, where immediate hard cost savings could not otherwise be identified. In this manner, this will provide additional impetus to drive efficiencies out of our capital investments. Avista has included in the Two-Year Rate Plan over $82 million of offsets, as described by Ms. Andrews.

Q. Does the proposed efficiency adjustment lead to an immediate write-off of capital investment?

A. No, it does not. As we did in our last general rate case, the Company has included the full level of capital investment in its revenue requirement and provided a separate "offsets adjustment" to incorporate both the direct offsets as well as the efficiency adjustment.

Q. There are a number of issues related to clean energy, equity, and federal grants that were addressed in your last MYRP. Would you provide an update on those items?

A. Yes. In this case Avista has provided substantial updates on these items. As it relates to clean energy, Company witness Mr. Thackston provides an update on our efforts to meet both Washington State and corporate clean energy targets, and Mr. Kinney provides details on some recent clean energy power purchase agreements that will start serving customers in 2024. As it relates to equity, and specifically equity in our business planning processes, Mr. Thackston provides details on our work and some initiatives that are underway to infuse equity into all that we do. Finally, Company witness Ms. Scarlett provides testimony and exhibits showing all of the various federal and state grants that the Company has reviewed and, where appropriate, applied for in an effort to drive investment in our service territory, offset capital costs, or improve reliability and safety. I am proud of all of this work and the energy our employees are dedicating towards meeting the challenges and changes in the energy industry.

Q. Is the recovery of investments to comply with Washington's Clean Energy Transformation Act, or CETA contributing to the need for relief in this case?

A. Just as with our first MYRP, compliance with CETA is a factor, but not yet a major driver of rate relief. As shown in Avista's Clean Energy Implementation Plan (CEIP) filed with the Commission on October 1, 2021,[5] Avista simply does not have the required level of investment that other utilities, like Puget Sound Energy, are facing in the four-year CEIP period.[6] From 2022-2025, Avista's expected incremental costs as a result of CETA are estimated to be $41.6 million. Some of those costs are associated with Avista's Named Communities Investment Fund, and other costs are associated with certain clean energy power supply contracts discussed by Mr. Kinney and included in Mr. Kalich's determination of rate

[5] Docket UE-210628.
[6] Docket UE-210795

year power supply expense. Beyond that, the Company does not have, in the short-term, a need for substantial investment to comply with CETA, as outlined in its CEIP.

Q. Has Avista included equity considerations in this case?

A. Yes, it has. As discussed by Company witness Mr. Bonfield, Avista has proposed modifications to LIRAP in an effort to meet the expectations of both CETA and SB 5295. With regard to CETA, Section 12 codified as RCW 19.405.120, focuses on the provision of energy assistance for low-income households and the utility's demonstration of progress towards making such energy assistance funds available to these households. This focus on energy assistance for low-income households is one way the Company ensures that the benefits of transitioning to a clean energy economy in Washington are broadly shared and equitably distributed.

Q. What else is the Company doing to focus on equity?

A. As discussed in detail by Mr. Thackston, Avista has been focused on putting customers at the center of business processes and decisions to drive better customer experiences for many years. Avista has a rich tradition of providing equitable service to customers through energy efficiency programs, low-income rate assistance programs, Native American relations, advisory groups, customer experience, outreach, and community and civic participation (to name a few). Efforts have been underway in these areas to identify and meet the needs of those customers, evaluating the allocation of resources that best meets the needs of those customers and communities. Senior leadership is committed to incorporating equity in strategic focus areas in order to drive not only a better customer experience, but to better align Avista on its path towards integrating equity into its business practices.

Q. Would you please discuss some of the key provisions of SB 5295 that

Avista has incorporated into this rate filing?

A. Yes, I will provide a brief summary of specific items included in SB 5295 (codified primarily in RCW 80.28.425) and describe, in no particular order, how Avista has incorporated provisions under the law into this general rate case. Those items include:

1. Multiyear Rate Plans – RCW 80.28.425(1).
2. Fair Valuation of Property – RCW 80.28.425 (3)(b)
3. Determination of Expenses and Revenues – RCW 80.28.425 (3)(c)
4. Earnings Test – RCW 80.28.425(6)
5. Performance Based Ratemaking – RCW 80.28.425(7)
6. Low Income Bill Assistance – RCW 80.28.425(2).

Q. Turning to <u>Item No. 1</u> (see RCW 80.28.425(1)), is Avista proposing a Multiyear Rate Plan in this case?

A. Yes, Avista is proposing a Two-Year Rate Plan in this filing. More information on the filing itself is summarized below, and in greater detail in the Testimony of Company witnesses Ms. Schultz (Revenue Requirements) and Mr. Miller (Rate Spread/Rate Design).

Q. Did Avista consider a longer rate plan instead of the minimum Two-Year Rate Plan proposed in this case?

A. As with our first MYRP, the Company did consider a 3 or 4 year rate plan, but given volatility in interest rates and energy markets experienced in our first MYRP, and overall inflation, Avista is simply not in a position to absorb any further volatility that could occur in a longer rate plan, even considering the offramps built into SB 5295. While unforeseen at the time the parties reached settlement in our last MYRP, the effects of inflation hurt Avista's returns. Thus, given the financial condition of the Company as highlighted by Mr. Christie, Avista simply cannot risk locking in rates over a longer time period, with where we are financially-situated today.

Q. Does Avista believe there are adequate protections for customers built into this Two-Year Rate Plan?

A. Yes, Avista has continued to include certain protections to assure adequate regulatory oversight that ultimately serves to protect customer interests. Ms. Andrews discusses balancing accounts which track the actual level of insurance and wildfire expenses, which were set by the Commission in the last rate case (and updated in this case). Further, as discussed by Company witness Ms. Benjamin, Avista describes its robust reporting and auditing program to ensure the level of capital that has been included in rates is supported by actual, used and useful plant. Finally, there is the earnings test that is discussed later in my testimony under Item No. 4.

Q. <u>Item No. 2</u> above relates to the section of RCW 80.28.425(3)(b) that addresses the fair value of property for ratemaking purposes. What is Avista proposing in this regard in the Two-Year Rate Plan?

A. As discussed by Ms. Schultz, Avista has included the fair value of electric and natural gas property that is or will be used and useful for serving customers in Rate Year 1 and in Rate Year 2. Ms. Schultz testifies that Avista has employed the use of a traditional pro forma study for Year 1 and for Year 2. We believe that providing the Commission with the actual planned projects, approved by the Company's Capital Planning Group (described by Mr. Christie), and approved by the Officers and Board of Directors, in aggregate, would give Staff and the parties an appropriate look into what is planned during the Two-Year Rate Plan. Ultimately, Avista faces refunds of any rate recovery included in this case for capital additions that do not become used and useful. Mr. Christie provides an overview of the capital approval and budgeting process.

Ms. Benjamin discusses the Commission's Policy Statement[7] that establishes a "process" for the provisional recovery in rates of rate-effective period property, subject to refund. Under this process, the Commission will revisit rate recovery in a future period after sufficient information about the property in question has become available.[8] This process, per the Policy Statement, does not guarantee recovery of these costs, but gives utilities an opportunity to begin recovering costs sooner, while still ensuring fair, just, and reasonable rates. It is our view that Avista has provided a Multiyear Rate Plan that is in line with SB 5295 and with the Commission's Policy Statement. Our approach is consistent with what was proposed and accepted by the Commission in the Company's inaugural MYRP.

Q. Turning now to Revenues and Expenses noted in Item No. 3 above, what has Avista proposed in its Two-Year Rate Plan?

A. The statute (RCW 80.28.425(3)(c)) states 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 multiyear rate plan." It further states that the Commission:

> in ascertaining and determining the fair value of property of a gas or electrical company … and projecting the revenues and operating expenses of a gas or electrical company … **may use any standard, formula, method, or theory of valuation** reasonably calculated to arrive at fair, just, reasonable, and sufficient rates. (RCW 80.28.425 (3)(c)) (emphasis added)

This section is one of the most important pieces of the law, as it allows the Commission flexibility to set a utility's revenue requirement by entertaining new ways of calculating utility

[7] Docket U-190531, Policy Statement on Property That Becomes Used and Useful After Rate Effective Date, January 31, 2020.
[8] Id. at ¶20, p. 7.

need, so as to arrive at fair, just, reasonable, and sufficient rates. Ms. Schultz addresses the means to derive a revenue requirement that will allow Avista a reasonable opportunity to earn its authorized rate of return.

Q. Has Avista ultimately included in this Two-Year Rate Plan the costs – both capital and expense – that it expects to incur to serve customers?

A. Yes, Avista has included actual and pro forma capital and expenses that would serve to cover the costs to serve customers. And as noted by Ms. Benjamin in the section of her testimony related to reporting, as circumstances change, and capital is redeployed to other new or existing Business Cases during 2024 – 2026, any redeployed capital will be supported as prudent and used and useful, in order to allow for recovery. This recognizes the fact that, during any rate plan, issues arise that must be addressed through the reallocation of capital to a higher purpose, but that such reallocation should not penalize the Company through regulatory lag on such reprioritized investment during the Two-Year Rate Plan.

Q. Why is that fair for customers?

A. It is fair for customers because <u>we have also included</u> in the Two-Year Rate Plan the <u>benefits of new revenue and other substantial offsets</u>. For new revenue, in traditional ratemaking the benefits of new revenue are meant to serve to help offset the growth in costs that occur after new rates go into effect in a general rate case. If the Company included that growth in costs in rates (which we have), but did not also include the growth in revenue, then that would not be reasonable or fair and would violate the "matching principle". So, Avista has included the new revenue estimated to occur in the rate-effective periods, matching the expenses included in the same time period, and matching the growth capital included in the pro forma capital adjustments. This results in a "matching" of revenue, expense, and capital.

As discussed earlier, Avista has included offset of over $82 million in the Two-Year Rate Plan - $69.6 million of electric offsets, and $12.5 million of natural gas offsets.

Q. Item No. 4 you address above is related to the Earnings Test set forth in RCW 80.28.425(6) ("SB 5295 Earnings Test"). Is that Earnings Test still appropriate?

A. Yes. As discussed by Ms. Schultz, even with recent rate relief, the Company in aggregate continues to underearn in the State of Washington. Were the Company still somehow to earn in excess of its authorized return, ratepayers will participate in any returns in excess of the authorized rate of return – provided for in Senate Bill 5295. The earnings test incorporated into statute provides the following:

> If the annual commission basis report for a gas or electrical company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than .5 percent higher than the rate of return authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of .5 percent higher than the rate of return authorized by the commission for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding.

Q. Would you please provide how the Company has incorporated Item No. 5 – Performance Based Ratemaking – into this Multiyear Rate Plan?

A. Yes. As a part of SB 5295, the Commission must:

> (I)n approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan. These performance measures may be based on proposals made by the gas or electrical company in its initial application, by any other party to the proceeding in its response to the company's filing, or in the testimony and evidence admitted in the proceeding.[9]

[9] RCW 80.28.425(7). The law provides that in developing performance measures, incentives, and penalty mechanisms, the commission may consider factors including, but not limited to, lowest reasonable cost planning, affordability, increases in energy burden, cost of service, customer satisfaction and engagement, service reliability, clean energy or renewable procurement, conservation acquisition, demand side management

As discussed in more detail by Mr. Bonfield, Avista agreed to, and the Commission approved, the reporting of 95 different "metrics" as a part of the Company's first MYRP. Avista proposes to reduce the number of metrics it reports on from 95 metrics to 48 metrics in this case. The 48 metrics proposed appear to be valuable to the Commission as identified in the Commissions Performance Based Ratemaking Docket U-210590 (which Avista is actively engaged in) and better align with the regulatory goals, desired outcomes, and design principles provided in that docket. These metrics can assist the Commission in evaluating the Company's performance in many areas, including the affordability and equitability of its service, how reliable the Company's service is, how the Company is prepared for and responds to emergencies, how customers rate the experience they have with the Company, and how the Company is reducing GHG emissions and pursuing demand response and non-wires and non-pipe alternative programs.

Q. Is Avista proposing inclusion of performance incentive mechanisms in this rate plan?

A. As discussed by Mr. Bonfield, Avista does not believe it is necessary for the Commission to approve further performance incentive mechanisms in this case. If, however, the Commission deems that additional performance incentive mechanisms are required pursuant to 80.28.452(7), Avista would propose a single performance incentive mechanism consisting of a group of six measures, which is the same as it proposed in its initial testimony of its last rate case. Those measures, in summary are:

Measure 1: Customer Satisfaction with Avista's Customer Service Representatives
Measure 2: Customer Satisfaction with Avista's Field Service Representatives

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expansion, rate stability, timely execution of competitive procurement practices, attainment of state energy and emissions reduction policies, rapid integration of renewable energy resources, and fair compensation of utility employees.

Measure 3: Customer Complaints made to the Commission
Measure 4: Answering Our Customers' Calls Promptly
Measure 5: Avista's Response Time for Electric Emergencies
Measure 6: Avista's Response Time for Natural Gas Emergencies

Avista proposes to group them together for purposes of an incentive or penalty. Avista proposes that if the Company meets or exceeds all six of Measures 1 through 6 above, Avista would earn an annual incentive of $500,000. If Avista meets or exceeds 5 of the 6 measures, there would be no incentive or penalty. If Avista fails to meet two or more of the six measures, then Avista would pay a penalty of $500,000.

Q. For Item No. 6, is the Company proposing changes to its Low Income programs as a part of this general rate case?

A. Avista's primary low income program is the Low Income Rate Assistance Program, or LIRAP. The testimony of Mr. Bonfield presents the Company's recent modifications to LIRAP that better align Avista's future LIRAP with the expectations of both SB 5295 and CETA. These modifications have been developed in consultation with the Company's Energy Assistance Advisory Group. We believe these changes will better and more effectively serve the Company's low-income customers with energy assistance.

Q. Finally, before addressing the specifics of your rate request, would you please provide an update on the efforts the Company undertook related to the November 2023 natural gas interruption?

A. Absolutely. On November 8, 2023, a natural gas transmission pipeline owned and operated by Williams Pipeline near Pullman, Washington was damaged by a third party. This pipeline connects to Avista's natural gas distribution system serving customers in the Palouse and Lewiston/Clarkston Valley regions. After the incident, Avista lost pressure on its system, resulting in outages to approximately 36,000 customers. For the public's protection, service to affected customers needed to be manually shut off at the meter, which took an estimated 3,000 work hours, while Williams Pipeline crews worked diligently to repair the pipeline. Once the pipeline was repaired late on November 9, Avista's system was purged and repressurized, and then our teams went to each home and business to turn service back on and relight natural gas appliances. By the evening of November 14, services were restored to almost all customers.

The swift actions of the Commission and its expedited Emergency Waiver of certain PHMSA requirements, gave Avista an opportunity to begin the restoration process as soon as possible. This allowed customers to be reconnected to service in the timeliest fashion possible in light of the number of customers affected. When the incident occurred, Avista knew immediately that mutual assistance would be needed from other parties and utilities throughout the region to help reconnect customers to vital natural gas service. The waiver of certain rules allowed for the quick and ready availability of natural gas crews from Oregon, Washington, Utah, South Dakota, Idaho, and California to work on the restoration. Without that action, we would have been working on reconnecting customers for a period of additional weeks, if not months.

In the end, we were able to enlist 527 external natural gas utility workers and HVAC contractors to expedite the recovery effort. And, of course, I would like to express my sincere appreciation and gratitude to the hundreds of Avista employees who quickly engaged in the outage and worked tirelessly until all customers were restored. From natural gas crews going house-to-house, engineering, logistics, supply chain, communications, fleet, and numerous other groups from the Company, everyone prioritized this outage and put our customers first.

IV. SUMMARY OF THE GENERAL RATE CASE

Q. Would you please summarize the Company's proposals included in this electric and natural gas general rate case filing?

A. Yes. In this filing, the Company is proposing a Two-Year Rate Plan, which would begin with new base rates effective December 2024 (Rate Year 1) and December 2025 (Rate Year 2). For Rate Year 1, the proposed increases reflect an electric base rate relief of approximately $77.1 million, or 13.0% (12.6% on a billed basis), and natural gas base rate relief of $17.3 million, or 13.6% (6.3% on a billed basis), effective December 2024.

For Rate Year 2 of the Two-Year Rate Plan, the proposed increases reflect an electric net revenue of $53.7 million, or 11.7% (7.8% on a billed basis after taking into account the proposed reduction in electric Schedule 99 reflecting certain reductions related to Colstrip[10]), and natural gas base rate relief of approximately $4.6 million, or 3.2% (1.6% on a billed basis), effective December 2025.

The Company's electric and natural gas requests are based on a proposed rate of return of 7.61%, a cost of debt of 4.99%, with a common equity ratio of 48.5% and a 10.40% return on equity (ROE), as discussed by Mr. Christie and Mr. McKenzie.

Q. The proposed ROE of 10.40% is a departure from requested ROEs in Avista's most recent general rate cases. Why is such a request appropriate at this time?

A. Recent trends in bond yields document a significant increase in the returns on

[10] Concurrent with the Rate Year 2 electric effective date of December 2025, the Company proposes to reduce the rates associated with Schedule 99, "Colstrip Tracker" to reflect the removal of certain costs associated with Colstrip Units 3 and 4, in compliance with the law, as discussed further by Ms. Andrews. In order to effectuate the change in base rates on the assumed Rate Year 2 effective date of December 21, 2025, and the mandatory change in Tariff Schedule 99 to remove the costs associated with Colstrip prior to January 1, 2026, the Company will file on or before October 21, 2025, to align the Colstrip Tariff 99 reduction and the Rate Year 2 base rate change, to become effective on December 21, 2025. This will allow for the Commission to authorize one net bill change for customers.

long-term capital demanded by investors. Mr. McKenzie's conclusion that a 10.4 percent ROE for Avista is a conservative estimate of investors' required return is also reinforced by the greater uncertainties associated with Avista's exposure to wildfires, financial situation, and relatively small size.

Q. The proposed increases are somewhat higher for the first year of the Two-Year Rate Plan. Why is that the case?

A. There are a number of reasons why the Company's proposed rate increases in Year 1 for electric and natural gas are larger than the proposed increases for Year 2. The fundamental reason why is that the Company, in this case, is seeking to close the "regulatory lag" in Year 1 and set the proper base for a Multi-Year Rate Plan. As Avista discussed in our last general rate case, it is extremely important that the Commission approve a revenue requirement that "gets the first year right".[11] If the Commission approved a MYRP with the first year revenue requirement 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. By its very nature that impact would carry over into every subsequent rate year. There is just no amount of prudent and reasonable cost cutting that would overcome the lag built into a MYRP.

Q. What is the cause for the substantial increase in Rate Year 2?

A. As discussed by Ms. Andrews and Mr. Kalich, the Company is required to remove the vast majority of costs associated with Colstrip from base rates by the end of 2025. As shown in Mr. Kalich's testimony, removing the Colstrip component from base power supply results in an increase in power supply costs (i.e., Colstrip is actually more cost-effective

[11] Dockets UE-200900, et. al, Exh. KJC-1T, p. 19.

than its replacement power, from a power supply-perspective, in the near-term). As such, base power supply expense will increase for Rate Year 2. However, that increase in base power supply costs is offset, in part, by the removal of approximately $24.4 million associated with Colstrip capital and O&M which are embedded in electric Schedule 99, "Colstrip Tracker". Table No. 1 below provides the breakdown of the proposed increase for electric Rate Year 2:

Table No. 1 – Electric Rate Year 2 Composition ($ thousands)

Net Expense/Capital Investment	$	18,618
Colstrip Power Supply Increase	$	59,512
Subtotal	$	78,130
Schedule 99 Colstrip Tracker Reduction	$	(24,419)
Overall Request	**$**	**53,711**

Q. How is the Company proposing to spread the December 2024 and December 2025 Rate Year 1 and 2 electric increases to each of the customer rate schedules?

A. The proposed electric increase to each customer rate schedule is shown in Table No. 2 below.[12]

[12] Mr. Miller in Exh. JDM-1T provides details of the proposed spread of the increase to each customer rate schedule for each year of the Two-Year Rate Plan.

Table No. 2 – Proposed % Electric Increase by Schedule (December 2024)

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedules 1	13.1%	13.8%
General Service Schedules 11/12	13.1%	11.8%
General Service Schedule - Transportation 13	13.1%	11.8%
Large General Service Schedules 21/22	13.1%	11.7%
Large General Service Schedule - Transportation 23	13.1%	12.1%
Extra Large General Service Schedule 25	13.1%	11.7%
Extra Large Special Contract 25I	12.8%	11.4%
Pumping Service Schedules 31/32	13.1%	11.8%
Street & Area Lights Schedules 41-48	13.1%	11.9%
Overall	**13.0%**	**12.6%**

The proposed electric increase to each customer rate schedule effective December 2025, is shown in Table No. 3 below:

Table No. 3 – Proposed % Electric Increase by Schedule (December 2025)

Rate Schedule	Increase in Base Rates	Increase in Billing Rates
Residential Schedules 1	11.7%	6.7%
General Service Schedules 11/12	11.7%	8.8%
General Service Schedule - Transportation 13	11.7%	8.7%
Large General Service Schedules 21/22	11.7%	8.7%
Large General Service Schedule - Transportation 23	11.7%	9.4%
Extra Large General Service Schedule 25	11.7%	9.6%
Extra Large Special Contract 25I	11.5%	9.4%
Pumping Service Schedules 31/32	11.7%	5.9%
Street & Area Lights Schedules 41-48	11.7%	6.2%
Overall	**11.7%**	**7.8%**

* The RY2 billing change includes the estimated Schedule 99 (Colstrip) rate reduction

Q. Has Avista proposed to update power supply costs as a part of this case?

A. Yes. In Avista's 2017 general rate request[13], the Commission stated in its Final Order 07 that baseline adjustments to power supply costs should only be made "in

[13] Dockets UE-170485 and UG-170486, Order 07, ¶160.

extraordinary circumstances”. In this case, we believe that power supply costs should, in fact, be adjusted. First, for Rate Year 1, as discussed by Mr. Kalich, the Company has provided a new power supply baseline level of expense (as well as transmission revenues/expenses discussed by Company witness Mr. Dillon), that reflects more current expectations of customer loads, generation availability, and wholesale electricity and natural gas prices, among other things, and provides a comparison to the present level of power supply baseline costs. For power supply alone, the increase for Washington above current authorized power supply expense is $23.2 million, which we believe meets any reasonable definition of “extraordinary”.

Second, as both Mr. Kalich and Mr. Kinney discuss, the ability to accurately forecast rate year power supply expense has grown much more difficult. As noted earlier, such factors include:

- Forecast Timing – Authorized power supply expenses are determined using forward market prices as much as 35 months prior to the actual operating day with a multi-year rate filing. Power supply costs cannot be forecasted accurately this far in advance especially during volatile market conditions and therefore managing the forecast timing is outside of the Company’s control.

- Regional resource adequacy – The current regional resource mix is shifting with the retirement of thermal resources and the integration of more variable resources. The region is shifting from a resource sufficient position to a resource neutral or deficit position creating market uncertainty.

- Lack of market liquidity – With less resources available in the region it is difficult to procure future energy through market transactions as utilities are holding back capacity to meet peak load needs.

- Carbon emission policy – New carbon emission policy has created market uncertainty resulting in forward price premiums.

- Changing market dynamics – With the uncertainty in market liquidity, emission policy implementation, and resource adequacy market dynamics

> have changed with significant volatility occurring for any unplanned event such as colder or warmer weather. These conditions can't be predicted when setting net power supply expense (NPE).

Third, this is the Company's second MYRP filed under SB 5295, and we want power supply base costs to be reflected at a level that will be most representative over a Two-Year Rate Plan. It is important, in our view, to reflect a power supply base that is more representative of the rate-effective periods. The power supply base proposed incorporates power market conditions and pricing that is almost 24 months more recent than what is included in embedded power supply costs today.

Finally, the Company is proposing a limited power supply update for Rate Year 2; limited not in terms of value, but in terms of the number of updated items. As discussed earlier, Avista is required under the law to remove most of the costs[14] associated with Colstrip from base rates, including the level of Colstrip power supply expense. The power supply adjustment in Rate Year 2 does just that – removes Colstrip from base power supply.

Q. How is the Company proposing to spread the December 2024 and December 2025 natural gas increases to each of the customer rate schedules?

A. The proposed natural gas increase to each customer rate schedule effective December 2024, is shown in Table No. 4 below.[15]

[14] Costs associated with Colstrip Transmission, and decommissioning/remediation, will remain in rates prospectively.
[15] Mr. Miller provides details of the proposed spread of the increase to each customer rate schedule for each year of the Two-Year Rate Plan (see Exh. JDM-1T).

Table No. 4 - Proposed % Natural Gas Increase by Schedule (December 2024)

Rate Schedule	Increase in Margin Rates	Increase in Billing Rates
General Service Schedules 101	13.8%	6.9%
Large General Service Schedules 111/112/116	13.8%	4.5%
Interrupt. Sales Service Schedules 131/132	13.8%	5.2%
Transportation Service Schedule 146	13.8%	14.3%
Overall	**13.6%**	**6.3%**

It is important to note that the billing increase for Transportation Schedule 146 is larger than the other service schedules as their "billed" revenues do not include the cost of natural gas nor interstate pipeline transportation, which those customers procure independently from Avista.

The proposed natural gas increase to each customer rate schedule effective December 2025, is shown in Table No. 5 below:

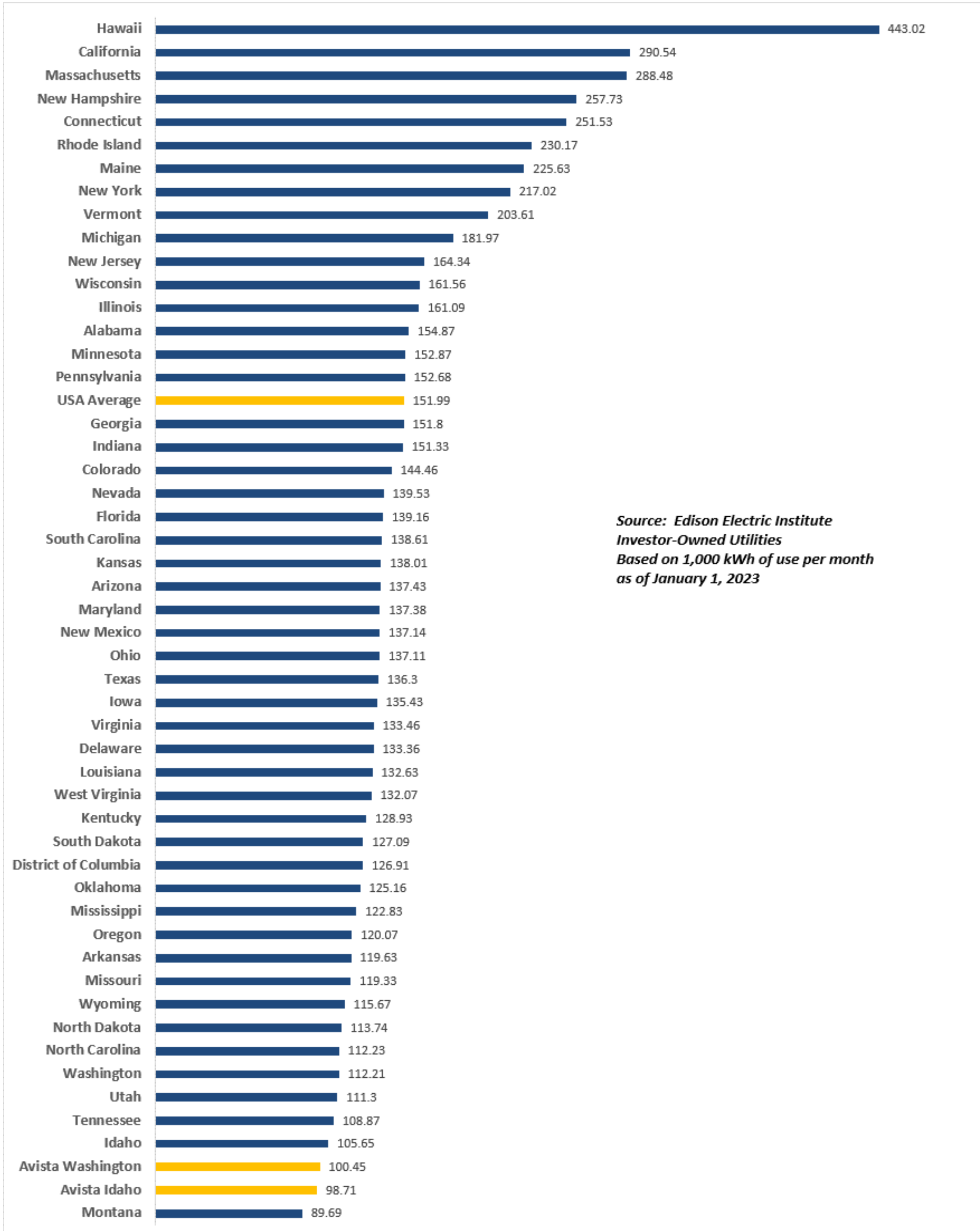
Table No. 5 – Proposed % Natural Gas Increase by Schedule (December 2025)

Rate Schedule	Increase in Margin Rates	Increase in Billing Rates
General Service Schedules 101	3.2%	1.7%
Large General Service Schedules 111/112/116	3.2%	1.1%
Interrupt. Sales Service Schedules 131/132	3.2%	1.3%
Transportation Service Schedule 146	3.2%	3.3%
Overall	**3.2%**	**1.6%**

Q. Are Avista's residential electric bills still among the lowest among investor-owned utilities in the United States?

A. Yes. With regard to Avista's retail rates compared to other investor-owned utilities, Edison Electric Institute periodically prepares a comparison of residential electric bills for investor-owned utilities across the country. Illustration No. 1 below provides a comparison of an Avista residential customer's monthly bill in Washington and Idaho with utility bills in other States. The illustration shows that Avista's residential customers' rates still remain among the lowest in the Country for investor-owned utilities.

Illustration No. 1 – Average Residential Monthly Electric Bill



Our relatively low retail rates are due in large part to a history of our Company aggressively pursuing the acquisition and preservation of a diversified portfolio of low-cost resources for the benefit of our customers. While reflective, in part, of our lower cost resource portfolio, they are also a result of Avista's efforts to control its capital investment costs and utility operating costs, in order to keep retail rates as low as reasonably possible.

V. GENERAL RATE CASE DRIVERS

Q. What are the primary factors driving the Company's requested electric and natural gas revenue increases?

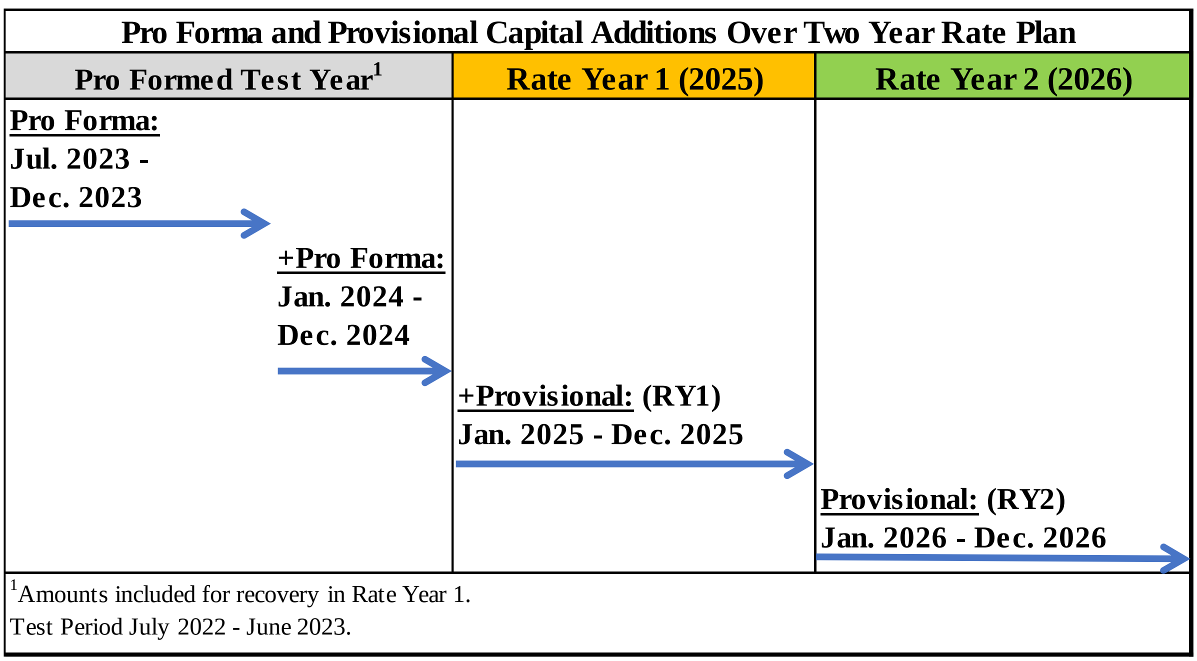
A. As discussed by Ms. Schultz, the primary factor driving the Company's electric and natural gas revenue requirements in Rate Year 1 and Rate Year 2 is an increase in net plant investment.[16] In addition, net power supply expense also contributes significantly to the incremental electric revenue requirements over the Two-Year Rate Plan. Other changes impacting the Company's revenue requirement requests relate to regulatory amortizations and increases in distribution, operations and maintenance (O&M), and administrative and general (A&G) expenses for both electric and natural gas operations, compared to current authorized levels.

The Company has included total electric and natural gas pro forma and provisional capital additions planned to transfer-to-plant between July 1, 2023 through December 31, 2025 for Rate Year 1, and January 1, 2026 through December 31, 2026 for Rate Year 2. The

[16] As discussed by Mr. Christie, the Company typically has approximately 120 Business Cases completed on an annual basis, representing over $430 million of annual capital spending (system), on an average basis between 2019-2023. This level has been increased to $500 million in 2024, $525 million in 2025 and $575 million in 2026, on a system basis.

Company pro formed capital additions for the period July 1, 2023 through December 31, 2024. As discussed by Ms. Benjamin, for 2023 and 2024, a level of capital investment through 2024 was approved by the Commission in Dockets UE-220053, et. al., contingent upon the provisional capital review filings in March 2024 for 2023 capital investments and in March 2025 for 2024 capital investments. Capital additions for the period January 1, 2025 through December 31, 2026 are included as "provisional" and subject to further review through the Company's proposed annual Provisional Capital Reporting process as described by Ms. Benjamin. Illustration No. 2, copied from Ms. Schultz's testimony, provides a simple schematic of capital addition inclusion during the Two-Year Rate Plan.

Illustration No. 2 – Capital Additions Included in Two-Year Rate Plan



Q. What is driving the need for continued capital investment?

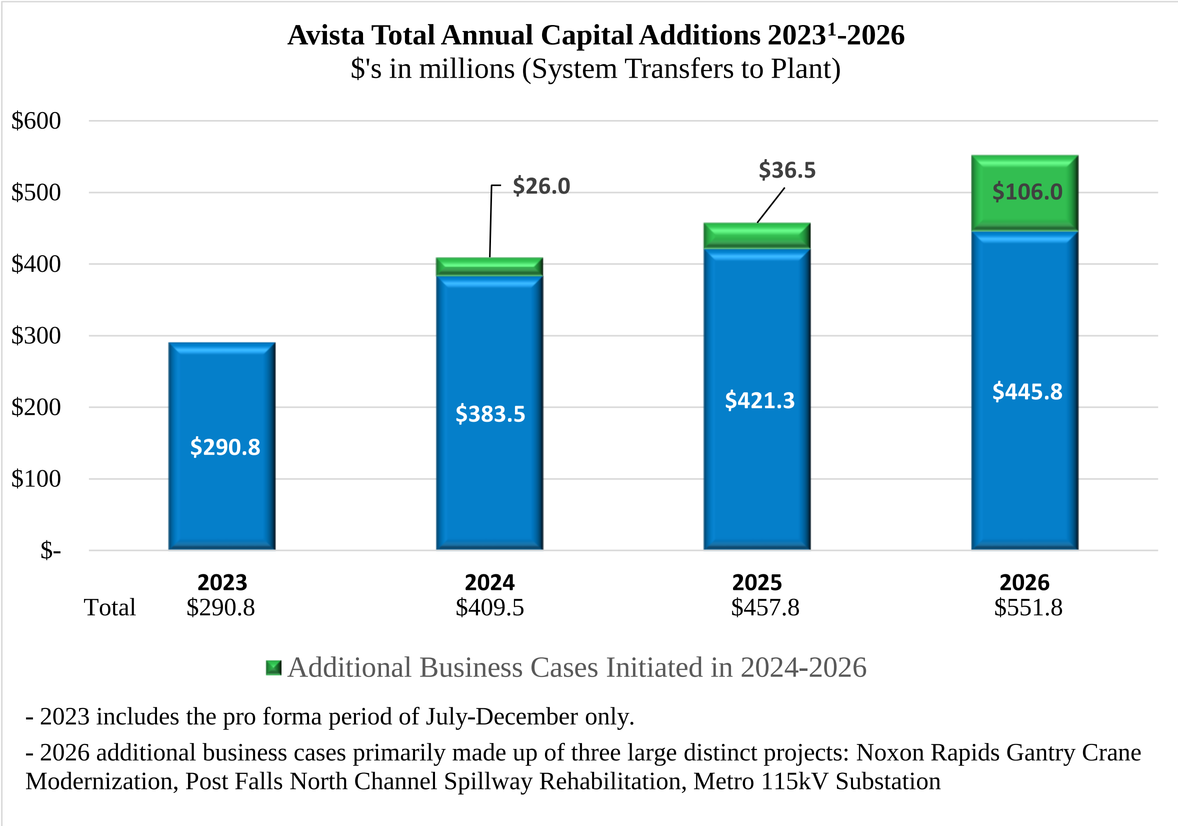
A. As explained by Mr. Christie, our capital investment is driven by six key "investment drivers", which are:

1. Respond to customer requests for new service or service enhancements;
2. Meet our customers' expectations for quality and reliability of service;
3. Meet regulatory and other mandatory obligations;
4. Address system performance and capacity issues;
5. Replace infrastructure at the end of its useful life based on asset condition; and
6. Replace equipment that is damaged or fails, and support field operations.

An explanation of these "drivers", as well as examples of specific capital projects under these drivers, is provided by Mr. Christie. He also provides further details on our capital planning process, which is used to identify and prioritize capital investment, in the appropriate time frame, and in a manner that best meets the future needs and expectations of our customers. Company witnesses Mr. Alexander, Mr. DiLuciano, Mr. Manuel, Mr. Howell, and Ms. Hydzik provide details of our capital projects, including the projects reflected in Ms. Benjamin's and Ms. Schultz's pro forma and "provisional" capital adjustments. Those witnesses address why these capital projects need to be done in the planned time frame, and what the risks and consequences are of not completing the projects in that time frame.

For illustrative purposes, Mr. Alexander, Mr. DiLuciano, and Mr. Manuel, who address most of the capital projects, have included yearly bar charts for 2023-2026 depicting the yearly spend within each existing Business Case versus "provisional" expenditures associated with an entirely new Business Case in 2025-2026. As shown in the aggregated chart below from Ms. Benjamin's testimony, which combines the results in those areas covered by those witnesses, in excess of 80% of "provisional" expenditures have their genesis in existing test period Business Cases.

Illustration No. 3: Avista Total Annual Capital Additions 2023[17] - 2026



As you can see in Illustration No. 3 above, most of the capital investment relates to ongoing, multi-year efforts that continue over time, at various funding levels. The rationale and justification for these ongoing projects, however, does not change over time, only the funding levels.

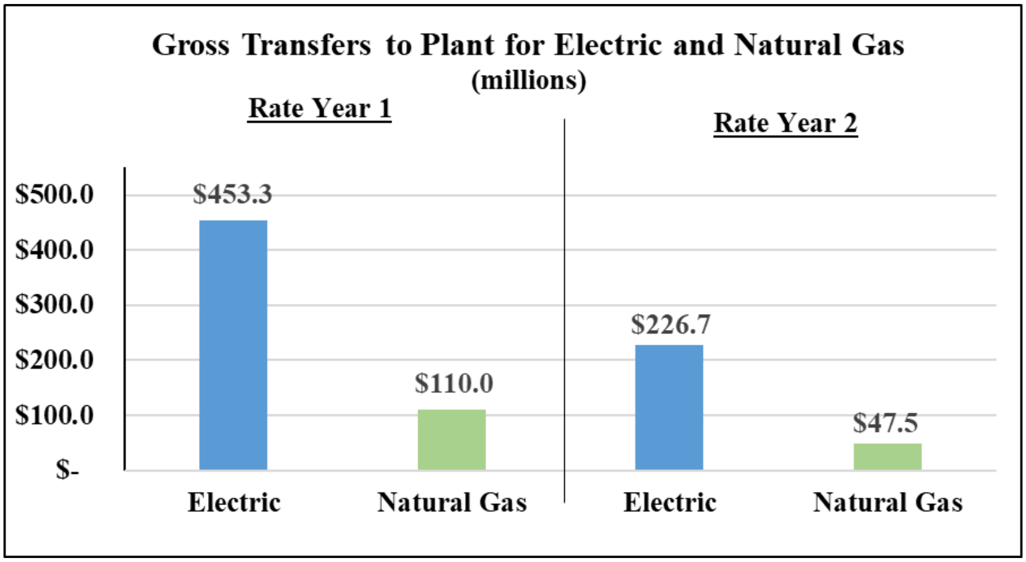
Q. Given that annual capital additions year over year are fairly consistent, why are the capital additions included in Rate Year 1 higher than in Rate Year 2?

A. As Ms. Schultz discusses in her testimony, Rate Year 1 addresses incremental capital deployed (transfers-to-plant) in July 1, 2023 through December 31, 2025, which is

[17] 2023 includes the pro forma period of July – December.

essentially a 2 year period,[18] as compared to Rate Year 2, which covers 2026 capital additions.[19] Illustration No. 4, copied from Ms. Schultz's testimony, demonstrates this point:

<u>Illustration No. 4 – Washington Electric & Natural Gas Gross Transfers to Plant</u>



RY1 serves to capture (or "catch up") capital deployed since July 1, 2023. As should be evident, if that capital is not recognized in rates in Rate Year 1, the levels requested and approved in Rate Year 2 will be wholly insufficient.

Q. Would you please identify the main changes <u>in expenses</u> impacting the Company's filed request?

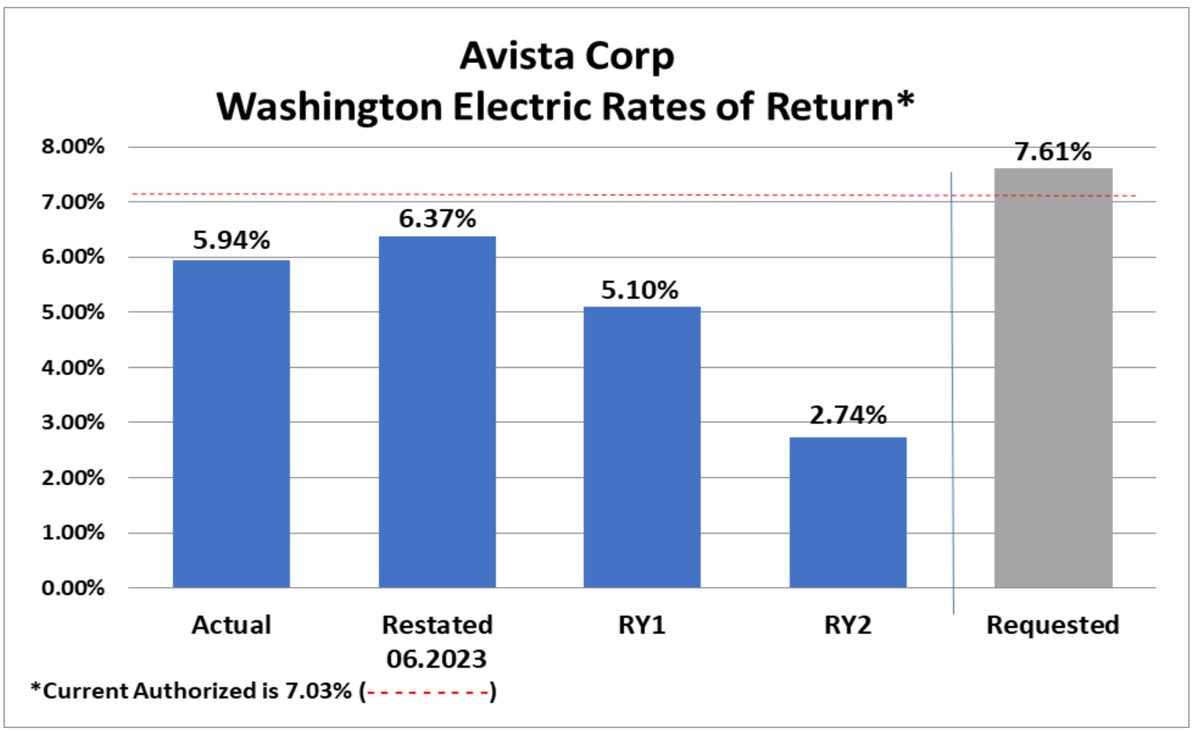
A. The Company has a series of increases in expenses, mainly associated with power supply as previously mentioned, regulatory amortization expense, employee labor and benefits, wildfire resiliency, and the significant increases in insurance premiums, mainly due to the impact nationally of wildfires, among other items as discussed by Ms. Schultz and Ms. Andrews.

[18] Capital additions included in 2025 are included on an AMA basis, resulting in <u>2 years</u> additions in RY1.
[19] The incremental 2025 balance not in RY1 (since is 2025 AMA) is included in RY2, with 2026 additions included on an AMA basis, essentially resulting in <u>1 year</u> of overall capital additions in RY2.

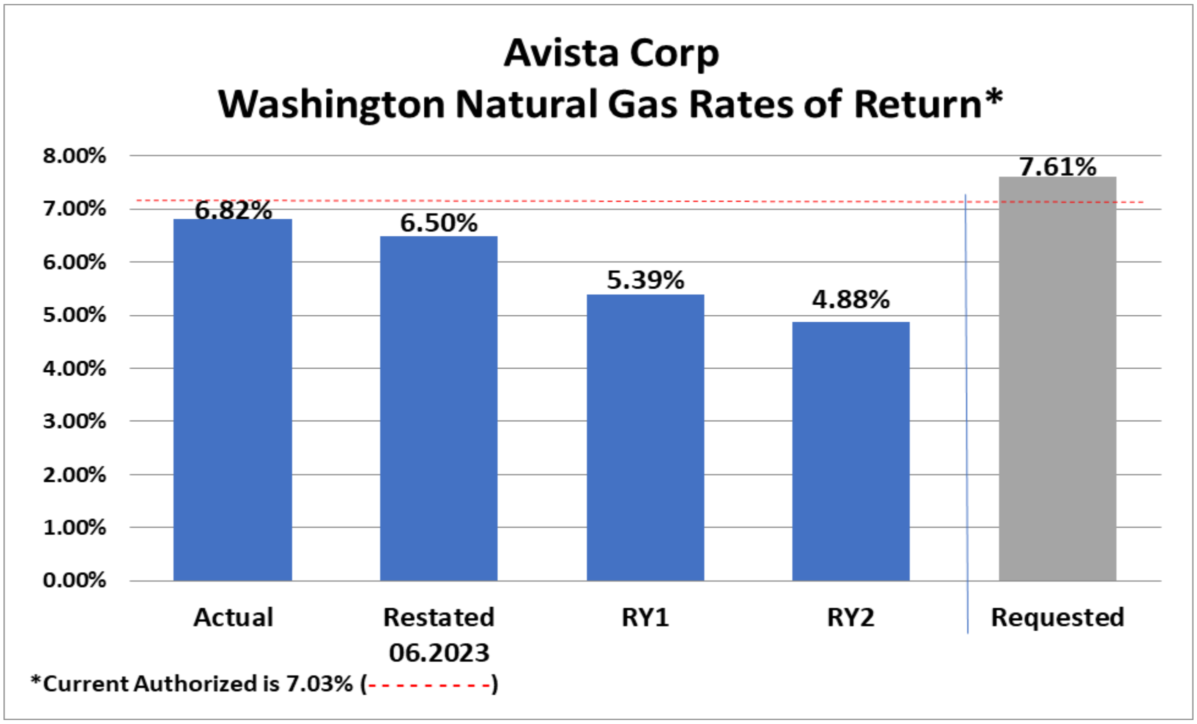
Q. What were the Company's electric and natural gas earned returns for the test year ending June 30, 2023, and in the rate effective periods?

A. As discussed by Ms. Schultz, there are four different rates of return that she has provided. They are (1) the actual ROR earned by the Company during the June 30, 2023 test period, (2) the Restated June 30, 2023 results for the historical test period, (3) the adjusted ROR for Rate Year 1 and for Rate Year 2 determined in Ms. Schultz's Exh. KJS-2 (electric) and Exh. KJS-3 (natural gas), and (4) the requested Rate of Return. The returns for Washington operations are provided below in Illustrations No. 5 (electric) and No. 6 (natural gas):

Illustration No. 5: Two-Year Rate Plan - Electric Rates of Return



<u>Illustration No. 6: Two-Year Rate Plan - Natural Gas Rates of Return</u>



As shown in Illustrations No. 5 and No. 6 above, after taking into account all standard Commission Basis adjustments, as well as additional normalizing, pro forma and provisional adjustments, the pro forma electric and natural gas rates of return for the Company's Washington jurisdictional operations over the Two-Year Rate Plan are 5.10% and 5.39%, respectively for Rate Year 1; and 2.74% and 4.88%, respectively for Rate Year 2. <u>These are the returns the Company would experience, absent necessary rate relief</u>, and are well below the Company's requested rate of return of 7.61%.

VI. <u>CUSTOMER AT THE CENTER</u>

Q. Would you briefly describe efforts the Company continues to undertake to drive a better customer experience when working with Avista?

A. Yes. I am proud of the Company's primary focus on putting our customers at the center of our business in order to drive a better customer experience (CX). CX is how customers perceive their interactions with an organization. A customer's perception starts the moment they become aware of our Company and is made up of the sum of all of the interactions they have with us.

CX creates customer satisfaction. We believe they are then more likely to seek our advice as trusted energy advisors and follow our safety messages. Satisfied customers are more likely to be aware of and participate in the variety of products and services we offer such as Comfort Level Billing, energy efficiency programs, or renewable energy programs, to name a few. Avista has been continuing its investment in Customer Facing and Customer Experience technologies and multiyear programs to improve Avista's interaction with all of our customers. Further information about these investments and programs are described by Ms. Hydzik.

Q. Would you provide an example of a new initiative to meet the needs of your customers?

A. I am really proud of the Avista family and how we are innovating to provide better service and experiences for our customers. On October 1, 2023, with direction and support from the Commission, Avista launched a new program – My Energy Discount - for its Washington residential customers to help them save money every month. My Energy Discount offers a personalized bill discount to qualifying customers. The new program's household size and income requirements are more inclusive than previous rate discount options, making it much easier for customers to qualify and participate. Customers who have not sought or were not approved for assistance in the past can now qualify and have been strongly encouraged to do so. Customers who have previously participated in energy assistance programs were also auto enrolled. For customers who were not auto enrolled, they simply need to tell us their household's size and income. If approved, their discount is good for two to four years, depending on certain circumstances. As of the writing of this testimony, 28,406 customers have been migrated to My Energy Discount. Communications regarding the program have been thorough, utilizing emails, bill inserts, communications with community action agencies, media releases, customer newsletters, digital and print ads, and other channels and in multiple languages. A customer website has also been created to provide further information and allow for enrollment (www.myavista.com/myenergydiscountWA).

Q. How is Avista communicating with its customers to explain what is driving increased costs for the Company?

A. The Company proactively communicates with its customers about a range of subjects through a variety of channels: Avista's website www.myavista.com, electronic and print newsletters, Avista Connect www.myavista.com/Connect, social media, customer forums, one-on-one customer interactions through field personnel and account representatives, bill inserts, direct email, media contacts, group presentations, through our employees' involvement in community, business and civic organizations. We believe our communications help our customers and the communities we serve to better understand the utility business as well as issues faced by the Company that contribute to their energy rates, such as increased and ongoing infrastructure investment and improvement, environmental and wildfire mitigation, and security.

Our employees provide excellent customer service and customer experience, and this focus on communicating with our customers includes providing our employees messaging and new tools and training to make it easier to communicate with friends, family, and customers.

We are finding that once a customer talks with our employees and voices their concerns and receives answers to their questions, their satisfaction level increases. We are also continuing our focus on informing customers of the many programs we offer to aid in managing their energy bills and ensuring that our employees are equipped to engage in these conversations.

Q. What kind of feedback are you receiving from customers related to customer satisfaction?

A. Our customer service surveys indicate that customer satisfaction remains high. Our overall customer satisfaction from our Voice-of-the-Customer (VOC) surveys for the month of November 2023 was 95% in our Washington, Idaho, and Oregon operating divisions. Year-to-date through November 2023, overall satisfaction is 96%. The purpose of the VOC survey is to measure and track customer satisfaction for Avista Utilities' "contact" customers – i.e., customers who have contact with Avista through the Contact Center and/or work performed through an Avista construction office. This rating reflects a positive experience for customers who have contacted Avista related to the customer service or field service they received. These results can be achieved only with very committed and competent employees.

In 2023, Avista held steady with a Forrester Customer Experience (CX) Index[20] Score of 69.7, while nationally, scores decreased across most industries. Additionally, Avista moved up from number 4 out of 25 Utilities to number 3, in 2023, leapfrogging Portland General Electric (PGE) and falling only 2.7 points behind leader Salt River Project, and just 0.4 points behind number 2, Georgia Power. The CX Index measures how the quality of an organization's CX drives customer loyalty, which is demonstrated through compliance,

[20] https://www.forrester.com/research/cx-index/

expansion of services, and advocacy. Our Forrester Customer Satisfaction Score (CSTAT) is the percentage of customers stating they were satisfied with their most recent interaction with Avista. Avista placed number 1 in 2020, 2021 and 2022. In 2023 we share the number one spot with Salt River Project.

Q. Please briefly summarize the customer support programs that Avista provides for its customers in Washington.

A. Avista Utilities offers a number of programs for its Washington customers, such as energy efficiency programs, the Low-Income Rate Assistance Program (LIRAP), Project Share for emergency assistance to customers, the Customer Assistance Referral and Evaluation Service (CARES) program, level pay plans, and payment arrangements.

During the 2022-2023 program year,[21] approximately 38,000 grants were awarded to Avista's Washington residential customers, totaling approximately $14.3 million in various forms of energy assistance (Federal LIHEAP program, LIRAP, Project Share, and local community funds). Some of the key programs that we offered during this time, or supported, are as follows:

1. **Low-Income Rate Assistance Program (LIRAP).** Avista's Low-Income Rate Assistance Program in Washington collected approximately $14.8 million through electric and natural gas tariff surcharges during the 2022-2023 program year. The Company, with the assistance of community action agencies, directs these funds to customers struggling to pay for electric and natural gas service. The purpose of the LIRAP program is to reduce the energy cost burden among those customers least able to pay energy bills through energy assistance grants or discounted rates. In the 2022/2023 heating period, for example, the LIRAP funds supplied a total of nearly $9.5 million to Avista customers, providing 26,246 energy assistance grants to approximately 17,212 income-qualified households and supporting approximately 1,398 senior or disabled households through its rate discount program. Avista's LIRAP is discussed in further detail in the testimony of Mr. Bonfield.

[21] In alignment with heating seasons, the energy assistance "program year" runs from October-September each year; thus, the 2022-2023 program year occurred October 1, 2022 through September 30, 2023.

2. **Project Share.** Project Share is a community fuel fund that is supported by a partnership of utilities and community action agencies; it provides "emergency" energy assistance to qualified households that have exhausted all other energy assistance resources. Avista employees, customers and community partners voluntarily donate to Project Share; in the 2022/2023 season, this group donated $200,261 to the program. Additionally, during the same timeframe the Company contributed around $200,000 to Project Share to help individuals stay connected to essential services. $27,378 in total benefits were provided to customers from Project Share during the 2022/2023 season, assisting 91 Avista customers.

3. **Comfort Level Billing.** The Company offers the option for residential customers to pay the same bill amount each month of the year by averaging their annual usage. Under this program customers can avoid unpredictable winter heating bills.

4. **Multiple Payment Methods.** The Company offers a number of no-cost payment methods for residential customers. In addition to making a payment at pay stations, drop boxes, or paying by cash at pay stations or the Company's office, Avista also offers customers online payment through the Company's website whether it is ACH, credit and debit card and pay-by-telephone payment options which provide almost immediate account updating and the customer can make these payments without leaving their home.

5. **Energy Efficiency.** Avista began offering energy efficiency programs to its customers in 1978. These programs pursue all cost-effective energy efficiency and operate within the prevailing market and economic conditions. Recent programs with the highest impacts on energy savings include residential and non-residential prescriptive lighting, residential fuel efficiency, site-specific lighting, and small business projects. Avista energy efficiency programs provide conservation and education options to the residential, low income, commercial, and industrial customer segments. Program delivery includes prescriptive, site-specific, regional, upstream, behavioral, market transformation, and third-party direct install options. Prescriptive programs, or standard offerings, provide cash incentives for standardized products such as the installation of qualifying high-efficiency heating equipment. Prescriptive programs work in situations where uniform products or offerings are applicable for large groups of homogeneous customers and primarily occur in programs for residential and small commercial customers.

6. **My Energy Discount** – discussed earlier in my testimony.

These programs and the partnerships we have formed with community action agencies have been invaluable to customers who often have nowhere else to go for help.

VII. SUMMARY OF WITNESSES

Q. Would you please provide a brief summary of the testimony of the other witnesses representing Avista in this proceeding?

A. Yes. The following additional witnesses are presenting direct testimony on behalf of Avista:

Mr. Kevin Christie, Senior Vice President, Chief Financial Officer, Treasurer and Regulatory Affairs Officer, provides a summary of our operating environment and a financial overview of Avista Corporation as well as explains our credit ratings and the Company's proposed capital structure and overall rate of return in this case. In brief, he provides information that shows:

1. Avista's plans call for a continuation of utility capital investments in generation, transmission, electric and natural gas distribution systems, and technology to preserve and enhance service reliability for our customers, including the continued replacement of aging infrastructure. Capital expenditures, on a system basis, of $500 million (for 2024), $525 million (for 2025), and $575 million (for 2026) are planned over the term of the filing and rate effective dates for this rate plan. Avista needs adequate cash flow from operations to fund these requirements, together with access to capital from external sources under reasonable terms, on a sustainable basis.

2. We are proposing an overall rate of return of 7.61 percent, which includes a 48.5 percent common equity ratio, a 10.40 percent return on equity, and a cost of debt of 4.99 percent. We believe our proposed overall rate of return of 7.61 percent and the proposed capital structure provide a reasonable balance between affordability and reliability.

3. Avista's corporate credit rating from Standard & Poor's (S&P) is currently BBB with a negative outlook and Baa2 from Moody's Investors Service. Avista must operate at a level that will support a solid investment grade corporate credit rating in order to access capital markets at reasonable rates. A supportive regulatory environment is an important consideration by the rating agencies when reviewing Avista. Maintaining solid credit metrics and credit ratings will also help support a stock price necessary to issue equity under reasonable terms to fund capital requirements.

Mr. Adrien McKenzie, as President of Financial Concepts and Applications (FINCAP), Inc., has been retained to present testimony with respect to the Company's cost of common equity. He concludes that:

- Based on the results of his analyses shown on Exh. AMM 4 and giving less weight to extremes at the high and low ends of the range, he concludes that the cost of equity for the proxy group of utilities is in the 10.3 percent to 11.3 percent range.

- Accounting for issuance costs specific to Avista's historical sales of common stock supports a flotation cost adjustment of 8 basis points.

- After making a flotation cost adjustment, his recommended ROE range is 10.38 percent to 11.38 percent.

- As reflected in the testimony of Mr. Christie, Avista is requesting a fair ROE of 10.4 percent, which falls below the 10.88 percent midpoint of his recommended range. Considering capital market expectations, the exposures faced by Avista, and the economic requirements necessary to maintain financial integrity and support additional capital investment even under adverse circumstances, it is his opinion that 10.4 percent represents a conservative ROE for Avista.

Ms. Kaylene Schultz, Manager of Regulatory Affairs, will cover accounting and financial data in support of the Company's electric and natural gas Two-Year Rate Plan and the need for the proposed increases in base rates effective December 2024 (Rate Year 1) and December 2025 (Rate Year 2). She explains pro formed operating results, including expense and rate base adjustments made to actual operating results and rate base. Included with the restating, pro forma and provisional adjustments are certain adjustments sponsored by other witnesses. She incorporates the Washington-share of those adjustments in this case.

Ms. Elizabeth Andrews, Senior Manager of Revenue Requirements, supports various adjustments included by Ms. Schultz within her overall electric and natural gas revenue requirement studies. In addition, she discusses the Company's requests to update its Wildfire Balancing Account baseline to match pro formed wildfire plan expenses, as well as discusses the Company's proposal to continue its current Insurance Expense Balancing Account, including an update to the insurance baseline to reflect the significant increase and continued volatility associated with insurance expenses. Next, she describes the Company's proposal to defer the Coyote Springs 2 (CS2) major maintenance (overhaul) expense that is planned for 2026, and the 4-year amortization of Washington's share of this expense, to recover between overhauls. Finally, Ms. Andrews will summarize the total O&M and revenue direct "offsets" included by the Company in this case.

Mr. Jason Thackston, Senior Vice President, Chief Strategy and Clean Energy Officer, provides an overview of Avista's commitment to clean energy through the incorporation of aspirational system goals and regulatory compliance, while including an equity consideration framework to ensure all customers benefit from this transition. This includes how the Company is complying with Washington's Clean Energy Transformation Act (CETA) and the Climate Commitment Act (CCA). Second, he provides an update on how the Company is building equity into its business planning processes.

Ms. Anna Scarlett, Director of Strategy & Transformation, provides an overview of how the Company is responding to federal funding opportunities available through the Infrastructure, Investment & Jobs Act (IIJA or Bi-partisan Infrastructure Bill) and the Inflation Reduction Act (IRA).

Mr. Scott Kinney, Vice President of Energy Resources, provides an overview of Avista's electric and natural gas resource planning and energy supply operations. This overview includes summaries of the Company's current resource plan, an update on the Company's participation in the Western Resource Adequacy Program and Western Energy Imbalance Market, resource needs to support compliance with the Climate Commitment Act

(CCA), an overview of the Company's Energy Resources Risk Policy, the Company's new Energy Trade and Risk Management (ETRM) system, and an update on the use of the Company's demand response contract with Inland Empire Paper (IEP). He also provides an overview of the Company's natural gas supply and resource plan. Next, he addresses new resource acquisitions from Chelan Public Utilities District (Chelan PUD) and from the 2022 All-Source Request for Proposals (RFP). Finally, his testimony concludes with a request to move to a 95/5 split in the Energy Recovery Mechanism and remove the current deadbands.

Mr. Alexis Alexander, Director of IT Infrastructure (formerly Director of Generation Production and Substation Support), provides an overview of the Company's planned investments in our generating facilities and explains the factors driving our continuing investment in these assets. He explains how our efforts to maintain the health and performance of our assets, including compliance with mandatory federal standards, are driving a continuing demand for new investment. He also explains how and why we have realigned our critical resources to support our effort to optimize our generating fleet. Finally, he will describe our environmental affairs projects, that support compliance with, and management of, the licenses issued by the Federal Energy Regulatory Commission authorizing the Company to operate its hydroelectric facilities.

Mr. Clint Kalich, Senior Manager of Resource Planning & Power Supply Analyses, will list key components of the Power Supply methodology developed collaboratively in workshops completed as part of Order No. 07 in Dockets UE-170485 et. al. His testimony then will describe key inputs and assumptions driving power supply costs through the methodology—including loads, outages, natural gas, and electricity prices—and provide a comparison to the current level of authorized net power supply expense (NPE). It will detail our methodology to reflect value from participation in the EIM intra-hour market. Also supported will be an adder to adjust the unprecedented overstatement our electric generation fleet's value in the pro forma. Next, he will provide further evidence describing the importance of, and need for, eliminating Energy Recovery Mechanism (ERM) deadbands in favor of a single 95% pass-through of cost variance from authorized levels to customers. Finally, he will identify and explain the specific values proposed as pro forma adjustments to the 12-month ended June 30, 2023 test period power supply revenues and expenses, including the Retail Revenue Credit used in Energy Recovery Mechanism (ERM) deferral calculations.

Mr. Kenneth Dillon, Senior Manager, FERC Policy and Transmission Services, presents Avista's transmission revenues and certain expenses included in the Company's request for rate relief effective in December 2024.

Mr. Josh DiLuciano, Vice President of Energy Delivery, provides an overview of the Company's electric and natural gas energy delivery facilities and explains the factors driving our continuing investment in electric distribution infrastructure. He explains how our efforts to maintain the asset health and performance of our electric transmission system, including compliance with mandatory federal standards for transmission planning and operations, is driving a continuing demand for new investment. Further, he describes why our investments in natural gas distribution are necessary in the timeframes completed and why each capital investment in our operations facilities and fleet operations is needed to support efficient delivery of service to our customers today, and into the future.

Mr. David Howell, Director of Generation Production and Substation Support (formerly Director of Electric Operations and Asset Maintenance), provides the status of the Company's Wildfire Resiliency Plan ("Wildfire Plan" or "Plan"), reiterates its goals and objectives, and summarizes the technical and operational aspects of the Plan. As discussed in Avista's last general rate case, Avista's Wildfire Plan reflects the Company's over 130-year operating history combined with recent efforts to quantify and respond to the financial, safety-related, and service reliability risks associated with wildfires.

Mr. Wayne Manuel, Vice President, Chief Information Officer, and Chief Security Officer, provides an overview of, and discusses capital additions and expenses associated with, the Company's Information Service/Information Technology (IS/IT) programs, projects, and security. These costs are comprised of the capital investments for a range of IS/IT projects that support systems used by the Company, as well as cyber and physical security projects and costs. He explains why our information technology and security investments are necessary in the time frames indicated and why investments in technology are necessary. Finally, he provides an overview of the IS/IT expenses that Avista is pro forming into this general rate case.

Ms. Nicole Hydzik, Director of Energy Efficiency and Products & Services, provides an overview of the Company's Transportation Electrification (TE) Programs and addresses the rationale for the projects that we have included in this rate case. She also provides an overview of customer trends and research, the Company's "Customer at the Center" initiative, and addresses the rationale for the projects that we have included in this rate case.

Ms. Tia Benjamin, Manager of Regulatory Affairs, will sponsor the Company's capital adjustments on a Washington electric and natural gas basis. She describes the Company's restating, pro forma, and provisional capital-related adjustments over the Company's Two-Year Rate Plan, that adjust the historical test period net plant at 12-months ended June 30, 2023 average-of-monthly averages (AMA) to a December 31, 2025 AMA basis for Rate Year

1, and to a December 31, 2026 AMA basis for Rate Year 2. She will also provide the Company's proposed Provisional Capital Reporting content and process for recovery of its "provisional" capital additions included in this case from January 2025 through December 2026[22], that are "subject to review and refund" per the Commission's Policy Statement.

Dr. Grant Forsyth, Chief Economist for Avista, describes the changes to the Company's weather normalization process.

Mr. Marcus Garbarino, Manager of Regulatory Affairs, presents the Company's electric revenue normalization adjustments and the electric cost of service study prepared for this filing. The results of this study were used to inform the spread of the proposed increase by service schedule.

Mr. Joel Anderson, Regulatory Analyst, presents the natural gas cost of service study and revenue normalization adjustment prepared for this filing. He also presents the findings of the Decoupling Evaluation performed by Gil Peach and Associates and requests that the Commission authorize an extension of the current Decoupling Mechanism through 2025.

Mr. Joseph Miller, Senior Manager of Rates and Tariffs, will cover the spread of the proposed December 2024 (Rate Year 1) and December 2025 (Rate Year 2) increases for both electric and natural gas. His testimony will also describe the changes to the rates within the Company's electric and natural gas service schedules, and the proposed rate spread and rate design. Importantly, Mr. Miller will provide support for the proposed increases in the monthly residential and general service schedule basic charges.

Mr. Shawn Bonfield, Senior Manager of Regulatory Policy and Strategy, discusses

[22] Pro Formed capital additions in this case, for the period July 2023 through December 2024, are subject to review and refund in Dockets UE-220053 et. al.

Avista's reporting of Performance Based Ratemaking (PBR) metrics agreed to and ordered by the Commission as part of its last general rate case, the Company's proposal in this case for PBR metrics and Performance Measures, an update on the Company's Low-Income Rate Assistance Program, as well as other low-income issues agreed to in the last rate case. Finally, he provides an updated listing of all recurring reporting obligations as required and agreed to in the last rate case.

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

A. Yes.