Exh. JBB-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-22________

DOCKET NO. UG-22________

DIRECT TESTIMONY OF

JUSTIN A. BALDWIN-BONNEY

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Justin A. Baldwin-Bonney. I am employed by Avista Corporation as an Analyst in the Regulatory Affairs Department. My business address is 1411 East Mission, Spokane, Washington.

Q. Please briefly describe your educational background and professional experience.

A. I am a 2014 graduate from Gonzaga University with a Bachelor of Business Administration degree, majoring in Accounting. After graduation, I spent three years at an international accounting firm as an auditor, working primarily within banking, manufacturing and the mining industries. I joined Avista in November 2017 as an Accounting Analyst in the Company's Project and Fixed Asset group. In January 2021, I joined the Regulatory Affairs Department as a Regulatory Affairs Analyst where I have been responsible for preparing various annual filings and preparing and assisting with the capital investment-related pro forma and provisional adjustments in the determination of the revenue requirement for all jurisdictions in which the Company provides utility services. I received both my Certified Public Accounting and Certified Management Accounting licenses in November 2015 and December 2018, respectively.

Q. Have you provided testimony before the Commission in prior proceedings?

A. No, this is the first rate proceeding that I have been involved with since I began working for Regulatory Affairs in the State of Washington. I have provided testimony, however, on the same types of issues I am providing here, in Avista's most recent general rate case in the State of Oregon in Docket UG-433.

Q. What is the scope of your testimony?

A. My testimony in this proceeding first describes Avista's capital witnesses who provide support for the capital additions (on a system level) that are reflected in the capital adjustments I sponsor on a Washington electric and natural gas basis. These adjustments are included in the Company's electric and natural gas Pro Forma Studies, sponsored by Company witness Ms. Andrews. Next, I describe 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 September 30, 2021 average-of-monthly averages (AMA) to a December 31, 2023 AMA basis for Rate Year 1, and to a December 31, 2024 AMA basis for Rate Year 2.

For the pro forma capital adjustments, I explain that the Company included the 3-month incremental October 2021 through December 2021 capital additions, to reflect an end of period (EOP) basis, as of December 31, 2021. Beyond 2021, the Company has included Washington electric and natural gas "provisional" capital additions, sponsored by Ms. Andrews and myself, for the period from January 1, 2022 through December 31, 2023, for Rate Year 1, and January 1, 2024 through December 31, 2024, for Rate Year 2, for the Company's Two-Year Rate Plan.

In preparation of my capital additions "provisional" adjustment, as shown in my Capital Additions Adjustment Model provided as Exh. JBB-2, I used particular capital addition groupings for the capital additions occurring for the period 2022 – 2024, as outlined in the Commission's Policy Statement.[1] Specifically, I used the following categories to group

[1] "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement"), issued January 31, 2020, in Docket No. U-190531.

the 2022-2024 additions: 1) Large and Distinct; 2) Programmatic; 3) Mandatory and Compliance; and 4) Short-Lived Assets. Ms. Andrews incorporates the Washington electric and natural gas share of these pro forma and provisional adjustments within her proposed electric and natural gas revenue requirements for the Company's Two-Year Rate Plan.[2]

Finally, I will briefly discuss the preliminary Short-Lived Software Assets Report completed as of September 30, 2021, required to be filed with the Company's next general rate case (GRC) (this case), per Order 01, received in May 2021 in Dockets UE-200857 and UG-200858, related to the Company's application for depreciation and amortization rates for investment software.

A table of contents for my testimony is as follows:

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Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exh. JBB-2 through Exh. JBB-4. Exh. JBB-2 is the Capital Additions Adjustment Model reflecting all pro forma and provisional adjustments I sponsor. Exh. JBB-3 provides a summary of the capital additions included in each of the

[2] As discussed by Ms. Andrews, she also sponsors additional pro forma and provisional adjustments designated as "large and distinct" capital projects, associated with the Company's investment in its Wildfire Resiliency Plan, Colstrip Units 3 and 4, and the Energy Imbalance Market (EIM).

capital witnesses' testimony by business case for years 2021-2024. Exh. JBB-4 provides the Short-Lived Software Assets Report prepared as of September 30, 2021, on software transferred to plant with lives less than 5 years.[3]

II. CAPITAL ADDITIONS SUPPORTING WITNESSES

Q. Prior to discussing the adjustments you sponsor in this case, would you please provide a brief summary of the other witnesses who provide supporting testimony related to capital additions in this proceeding?

A. Yes. Other capital witnesses, besides Ms. Andrews and myself, provide support for the specific capital additions included by the Company in its proposed Two-Year Rate Plan. Each capital witness provides detailed testimony and exhibits that describe the capital additions by Business Case, describes the need for and timing of these capital additions, as well as how they benefit our customers for the period January 2021 through December 2024. Separate exhibits for each capital witness are provided which include all Business Cases related to the capital projects included for the period 2021-2024 in this case which they sponsor.

These witnesses are as follows:

Mr. Jason Thackston, Senior Vice President of Energy Resources and Environmental Compliance Officer, will address capital additions specific to generation investments. Included in these investments are the Colstrip Units 3 and 4 capital projects, included in the Colstrip Adjustments sponsored by Ms. Andrews.

Ms. Heather Rosentrater, Senior Vice President of Energy Delivery, will explain capital investments related to electric transmission, electric and natural gas distribution, facilities and fleet, as well as general plant.

[3] A final year-end 2021 report will be filed with the Commission in the first quarter of 2022.

Mr. James Kensok, Vice President and Chief Information and Security Officer, will provide an overview of Avista's Information Service/Information Technology (IS/IT) investments. This includes summaries of the Company's capital additions for a range of IS/IT systems used by the Company, many representing short-lived assets.

Mr. Kelly Magalsky, Director of Products, Services, and Customer Technology, will discuss capital investments related to the Company's Transportation Electrification work and specific Customer Facing and Customer Experience technology investments.

Mr. David Howell, Director of Electric Operations and Asset Maintenance, will discuss the Company's Wildfire Resiliency Plan investments, included in the Wildfire Adjustments sponsored by Ms. Andrews.

Mr. Scott Kinney, Director of Power Supply, will provide an overview of Avista's Western Energy Imbalance Market (EIM) investments included in the EIM Adjustments sponsored by Ms. Andrews.

Q. How have capital witnesses presented the transfers to plant information in their testimony?

A. Mr. Thackston, Ms. Rosentrater, Mr. Kensok, Mr. Magalsky, Mr. Howell and Mr. Kinney, present capital transfers to plant information (gross plant additions) on a calendar-year and system (Washington, Idaho and Oregon jurisdictions, electric and natural gas) basis, using the Commission's Used and Useful Policy Statement[4] to ensure that projects meet the requirements of being both "used and useful" and "known and measurable." For the 2021 additions, the actual transferred to plant totals through September 30, 2021 (included in the Company's historical test period, twelve months-ended 09.30.2021) were combined with the pro forma actual transfer to plant for October 2021, and expected transfer to plant totals

[4] In the Commissions' "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement"), Docket U-190531, at para. 11, p. 5, it defines three broad types of investments they would consider for inclusion in rates: 1) specific - clearly defined, identifiable or discrete; 2) programmatic - made according to a schedule, plan or method; and 3) projected: i.e., the use of a k-factor, an attrition adjustment, or a growth analysis.

for November and December 2021.[5]

Each witness' testimony discusses capital additions from January 1, 2021 to December 31, 2024 on a system basis. A detailed listing by Business Case (projects) and calendar year totals can be found in Exh. JBB-3.

Table No. 1 below reflects the calendar year transfers to plant (TTP) for projects that are discussed in each witness' testimony, on a system basis (utility only, Washington, Idaho, Oregon, electric and natural gas).

Table No. 1 – Capital Additions Transfer To Plant (System)[6]

Capital Additions Transfer To Plant (System)
$ in 000's

Witness	Exhibit No.	2021 (1)	2022	2023	2024
Mr. Thackston (2)	Exh. JRT-1T	$ 70,807	$ 92,562	$ 62,234	$ 64,986
Ms. Rosentrater	Exh. HLR-1T	287,982	263,761	287,916	269,841
Mr. Kensok	Exh. JMK-1T	48,111	40,286	50,883	59,280
Mr. Magalasky	Exh. KEM-1T	15,037	16,713	18,400	18,810
Mr. Kinney	Exh. SJK-1T	10,555	12,016	500	586
Mr. Howell	Exh. DRH-1T	17,278	24,545	27,000	29,000
Total		$ 449,770	$ 449,883	$ 446,933	$ 442,503

(1) Includes Transfers to Plant of January - October 2021 and Pro Forma additions for November - December 2021
(2) Includes Costs associated with Colstrip Captial Projects

Q. Are the capital additions for the calendar year 2021, included in each witness's testimony, treated differently than other capital additions in this rate case?

A. Yes. The Company's historical test period is twelve-months ended September 30, 2021. Included as pro forma adjustments are the three-month capital additions transferring

[5] After completion of Ms. Andrews' revenue requirement results in December 2021, but prior to the filing of the Company's case in January 2022, actual transfer to plant through December 2021 will occur. The Company will, therefore, provide all actual transfers to plant for 2021 and update its pro forma 2021 capital adjustment as soon as available in the first quarter of 2022.

[6] The balances in Table No. 1 above reflect transfers to plant during each year, whereas the $445 million annually planned through 2026 as referenced by Company witness Mr. Thies, refers to annual capital spend. These balances, therefore, will vary from that discussed by Mr. Thies.

to plant for the period October 2021 (actual additions), and November and December 2021 (expected additions). The Company will provide to all parties the finalized actual 2021 transfers to plant detail and updated 2021 pro forma adjustments for audit and review, after close of calendar 2021 and soon as available in the first quarter of 2022. However, as discussed by Ms. Andrews, the additions for the Company's EIM project have Pro Forma additions through the June 2022 calendar year. As these assets have already been approved, subject to review and refund, per Order 08/05, in Docket UE-200900, et. al., it was appropriate to maintain the "pro forma" characterization of these assets. A final report on the EIM project after its go-live date in March of 2022, will be filed for party review in July 2022.

The capital transfers to plant for the 2022 – 2024 calendar years are included as "provisional" adjustments, and subject to review and refund in future periods through future reporting, as discussed by Ms. Andrews.

Q. Why is it important the Commission approve the capital adjustments as proposed in the Company's Two-Year Rate Plan?

A. The Commission's approval of all capital additions from January 1, 2021 through December 31, 2024, over the Two-Year Rate Plan, is important because the Company is making substantial levels of capital investment in its electric and natural gas system infrastructure to address customer growth, replacement and maintenance of Avista's aging system, and to sustain reliability and safety for all customers. As soon as any new plant is placed in service, the Company is required to start depreciating the capitalized cost and incur other costs related to the addition. As plant is completed and used in providing service to customers, it is appropriate for the Company to receive timely recovery of the costs associated with that plant. Unless these capital additions are reflected in retail rates in a timely manner, it has a negative impact on Avista's earnings, due to new plant typically being far more costly than similar plant that was embedded in rates decades earlier.

Furthermore, as discussed within Company witness Mr. Vermillion's testimony, it is essential to close the "regulatory lag" gap while adjusting to a Multi-Year Rate Plan. In order to accommodate a revenue requirement that appropriately provides cost recovery of plant additions through Rate Year 1, and subsequently during Rate Year 2, plant additions were included as provisional adjustments. As noted previously, these projects will be subject to review and refund in future filings. This ensures the Commission has the opportunity to determine prudency of additions in future years, protect customers by confirming they pay only for prudently incurred net plant investment, and allow the Company an opportunity (not a guarantee) to earn its authorized returns.

III. CAPITAL ADDITIONS ASSIGNED TO WASHINGTON

Q. What is the impact on Washington electric and natural gas gross Plant in Service for system additions discussed above?

A. The Company is proposing within its Two-Year Rate Plan to include all Washington electric and natural gas actual transfers to plant for calendar 2021 and expected transfers to plant through calendar year 2022 on an EOP basis, and the average-of-monthly average (AMA) balances for expected 2023 additions within Rate Year 1. For Rate Year 2, Avista has included the incremental amount of 2023 additions on an EOP basis beyond that included in Rate Year 1, and AMA plant expected for 2024 additions within Rate Year 2.

First, Table Nos. 2 and 3 below provide gross capital additions - by witness - for calendar 2021 (including test period amounts for nine-months January 1, 2021 through

September 30, 2021, and pro forma additions October 1, 2021 through December 31, 2021), allocated or directly assigned to Washington electric (Table No. 2) and Washington natural gas (Table No. 3), that are included in Rate Year 1. These balances are included in my Capital Additions Adjustments plant-in-service amounts shown in Exh. JBB-2. Three distinct projects have adjustments specific to themselves, sponsored by Ms. Andrews, related to Wildfire, EIM and Colstrip Unit 3 and 4 investments, and are included in the tables below.[7]

Table No. 2 – Washington Electric 2021 Gross Transfers To Plant – by Witness

Washington Electric 2021 Gross Transfers To Plant – by Witness[1]
$ in 000's

Witness	01/01/2021-09/30/2021	10/01/2021-12/31/2021	Total 2021
Mr. Thackston	$ 35,424	$ 12,291	**$ 47,715**
Ms. Rosentrater	92,808	38,938	**131,746**
Mr. Kensok	10,725	12,892	**23,617**
Mr. Magalasky	4,318	3,201	**7,519**
Mr. Kinney	6,575	32	**6,607**
Mr. Howell	8,752	2,504	**11,256**
Total	$ 158,602	$ 69,858	**$ 228,460**

[1]Excludes impact of retirements.

[7] These balances reflect gross additions as shown in Exh. JBB-2, prior to the impact of retirements. Amounts included for Wildfire, Colstrip and EIM can be found in Ms. Andrews' Exhs. EMA-2 and EMA-3 and workpapers.

Table No. 3 – Washington Natural Gas 2021 Gross Transfers To Plant – by Witness

Washington Natural Gas 2021 Gross Transfers To Plant – by Witness[1] $ in 000's			
Witness	01/01/2021-09/30/2021	10/01/2021-12/31/2021	Total 2021
Mr. Thackston	$ 2	$ -	**$ 2**
Ms. Rosentrater	33,838	11,168	**45,006**
Mr. Kensok	3,287	3,505	**6,792**
Mr. Magalasky	1,282	891	**2,173**
Total	$ 38,407	$ 15,564	**$ 53,971**

[1]Excludes impact of retirements.

Next, in addition to 2021 plant additions, Table Nos. 4 and 5 below, provide the gross additions by witness for calendars 2022 – 2024 that are allocated or directly assigned to Washington electric and Washington natural gas (included as "provisional" capital additions in Rate Year 1 (2022 and 2023) and Rate Year 2 (2024)).[8] These balances have further been categorized into the groups consistent with the Commission's Used and Useful Policy Statement for "provisional" adjustments, as included in my Capital Additions Adjustments Model as shown in Exh. JBB-2[9]. Three distinct projects have "provisional" adjustments specific to themselves and sponsored by Ms. Andrews, related to Wildfire, EIM and Colstrip Unit 3 and 4 investments.[10]

[8] Consolidated summary adjustments by year are input into Ms. Andrews electric and natural gas Pro Forma Studies. For detailed columns by groupings for 2022-2024, see Exh. JBB-2, for capital additions by categories: 1) Large and Distinct; 2) Programmatic; 3) Mandatory and Compliance; and 4) Short Lived Assets.

[9] Consolidated summary adjustments by year are input into Ms. Andrews electric and natural gas Pro Forma Studies as 2022 EOP additions, 2023 AMA additions, and 2024 AMA additions. For detailed columns for 2022-2024 provisional adjustments by category: 1) Large and Distinct; 2) Programmatic; 3) Mandatory and Compliance; and 4) Short Lived Assets, see Exh. JBB-2.

[10] The large and distinct projects of Wildfire, Colstrip Units 3 and 4, and EIM are separately included and sponsored by Ms. Andrews in her electric and natural gas Pro Forma Studies, and therefore, are not shown in my Exh. JBB-2.

Table No. 4 - Washington Electric 2022-2024 Gross Transfers To Plant – by Witness

Washington Electric 2022 - 2024 Provisional Additions
Gross Transfers To Plant - by Witness ($ 000's)[1]

Witness	Short-Lived Assets	Programmatic	Mandatory & Compliance	Large & Distinct	Wildfire	EIM	Colstrip Units 3 & 4	Total
Additions Twelve Months Ended December 31, 2022								
Thackston	$ 2,294	$ 4,402	$ 45,418	$ 8,450	$ -	$ -	$ 4,046	**$ 64,610**
Rosentrater	-	74,351	24,184	9,869	-	-	-	**108,404**
Kensok	13,545	3,078	552	3,178	-	-	-	**20,353**
Magalsky	6,660	2,775	-	-	-		-	**9,435**
Kinney	-	-	-	-	-	7,779	-	**7,779**
Howell	-	-	-	-	14,789	-	-	**14,789**
2022 EOP Total	**22,499**	**84,606**	**70,154**	**21,497**	**14,789**	**7,779**	**4,046**	**225,370**
Additions Twelve Months AMA December 31, 2023								
Thackston	856	1,619	2,059	15,474	-	-	542	**20,550**
Rosentrater	-	33,333	7,760	4,311	-	-	-	**45,404**
Kensok	6,351	722	101	411	-	-	-	**7,585**
Magalsky	1,149	1,613	-	-	-	-	-	**2,762**
Kinney	-	-	-	-	-	125	-	**125**
Howell	-	-	-	-	7,938	-	-	**7,938**
2023 AMA Additions	**8,356**	**37,287**	**9,920**	**20,196**	**7,938**	**125**	**542**	**84,364**
Rate Year 1 Total (excludes 2021 additions)	**$ 30,855**	**$ 121,893**	**$ 80,074**	**$ 41,693**	**$ 22,727**	**$ 7,904**	**$ 4,588**	**$ 309,734**
Additions Twelve Months AMA December 31, 2024								
Thackston	$ 1,440	$ 4,658	$ 3,711	$ 17,910	$ -	$ -	$ 3,027	**$ 30,746**
Rosentrater	-	113,647	14,011	9,379	-	-	-	**137,037**
Kensok	22,804	1,270	476	1,553	-	-	-	**26,103**
Magalsky	6,852	3,801	-	-	-	-	-	**10,653**
Kinney	-	-	-	-	-	243	-	**243**
Howell	-	-	-	-	17,694	-	-	**17,694**
2024 AMA Additions (Rate Year 2 Incremental)	**$ 31,096**	**$ 123,376**	**$ 18,198**	**$ 28,842**	**$ 17,694**	**$ 243**	**$ 3,027**	**$ 222,476**
Rate Year 1 and 2 Totals (excludes 2021 additions)	$ 61,951	$ 245,269	$ 98,272	$ 70,535	$ 40,421	$ 8,147	$ 7,615	$ 532,210

[1] Excludes impacts of retirements.

Table No. 5 - Washington Natural Gas 2022-2024 Gross Transfers To Plant – by Witness

Washington Natural Gas 2022 - 2024 Provisional Additions
Gross Transfers To Plant - by Witness ($ 000's)[1]

Witness	Short-Lived Assets	Programatic	Mandatory & Compliance	Large & Distinct	Total
Additions Twelve Months Ended December 31, 2022					
Thackston	$ -	$ 14	$ 97	$ 1	$ **112**
Rosentrater	-	33,430	18,449	1,564	**53,443**
Kensok	3,525	933	172	958	**5,588**
Magalsky	2,103	-	-	-	**2,103**
2022 EOP Total	**5,628**	**34,377**	**18,718**	**2,523**	**61,246**
Additions Twelve Months AMA December 31, 2023					
Thackston	-	4	1	1	**6**
Rosentrater	-	9,765	8,644	722	**19,131**
Kensok	1,371	220	32	122	**1,745**
Magalsky	363	-	-	-	**363**
2023 AMA AdditionsTotal	**1,734**	**9,989**	**8,677**	**845**	**21,245**
Rate Year 1 Total (excludes 2021 additions)	**$ 7,362**	**$ 44,366**	**$ 27,395**	**$ 3,368**	**$ 82,491**
Additions Twelve Months AMA December 31, 2024					
Thackston	$ -	$ 13	$ 2	$ 35	$ **50**
Rosentrater	-	23,339	18,389	1,826	**43,554**
Kensok	4,730	392	148	464	**5,734**
Magalsky	2,164	-	-	-	**2,164**
2024 AMA Additions (Rate Year 2 Incremental)	**6,894**	**23,744**	**18,539**	**2,325**	**51,502**
Rate Year 1 and 2 Totals	$ 14,256	$ 68,110	$ 64,473	$ 8,018	$ 185,495
(excludes 2021 additions)					

[1] Excludes impacts of retirements.

Detailed information shown in the tables above, by pro forma and provisional adjustment by period, are available in native Exh. JBB-2 and workpapers provided to all parties in this proceeding.[11]

Using the information provided in Table Nos. 2 – 5 above, Table No. 6 below provides a summary of total transfers to plant balances by year, and in total over the Two-Year Rate Plan for Washington electric and natural gas operations, as follows:

Table No. 6 – WA System 2021 - 2024 (Two-Year Rate Plan) Gross Transfers To Plant

WA System 2021 - 2024 (Two-Year Rate Plan) Gross Transfers To Plant [1]
$ in 000's

			Rate Year 1				Rate Year 2 (Incremental)	
Total By Year	Jan -Sept 2021	Oct - Dec 2021	Total 2021	Total 2022	Total 2023	**Rate Year 1 Total**	Total 2024	**Rate Year 2 Total**
Electric	$ 158,602	$ 69,858	$ 228,460	$ 225,370	$ 84,364	**$ 538,194**	$ 222,476	**$ 222,476**
Natural Gas	$ 38,407	$ 15,564	$ 53,971	$ 61,246	$ 21,245	**$ 136,462**	$ 51,502	**$ 51,502**
						$ 674,656		**$ 273,978**
	Test Period Amounts Q'1-Q'3 2021	**Pro Forma Amounts Q'4 2021**	**Includes Pro Forma Q'4 2021**	**Provisional Adjustments 2022**	**Provisional Adjustments 2023**		**Provisional Adjustments 2024**	

Two Year Rate Plan Additions - Electric (2021-2024)	**$ 760,670**
Two Year Rate Plan Additions - Natural Gas (2021-2024)	**$ 187,964**
2-YR Rate Plan	**$ 948,634**

[1]Excludes impact of retirements, which would lower the overall net plant prior to A/D and ADFIT.

As can be seen in Table No. 6 above, Rate Year 1 Washington electric and natural gas gross plant additions, prior to the effect of retirements totals, $538.2 million and $136.5 million, respectively. For Rate Year 2, Washington electric and natural gas gross plant additions, prior to the effect of retirements totals, $222.5 million and $51.5 million, respectively. As discussed by Ms. Andrews, these gross plant additions (adjusted for retirements, accumulated depreciation (A/D) and accumulated deferred federal income taxes (ADFIT)) are the main drivers of the Company's Two-Year Rate Plan.

Gross Plant Additions reflected in the capital adjustments for Rate Year 1 are

[11] Detailed information shown in the tables above sponsored by Ms. Andrews related to Wildfire, Colstrip Unit 3 and 4, and EIM investments, for pro forma or provisional rate period adjustments, are available in native Exh. EMA-2, as well as workpapers provided to all parties in this proceeding.

understandably larger than in Rate Year 2 because they encompass three years of new capital additions (2021-2023), versus one year (2024) for Rate Year 2.[12]

Q. As shown in the tables above, the Company included specific provisional capital additions for 2022 and 2023 within Rate Year 1, and provisional additions during 2024 for Rate Year 2, within its request for rate relief. Would you please elaborate on how these provisional capital additions were prepared?

A. Yes. As discussed by Ms. Andrews, the Company typically has approximately 120 plus projects (Business Cases)[13] completed on an annual basis which represent the approximate $445 million of capital spending for any given year. In order to facilitate the auditing of the projects, the Company grouped its Business Cases to fit into the Commission defined categories in its Used and Useful Policy Statement. These categories are: 1) specific, identifiable, and distinct, titled: Large and Distinct; 2) programmatic (on-going programs or scheduled investments), and 3) short-lived assets. The Company also uses a 4th category reflecting projects that are mainly "programmatic," but required to meet regulatory and other mandatory obligations, titled: 4) Mandatory and Compliance.

There are a few specific projects that are accounted for outside of these that include EIM, Wildfire Resiliency Plan, and Colstrip Units 3 & 4. These were isolated from the general additions to allow for specific review for the projects. The additions have their own adjustments, both for pro forma additions as well as the provisional adjustments, based on the

[12] As discussed by Ms. Andrews, and shown in Table No. 6 above, Rate Year 1 transfers to plant are significantly larger than Rate Year 2. Rate Year 1 serves to capture (or "catch up") capital deployed since January 2021, not previously included in the most recent Order, through 2023. This is essentially a 2 ½ year period, above current authorized levels, as compared to RY2, which covers 2024 capital additions. Capital additions included in 2023 are included on an AMA basis, therefore, resulting in 2 ½ years additions in RY1. The incremental 2023 balance not in RY1 (since is 2023 AMA) is included in RY2, with 2024 additions included on an AMA basis, essentially resulting in 1 year of overall capital additions in RY2.

[13] Business Cases are often referred to as projects used throughout the Company's filed testimony and exhibits, which for these purposes, are synonymous.

timing of the addition. As Ms. Andrews notes, EIM capital additions through 2022 were previously approved and are subject to review and refund as stated in Docket UE-200900 et. al., and the anticipated additions of $7,810,000 allocated to Washington electric for 2022 are considered pro forma. Ongoing capital costs associated with enhancing and upgrading the EIM software in 2023 and 2024 are considered provisional and will be subject to review and refund in a future period.[14] Ms. Andrew's also provides further testimony on adjustments related to the operating expense of the EIM, as well as the Wildfire Resiliency Plan and Colstrip Units 3 & 4 additions and associated expense.

Q. Please describe how the system capital additions specific to Washington electric and natural gas are derived.

A. The Company directly assigns costs when appropriate. Costs not specifically identifiable to a specific jurisdiction are allocated in accordance with an approved allocation procedure. This process designates costs as common to all services and jurisdictions (CD.AA), common to electric operations only (ED.AN), common to natural gas operations in Washington and Idaho only (GD.AN), or common to natural gas operations only (GD.AA), as provided in Ms. Andrews' Exh. EMA-4.

Q. Are assets placed in service for new customers included within your adjustments?

A. Yes, they are. Additions associated with new customers (growth capital) were included in the pro forma and provisional capital transfers to plant, and ultimately in Ms. Andrews's electric and natural gas Pro Forma Studies. In addition, matching with this investment, the Company also included the corresponding new revenues generated from this

[14] See Ms. Andrews testimony at Exh. EMA-1T for the Company's proposed reporting of 2022 – 2024 capital additions in future periods, subject to future review and refund.

growth capital, included as an offset against capital investment, as discussed by Ms. Andrews. This allows for all plant in service used to provide electric and natural gas utility service to customers within the rate effective period to be included.

Q. Has the Company included all offsetting factors it has determined applicable to the capital additions it included in this case related to 2022 through 2024 additions?

A. Yes. Ms. Andrews, at Exh. EMA-1T, summarizes all offsetting factors associated with 2022 – 2024 capital additions considered appropriate at this time to include. As discussed by Ms. Andrews, the Company has included (and specific capital witnesses provide further detail, in relation to the capital additions they sponsor): 1) all direct offsets to O&M where applicable, 2) a "2% O&M efficiency" adjustment, reducing O&M expense, for all remaining capital Business Cases (not required for compliance purposes), and 3) offsetting revenue associated with growth revenue (Growth Capital Business Cases), as well as EIM benefits included the net power supply adjustment (EIM business Case.).[15] In addition, also included in Ms. Andrews' summary discussion of offsets, is the incremental reduction to depreciation expense of including retirements, as well as the impact on net plant investment (after ADFIT), by adjusting all existing plant investment for A/D and ADFIT through the Two-Year Rate Plan as of December 31, 2023 (AMA) for Rate Year 1 and December 31, 2024 (AMA) for Rate Year 2. All retirements, and the changes to A/D and ADFIT can be seen within the native version of Exh. JBB-2.

Q. Can you elaborate on the inclusion of retirements, and their significant reduction to depreciation expense included in the Company's case over the Two-Year

[15] See also detailed direct O&M offsets, "2% efficiency" adjustment O&M offset, and indirect offsets by Business Case, by witness, as well as individual Business Case Offset Forms, at Exh. EMA-5.

Rate Plan?

A. Yes. As summarized by Ms. Andrews and included within my capital adjustments for the period September 30, 2021 through 2024 AMA, I have included the following retirements, reducing overall depreciation expense.

<u>Table No. 7 – Expense Reduction Due to Plant Retirements</u>

Expense Reduction due to Plant Retirements in $000s				
	Electric		Natural Gas	
2021 Q4 Retirements	$	(145)	$	(41)
2022 Retirements EOP	$	(5,328)	$	(1,362)
2023 Retirements AMA	$	(6,976)	$	(1,807)
Rate Year 1	$	(12,449)	$	(3,210)
2024 Retirements AMA	$	(9,154)	$	(2,501)
Rate Year 2	$	(21,603)	$	(5,711)

As can be seen in Table No. 7 above, the Company has included a reduction to depreciation expense for retirements of $12.4 million electric and $3.2 million natural gas in Rate Year 1, and an additional reduction in expense of $9.2 million electric and $2.5 million for natural gas in Rate Year 2 – totaling $21.6 million and $5.7 million, respectively over the Two-Year Rate Plan.

Q. Please explain the causes of the significant retirements, reducing depreciation expense in this case.

A. Retirements over the Two-Year Rate Plan are mostly due to the increased investment in 5-year short-lived assets over the last several years, which have begun in larger quantities to retire. This includes additions for Project Compass[16] which had significant software applications placed in service in 2016, with subsequent enhancements having a five-year life. In 2017 Project Phoenix[17], the replacement of the Company's web portal, went live and in 2018 and in 2019 large portions of AMI software were transferred to plant. As the Company continues to invest in its software solutions, there continue to be new upgrades and enhancements to these assets, which are short-lived.

IV. SUMMARY OF CAPITAL ADJUSTMENTS

Q. Please summarize the capital-related adjustments included by the Company in this case.

A. As discussed by Ms. Andrews, the electric and natural gas Pro Forma Studies over the Two-Year Rate Plan include traditional restating, pro forma and provisional adjustments for Rate Year 1 and Rate Year 2.

Electric Capital Adjustments

As shown in Table No. 8 below, with regard to electric capital investments, the Company started with utility plant rate base balances from historical accounting information, which for this case consists of the actual AMA balances for the twelve-months ended September 30, 2021, and made the following adjustments to **Washington electric operations** to reflect the net plant (after A/D and ADFIT) balances as of Rate Year 1 and Rate Year 2:

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[16] Project Compass was a large project to replace the Company's Customer Information System (CIS) with multiple differing software solutions to meet the growing needs of customers and the Company, including customer self service capabilities.
[17] Project Phoenix was the title of the project to replace the previous www.avistautilities.com website with an updated, reliable foundation for providing portal, web content management, search and mobile web capabilities – www.myavista.com.

Table No. 8 – Washington Electric Plant Adjustments

	Washington Electric Plant Adjustments in $(000's)	Adj #	Plant in Service	Accumulated Depreciation	Accumulated DFIT	Net Plant (After ADFIT)
	Rate Year 1 (December 2022 - December 2023)					
	09/2021 AMA	Results	$ 3,376,734.0	$ (1,150,819)	$ (428,637)	$ 1,797,278
(1)	Deferred FIT Rate Base	1.01			(680)	(680)
(2)	Restate 9/30 AMA to EOP	2.15	95,037	(43,971)	23,123	74,189
(3)	Pro Forma AMI Amortization	3.04	-	(20,967)	-	(20,967)
(4)	Pro Forma Additions Q4 2021	3.15	56,408	(16,358)	(5,216)	34,834
(5)	Pro Forma EIM 2022 EOP	3.17	7,811	(1,274)	(235)	6,302
(6)	Pro Forma Wildfire Q4 2021	3.18	2,504	(7)	-	2,497
(7)	Pro Forma Colstrip Adds	3.19	(1,983)	(2,998)	9	(4,972)
(8)	Provisional 12.31.2022 EOP	4.01	145,097	(66,079)	(620)	78,398
(9)	Provisional 12.31.2023 AMA	4.02	56,064	(41,189)	(694)	14,181
(10)	Provisional Wildfire 2022 EOP	4.04	14,789	(269)	(714)	13,806
(11)	Provisioanl Wildfire 2023 AMA	4.05	7,938	(305)	(498)	7,135
(12)	Provisional Colstrip 2022 EOP	4.06	4,046	(12,122)	1	(8,075)
(13)	Provisional Colstrip 2023 AMA	4.07	542	(6,481)	71	(5,868)
(14)	Provisional EIM Additions AMA	4.08	125	(862)	(165)	(902)
	Rate Year 1 Total		$ 3,765,112	$ (1,363,701)	$ (414,255)	$ 1,987,156
	Rate Year 2 (December 2022 - December 2023)					
(15)	Provisional 12.31.2024 AMA	5.08	$ 142,809	$ (64,607)	$ (1,416)	$ 76,786
(16)	Provisional Wildfire 2024 AMA	5.10	17,694	(917)	(1,087)	15,690
(17)	Provisional Colstrip 2024 AMA	5.11	3,027	(13,707)	279	(10,401)
(18)	Provisional EIM 2024 AMA	5.12	243	(1,662)	(150)	(1,569)
	Rate Year 2 Total		$ 3,928,885	$ (1,444,594)	$ (416,629)	$ 2,067,662

Descriptions of each adjustment for Rate Year 1 and Rate Year 2 follow, with supporting exhibits provided as Exh. JBB-2; supporting detailed workpapers will be provided to all parties. Supporting information for adjustments sponsored by Ms. Andrews (related to Wildfire, Colstrip Unit 3 and 4, and EIM) are provided with Exh. EMA-2 and Exh. EMA-3; Ms. Andrews' associated workpapers will be provided to all parties.

<u>Rate Year 1 –</u>

(1) **Adjustment (1.01) – Deferred FIT Rate Base**: This adjustment adjusts the electric and natural gas accumulated deferred federal income tax (ADFIT) rate base balance included in the Results of Operations at 09.2021 to the adjusted ADFIT balance reflected on an AMA basis. ADFIT reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS) and bond refinancing premiums.

(2) **Adjustment (2.15) – Restate September 2021 AMA Rate Base to EOP**: This adjustment restates plant-in-service, accumulated depreciation (A/D) and ADFIT from Average of Monthly Averages (AMA) to End of Period (EOP) for the historic test year.

(3) **Adjustment (3.04) – PF AMI Amortization:** As sponsored and further discussed by Ms. Andrews, this adjustment, in part, reflects a reduction to A/D to remove the expired meters replaced by the Company's Automated Meter Infrastructure (AMI) investment, previously approved by the Commission in Docket UE-200900, et. al. The expired meters have been reclassified as a Regulatory Asset and amortized over the remaining twelve-year life of the AMI project.

(4) **PF Adjustment (3.15) – PF Additions September 2021 – EOP December 2021;** This adjustment restates 09.2021 EOP historic test year balances to EOP balances as of December 31, 2021. This adjustment was comprised of three components. First, incremental depreciation expense on existing plant as of September 30, 2021 was determined through the end of the year, as was the associated A/D and ADFIT. The second component included actual additions for the month of October and expected additions for November and December 2021. Increases in expense, A/D and ADFIT were calculated on these assets. Lastly, retirements expected to be incurred during the fourth quarter of 2021, reducing expense and gross plant and increasing A/D and ADFIT for the period. All of these adjustments are omitting EIM, Wildfire Recovery, and Colstrip additions as each of these projects have specific adjustments to account for their additions to plant and are sponsored by Ms. Andrews.

(5) **PF Adjustment (3.17) – PF EIM 2021-2022 EOP;** As sponsored and further discussed by Ms. Andrews, this adjustment pro forms EIM additions from October 1, 2021 through the final EIM "go-live" and project completion March 2022 (plus trailing invoices through June 2022), reflecting amounts previously approved in Docket UE-200900, et. al. (subject to review and refund during this proceeding). In addition, this adjustment includes annual depreciation expense, and the impact on A/D and ADFIT. Finally, this adjustment includes incremental EIM expenses. (EIM benefits are included with PF Power Supply Adj. 3.00P.)

(6) **PF Adjustment (3.18) – PF Wildfire Q4 2021 EOP;** As sponsored and further

discussed by Ms. Andrews, this adjustment pro forms Wildfire additions from October 1, 2021 through December 2021. In addition, this adjustment includes annual depreciation expense, and the impact on A/D and ADFIT.

(7) **PF Adjustment (3.19) – PF Colstrip Q4 2021 EOP;** As sponsored and further discussed by Ms. Andrews, this adjustment pro forms Colstrip Unit 3 and 4 additions from October 1, 2021 through December 2021. In addition, this adjustment includes annual depreciation expense, and the impact on A/D and ADFIT. Finally, this adjustment includes regulatory amortization expense associated with the Colstrip Regulatory Asset previously approved by the Commission.

(8) - (9) **PV Adjustment (4.01) – Capital Groups 2022 Additions EOP; PV Adjustment (4.02) Provisional Capital Groups 2023 Additions AMA:** These adjustments are composed of three parts. The first is the annualized effects of the plant in service as of December 31, 2021, adjusting to annualized depreciation expense and annual effects on A/D and ADFIT. Effects of short-lived assets were independently calculated, as their shorter lives provide a ceiling to potential accumulated depreciation. The second component was to account for the effects from retirements, both the annualization of Q4 2021 retirements, and the retirements that were incurred during the subsequent calendar years. Lastly, additions to plant in service were calculated to show gross plant additions, associated increased depreciation expense, increased A/D, and ADFIT using the Company's expected transfers to plant for 2022 (on an EOP basis) and 2023 (on an AMA basis). Within each adjustment, capital additions are classified within reporting groups of Short-Lived Assets, Programmatic additions, Mandatory & Compliance additions, and Large & Distinct. EIM, Wildfire Rescue Plan, and Colstrip Units 3 & 4 additions are not included in these totals. The result of these adjustments moves total net plant to 2022 EOP (4.01) and then forward to 2023 AMA (4.02) for Rate Year 1.

(10) - (11) **PV (4.04)[18] Provisional Wildfire 2022 EOP; PV (4.05) – Provisional Wildfire 2023 AMA:** As sponsored and further discussed by Ms. Andrews, these adjustments provide the provisional additions specific to the Company's Wildfire Resiliency Plan, including plant additions, associated increased depreciation expense, increased A/D, and ADFIT using the Company's expected transfers to plant for 2022 (on an EOP basis) and 2023 (on an AMA basis). The result of these adjustments moves total net plant for Wildfire investment to 2022 EOP (4.04) and then forward to 2023 AMA (4.05) for Rate Year 1. In addition, adjustment PV (4.04), includes incremental Wildfire expenses (proposing a new Company Wildfire Balancing Account Baseline).

(12) - (13) **PV (4.06) Provisional Colstrip 2022 EOP; PV (4.07) – Provisional Colstrip 2023 AMA:** As sponsored and further discussed by Ms. Andrews, these

[18] PF (4.03), as discussed by Ms. Andrews, includes adjustment "2022-2023 Offsets Capital Additions and Revenue", reflecting direct offsets to O&M expense and direct offsets to other revenue, related to capital additions in 2022 and 2023, reflecting matching of expenses, rate base and revenues during Rate Year 1.

adjustments provide the provisional additions specific to the Company's Colstrip Unit 3 and 4 investment, including plant additions, associated increased depreciation expense (using an accelerated depreciation schedule of 3-years and 2-years, respectively), and impact on A/D and ADFIT, using the Company's expected transfers to plant for 2022 (on an EOP basis) and 2023 (on an AMA basis). In addition, the Colstrip Regulatory Asset and Colstrip regulatory amortization is adjusted to reflect the appropriate amortization for each time period. The result of these adjustments moves total net plant for Colstrip investment to 2022 EOP (4.06) and then forward to 2023 AMA (4.07) for Rate Year 1.

(14) **PV (4.08) Provisional EIM 2023 AMA:** As sponsored and further discussed by Ms. Andrews, this adjustment provides the provisional additions specific to the Company's EIM investment, including plant additions, associated increased depreciation expense, increased A/D, and ADFIT using the Company's expected transfers to plant for 2023 (on an AMA basis). The result of this adjustment moves total net plant for EIM investment to 2023 AMA (4.08) for Rate Year 1.

Rate Year 2

(15) **PV Adjustment (5.08) Provisional Capital Groups 2024 Additions AMA**: This adjustment reflects incremental 2023 capital additions above the 2023 AMA amounts included in Rate Year 1, as well as, expected transfers to plant for 2024 (on an AMA basis), reflecting gross plant additions, associated increased depreciation expense, and increased A/D and ADFIT as of 2024 AMA. Similar to Rate Year 1's capital adjustments for "Capital Groups", additions are classified within reporting groups of Short-Lived Assets, Programmatic additions, Mandatory & Compliance additions, and Large & Distinct and affects plant balances, depreciation expense, A/D, and ADFIT balances. This adjustment also accounts for the effects from retirements, both the annualization of Q4 2021 retirements, and the retirements that were incurred during the subsequent calendar years. The result of these adjustments moves total net plant to 2024 AMA (5.08) for Rate Year 2.[19]

(16) **PV Adjustment (5.10) – Provisional Wildfire 2024 Additions AMA:** As sponsored and further discussed by Ms. Andrews, this adjustment reflects incremental 2023 capital additions above the 2023 AMA amounts included in Rate Year 1, as well as, expected transfers to plant for 2024 (on an AMA basis) specific to the Wildfire Resiliency Plan. This includes depreciation expense, plant balances, and the effects on A/D, and ADFIT. The result of this adjustments moves total net plant for Wildfire investment forward to 2024 AMA (5.10) for Rate Year 2.

[19] PV (5.09), as discussed by Ms. Andrews, includes adjustment "2024 Offsets Capital Additions and Revenue", reflecting direct offsets to O&M expense and direct offsets to other revenue, related to incremental capital additions in 2023 (on EOP basis) and 2024 (on an AMA basis), reflects matching of expenses, rate base and revenues during Rate Year 2.

(17) **PV Adjustment (5.11) – Provisional Colstrip 2024 Additions AMA:** As sponsored and further discussed by Ms. Andrews, this adjustment reflects incremental 2023 capital additions above the 2023 AMA amounts included in Rate Year 1, as well as, expected transfers to plant for 2024 (on an AMA basis) specific to the Colstrip Unit 3 and 4 investment. This includes depreciation expense, plant balances, and the effects on A/D, and ADFIT. In addition, the Colstrip Regulatory Asset is adjusted to reflect the appropriate balance as of 2024 AMA time period. The result of this adjustment moves <u>total net plant</u> for Colstrip Unit 3 and 4 investment forward to 2024 AMA (5.11) for Rate Year 2.

(18) **PV Adjustment (5.12) – Provisional EIM 2024 Additions AMA:** As sponsored and further discussed by Ms. Andrews, this adjustment reflects incremental 2023 capital additions above the 2023 AMA amounts included in Rate Year 1, as well as, expected transfers to plant for 2024 (on an AMA basis) specific to the EIM investment. This includes depreciation expense, plant balances, and the effects on A/D, and ADFIT. The result of this adjustments moves <u>total net plant</u> for EIM investment forward to 2024 AMA (5.12) for Rate Year 2.

As noted above, Ms. Andrews sponsors the electric capital adjustments, including pro forma and provisional capital additions related to the Company's investments in EIM, its Wildfire Plan, and Colstrip Units 3 and 4.[20] Refer to her testimony for further discussion on those capital additions, and related expense, for the Two-Year Rate Plan.

<u>Natural Gas Capital Adjustments</u>

As shown in Table No. 9 below, with regards to natural gas capital investments, the Company started with utility plant rate base balances from historical accounting information, which for this case consists of the actual AMA balances for the twelve-months ended September 30, 2021, and made the following adjustments to **<u>Washington natural gas operations</u>** to reflect the net plant (after A/D and ADFIT) balances as of Rate Year 1 and Rate

[20] Also included in the adjustments described above sponsored by Ms. Andrews are the electric and natural gas AMI adjustments. They are included as these adjustments affect net plant by restating (decreasing) A/D for the removal of retired meters and being reclassified as a regulatory asset.

Year 2:

Table No. 9 – Washington Natural Gas Plant Adjustments

Washington Natural Gas Plant Adjustments in $(000's)	Adj #	Plant in Service	Accumulated Depreciation	Accumulated DFIT	Net Plant (After ADFIT)
Rate Year 1 (December 2022 - December 2023)					
09/2021 AMA	Results	$ 761,786	$ (226,079)	$ (97,558)	$ 438,149
(1) Deferred FIT Rate Base	1.01			227	227
(2) Restate 9/30 AMA to EOP	2.15	24,922	(9,823)	11,396	26,495
(3) Pro Forma AMI Amortization	3.04	-	(4,097)	-	(4,097)
(4) Pro Forma Additions Q4 2021	3.15	12,524	(4,342)	2,566	10,748
(5) Provisional 12.31.2022 EOP	4.01	46,387	(15,354)	1,006	32,039
(6) Provisional 12.31.2023 AMA	4.02	15,948	(10,073)	712	6,587
Rate Year 1 Total		$ 861,567	$ (269,768)	$ (81,651)	$ 510,148
Rate Year 2 (December 2022 - December 2023)					
(7) Provisional 12.31.2024 AMA	5.08	$ 35,550	$ (14,811)	$ 1,459	$ 22,198
Rate Year 2 Total		$ 897,117	$ (284,579)	$ (80,192)	$ 532,346

Descriptions of each adjustment for Rate Year 1 and Rate Year 2 follow; with supporting exhibits provided as Exh. JBB-2; supporting detailed workpapers have been provided to all parties.

Rate Year 1 –

(1) **Adjustment (1.01) – Deferred FIT Rate Base**: This adjustment adjusts the electric and natural gas accumulated deferred federal income tax (ADFIT) rate base balance included in the Results of Operations at 09.2021 to the adjusted ADFIT balance reflected on an Average-of-Monthly Averages (AMA) basis. ADFIT reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS) and bond refinancing premiums.

(2) **Adjustment (2.15) – Restate September 2021 AMA Rate Base to EOP**: This adjustment restates plant-in-service, accumulated depreciation (A/D) and ADFIT from an AMA to End-of-Period (EOP) for the historic test year.

(3) **Adjustment (3.04) – PF AMI Amortization:** As sponsored and further discussed by Ms. Andrews, this adjustment, in part, reflects a reduction to A/D to remove the expired meters replaced by the Company's Automated Meter Infrastructure (AMI) investment, previously approved by the Commission in Docket UE-200900, et. al.

The expired meters have been reclassified as a Regulatory Asset and amortized over the remaining twelve-year life of the AMI project.

(4) **PF Adjustment (3.15) – PF Additions September 2021 – EOP December 2021;** This adjustment restates 09.2021 EOP historic test year balances to EOP balances as of December 31, 2021. This adjustment was comprised of three components. First, incremental depreciation expense on existing plant as of September 30, 2021 was determined through the end of the year, as was the associated A/D and ADFIT. The second component included actual additions for the month of October, and expected additions for November and December 2021. Increases in expense, A/D and ADFIT were calculated on these assets. Lastly, retirements incurred during the fourth quarter of 2021, reduce expense and gross plant and increase A/D and ADFIT for the period.

(5) - (6) **PV Adjustment (4.01) – Capital Groups 2022 Additions EOP; PV Adjustment (4.02) Provisional Capital Groups 2023 Additions AMA:** These adjustments are composed of three parts. The first is the annualized effects of the plant in service as of December 31, 2021, adjusting to annualized depreciation expense and annual effects on A/D and ADFIT. Effects of short-lived assets were independently calculated, as their shorter lives provide a ceiling to potential accumulated depreciation. The second component was to account for the effects from retirements, both the annualization of Q4 2021 retirements, and the retirements that were incurred during the subsequent calendar years. Lastly, additions to plant in service were calculated to show gross plant additions, associated increased depreciation expense, increased A/D, and ADFIT using the Company's expected transfers to plant for 2022 (on an EOP basis) and 2023 (on an AMA basis). Within each adjustment, capital additions are classified within reporting groups of Short-Lived Assets, Programmatic additions, Mandatory & Compliance additions, and Large & Distinct. The result of these adjustments moves total net plant to 2022 EOP (4.01) and then forward to 2023 AMA (4.02).[21]

Rate Year 2

(7) **PV Adjustment (5.08) Provisional Capital Groups 2024 Additions AMA**: This adjustment reflects incremental 2023 capital additions above the 2023 AMA amounts included in Rate Year 1, as well as, expected transfers to plant for 2024 (on an AMA basis), reflecting gross plant additions, associated increased depreciation expense, and increased A/D and ADFIT as of 2024 AMA. Similar to Rate Year 1's capital adjustments for "Capital Groups", additions are classified within reporting groups of Short-Lived Assets, Programmatic additions, Mandatory & Compliance additions, and Large & Distinct and effects plant balances and A/D, depreciation expense, A/D, and ADFIT balances. This adjustment also accounts for the effects from retirements, both the annualization

[21] PF (4.03), as discussed by Ms. Andrews, includes adjustment "2022-2023 Offsets Capital Additions and Revenue", reflecting direct offsets to O&M expense and direct offsets to other revenue, related to capital additions in 2022 and 2023, reflecting matching of expenses, rate base and revenues during Rate Year 1.

of Q4 2021 retirements, and the retirements that are experienced during the subsequent calendar years. The result of these adjustments moves total net plant to 2024 AMA (5.08).[22]

Detailed calculations for each adjustment I sponsor have been provided in native Exh. JBB-2 and workpapers will be provided to all parties.

Q. Based on the adjustments described above and provided in Table Nos. 8 and 9, please summarize the change in electric and natural gas net plant (after ADFIT) for the Washington operations.

A. As sponsored by Ms. Andrews, the results of the electric and natural gas Pro Forma Studies reflect the net plant after ADFIT that will be in service serving customers during Rate Year 1 and Rate Year 2. Including adjustments for projects sponsored by myself and Ms. Andrews (EIM, Wildfire, and Colstrip Units 3 and 4), for Rate Year 1, electric net plant after ADFIT increases $189,878,000, resulting from the September 30, 2021 AMA results of operations balance of $1,797,278,000, adjusted to the December 31, 2023 AMA balance of $1,987,156. For Rate Year 2, electric net plant after ADFIT, increases $80,506,000 from the December 31, 2023 AMA balance to the December 31, 2024 AMA balance of $2,067,662,000.

For Rate Year 1 natural gas net plant after ADFIT, increases $71,999,000 from the September 30, 2021 AMA balance of $438,149,000 to the December 31, 2023 AMA balance of $510,148,000. For Rate Year 2, natural gas net plant, after ADFIT, increases $22,198,000 from the December 31, 2023 AMA balance to the December 31, 2024 AMA balance of $532,346,000. These balances can also be seen in Ms. Andrews' electric and natural gas Pro

[22] PV (5.09), as discussed by Ms. Andrews, includes adjustment "2024 Offsets Capital Additions and Revenue", reflecting direct offsets to O&M expense and direct offsets to other revenue, related to incremental capital additions in 2023 (on EOP basis) and 2024 (on an AMA basis), reflecting matching of expenses, rate base and revenues during Rate Year 2.

Forma Studies at Exh. EMA-2 and Exh. EMA-3.

V. PROGRAMMATIC – BLANKET INVESTMENTS

Q. The Commission had questions regarding blanket programmatic investments in the Company's prior GRC proceeding, as noted in Order 08/05, in Dockets UE-200900, et. al. Can you please discuss your analysis with regard to blanket programmatic investments in response to these concerns?

A. Yes. Specifically, the Commission in Order 08/05 of Docket UE-200900 et. al., at para. 209, requested Avista demonstrate in its next filing that:

- the blanket programmatic projects it seeks to recover in any pro forma adjustment are incremental to the test year and will not result in double-recovery of year-to-year costs in the test year for such projects;
- if…blanket programmatic projects lack material variation in year-to-year investment, Avista must show why these investments should not be normalized over an appropriate time period; and
- that Avista must demonstrate why normalizing its blanket programmatic investments is inappropriate

The Company uses the term "blanket" to characterize certain capital additions (transfers to plant) within a few Business Cases. These types of blanket capital additions are primarily within the electric and natural gas distribution systems. Work in these blankets can be associated with minor capital repairs, such as repair and replacement of electric conductor or replacement of originally-installed natural gas service lines. In addition, work performed to connect new customers to utility services can also be included in this blanket process.

Examples of Business Cases that include blanket capital additions are Distribution Minor Rebuild, Gas Non-Revenue Program, Gas Regulator Station Replacement Program, and Gas Reinforcement Program.

Q. Have you prepared a table showing variation from year-to-year?

A. Yes. The table below details the Programmatic Blanket Business Cases within the Company's Pro Forma Studies and shows the variability annually.

Table No. 10 –Programmatic Blanket Business Cases - Washington Additions

Programmatic Blanket Business Cases - Washington Additions
(Excluding New Revenue)
in $000s

	Acutals				Budgeted		
Business Case	**2018**	**2019**	**2020**	**2021†**	**2022**	**2023**	**2024**
Distribution Minor Rebuild	6,301	7,619	8,139	6,622	7,703	7,703	7,368
Electric Programmatic Blanket	**6,301**	**7,619**	**8,139**	**6,622**	**7,703**	**7,703**	**7,368**
Gas Non-Revenue Program	1,880	3,369	3,473	5,938	4,250	4,250	4,250
Gas Regulator Station Replacement Program	350	274	113	515	343	333	267
Gas Reinforcement Program	617	501	954	571	650	590	590
Gas Programmatic Blanket	**2,847**	**4,144**	**4,540**	**7,024**	**5,243**	**5,173**	**5,107**

† Actuals for January - October, 2021 with expected Transfer to Plant for November and December, 2021

As can be seen in Table No. 10 above, there can be variance within the year-to-year additions. Although these projects are typically minor in nature and on a smaller scale, they are important nonetheless to ensure Avista's customers have safe, reliable utility service.

Q. Are these capital projects incremental to the test period?

A. Yes, they are. Blanket capital additions are like all other pro forma and provisional capital additions (transfers to plant) the Company has included in the case. Regardless of variability, these are incremental to plant investment in any year and incremental to the twelve-months-ended September 30, 2021 Test Year. Thus, similar to all capital additions which, by their very nature, are incremental and are transferred to plant when used and useful, blanket capital additions should be treated no differently. As this is not work associated with other planned and expected replacements completed through other Business Cases (no "overlap'), inclusion of these Blanket Business Case investments will not result in double recovery of year-to-year costs.

Q. Would it be appropriate to normalize these Programmatic Blanket Business Case investments?

A. No, it would not, not in the same way one "normalizes" expenses. Expenses are often normalized at a set amount that produce a consistent, year-over-year, annual level of expense that avoids variability annually between cases. One does not, however, "normalize" capital additions. For capital investments, regardless of size, even if that amount is the same annually, it will result in <u>incremental</u> capital additions year-over-year as new investment is added. And, those incremental capital additions are recovered over the life of the investment, unlike expense items, which can lend themselves to be normalized, are recovered over a one-year period.

Therefore, <u>it would not be appropriate to normalize these capital additions</u>, regardless of transfer to plant variation year-over-year, given the nature of what they are – i.e. <u>incremental transfers to plant that, all else being equal, increase net rate base and customer rates annually year-over-year</u>. Although blanket capital additions may individually be done on a smaller scale, there is either historical evidence or trends that allow for appropriate budgeting and expectations of timing for the work performed.

Included elsewhere in the pro forma and provisional capital adjustments are retirements resulting in the removal of the costs from overall plant balances along with associated reduction to depreciation expense, as discussed in Section III above. When assets are replaced, including the work completed under Business Cases utilizing this process, the existing or old plant asset is retired, which is consistent with the treatment of all capital replacement work. But that is treated separately from incremental capital additions.

Q. But shouldn't the Company "normalize" capital to take into account retirements of plant, as well as new investments?

A. No, retirements are separately accounted for already within the pro forma model.

VI. SHORT-LIVED SOFTWARE ASSETS

Q. Please summarize the rationale for providing information on software assets with an amortizable life other than five years.

A. In Avista's accounting order Application for depreciation and amortization rates for investment software (Docket Nos. UE-200857 and UG-200858), Avista requested, and was granted per Commission Order 01 in May 2021, the use of amortization periods for software licenses, software as a service, and capitalizable integration costs in a manner consistent with Generally Accepted Accounting Principles (GAAP) required periods. This could provide for an intangible asset's life to be other than the previous life of five years, based on contract length and timing of placing the asset in service.

Per the Order, Avista is required to provide annual reports, until the next filed depreciation study, that would explicitly discuss software amortizations, detailing a list of software assets that had an amortizable life other than five years. The third quarter report has been provided in Exh. JBB-4. An updated version will be submitted after year end for all software assets transferred to plant during 2021. In addition to the listing of software, attributes and accounting detail were to be provided for each of the intangible assets including:

- A brief narrative description of each project;
- The capitalized cost components, useful lives assigned, and expected annual amortization expense; and
- Contract details including the total cost, payment terms, and amounts to be recorded as operating expense.

Additional detail, such as if the software asset was a new contract or a release providing additional functionality and enhancements, is also provided.

Q. Did the Accounting Order impact customers' rates?

A. No, it did not. As was noted within the Application, recovery of the accelerated amortization expense would be included within future general rate cases. As such, the new amortization is included within transfers to plant within <u>this</u> case, with forecasted allocations of short-lived software transfer to plant totals based on year-to-date data.

Q. How many software assets have been recorded with an amortizable life of other than five years?

A. Per the third quarter of 2021 report, located at Exh. JBB-4, a total of eleven intangible software assets have been placed into service since May 2021 through the end of September 2021 that have an amortizable life other than five years. System wide totals of capitalized costs amounted to $3,162,000, with an allocated cost to Washington Electric of $1,511,000 and Washington Gas of $477,000. These assets have annual amortization expense of $531,000 and $168,000 respectively. Currently, amortizable lives have been identified as three and two years. Exhibit Exh. JBB-4 provides further details, such as descriptions of the software packages, itemized listing, and annualized amortization expense.

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

A. Yes, it does.