Exh. EMA-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-22________

DOCKET NO. UG-22________

DIRECT TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

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I. INTRODUCTION

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

A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as Senior Manager of Revenue Requirements in the Regulatory Affairs Department. My business address is 1411 East Mission, Spokane, Washington.

Q. Would you please describe your education and business experience?

A. I am a 1990 graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. That same year, I passed the November Certified Public Accountant exam, earning my CPA License in August 1991.[1] I worked for Lemaster & Daniels, CPAs from 1990 to 1993, before joining the Company in August 1993. I served in various positions within the sections of the Finance Department, including General Ledger Accountant and Systems Support Analyst until 2000. In 2000, I was hired into the State and Federal Regulation Department, now Regulatory Affairs, as a Regulatory Analyst until my promotion to Manager of Revenue Requirements in early 2007, and later promotion to Senior Manager of Revenue Requirements. I have also attended several utility accounting, ratemaking and leadership courses.

Q. As Senior Manager of Revenue Requirements, what are your responsibilities?

A. My main responsibilities are the preparation of normalized revenue requirement and ratemaking studies for the various jurisdictions in which the Company

[1] I keep a CPA-Inactive status with regards to my CPA license.

provides utility services. Since 2000, I have led, or assisted in, the Company's electric and/or natural gas general rate filings in Washington, Idaho and Oregon.

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

A. My testimony and exhibits in this proceeding 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 2022 (Rate Year 1) and December 2023 (Rate Year 2). I will explain 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, which I incorporate the Washington-share of those adjustments in this case. The pro formed operating results for Rate Year 1 (hereafter "RY1") effective in December 2022, reflect electric and natural gas base revenue requirement requests of approximately $52.9 million and $10.9 million, respectively. The pro formed operating results for Rate Year 2 (hereafter "RY2") effective in December 2023, reflect electric and natural gas base revenue requirement requests of approximately $17.1 million and $2.2 million, respectively.

I also provide the Company's proposed future reporting of "provisional" capital adjustments pro formed in this case, which include capital additions from January 2022 through December 2024, that are "subject to review and refund" per the Commission's Used and Useful Policy Statement.[2] This reporting will provide the Commission, Commission Staff, and other intervening parties the opportunity to do a final review and audit of <u>actual</u>

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

capital additions transferred to Washington electric and natural gas utility plant at a future period, to ensure that the level of capital approved by the Commission and included in rates in this proceeding over the Two-Year Rate Plan is supported by actual, used and useful plant. Through this reporting, a determination would be made of any amounts subject to refund to customers as a result of any over-statement of total net plant after A/D and ADFIT included in electric or natural gas RY1 or RY2 pro formed results.

In addition to discussing the Company's needed rate relief and capital reporting, I will discuss the Company's proposal to return remaining deferred tax credit balances[3] to customers to mitigate, in part, the Company's requested increase effective December 2022 over a two-year period.[4] The proposed amortization by the Company of these benefits, beginning in December 2022 and extending through December 2024 ("Residual Tax Customer Credit" Tariff Schedules 78 (electric) and 178 (natural gas)) amount to approximately $12.7 million for electric and $6.2 million for natural gas, respectively, per year.

I then, generally describe the Company's Wildfire Resiliency Plan ("Wildfire Plan") Wildfire Expense Balancing Account (WF Balancing Account) established in the Company's last GRC, Dockets UE-200900, et. al., and how that balancing account will

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[3] The expected remaining Tax Credit balances for Washington electric and natural gas to return to customers is approximately $25.5 million and $12.5 million, respectively. The Company proposes to return these balances over a two-year amortization. These balances reflect the actual deferred tax credit balances as of December 31, 2020 for Washington electric and natural gas operations, adjusted for annual estimated incremental tax credit deferrals for 2021 – 2023, offset by annual estimated amortizations of the tax credit deferred balances per Order 08/05 in Dockets UE-200900 et. al.. See Section VI. "Proposed Two-Year Tax Credit Amortization – Tariff Schedules 78 / 178," for further information.

[4] The tax credits relate to deferred tax deductions for IDD #5, related to mixed services costs that are part of the capitalized book costs of utility property but can be capitalized to inventory and expensed for tax purposes as a cost of goods sold expenditure. The meter accounting method change allows Avista, for income tax purposes, to deduct meter costs instead of capitalizing them if the per unit cost is less than $200.

operate over time. In addition, I discuss the Company's request in this case to create a new balancing account, similar to that used for wildfire expenses, to track insurance expense, thereby protecting both customers and the Company with respect to significant costs expected during the Two-Year Rate Plan. Making use of the various balancing accounts (wildfire and insurance) will ensure that for those certain expenses, Avista only recovers from customers the actual level of expense incurred during the Two-Year Rate Plan and beyond.

Finally, I will discuss the Company's trending analysis using "escalation growth rates" to determine the RY2 incremental revenue requirement, that serves as a reasonableness "cross-check" on the traditional pro forma study used for RY2. This analysis is provided for information only and is not otherwise relied upon with regard to the Two-Year Rate Plan revenue requirement requested.

Q. Would you please summarize your direct testimony?

A. Yes. Below is a summary of the principal topics discussed in my direct testimony:

- The Company is requesting a Two-Year Rate Plan, with rates taking effect in December 2022 and December 2023.

- For RY1, the proposed increases reflect an electric base rate relief of approximately $52.9 million, or 9.6%, and natural gas base rate relief of $10.9 million, or 9.5% (5.8% billed), effective December 2022. This is before the offsetting effect of the Tax Customer Credit Tariff Schedule 78 (electric) and 178 (natural gas).

- For RY2 of the Two-Year Rate Plan, the proposed increases reflect an electric base rate relief of $17.1 million, or 2.8%, and natural gas base rate relief of approximately $2.2 million, or 1.7% (billed 1.1%), effective December 2023.

- Concurrent with the effective date of this GRC, the Company proposes to return to customers estimated incremental Customer Tax ADIT benefits of approximately $25.5 million for electric and $12.5 million for natural gas, over a two-year amortization period, through separate Tariff Schedules 78 (electric) and 178 (natural gas), titled "Residual Tax Customer Credit" - offsetting in part the Company's requested electric and natural gas RY1 base rate relief from December 2022 through December 2024. RY1 increase on a billed basis, after reflecting the "Residual Tax Customer Credit" offset, would be 7.4% for electric operations, and 2.5% for natural gas operations.

- The Company has included "pro forma" capital adjustments in this case reflecting all capital additions for the three-month period October 2021 through December 2021[5], along with the Western Energy Imbalance Market ("EIM") capital additions October 2021 through June 2022 previously reflected in the Company's prior GRC (Dockets UE-200900 et. al.), which were subject to review and refund in this case.

- The Company has also included "provisional" capital adjustments for the period January 2022 through December 2023 for RY1, and January 2024 through December 2024 for RY2. Inclusion of the provisional capital investments were prepared using the category designations discussed by the Commission's "Used and Useful Policy Statement," dated January 31, 2020 in Docket U-190531, including capital investments grouped as "Large and Distinct"[6], "Programmatic", "Short-Lived" and "Mandatory and Compliance." These capital additions are the main driver of the Company's request for rate relief in RY1 and RY2.

- The Company has included in its electric and natural gas Pro Forma Studies, total O&M offsets, other revenue, retirements (reduced depreciation expense), and reduced net plant after ADFIT for the change in A/D and ADFIT on existing plant at September 2022, adjusted to AMA 2023 for RY1 and AMA 2024 for RY2. These adjustments reduce the Company's revenue requirement in total by $41.3 million for electric and $11.4 million for natural gas, for **RY1**, and by $23.5 million for electric and $6.5 million for natural gas, for **RY2**, or a total of $64.8 million for electric and $17.9 million for natural gas, over the **Two-Year Rate plan**) as follows:

    - Direct O&M expense and "Other Revenue" reductions **-** including an incremental "2% efficiency" adjustment on plant investment, and revenue

[5] Actual capital additions for October 2021 and expected capital additions for November and December 2021 were included in the Company's electric and natural gas Pro Forma Adjustment (3.15). These additions pro form balances beyond the Company's historical test period – twelve-months ending (12ME) September 30, 2021. Actual transfers to plant for November and December 2021, providing all actual additions for calendar 2021 on an end-of-period (EOP) basis, will be available in January 2022. The Company will update its electric and natural gas Pro Forma Adjustment (3.15), as soon as available in February 2022.

[6] Due to the prior requirement in Dockets UE-190334 et. al. to report on Colstrip Units 3 and 4 decommissioning and remediation (D&R) costs in each future GRC; and Dockets UE-200900, et. al., for Wildfire and EIM investments approved "subject to review and refund," these capital investments have also been separately categorized as "large and distinct."

associated with growth capital and EIM benefits, total $12.7 million for electric and $4.5 million for natural gas, for RY1, and $4.4 million for electric and $1.8 million for natural gas, for RY2.

- Retirements - reduces electric and natural gas depreciation expense (revenue requirement) by approximately $13.0 million for electric and $3.4 million for natural gas for RY1. For RY2, the result is a reduction of approximately $9.6 million for electric and $2.6 million for natural gas.

- Reduction to Net Plant after ADFIT for the change in A/D and ADFIT on existing plant at September, 2022, adjusted to AMA 2023 for RY1 and AMA 2024 for RY2 - reduces the Company's revenue requirement by $15.5 million for electric and $3.6 million for natural gas, for RY1, and by $9.6 million for electric and $2.1 million for natural gas, for RY2.

- The Company is proposing Provisional Reporting requirements of all provisional capital investment included in the Company's case for capital investment from January 2022 through December 2024. This reporting provides a means for the review of actual capital investments as a check against the provisional level requested and approved in this case, and allows for an auditing process that would help validate the level of plant investment ultimately that is used and useful during the rate effective periods.

- The Company is proposing to defer actual insurance expense above or below the approved baseline in this case, utilizing an "Insurance Expense Balancing Account" similar to that approved in the Company's prior GRC (Dockets UE-200900 et. al.) for its Wildfire Resiliency Plan.

- Finally, the Company has conducted a trending analysis for RY2. It serves as a reasonableness cross-check on the traditional pro forma study used for RY2, and is not otherwise relied upon with regards to the Two-Year Rate Plan revenue requirement requested.

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

A. Yes. I am sponsoring Exh. EMA-2 through EMA-6, which were prepared by me as follows:

Exh. EMA-2 (Electric) and Exh. EMA-3 (natural gas) present the results of the Company's Washington Electric and Natural Gas Two-Year Rate Plan Pro Forma Studies. These studies show actual September 30, 2021 operating results (twelve-month period ending September 30, 2021 or "12ME 09.30.2021"), pro forma, and proposed electric and natural gas operating results and rate base for RY1 and RY2, of the Two-Year Rate Plan. These two exhibits also show the calculation of the Two-Year Rate Plan general revenue requirements, the derivation of the Company's overall proposed rate of return, the derivation of the net-operating-income-to-gross-revenue-conversion factor, and the specific restating, pro forma and provisional adjustments proposed in this filing.

Exh. EMA-4 provides the service and jurisdiction allocation methodologies used by the Company.

Exh. EMA-5 presents the "Capital Offsets Matrix" and individual "Offset Forms" consolidated together as one exhibit, and utilized by the Company to show all "direct," "2% efficiency" and "indirect" O&M and/or capital adjustments determined by the Company in relation to the 2022 – 2024 capital additions included as "provisional" adjustments in this case.[7]

Finally, Exh. EMA-6 provides, for informational purposes or as a "cross-check," the electric and natural gas revenue deficiency if historical "Growth Escalation" rates, provided by Company witness Dr. Forsyth, were used to determine the net operating income, rate base, and revenue requirement for RY2 of the Company's Two-Year Rate Plan (rather than the pro forma study results provided in Exh. EMA 2 and Exh. EMA-3).

[7] As described further below, all "direct" and "2% efficiency" offsets have been included as electric and natural gas O&M expense reductions. See Exh. EMA-2 and Exh. EMA-3, PF Adjustments (4.03) for RY1 and (5.09) for RY2.

SECTION 1 – TWO-YEAR RATE PLAN

II. REVENUE REQUIREMENT SUMMARY - TWO-YEAR RATE PLAN

Q. Please summarize the proposed electric and natural gas revenue and percentage increases proposed by the Company in this case over the Two-Year Rate Plan, effective in December 2022 and December 2023.

A. Provided in Table No. 1 below is a summary of the proposed electric and natural gas revenue and base percentage increases proposed by the Company in this case over the Two-Year Rate Plan, effective in December 2022 and December 2023.

Table No. 1 – Two-Year Rate Plan Revenue Requirement & Percentages

Two Year Rate Plan Revenue Requirement & Percentage Increases (000s)				
Service	**December 2022 (RY1)**		**December 2023 (RY2)**	
	Revenue	**Base %**	**Revenue**	**Base %**
WA Electric	**$ 52,852**	**9.60%**	**$ 17,133**	**2.84%**
WA Natural Gas	**$ 10,922**	**9.51%**	**$ 2,172**	**1.73%**
Natural Gas % increase on a billed basis: *(prior to effect of Customer Tax Credit 78 / 178)*		*5.82%*		*1.09%*

As shown in Table No. 1, the proposed <u>RY1 base electric</u> increase, effective in December 2022, is $52.852 million or 9.6% (9.8% on an overall billed basis, prior to the impact of Tariff 78). The proposed <u>RY1 base natural gas</u> increase, effective December 2022, is $10.922 million or 9.51% (5.82% on an overall billed basis, prior to the impact of Tariff 178).

Effective December 2023, the proposed <u>RY2 base electric</u> increase is $17.133 million or 2.84% (2.89% on an overall billed basis). Whereas, the proposed <u>RY2 base natural gas</u> increase is $2.172 million or 1.73% (1.09% on an overall billed basis).

As discussed further below, continuing to defer the prior Commission approved tax credits to the benefit of customers beyond December 2020 (2021-2023), plus the remaining deferred tax credits available to customers after the initial two-year tax credit amortization ending September 2023 (returned to customers through separate Tax Customer Credit Tariff Schedules 76 (electric) /176 (natural gas)), results in estimated deferred tax credit balances owed customers as of December 31, 2023 of approximately $25.5 million electric and $12.5 million natural gas.[8] Returning these incremental balances to customers over the proposed two-year amortization (concurrent with the effective date of this case in December 2022), through Tariff Schedules 78 (electric) and 178 (natural gas), results in an incremental tax credit to customers of approximately $12.7 million electric and $6.2 million natural gas – offsetting, in part, the RY1 base rate increase.

Q. On what test period is the Company basing its need for additional electric and natural gas revenue?

A. The test period being used by the Company to base its need for additional electric and natural gas revenue is the twelve-month period ending September 30, 2021 ("12ME 09.30.2021"), presented on a pro forma basis. Current authorized rates were based upon the twelve-months ending December 31, 2019 test year utilized in Dockets UE-200900 et. al., adjusted on a pro forma basis.

[8] In Dockets UE-200900, et. al., Order 08/05, paragraphs 119-121, the Commission ordered the return of electric and natural gas deferred tax credit balances as of December 31, 2020, through separate Tariff Schedules 76 (electric) and 176 (natural gas) resulting in no change in customer billed rates. Therefore, the electric and natural gas tax credits expected to be returned to customers annually through Tariffs 76/176, for the period October 1, 2021 through September 30, 2023, is approximately $17.4 million and $8.7 million, respectively. The Commission also approved any remaining and incremental deferred tax credit balances be returned to customers over a ten-year period temporarily. Per Order 08/05, reexamination of (1) the total remaining tax customer credit balance at the end of the two-year amortization period plus the incremental annual deferred tax benefit and (2) the appropriate amortization for returning the Tax Customer Credit to customers going forward, was deemed appropriate for consideration in the next GRC (this case).

Q. What are the Company's rates of return that were last authorized by this Commission for its electric and natural gas operations in Washington?

A. The Company's current authorized rate of return for its Washington operations is 7.12%, effective October 1, 2021, for both our electric and natural gas systems, approved in Dockets UE-200900 et. al.

Q. By way of summary, please explain the different rates of return that you will be presenting in your testimony.

A. There are four different rates of return that are provided. They are (1) the actual ROR earned by the Company during the 09.30.2021 test period, (2) the Restated 09.30.2021 results for the historical test period (representing 09.2021 normalized Commission Basis (CB) ROR[9], adjusted to 2019 EOP Net plant basis), (3) the adjusted ROR for RY1 (effective December 2022) and for RY2 (effective December 2023) determined in my Exh. EMA-2 and Exh. EMA-3, and (4) the requested ROR. The returns for Washington operations are provided below in Illustrations No. 1 (electric) and No. 2 (natural gas):

[9] Normalized Commission Basis reports for calendar 2021 will be filed with the Commission on or before April 30, 2022.

Illustration No. 1: Two-Year Rate Plan - Electric Rates of Return

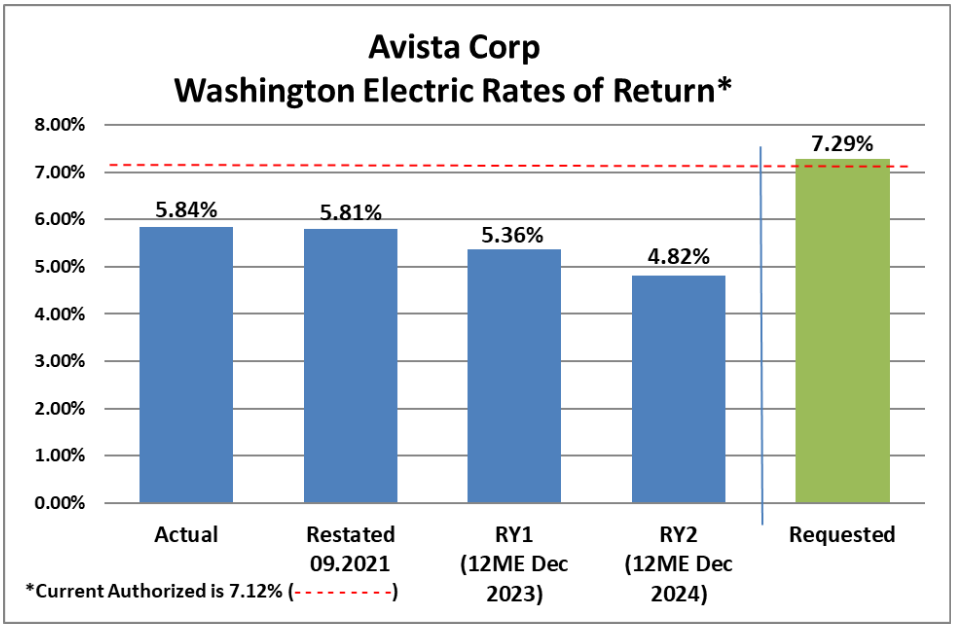
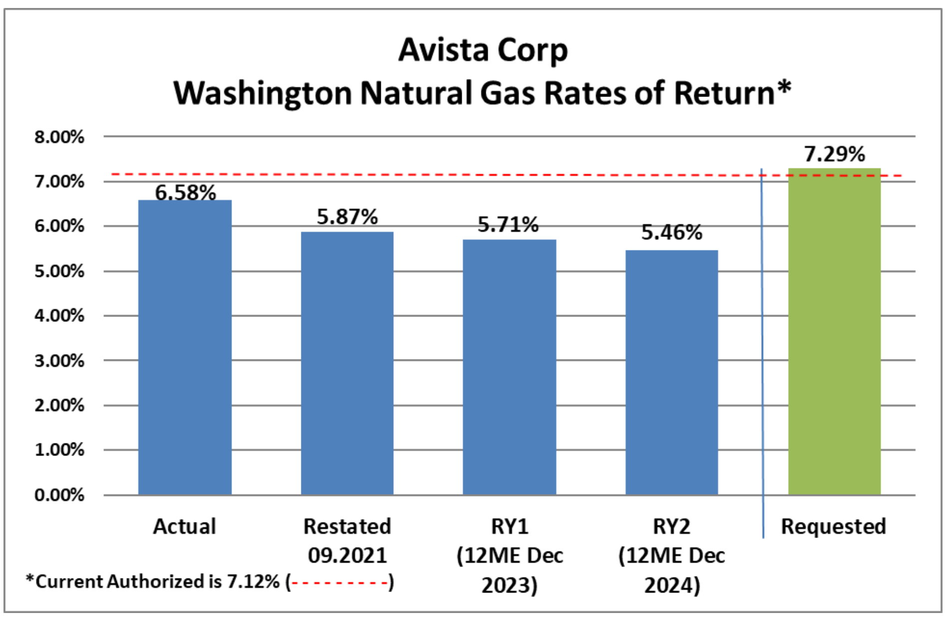


Illustration No. 2: Two-Year Rate Plan - Natural Gas Rates of Return



As shown in Illustration Nos. 1 and 2 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 ("ROR") for the

Company's Washington jurisdictional operations over the Two-Year Rate Plan are 5.36% and 5.71%, respectively for RY1; and 4.82% and 5.46%, respectively for RY2. These return levels over the Two-Year Rate Plan are well below the Company's requested rate of return of 7.29%. The incremental base revenue requirement necessary to give the Company an opportunity to earn its requested ROR in RY1 is $52.852 million for the electric operations and $10.922 million for the natural gas operations. The incremental base revenue requirement necessary to give the Company an opportunity to earn its requested ROR in RY2 is $17.133 million for the electric operations and $2.172 million for the natural gas operations.

Q. What is the importance of the Commission approving a reasonable first year revenue requirement?

A. As discussed further by Company witness Mr. Vermillion, in any multiyear rate plan, the first-year revenue requirement approved by the Commission will persist for each year of the rate plan and is the basis for additional revenue adjustments in years 2, 3 and beyond. If the revenue requirement is sufficient for the first year of the rate plan, and the next year is built off of that revenue requirement, the utility would have a reasonable opportunity to earn its allowed rate of return. However, if the first-year revenue requirement is insufficient, that insufficiency will persist, and the approved revenue requirement for the next year will not correct for that. In this Two-Year Rate Plan as proposed by the Company, it is essential for this Commission to approve a sufficient RY1 revenue requirement, if the Company has any opportunity to earn its allowed rate of return during the approved Two-Year Rate Plan. Simply put, we need to "get the first year right" in any Rate Plan.

Q. Please now summarize the preparation of the Company's electric and

natural gas Two-Year Rate Plan Pro Forma Studies.

A. The Company is proposing a Two-Year Rate Plan with electric and natural gas rate increases effective December 2022 and December 2023.[10] The Company has prepared traditional electric and natural gas pro forma studies, including restating, pro forma and provisional adjustments beyond the historical test year (09.2021) for both RY1 and RY2 of the Two-Year Rate Plan. First, included with the electric and natural gas restating adjustments is an End-Of-Period (EOP) 09.2021 Net Plant adjustment, adjusting net plant from an average-of-monthly-average (AMA) 09.2021 historical test year balance to a 09.2021 EOP net plant historical test-year balance, similar to that approved by the Commission in Avista's last litigated general rate case proceeding (Dockets UE-200900 et. al.).

Additional normalizing, pro forma, and provisional adjustments were then included to adjust the Company's restated results to reflect rate period net operating income and rate base results for RY1 and RY2. Included as "pro forma" capital addition adjustments in RY1, are investments that are complete and in service as of December 31, 2021, and prior to this filing.[11] The Company has also included "provisional" capital adjustments, subject to review and refund, for the period January 2022 through December 2023 for RY1, and January 2024 through December 2024 for RY2. Finally, also included are pro forma

[10] Company witness Mr. Vermillion explains the decision to propose a Two-Year Rate Plan, rather than a longer rate plan at this time, as allowed by the Legislation's Senate Bill 5295, was to allow the Company to first develop more operating experience with the regulatory model and gain any additional guidance from the Commission that may be forthcoming. Key policy items that will be adjudicated in this case include cost recovery during the rate effective period, cost recovery in the second year of the rate plan, auditing and reporting on provisional capital investments, and methodologies for inclusion of capital recovery and expenses.

[11] Due to the timing of completion of the Company's Two-Year Rate Plan revenue requirements in mid-December 2021, the Company included actual transfer to plant through October 31, 2021 and forecasted transfers for November and December 2021. The Company will provide an update to the parties including actual transfers to plant through December 31, 2021 as soon as available in February 2022.

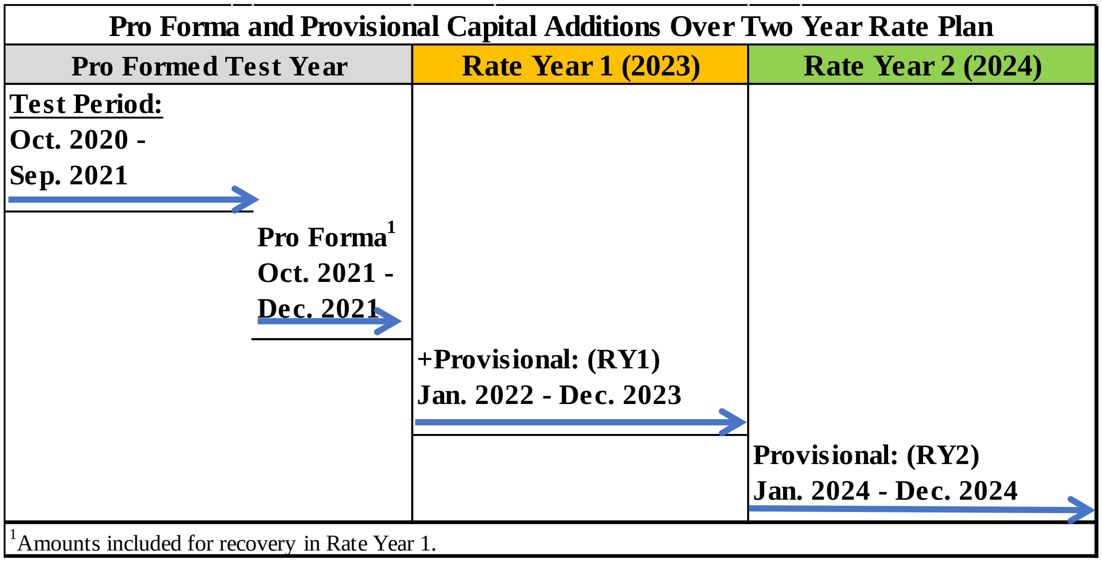
adjustments to reflect all offsetting factors determined by the Company to impact RY1 and RY2, to ensure a "matching" of revenues, expenses and rate base, by rate year, over the Two-Year Rate Plan occur. The Company's reporting plan for review of its 2022-2024 "provisional" capital investments is also discussed below.

As discussed later in my testimony, without inclusion of the EOP 09.2021 Net Plant adjustment, as well as the pro forma capital additions for October 2021 – December 2021 – adjusting restated 09.2021 EOP to 12.31.2021 EOP in RY1, and the "provisional" capital adjustments for capital additions from January 2022 through December 2024 included in RY1 and RY2, reducing the regulatory lag experienced by the Company, the Company would have no reasonable opportunity to earn its authorized rate of return proposed in this case for the Two-Year rate effective period December 2022 through December 2024. The results of the electric and natural gas Pro Forma Studies are provided as Exhibit Nos. EMA-2 and EMA-3.

Q. By way of summary, have you prepared a simple illustration of how pro forma test period capital and "provisional" capital are incorporated in the case?

A. Yes, Illustration No. 3, which appears later in my testimony as Illustration No. 5, is repeated here for ease of reference. This illustration provides a simple schematic of capital addition inclusion during the Two-Year Rate Plan. It will be discussed in more detail later in my testimony.

Illustration No. 3 – Pro Forma and Provisional Capital Additions[12]



III. COMMISSION RATEMAKING GUIDANCE

Q. Please discuss the ratemaking guidance, either obtained specifically from the Commission in recent years, or in recent legislation, that the Company relied upon in preparation of this case.

A. In general, the Company relied upon past general rate case orders for Avista, or other peer utilities, the Commission's January 31, 2020 "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date" ("Policy Statement")[13], as well as the recent Engrossed Substitute Senate Bill 5295 (SB 5295), signed into law in May of 2021 (and effective in July 2021).[14] This guidance was used with the objective to prepare

[12] An exception to the "Pro Forma" versus "Provisional" capital additions as shown in Illustration No. 3, is that RY1 Pro Forma includes EIM capital investment from Oct. 1, 2021 through Jun. 30, 2022 transfers to plant (Mar. 2022 "go-live") as approved in Dockets UE-200900, et. al., subject to review and refund in this GRC. Provisional RY1 (2022 capital additions), therefore, excludes this EIM investment.
[13] Docket No. U-190531.
[14] On May 3, 2021, Governor Inslee signed into law Engrossed Substitute Senate Bill 5295.

the Company's general rate case filing, utilizing proper ratemaking treatment as required by the Commission, in a manner that provides Avista with a reasonable opportunity to recover its costs and earn a fair return.

Q. Given the recent SB 5295 legislation requirements, are past Commission Orders and the Policy Statement relied upon by the Company in its last general rate case still relevant today?

A. Yes. In fact, rather than supersede the Commission's prior orders and guidance, SB 5295 solidified the Commission's authority (codified primarily in RCW 80.28.425), with regard to protections for the utility, through recovery of a utility's capital investment, the valuation of property investment, determination of expenses and revenues – and the ability to approve multi-year rate plans, as well as protections for customers, through earnings tests and low income bill assistance.

Over the past several rate cases, Avista has relied upon Commission guidance from Avista's 2016 general rate case, Dockets UE-160228/UG-160229, Order 06, at paragraph 79, where the Commission noted that it is tasked with determining an appropriate balance between the needs of the public to have safe and reliable electric and natural gas services at reasonable rates, and the financial ability of the utility to provide such services on an ongoing basis.[15] To accomplish this, the Commission identified (Order 06, para. 82) certain "tools" it may consider:

- May approve pro-forma adjustments to test-year costs when the adjustments are adequately supported. The Commission retains

[15] The governing statutes require the Commission to determine results that establish "fair, just, reasonable and sufficient" rates (RCW.80.28.010), which mean: "rates that are fair to customers and to the Company's owners; just in the sense of being based solely on the record developed in a rate proceeding; reasonable in light of the range of possible outcomes supported by the evidence; and sufficient to meet the needs of the Company to cover its expenses and attract necessary capital on reasonable terms." (emphasis added) (Order 06, para. 79)

> significant discretion to apply flexibly the requirements that *pro forma* adjustments be known and measurable, used and useful, and matched to offsetting factors. The Commission has not established bright-line standards governing the timing or the number of adjustments that can be accepted in a given case, and has not established a minimum size for *pro forma* adjustments to be recognized.
>
> - May allow new generation plant or other infrastructure in rate base even when the new facilities are placed in service subsequent to the end of the test period. The more certain the timing of infrastructure being in service, that is used and useful, and the more certain the costs, the more likely the post-test period rate base will be approved.
>
> - May approve end-of-period rate base when this is shown to be appropriate.
>
> - May approve hypothetical capital structures to improve a utility's financial condition.

With regards to the Commission's Policy Statement, the Commission at para. 6, p. 3, stated:

> … In its 2019 session, the legislature clarified the Commission's ratemaking authority by enacting E2SSB 5116, which provides, in relevant part, that:
>
> (2) The commission has power upon complaint or upon its own motion to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state *by or during the rate effective period* and shall exercise such power whenever it deems such valuation or determination necessary or proper under any of the provisions of this title. …
>
> (3) The commission may provide changes to rates under this section for *up to forty-eight months after the rate effective date using any standard, formula, method, or theory of valuation* reasonably calculated to arrive at fair, just, reasonable, and sufficient rates. *The commission must establish an appropriate process to identify, review, and approve* public service company property that becomes used and useful for service in this state after the rate effective date. (footnotes omitted) (emphasis in original)

Furthermore, guidance from the Commission's Policy Statement still stands today, with regard to current applicable principles and standards for setting rates, as noted below:

> ..the Commission's longstanding ratemaking practice is to set rates using a modified historical test year with post-test-year rate-base adjustments using the known and measurable standard, the matching principle, and the used and useful standard, all while exercising considerable discretion under each of these standards in the context of individual cases. We intend to continue following these practices and standards as we implement the change to how and when we evaluate property as used and useful. It continues to be necessary within the context of a GRC to first develop a modified historical test year (*i.e.*, pro forma study) upon which requests to include property in rates will be considered. …[16] (para. 21, p. 8)

> The Commission's longstanding interpretation of the property valuation provision of RCW 80.04.250 is that property or plant additions must be used and useful to serve Washington customers to be included in rates. "Used" means that the investment (plant) is in service, and "useful" means that a company has demonstrated that its investment benefits Washington ratepayers. (emphasis added) (footnotes omitted) (para. 26, pp. 9 - 10)

> With the changes to RCW 80.04.250(3), we find that the requirements for pro forma adjustments discussed above hold true for requests for rate-effective period property, although they cannot be reviewed completely prior to rates going into effect. Accordingly, we must replace the traditional prospective review with a retrospective review for rate-effective period property requests. (emphasis added) (para. 27, p. 10)

Q. What guidance has this Commission otherwise given with regards to "end-of-period rate base" when considering pro formed capital investments for inclusion in rates, that is clearly relevant today, given the multi-year rate plan requirement?

A. In Order 08 of Puget Sound Energy (PSE) general rate case, Dockets UE-190529 and UG-190530, with regard to end-of-period rate base, although PSE's historical

[16] As described at Policy Statement page 8, para. 22-24: WAC 480-07-510(3)(c)(ii), defines the pro forma adjustments, remains unchanged, applicable, and relevant. This rule defines the known and measurable standard and the offsetting factors standard, both of which are elements of the matching principle, and both of which are necessary to ensure that costs and offsetting benefits are accounted for during the period in which they occur. The known and measurable standard continues to require that an event that causes a change to revenue, expenses, or rate base must be "known" to have occurred during or after the historical 12-months of actual results of operations. It must also be demonstrated (*i.e.*, known) that the effect of the event will be in place during the rate year. The actual amount of the change must also be "measurable."

test period utilized in its request for recovery was calendar 2018, this Commission extended recovery of certain assets to December 31, 2019 on an end-of-period basis. As noted by the Commission at para. 112 – 114, pp. 37-38 of PSE Order 08:

> ... the Commission has considerable discretion and authority to select from a wide range of ratemaking tools, including adjusting the length of the post-test year pro forma period. … The statute's new language, however, provides the Commission may include in rates "property that is used and useful for service in this state by or during the rate effective period," and further that:
>
> > (3) The Commission may provide changes to rates under this section for up to forty-eight months after the rate effective date using any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.
>
> As a result, extending the pro forma period beyond a few months after the end of the test year is no longer "exceptional." To the contrary, it is a method we expect to employ as a tool to address regulatory lag and particularly when a utility proposes a multi-year rate plan. (emphasis added)

Finally, this Commission noted in PSE Order 08, para. 558, p. 163, its plan to address on a case-by case basis the impact of short-lived assets on regulatory lag:

> …We decline to adhere to one particular formula prior to endeavoring to develop jurisprudence under the new law. Instead, the Commission intends to focus on forging new paths forward. To that end, we anticipate that the Commission will address on a case-by-case basis the relationship between short-term investments and regulatory lag in the larger context of how and when we include for later recovery post-test year expenses.

Q. What guidance with regards to "used and useful" property did the Commission provide in its Policy Statement, and was relied upon by the Company in the development of this case?

A. With regards to recovery of used and useful property, at paragraph 28 of the Policy Statement, the Commission stated its intent is to achieve four goals:

> (1) Ensure general consistency with longstanding ratemaking practices, principles, and standards; (2) Maintain flexibility; (3) Avoid overly

> prescriptive guidance; and (4) Support streamlined processes by requiring additional process only when necessary.[17]

With this guidance, the Commission outlined its process for review of proposed investments that become used and useful <u>after</u> the rate effective date, as follows[18]:

- <u>Identification of investments</u> - the Commission defined three broad types of investments they would consider for inclusion in rates: 1) <u>specific</u> - clearly defined, identifiable or discrete; 2) <u>programmatic</u> - made according to a schedule, plan or method; and 3) <u>projected</u>: i.e., the use of a k-factor, an attrition adjustment, or a growth analysis.

- <u>Provisional Adjustments</u> - Rate-period investment must be separately identified from traditional pro forma rate-base adjustments, through the use of a "provisional" pro forma adjustments, and then must state whether they are seeking recovery through base rates or a separate tariff schedule.

- <u>Offsetting Factors</u> - Companies must include the estimated or projected costs (including all offsetting factors and duplicative recovery considerations) and a description of the investment, as well as other existing documentation, for a project that will be subject to review and audit during a future period.

- <u>In-Service Dates</u> - Companies must provide the expected in-service date that will occur during the rate effective period.

Q. How has the Company met the guidance provided by the Commission, as discussed above?

A. <u>First</u>, as discussed by Company witness Mr. Baldwin-Bonney, the Company has categorized its pro formed property in this case to reflect the identified categories, specifically as follows: 1) specific, identifiable and distinct; 2) programmatic (on-going

[17] At paragraph 32 of the Policy Statement, the Commission noted: "The Commission encourages regulated companies to streamline their requests by using existing reporting frameworks and limiting additional or duplicative processes. For example, a request is not "streamlined" if it creates unnecessary or burdensome processes.

[18] See Used and Useful Policy Statement, Docket No. U-190531, para. 11, p. 5 and para. 34, page 11.

programs or scheduled investments), and 3) short-lived assets[19]. The Company created a 4th category – reflecting projects that are mainly "programmatic," and required to meet regulatory and other mandatory obligations, titled: 4) Mandatory and Compliance.

Second, the Company has separately identified its pro formed capital investments it has included in its Two-Year Rate Plan as pro formed "provisional" adjustments, as discussed later in my testimony, for the period January 2022 through December 2024. As the Company has included this capital investment in its Two-Year Rate Plan in its electric and natural gas Pro Forma Studies, Avista requests they be approved as a part of base rates in this proceeding, and the Company has provided its proposal for Provisional Reporting, and process for review and refund, if any, as discussed in Section V. "Capital Additions Category Designations and Provisional Reporting."

Finally, through its capital witnesses testimony and exhibits, the Company has included information on all Business Cases included in the Company's case, including expected costs, by in-service date[20], description of the investment, and necessary existing documentation to support these projects, and designated the "provisional," as noted above, as subject to review and audit during a future period. Furthermore, the Company discusses at Section IV. B. "Offsetting Factors," its inclusion of all "offsetting factors" totaling $64.8 million for electric and $17.9 million for natural gas, over the Two-Year Rate plan. In doing

[19] The Commission discussed their consideration of Short-Lived assets in Order 08 of the most recently concluded Puget Sound Energy (PSE) general rate case, Dockets UE-190529 and UG-190530.

[20] All Washington share of directly assigned or allocated transfer-to-plant data (actual or expected) is provided by Business Case, by witness, by month (the in-service "used and useful" date) within Mr. Baldwin Bonney testimony and exhibits pro formed in the Company's case. Testimony and exhibits in support of the capital Business Cases are provided by capital witnesses, Mr. Thackston regarding production assets, including Colstrip assets; Ms. Rosentrater regarding transmission, distribution and general assets; Mr. Kensok regarding the costs associated with Avista's IS/IT projects and short-lived assets; Mr. Magalsky regarding the Customer At Center projects; Mr. Kinney regarding EIM assets; and Mr. Howell regarding Wildfire assets.

so, the Company has ensured that over the Two-Year Rate Plan, in each RY1 and RY2, the Company is "matching" revenues, expenses and rate base, by rate year.

Furthermore, the Provisional Reporting as proposed by the Company, will provide additional support, will serve to validate that such plant is, in fact, in-service, is used and useful and at what cost (after any offsetting benefits). This will provide the Commission with assurance that the provisional capital included prior to the rate effective period (for 2022 capital) and during RY 1 (2023 capital) and RY2 (2024 capital) is in service for customers during the rate effective periods, or will be subject to refund, with interest.

Q. How has SB 5295 impacted how the Company prepared its case?

A. As discussed by Mr. Vermillion, SB5259 has created a transformative change that is necessary in the regulatory arena, that has ultimately led to the establishment of multiyear rate plans and performance-based rate making, providing certainty and stability to customers and electric and natural gas companies. Mr. Vermillion specifically identifies and provides additional descriptions of some of the key provisions of SB 5295 in his testimony, included and considered by the Company in preparation of its multi-year rate plan incorporating this new law, as follows:

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. <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 2 Year Rate Plan?

A. Avista has included the fair value of electric and natural gas property that is or will be used and useful for serving customers in RY1 and in RY2. As described below, Avista has employed the use of a traditional pro forma study for RY1 and for RY2. Avista conducted a trending analysis for RY2, as well, as discussed later in my testimony, but is only providing that in this case as support for the pro forma capital included in RY2. It serves as a reasonableness check, if you will, on the traditional pro forma study used for RY2.

In addition, Company witness Mr. Ehrbar provides an overview of the capital approval and budgeting process of our capital additions, and we believe that providing the Commission with the actual planned projects, approved by the Company's Capital Planning Group and approved by the Officers and Board of Directors, in total, provide 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.

Q. Turning now to Revenues and Expenses noted in <u>Item No. 3</u> above, what has Avista proposed in its 2 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 is an important piece of the new law, as it allows the Commission flexibility to set a utility's revenue requirement by entertaining new ways of calculating utility need so as to arrive at fair, just, reasonable and sufficient rates.

Finally, throughout my testimony I discuss the Company's derived revenue requirement for its Two-Year Rate Plan, based on the Company's electric and natural gas Pro Forma Studies, including RY1 and RY2 level of revenues, expenses, and net plant investment, including all offsetting factors, producing a "matching" of costs in each rate year. Furthermore, with regard to pro formed "provisional" investments, the Commission's Policy Statement 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. This process, per the Policy Statement, does not guarantee recovery of these costs, but provides Avista an opportunity to begin recovering costs sooner (subject to refund), while still ensuring fair, just, and reasonable rates. In the end, it is our view that Avista has provided a Multiyear Rate Plan that is in line with the recent legislative changes under SB 5295 and with the Commission's Policy Statement.

IV. PRIMARY FACTORS DRIVING NEED FOR RATE RELIEF

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

A. The increase in overall costs to serve customers is driven primarily by the continuing need to replace and upgrade electric and natural gas facilities and technology we use every day to serve our customers[21], while revenue growth remains low. In particular, the Company's request includes the Company's electric and natural gas utility investment completed through December 31, 2021, included in RY1[22]. The Company has also included total electric and natural gas utility investments for capital additions planned to transfer-to-plant between January 2022 through December 2023 for RY1, and January 2024 through December 2024 for RY2. Capital additions for the period 2022 – 2024 are included as "provisional adjustments," subject to further review and refund in future periods.

As examples, a few of the large and distinct projects included by the Company in 2022 impacting the Company's RY1 increase, relate to its investments in its Wildfire Resiliency Plan, Colstrip (3-year incremental short-lived assets), Customer Experience and Technology Program investments, Cabinet Gorge Dam Fishway project, Phase 2 Saddle Mountain 230/115kV Station project, and new customer growth investments, to name a few, totaling $207 million alone in 2022 (on a system basis) in gross plant additions. Many of the capital projects are on-going year-to-year and have similar annual investments between 2022 and 2024. Additional summaries of electric and natural "gross plant" information, as well as "Net Plant after ADFIT" balances are provided below.

Q. In addition to capital investment, would you please identify the main changes in expenses impacting the Company's filed request?

[21] As discussed by Mr. Thies, for the five-year period ending December 31, 2026, the capital expenditure level is expected to remain constant at approximately $445 million annually, on a system basis, for utility plant investment.

[22] Per Avista Dockets UE-200900 et.al., approved investments included capital investments through December 31, 2020, plus specific 2021 capital additions limited to the Company's investment in its Automated Meter Infrastructure ("AMI," January 2021 through June 2021 additions), Wildfire Resiliency Plan (January 2021 through September 2021, subject to review and refund in this GRC), and EIM (January 2021 through June 2022 additions, subject to review and refund in this GRC).

A. The Company has experienced increases in expense, mainly associated with labor and benefits, increases in informational technology costs associated with contractual agreements (necessary to support such costs as cyber and general security, emergency operations readiness, operations support, for example), increases in property and other taxes, as well as, the significant increases in insurance premiums, due to the impact nationally of wildfire. These increases for RY1 alone, reflect a total of $14.0 million for electric and $3.3 million for natural gas. Other net increases in expenses, such as incremental increases in other O&M expenses to operate Washington's utility operations through 2023, not reflected by those items noted above and prior to offsetting factors included, increased approximately $ 9.1 million for electric and $2.1 million for natural gas.

Finally, Washington electric net power supply expense increased in RY1 approximately $1.4 million, above prior authorized net power supply costs. However, net offsetting transmission Washington electric revenues also increased approximately $3.4 million, above prior authorized transmission revenue levels, resulting in an overall net reduction to the Company's electric RY1 revenue requirement of $2.0 million.

Q. With regard to capital investment, please provide additional explanation on the increase in electric and natural gas gross plant investment.

A. The change in gross plant from the historical 09.2021 test period as noted above for RY1, relates to the 2021 through 2023 capital additions included in this case, and 2024 capital additions for RY2. Table Nos. 2 (electric) and 3 (natural gas) below, provide a recap of the Washington "gross plant additions," sponsored by witness, from January 1, 2021 through December 31, 2023 for RY1, and January 2024 through December 2024 for

RY2, as discussed by Mr. Baldwin-Bonney.[23]

Table No. 2 – Washington Electric Gross Plant Additions Over Two-Year Rate Plan

Capital Projects - Gross Transfers To Plant - Washington Electric[1] $ in 000's								
			Rate Year 1				Rate Year 2 (Incremental)	
Witness	Jan -Sept 2021	Oct - Dec 2021	Total 2021 TTP	Total 2022 TTP	Total 2023 TTP	**Rate Year 1 Total 2021-2023**	Total 2024 TTP	**Rate Year 2 Total 2024**
Mr. Thackston	$ 35,424	$ 12,291	$ 47,715	$ 64,610	$ 20,550	**$ 132,875**	$ 30,746	**$ 30,746**
Ms. Rosentrater	$ 92,808	$ 38,938	$ 131,746	$ 108,404	$ 45,404	**$ 285,554**	$ 137,037	**$ 137,037**
Mr. Kensok	$ 10,725	$ 12,892	$ 23,617	$ 20,353	$ 7,585	**$ 51,555**	$ 26,103	**$ 26,103**
Mr. Magalasky	$ 4,318	$ 3,201	$ 7,519	$ 9,435	$ 2,762	**$ 19,716**	$ 10,653	**$ 10,653**
Mr. Kinney	$ 6,575	$ 32	$ 6,607	$ 7,779	$ 125	**$ 14,511**	$ 243	**$ 243**
Mr. Howell	$ 8,752	$ 2,504	$ 11,256	$ 14,789	$ 7,938	**$ 33,983**	$ 17,694	**$ 17,694**
Total	$ 158,602	$ 69,858	$ 228,460	$ 225,370	$ 84,364	**$ 538,194**	$ 222,476	**$ 222,476**
	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 (2021 - 2024)	**$ 760,670**

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

Looking at the changes to "gross" plant in service proposed in this filing, as shown in Table No. 2 above, Washington electric RY1 "gross" plant capital additions increase by approximately $538.2 million in RY1 (2021 – 2023 additions[24]) and $222.5 million in RY2 (2024 additions), or $760.7 million over the Two-Year Rate Plan.

[23] Table Nos. 2 and 3 of gross plant additions exclude the impact of retirements. Retirements reduce plant-in-service and accumulated depreciation by an equal amount, resulting in a net impact of $0 to net plant. Depreciation expense, however, is reduced, resulting in a significant reduction (offset) to the Company's overall revenue requirement related to a reduction in overall depreciation expense, as discussed further below.

[24] Capital additions shown in 2021 in Table No. 1 includes a portion of Wildfire (January through September 2021) and EIM (January through June 2021) investments previously approved by the Commission in Dockets UE-200900 et. al. In addition, capital additions shown in 2022 includes the EIM (March 2022) investment, also previously approved by the Commission in Dockets UE-200900 et. al.

Table No. 3 – Washington Natural Gas Gross Plant Additions Over Two-Year Rate Plan

Capital Projects - Gross Transfers To Plant - Washington Natural Gas[1]
$ in 000's

			Rate Year 1				**Rate Year 2 *(Incremental)***	
Witness	Jan -Sept 2021	Oct - Dec 2021	Total 2021	Total 2022	Total 2023	**Rate Year 1 Total**	Total 2024	**Rate Year 2 Total**
Mr. Thackston	$ -	$ -	$ -	$ 112	$ 6	**$ 118**	$ 50	**$ 50**
Ms. Rosentrater	$ 33,838	$ 11,168	$ 45,006	$ 53,443	$ 19,131	**$ 117,580**	$ 43,554	**$ 43,554**
Mr. Kensok	$ 3,287	$ 3,505	$ 6,792	$ 5,588	$ 1,745	**$ 14,125**	$ 5,734	**$ 5,734**
Mr. Magalasky	$ 1,282	$ 891	$ 2,173	$ 2,103	$ 363	**$ 4,639**	$ 2,164	**$ 2,164**
Total	$ 38,407	$ 15,564	$ 53,971	$ 61,246	$ 21,245	**$ 136,462**	$ 51,502	**$ 51,502**
	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 (2021 - 2024)	**$ 187,964**

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

Looking at the changes to "gross" plant in service proposed in this filing, as shown in Table No. 3 above, Washington natural gas RY1 "gross" plant capital additions increases by approximately $136.5 million in RY1 (2021 – 2023 additions) and $51.5 million in RY2 (2024 additions), or $188.0 million over the Two-Year Rate Plan.

As discussed by Mr. Baldwin-Bonney, the Company has included various restating, pro forma and provisional capital adjustments which incorporate the effects of all capital additions in this case.[25] Other Company witnesses, (i.e. Mr. Thackston regarding production assets, including Colstrip assets; Ms. Rosentrater regarding transmission, distribution and general assets; Mr. Kensok regarding the costs associated with Avista's Information

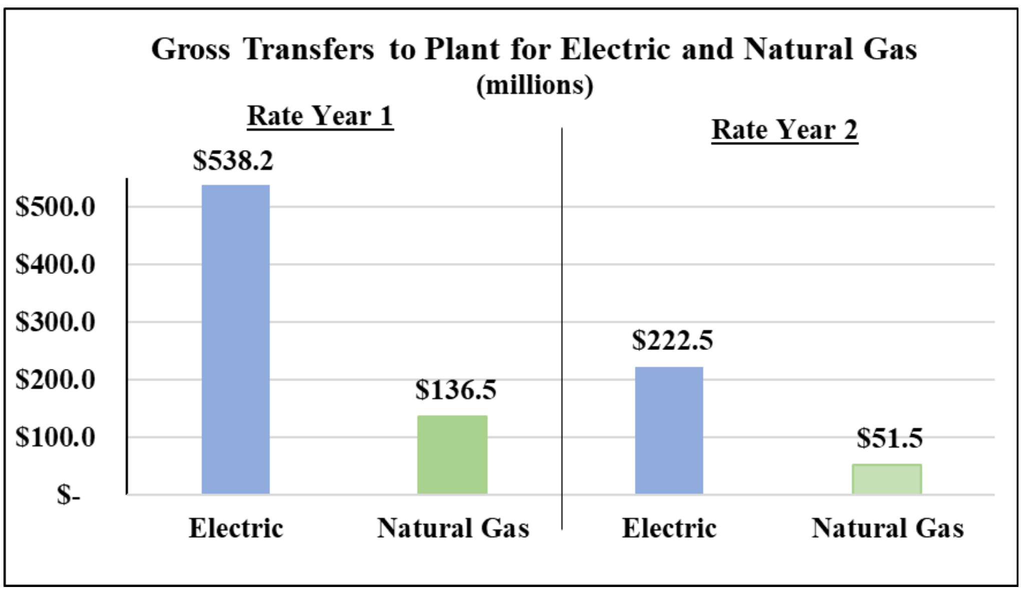
[25] Table Nos. 2 and 3 above reflect Washington electric and natural gas "gross plant" additions in total for the period 2021 - 2024. Mr. Baldwin-Bonney (see Table Nos. 2 through 6 at Exh. JBB-1T) also discusses the specific 2021-2024 "gross plant" capital additions in more detail by capital witness. In addition, in his Table Nos. 4 and 5, he also shows the 2022 - 2024 capital addition adjustments he sponsors by the grouped categories of 1) Short Lived Assets; 2) Programmatic; 3) Mandatory and Compliance; and 4) Large and Distinct, as well as the large and distinct project adjustments sponsored by myself, related to the Company's investment in Wildfire, EIM and Colstrip Units 3 and 4. An overall summary of all 2021 – 2024 gross additions for Washington by electric and natural gas is also provided in Exh. JBB-1T, Table No. 6.

Service/Information Technology (IS/IT) projects and short-lived assets); Mr. Magalsky regarding the Customer At Center projects; Mr. Kinney regarding EIM assets; and Mr. Howell regarding Wildfire assets), provide more specific information on capital projects included in the historical test period (January 2021 through September 2021), the pro forma capital additions (October 2021 through December 2021), as well as, the provisional capital additions January 2022 through and December 2024 included in this case, describing the need for and timing of these capital projects.

Q. Why are the capital additions included in RY1 so much higher than in RY2?

A. RY1 addresses incremental capital deployed in 2021 – 2023 (essentially a 2 and half year period[26]), above current authorized levels, as compared to RY2, which covers 2024 capital additions[27]. Table Nos. 2 and 3 above, can be illustrated to make that point:

Illustration No. 4 – Washington Electric & Natural Gas Gross Transfers to Plant



[26] Capital additions included in 2023 are included on an AMA basis, resulting in 2 ½ years additions in RY1.
[27] 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.

The point to remember is that RY1 serves to capture (or "catch up") capital deployed since January 1, 2021, not previously included in the most recent Order. As should be evident, if that capital is not recognized in rates in Rate Year 1, the levels of requested and approved in Rate Year 2 will be wholly insufficient

Q. Taking into consideration these gross plant additions (including retirements), net of accumulated depreciation (AD) and accumulated deferred federal income taxes (ADFIT), what is the pro forma level of net plant after ADFIT over the Two-Year Rate Plan?

A. Provided in Table No. 4 below is a summary of the "Net Plant after ADFIT" balances over the Two-Year Rate Plan for Washington electric and natural gas for RY1 and RY2. Specifically, Table No. 4 reflects all adjustments impacting the net plant (after ADFIT) for Company investment, for the 3-month period October through December 31, 2021, and capital additions January 1, 2022 through December 31, 2023 for RY1, above the 09.2021 AMA test period levels. Incremental adjustments to reflect net plant (after ADFIT) for capital additions from January 1, 2024 through December 31, 2024 are reflected for RY2, above RY 1 levels, as shown below:

Table No. 4 – Two-Year Rate Plan - Net Plant After ADFIT Balances for RY1 & RY2

Two Year Rate Plan Net plant After ADFIT Balances (000s)					
Service	Actual 09.2021 Test period	RY 1 Adjustments	Effective 12.2022 RY1 Balances[1]	RY 2 Adjustments	Effective 12.2023 RY2 Balances[2]
WA Electric	$ 1,797,278	$ 189,878	$ 1,987,156	$ 80,506	$ 2,067,662
WA Natural Gas	$ 438,149	$ 71,999	$ 510,148	$ 22,198	$ 532,346

[1] See Exh. EMA-2, page 13, row 46 of column "RY1 Dec. 2022 Final Total" for RY1 balances, and Exh. EMA-2, page 15, row 46 of column "RY2 Dec. 2023 Final Total" for RY2 balances.

[2] See Exh. EMA-3, page 11, row 42 of column "RY1 Dec. 2022 Final Total" for RY1 balances, and Exh. EMA-3, page 13, row 42 of column "RY2 Dec. 2023 Final Total" for RY2 balances.

As shown in Table No. 4, for electric, the pro forma net plant after ADFIT for RY1 is adjusted from the 09.2021 test period level of $1,797,278,000 to $1,987,156,000, for a net increase of $189.9 million. For electric RY2, incremental adjustments of $80.5 million above RY1 balances, reflect a total balance of $2,067,662,000 RY2. (See Exh. EMA-2, page 13, row 46, column "RY1 Dec. 2022 Final Total" for RY1 balances and page 15, row 46, column "RY2 Dec. 2023 Final Total" for RY2 balances.)

For natural gas, the pro forma net plant after ADFIT for RY1 is adjusted from the 09.2021 test period level of $438,149,000 to $510,148,000, for a net increase of $72.0 million. For natural gas RY2, incremental adjustments of $22.2 million above RY1 balances, reflect a total balance of $532,346,000 for RY2. (See Exh. EMA-3, page 11, row 42, column "RY1 Dec. 2022 Final Total" for RY1 balances and page 13, row 42, column "RY2 Dec. 2023 Final Total" for RY2 balances.)

As shown in Table No. 5 further below, the revenue requirement in RY1 requested in this case associated with these <u>net capital additions alone</u>, total $36.2 million for electric and $8.7 million for natural gas.[28] Whereas, the incremental revenue requirement for RY2 requested in this case associated with these net capital additions alone, total $11.4 million for electric and $2.0 million for natural gas.[29] As discussed later in my testimony, depreciation expense and the overall revenue requirement requested by the Company,

[28] The revenue requirement included here for the pro forma net rate base on capital additions does not include additional capital (January 2021 through September 2021) included in the historical test period (12ME 09.2021), the majority of which was not included in current rates approved in the most recent GRC, Dockets UE-200900 et. al. This amount also does not include other costs, such as property taxes, or offsetting factors, such as reduced O&M for direct offsets and other revenue.

[29] The revenue requirement included here for the pro forma net rate base on capital additions does not include other costs, such as incremental property taxes, or offsetting factors, such as reduced O&M for direct offsets and other revenue.

associated with this net plant investment, reflect significant reductions associated with plant retirements included over the Two-Year Rate Plan (reflecting 2021 – 2024 offsets – see Table Nos. 6 and 7).

Q. The Company has included expenses and capital beyond the start of the rate effective date and "through the rate year" for both RY1 and RY2. Can you explain how this has impacted the Company's request for rate relief, and why the levels of costs included by the Company, by rate year, is so important for the Commission to approve?

A. Yes. The Company included plant investment and expenses beyond the rate effective date of December 2022 for RY1 and December 2023 for RY2. However, the Company also included offsetting factors, including reductions to O&M expenses, plant retirements, growth in revenues, as well as adjusted net plant by A/D and ADFIT through the respective rate effective periods (see Table Nos. 6 and 7). Inclusion of capital, expenses, revenues, and offsetting factors as of the rate effective period for RY1 and RY2, creates a matching of revenues, capital investment and expenses – satisfying the Commission required "matching principle" for approval by this Commission of prudently-incurred costs during the rate effective periods. If this Commission were to disallow or exclude certain or all costs associated with 2023 (for RY1) and/or 2024 (for RY2), consideration of matched offsetting factors, including O&M offsets and growth revenues for the same periods would have to be excluded as well, in order to also meet the "matching principle." It is important, however, beyond the "matching principle" for this Commission to consider approval of these net expenses, capital investment, revenues and offsetting factors, because without the approval of RY1 and RY2 levels as proposed by the Company, the Company does not have a reasonable opportunity to earn its authorized returns ultimately approved by this Commission in this case.

A. Annual Revenue Requirement by Year: 2022, 2023 and 2024

Q. Please summarize the revenue requirement balances by year included by the Company in its filed case.

A. Included in Table No. 5 below is an approximate reconciliation of net costs by calendar year through 2024. This is approximate, because column "2021/2022" includes approximate incremental increases above test period 09.2021 levels, representing net costs into RY1, while 2023 includes incremental net costs above 2022 levels expected in RY1. Calendar 2024 reflects incremental net increases in costs above RY1, expected in RY2.

Table No. 5 – Revenue Requirement By Calendar Year

Revenue Requirement By Calendar Year (000s)				
Electric	2021/2022	2023	**2021-2023 RY1**	**2024 RY2**
1) Direct Offsets & Other Revenue[1]	$ (6,811)	$ (5,920)	**$ (12,731)**	**$ (4,349)**
2) Expenses/Other	$ 19,887	$ 7,573	**$ 27,460**	**$ 10,110**
3) Capital[2]	$ 30,588	$ 5,559	**$ 36,147**	**$ 11,373**
4) Power Supply/Transmission[3]	$ 1,976	$ -	**$ 1,976**	**$ -**
Total	$ 45,640	$ 7,212	**$ 52,852**	**$ 17,133**
Natural Gas	2021/2022	2023	**2021-2023 RY1**	**2024 RY2**
1) Direct Offsets & Other Revenue[1]	$ (2,156)	$ (2,340)	**$ (4,496)**	**$ (1,769)**
2) Expenses/Other	$ 4,284	$ 2,409	**$ 6,693**	**$ 1,980**
3) Capital[2]	$ 7,408	$ 1,317	**$ 8,725**	**$ 1,961**
Total	$ 9,535	$ 1,386	**$ 10,922**	**$ 2,172**

[1]Line 1) Direct Offsets and Other Revenue includes direct O&M expense offsets, and Growth and EIM (electric only) revenue. (See Exh, EMA-1T Table Nos. 6 and 7 - Line 1).) EIM benefits included here reflects the incremental EIM benefit above current authorized levels.

[2]Line 3) Capital includes offsets associated with retirements (reductions to depreciation expense), as well as impacts on existing net plant for A/D and ADFIT through RY1 and RY2. See Exh. EMA-1T Table Nos. 6 and 7 for offset values, Line 3).

[3]Line 4) Power Supply/Transmission includes incremental net power supply expense & transmission revenues in ERM baseline, <u>excluding incremental EIM benefits</u> included in Line 1) Direct Offsets & Other Revenue. Net Power Supply, transmission revenues & EIM benefits net a reduction of $2.0 million overall; excluding EIM benefits entirely result in the $1.976 million increase showed above.

It is important to note that item 1) Direct Offsets & Other Revenue, for each period shown in Table No. 5 above, reflect only the direct O&M offsets and offsetting revenues (including growth and electric incremental EIM revenues). Item 1), does not reflect incremental offsets included in the Company's case related to plant retirements (reduced depreciation expense), reductions to 09.2021 existing plant for A/D and ADFIT to RY1 and RY2 levels (reducing net plant after ADFIT), which are consolidated in Line 3) Capital, for purposes of Table No. 5. Table Nos. 6 (electric) and 7 (natural gas) below provide a full reconciliation of all offsets included by the Company over the Two-Year Rate Plan.

B. Offsetting Factors

Q. Please summarize the Washington electric and natural gas offsetting factors included by the Company in its filed case.

A. The Company has included in its electric and natural gas Pro Forma Studies, total O&M offsets, other revenue, retirements (reduced depreciation expense), and reduced net plant after ADFIT for the change in A/D and ADFIT on existing plant at 09.2022, adjusted to AMA 2023 for RY1 and AMA 2024 for RY2. These adjustments reduce the Company's revenue requirement in total by $41.3 million for electric and $11.4 million for natural gas, for RY1, and by $23.5 million for electric and $6.5 million for natural gas, for RY2, (or a total of $64.8 million for electric and $17.9 million for natural gas, over the Two-Year Rate plan) as follows:

- Direct O&M expense and "Other Revenue" reductions – Included in Pro From "Capital O&M Offsets & Revenues" Adjustments (4.03) for RY1 and (5.09) for RY2 are 1) direct O&M savings for certain capital Business Cases, 2) an incremental "2% O&M efficiency" adjustment, reducing O&M expense, for all remaining capital Business Cases (not required for regulatory purposes), and 3) offsetting revenue associated with the Growth Capital Business Case. Also included in Pro From "Power Supply" Adjustment (3.00P) for RY1, are incremental EIM benefits (revenues), as result of the EIM Business Case. These direct O&M and "2% efficiency O&M" offsets and revenues are shown in detail in Exh. EMA-5. Incremental O&M savings related to AMI O&M offsets (see PF Adjustments 3.04 (RY1) & 5.01 (RY2)) and reduced O&M labor expense for retirements (see PF Adjustment 3.07), are also included. As shown in Table Nos. 6 and 7 (Line 1), a combination of each of these O&M offsets and revenues total $12.7 million for electric and $4.5 million for natural gas, for RY1, and by $4.4 million for electric and $1.8 million for natural gas, for RY2.

- Retirements – Include reductions to electric and natural gas depreciation expense to reflect capital retirements through 2023 (RY1) and 2024 (RY2). As shown in Table Nos. 6 and 7 (Line 2), this reduces the Company's proposed revenue requirement by approximately $13.0 million for electric and $3.4 million for natural gas for RY1. For RY2, the result is a reduction of approximately $9.6 million for electric and $2.6 million for natural gas.

- Reduction to Net Plant after ADFIT – Include reductions to Net Plant after ADFIT for the change in A/D and ADFIT on existing plant at 09.2022, adjusted to AMA 2023 for RY1 and AMA 2024 for RY2. As shown in Table Nos. 6 and 7 (Line 3), this reduces overall net rate base, and the Company's revenue requirement by $15.5 million for electric and $3.6 million for natural gas, for RY1, and by $9.6 million for electric and $2.1 million for natural gas, for RY2.

Table Nos. 6 and 7 below, shows a reconciliation of the total Washington electric and natural gas offsetting factors, by year, included by the Company in its filed case, as described above.

Table No. 6 – Washington Electric Total Offsetting Factors

Total Two-Year (RY1 & RY2) Offsets - Washington Electric (Revenue Requirement Values)						
Electric (000s)	**2021/2022**	**2023**	**2021-2023 RY1**	**2024 RY2**	**Two-Year (RY1 & RY2) Totals**	**Electric Adjustments**
1) **Direct O&M Offsets & Other Revenue**	**$ (6,811)**	**$ (5,920)**	**$ (12,731)**	**$ (4,349)**	**$ (17,081)**	
a) Direct O&M Offsets	$ (760)	$ (323)	$ (1,084)	$ (633)	$ (1,716)	3.19, 4.03, 5.09
b) Other Revenue (Growth & EIM Benefits)	$ (5,492)	$ (3,400)	$ (8,892)	$ (2,926)	$ (11,818)	3.00P, 4.03, 5.09
c) AMI O&M Offset	$ -	$ (2,196)	$ (2,196)	$ (791)	$ (2,987)	3.04, 5.01
d) Labor Retirements (O&M)	$ (559)	$ -	$ (559)	$ -	$ (559)	3.07
2) **Depreciation Expense (Retirements)**	**$ (5,726)**	**$ (7,297)**	**$ (13,022)**	**$ (9,575)**	**$ (22,597)**	3.15, 4.01, 4.02, 5.08
3) **Revenue Requirement of A/D and ADFIT[1]**	**$ (10,468)**	**$ (5,031)**	**$ (15,499)**	**$ (9,578)**	**$ (25,077)**	
Total Revenue Requirement Impact	**$ (23,004)**	**$ (18,247)**	**$ (41,251)**	**$ (23,502)**	**$ (64,753)**	
[1]Revenue requirement based on reduction to A/D and ADFIT on existing (09.2021) plant as follows:	$ (115,954)	$ (55,726)	$ (171,680)	$ (106,094)	$ (277,774)	3.19, 4.01, 4.02, 4.06, 4.07, 5.08, 5.11

As noted in Table No. 6, the row "Total Revenue Requirement Impact," combining all adjustments (Lines 1-3), results in an overall reduction to the Company's Washington electric revenue requirement of $41.3 million for RY1, $23.5 million for RY2, and a Two-Year Total of $64.8 million.

Table No. 7 – Washington Natural Gas Total Offsetting Factors

Total Two-Year (RY1 & RY2) Offsets - Washington Natural Gas (Revenue Requirement Values)						
Natural Gas (000s)	**2021/2022**	**2023**	**2021-2023 RY1**	**2024 RY2**	**Two-Year (RY1 & RY2) Totals**	**Natural Gas Adjustments**
1) **Direct O&M Offsets & Other Revenue**	**$ (2,156)**	**$ (2,340)**	**$ (4,496)**	**$ (1,769)**	**$ (6,265)**	
a) Direct O&M Offsets	$ (63)	$ (38)	$ (100)	$ (74)	$ (175)	4.03, 5.09
b) Other Revenue (Growth)	$ (1,975)	$ (1,570)	$ (3,545)	$ (1,419)	$ (4,964)	4.03, 5.09
c) AMI O&M Offset	$ -	$ (732)	$ (732)	$ (276)	$ (1,008)	3.04, 5.01
d) Labor Retirements (O&M)	$ (118)	$ -	$ (118)	$ -	$ (118)	3.07
2) **Depreciation Expense (Retirements)**	**$ (1,467)**	**$ (1,890)**	**$ (3,357)**	**$ (2,615)**	**$ (5,972)**	3.15, 4.01, 4.02, 5.08
3) **Revenue Requirement of A/D and ADFIT**[1]	**$ (2,417)**	**$ (1,127)**	**$ (3,545)**	**$ (2,094)**	**$ (5,638)**	
4) **Total Revenue Requirement Impact**	**$ (6,041)**	**$ (5,357)**	**$ (11,397)**	**$ (6,478)**	**$ (17,876)**	
[1]Revenue requirement based on reduction to A/D and ADFIT on existing (09.2021) plant as follows:	$ (26,782)	$ (12,492)	$ (39,274)	$ (23,197)	$ (62,471)	4.01, 4.02, 5.08

As noted in Table No. 7, the row "Total Revenue Requirement Impact," combining all adjustments (Lines 1-3), results in an overall reduction to the Company's Washington natural gas revenue requirement of $11.4 million for RY1, $6.5 million for RY2, and a Two-Year Total of $17.9 million.

Q. Please summarize the direct O&M savings noted above.

A. The Company has incorporated O&M 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 for the others 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.

Q. With regard to the "2% efficiency" adjustment, does this adjustment

lead to an immediate write-off of capital investment?

A. No, it does not. Where no direct offset was determined by Business Case sponsor in each Offset Form (discussed below), the Company separately applied a "2% Efficiency Adjustment," calculated based on 2% of the "return on" the specific Business Case investment. Required Business Cases, whose "purpose" of the investment (as shown in the detail provided in Exh, EMA-5) is required and labeled as "Regulatory" and/or "Compliance", with no direct offsets provided, were otherwise excluded from the "2% Efficiency" adjustment calculation. The Company, however, 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 "2% Efficiency Adjustment," where appropriate.

Q. Did the Company also consider the impact of "indirect offsets" in its analysis of all offsetting factors, as requested by the Commission in Order 08/05, in Dockets UE-200900, et. al.?

A. Yes. In paragraph 202, of Order 08/05 in Dockets UE-200900, et. al., the Commission stated, with regard to offsetting factors, "Avista must demonstrate all offsetting factors, direct and indirect, hard and soft, material and immaterial." As shown in Exh. EMA-5, the Company considered all off-setting factors - direct and indirect, hard and soft, material and immaterial, when evaluating the effects of all capital Business Cases included by the Company. To accomplish this, for all Business Cases included by the Company over its Two-Year Rate Plan, the Company in October 2021 required each Business Case sponsor to complete a separate "Offsets Form" describing all available direct or indirect, hard or soft, O&M and capital offsets, no matter how material or immaterial. Each of the "direct" or "indirect" offset values and descriptions per the Offset Form for each Business Case were summarized in the "Direct and Indirect – Offsets Matrix" (hereafter "Matrix"), provided as Exh. EMA-5 (pages 1-29), along with each separate Business Case Form appended to the Matrix within Exh. EMA-5 (pages 30 – 270). The Matrix also shows, as described above, the "2% Efficiency Adjustment," calculated on investments, where applicable, per Business Case.

Page 1 of the Exh. EMA-5, per the Matrix, shows the efforts of the Company to reconcile "indirect" offsetting factors, producing indirect Washington-allocated offsets at $60.7 million for electric and $7.6 million for natural gas, for RY1, and $42.3 million for electric and $7.7 million for natural gas, for RY2. As discussed in the individual Offset Forms and summarized in the Matrix, "indirect" offsets include items such as, avoided costs (i.e. deferring the need to hire new employees, delaying capital investment, delaying incremental maintenance costs), redeployed benefits (efficiencies allowing shifting of labor hours to other growing areas of business, also reflects avoided new hire labor), indirect customer benefits, and safety benefits, for example. Included with Exh. EMA-5 is the summary analysis, by Business Case, by Capital witness sponsor, for each individual Business Case Offset Form, as well as, each individual Business Case Offset Form.

Q. Company witnesses Mr. Thies and Mr. Ehrbar discuss the Company's recent history and need for new capital investment, as well as the Company's planned investment through 2026. What conclusions can be drawn regarding the increased capital investment, as well as related increased expenses, included by the Company for RY1 and RY2?

A. Yes. As described in Mr. Thies and Mr. Ehrbar's testimonies, the Company is making significant capital investments in our electric generation, transmission and distribution facilities, natural gas distribution system, and new technology to better serve the needs of our customers. These investments are focused on, among other things, the preservation and enhancement of safety, service reliability and the replacement of aging infrastructure.

For the period 2017 through 2021, our capital expenditures averaged approximately $425 million per year, on a system basis (i.e., Washington, Idaho, and Oregon, electricity and natural gas). Over the next five-year period ending December 31, 2026, Avista's plans continue to call for making significant utility capital investments in our electric and natural gas systems of approximately $445 million per year, on a system basis, to preserve and enhance service reliability for our customers, including the continued replacement of aging infrastructure. As noted by Mr. Thies, 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.

As Avista removes old equipment and replaces it with new, the depreciation component currently included in retail rates generally covers only a very small amount of the new facilities and equipment placed into service, especially for the long-lived assets. Avista's retail rates are cost-based, which means the prices customers are paying today for natural gas pipe, gate stations, transformers, distribution poles, substations, and transmission lines, among other facilities, are based on the cost to install those facilities, in some cases, 40, 50, and even 60 years ago. The costs of the same equipment and facilities today are many times more expensive. The depreciation component built into retail rates today is based on the much lower cost to install those facilities many years ago. Therefore, the depreciation component in retail rates covers only a small fraction of the annual costs associated with the new investment in facilities.

Furthermore, as plant is completed and is providing service to customers, it is important for this new investment, as well as the expenses supporting that investment, be reflected in retail rates in a timely manner. As discussed by Mr. Vermillion, in any multiyear rate plan, the first-year revenue requirement approved by the Commission will persist for each year of the rate plan and is the basis for additional revenue adjustments in year 2, 3 and beyond. If the new investment and related expenses pro formed by the Company over the proposed Two-Year Rate Plan in this case are not included, significant regulatory lag will persist year-after-year, having a negative impact on Avista's earnings. It is essential, therefore, for this Commission to approve sufficient capital investments and expenses in RY1 and RY2 as proposed by the Company, if the Company has any opportunity to earn its allowed rates of return during the approved Two-Year Rate Plan.

V. CAPITAL ADDITIONS CATEGORY DESIGNATIONS AND PROVISIONAL REPORTING

Q. The Company included all capital projects for the period 2021 through 2024 within its request for rate relief. Would you please explain how these capital projects were included in this case?

A. Yes. As discussed by Mr. Baldwin-Bonney, the Company typically has approximately 120 Business Cases completed on an annual basis, representing approximately $445 million of capital spending. With regards to the 2021 capital additions included in this case, the Company's historical test period ending September 30, 2021 includes actual capital additions from January through September 2021. In addition, the Company pro formed actual October 2021 and expected November and December 2021 additions. In the first quarter of 2022, after the books for calendar-year 2021 are closed, the Company will provide the Parties in this case a revised pro forma actual transfer to plant and updated pro forma 2021 related adjustments. That will allow the Parties time for a final review and audit of all the 2021 actual capital additions well in advance of their responsive testimony due date.

With regard to the 2022 – 2024 "provisional" capital additions included in this case, the Company grouped its additions to fit the Commission's defined categories in its Used and Useful Policy Statement[30], with regard to "provisional" capital. These "provisional" categories are: 1) specific, identifiable and distinct; 2) programmatic (on-going programs or scheduled investments), and 3) short-lived assets.[31] The Company has included a 4th category, titled 4) Mandatory and Compliance.[32] Projects in this category reflect items that are mainly "programmatic," but are required to meet regulatory and other mandatory obligations. These capital additions are the main driver of the Company's request for rate relief in RY1 and RY2. Mr. Baldwin-Bonney, within his testimony at Exh. JBB-1T, describes these groupings and the individual capital adjustments for the period January 2022

[30] Policy Statement issued January 31, 2020, in Docket No. U-190531.
[31] The Commission discussed their consideration of Short-Lived assets in Order 08 of the most recently concluded Puget Sound Energy (PSE) general rate case, Dockets UE-190529 and UG-190530.
[32]The Commission defined proposals related to three broad types of investments: 1) specific - clearly defined, identifiable or discrete investments (e.g., generating asset); 2) programmatic - investments by their very nature are made according to a schedule, plan or method (such as the replacement of power poles or other small distribution system investments necessary to provide safe and reliable service to Washington ratepayers); and 3) projected - examples include but are not limited to: the use of a k-factor, an attrition adjustment, or a growth analysis. See Used and Useful Policy Statement, Docket No. U-190531, para. 11, p. 5.

through December 2024 meant to include these capital additions in the Company's case.[33]

Q. Does the Company have a viewpoint on the use of "materiality thresholds" for capital project inclusion?

A. Yes, the Company does not believe the use of materiality thresholds is appropriate. Further, in the Company's most recent general rate case (Order 08/05 in Dockets UE-200900 et. al.), the Commission was clear that it was not reliant on the use of a "materiality threshold," nor the number of projects when considering what projects will be included in rates. Rather the Commission is focused on whether the projects proposed for recovery were "used and useful," "known and measurable" and prudently incurred. In addition, the Commission noted it would not establish a one-size-fits-all approach, but rather review projects proposed by a utility in each GRC on a case-by-case basis.[34]

Q. Please explain why the Company has proposed that all 2022 additions should be considered provisional, and subject to "review and refund".

A. Although there will be a portion of the 2022 capital additions that will be completed, and therefore actual transaction detail is available for review and audit by the Parties prior to their responsive testimony due date, those additions would only include those capital additions completed in the first four to six months of 2022. By making all 2022 capital additions provisional (in addition to 2023 and 2024), Avista is able to recover

[33] As noted, Mr. Baldwin-Bonney addresses the majority of the pro forma and provisional adjustments and provides the complete listing of capital additions included within each category, and identifies which Company witness discusses each Business Case – see Exh. JBB-1T, Table Nos. 2 and 3 (2021 additions), and Table Nos. 4 and 5 (2022 – 2024 additions). Other Company witnesses, i.e., Mr. Thackston regarding production assets; Ms. Rosentrater regarding transmission, distribution and general assets; Mr. Kensok regarding the costs associated with Avista's Information Service / Information Technology (IS/IT) projects and short-lived assets; Mr. Magalsky regarding the Customer At Center projects; Mr. Kinney regarding EIM assets; and Mr. Howell regarding Wildfire assets, provide more specific information on these business cases.

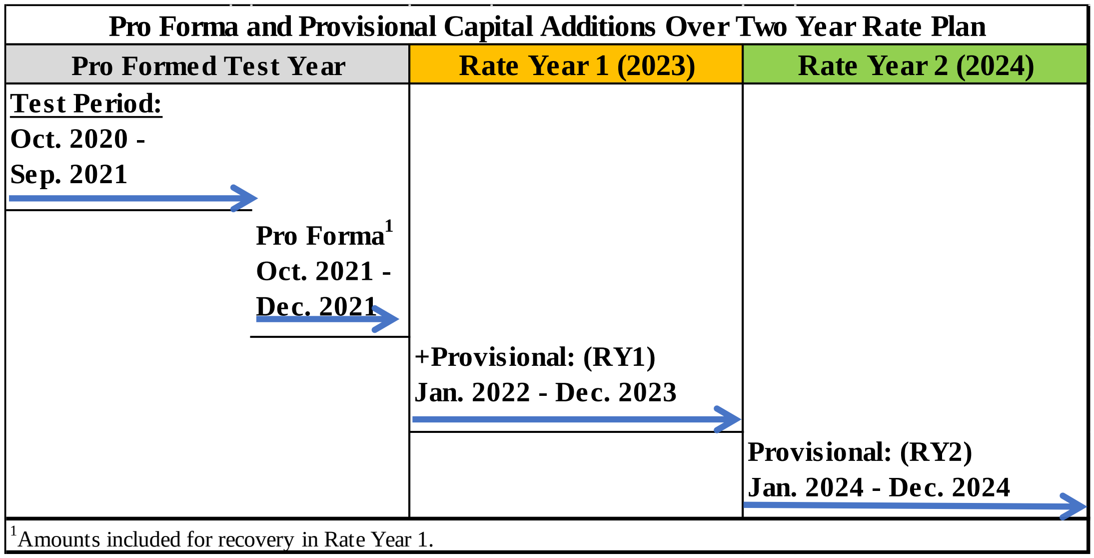
[34] Order 08/05, Dockets UE-200900, et. al., paragraph 195, 197 and 198.

on a timely basis its costs of providing service to customers in RY1, and still allow sufficient time for the Parties and Commission to complete a final review of actual transfers to plant for all 2022 - 2024 additions, doing so after completion of the 2022 calendar year. Review of actual transfers to plant by calendar year, eases both the reporting requirements of the Company as well as the final audit/review of Staff and intervening parties. Using this approach there will not be any estimates, nor any doubt, concerning what projects were completed and in-service when the final review occurs for each of the periods 2022 through 2024.

Therefore, as informed by the Used and Useful Policy Statement, the Company is proposing to use the actual completed projects as of December 2021 as the cutoff for the traditional pro forma capital adjustment, and the capital adjustments for 2022, 2023, and 2024, would separately be considered "provisional" pro forma capital adjustments, subject to later review. The Company, however, will update its capital additions adjustments to reflect all actual additions through the most available period in 2022, prior to filing rebuttal testimony in this general rate case. This should help to ensure the Commission has before it a record that is as complete with actual information, though the 2022 period (as well as 2023 and 2024) will be subject to an additional and final review and refund, in a future period. The process for doing that is discussed below.

Illustration No. 5 below illustrates the capital additions included by the Company on a "pro forma" basis (Oct.-Dec. 2021) and "provisional" basis (Jan. 2022 – Dec. 2024).

<u>Illustration No. 5 – Pro Forma and Provisional Capital Additions</u>[35]



Q. What is the Company proposing with regard to <u>reporting</u> on the provisional 2022 - 2024 capital additions included in this case?

A. At the outset, Avista found the provisions of a recently approved settlement in Northwest Natural Gas' rate proceeding (Docket No. UG-200994 et. al.) to be a constructive approach to addressing the review of provisional adjustments in the second year of a Rate Plan. As such, the following is patterned after that approach.

For all capital additions for the period January 2022 through December 2024, by March 31st following the completion of each calendar year, Avista will file a report, in these dockets, with the Commission and all Parties, containing evidence (either directly or by reference to previously-filed evidence) as described below. This reporting will serve to validate that such plant is, in fact, in-service, is used and useful and at what cost (after any

[35] An exception to the "Pro Forma" versus "Provisional" capital additions as shown in Illustration No. 5, is that RY1 Pro Forma includes EIM capital investment from Oct. 1, 2021 through Jun. 30, 2022 transfers to plant (Mar. 2022 "go-live") as approved in Dockets UE-200900, et. al., subject to review and refund in this GRC. Provisional RY1 (2022 capital additions), therefore, excludes this EIM investment.

offsetting benefits). This will provide the Commission with assurance that the provisional capital included prior to the rate effective period (for 2022 capital) and during RY 1 (2023 capital) and RY2 (2024 capital) is in service for customers during the rate effective periods, or will be subject to refund. This reported evidence shall be sufficient to demonstrate the prudence of the Business Cases, as well as the total net plant after ADFIT balances, approved by the Commission in RY1 and RY2. A summary of the reporting requirements and reporting process is described below.

I. **Content of Each Annual Report -**

Each annual report will provide evidence as follows:

a) Final actual "Net Plant after ADFIT" balances versus Commission Authorized "Net Plant after ADFIT" balances, for each calendar year. This will ensure final rates represent all actual additions, retirements, offset by Accumulated Depreciation (A/D) and Accumulated Deferred Federal Income Taxes (ADFIT) – representing final net plant balances that are used and useful, serving customers, and reflect associated costs (net of any benefits).

b) The justification for the Business Cases, including supporting information, if different than what was included in the Company's direct filed case;

c) Actual in-service date(s);

d) Actual final costs, as well as explanations for significant cost variances;

e) Any changes to the Business Cases themselves, (for example, deviations from the scope and descriptions provided in the initial filing in this case);

f) Evidence that any significant cost overruns and the decision to continue to invest in the project under any relevant changed circumstances was prudent;

g) Updated information (if any) on offsetting factors presented in this case specific to the Business Cases;

h) In responding to items (a) – (g) above, the Company will provide a listing of the Business Cases as filed in this proceeding for the calendar year, with updated information, and an explanation for any changes. As circumstances change, and capital is redeployed to other new or existing Business Cases during 2022 – 2024, any redeployed capital will be supported as prudent and used and useful, in order to allow for recovery.

i) Recovery of capital investment, therefore, will be capped at the total overall net plant after ADFIT and resulting revenue requirement balances, by calendar year, approved by the Commission, in its initial Order approving the Two-Year Rate Plan. The Company, however, reserves the right to seek a deferral for additional costs not recovered through this review process.

II. **<u>Process for Subsequent Review</u>**

a) Each Annual Report will be filed no later than three months after the calendar year-end (on or before March 31st) annually. The burden of demonstrating prudence of each calendar year projects is on the Company and is not intended to shift the burden of showing prudency to the non-company parties.

b) All Parties will have the opportunity to review the evidence and have the ability to conduct discovery similar to discovery allowed in adjudicative proceedings (including, but not limited to, issuing data requests). Parties may then submit to this docket a response notifying the Commission whether the final reported costs are accepted or contested by that party.

c) The Company, may at its discretion, submit to these dockets evidence mentioned above regarding capital additions once they are complete in order to expedite the review process.

d) Parties will complete their review and file any response no later than three months (on or before June 30th annually), after the "Provisional Reporting" for each calendar period filed by the Company (i.e., March 31st).

e) The Parties reserve the right to evaluate the capital additions and to account for direct offsetting factors (i.e. benefits) to the provisional capital projects. Offsetting factors considered in this context will be limited to offsets that might occur directly as a result of Avista's investment in the specified Business Cases and will not include offsets that do not directly result from the investment in the specific business cases. Where any efficiency adjustment is used by the Company in lieu of a direct benefit, that adjustment will continue for the 2022 – 2024 period.

f) Any amounts determined subject to refund to customers, will be deferred for later return to customers, until a change in rates has occurred to reflect the necessary change for the capital amount refunded. Future return of any refunded amounts may be through a separate tariff or other future proceeding. The refunded amount will include interest at the authorized rate of return.

g) After the non-Company Parties submit their responses to the Commission, Avista will file a petition to amend the final order in this docket in accordance with WAC 480-07-875. The petition to amend the final order will indicate whether the parties agree to the proposed rate change or if a dispute exists that would require further process under WAC 480-07-875. If there is no dispute, the petition will specify any changes to RY1 or RY2 rates, based on updated information, or explain that no changes to RY1 or RY2 rates are necessary. RY1 or RY2 rates will go into effect in this case on December 2022 and December 2023, respectively, but the RY1 and RY2 rate amounts are subject to refund, with regards to 2022 through 2024 capital investment, until the review of these business cases are complete and accepted by the Commission through an amended order.

Q. Have you prepared a schematic that illustrates the process you have described above?

A. Yes. As depicted in Illustration No. 6 below, for the 2022 capital additions report, the Company will file its report on or before March 31, 2023. The non-Company Parties will submit their responses to the Commission on or before June 30, 2023. Shortly thereafter, Avista will file a Petition to Amend the Final Order in these electric and natural gas dockets, indicating whether the Parties agree that the level of 2022 capital additions included in the revenue requirement for RY1 was appropriate, or if a refund is necessary for any over-collection during RY1. It will also indicate what, if any, reduction for the revenue requirement in RY2 is required to reflect the lower level of capital in service for 2022. If there is no dispute among the Parties, the Petition will specify any changes to the revenue requirement for RY2 (for 2022 additions only), or future rates, based on updated information or explain why no changes to the revenue requirement for RY2 is necessary. If there is any dispute among the Parties, further process would be required under WAC 480-07-875. If the Commission determines that a refund is required, but has not yet completed its work by the time RY2 rates go into effect in December 2023, any amounts subject to refund included in rates would be deferred until such time as rates are adjusted to reflect the Commission's decision. Any deferred balances would be returned to customers in a later proceeding or as otherwise ordered by the Commission.

Illustration No. 6 – 2022 Capital Reporting Example

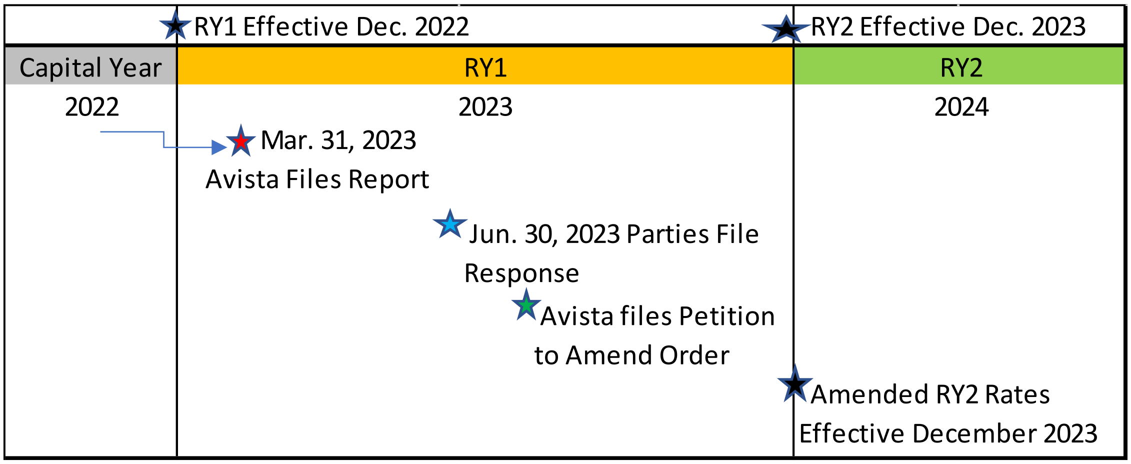


Illustration Nos. 7 and 8, provide the same sequence for the next two capital reporting cycles for the 2023 and 2024 capital reports, respectively.

Illustration No. 7 – 2023 Capital Reporting Example

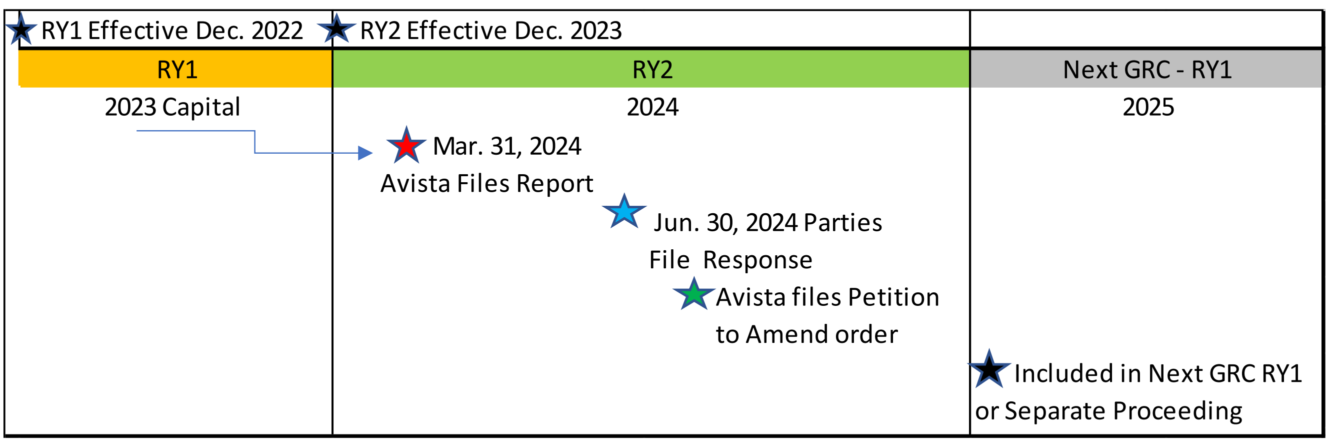
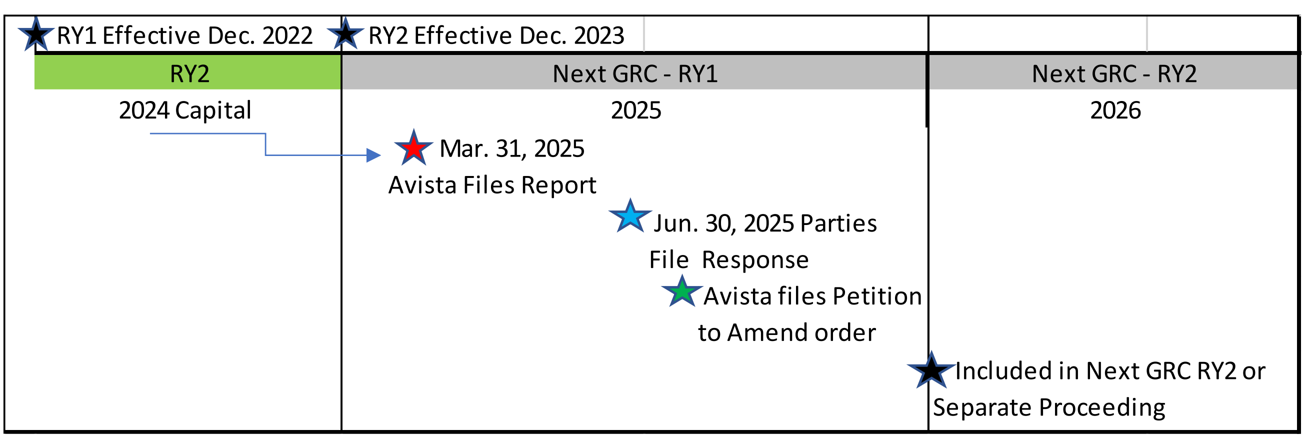


Illustration No. 8 – 2024 Capital Reporting Example



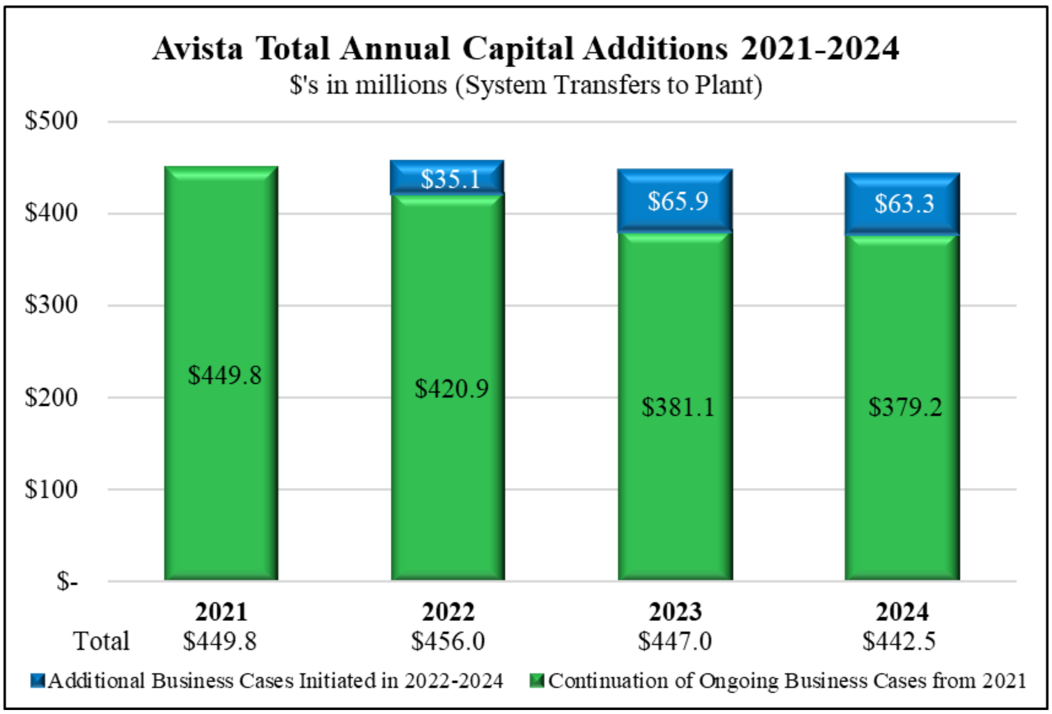
As can be seen in Illustration Nos. 7 and 8, the 2023 and 2024 Capital Reports filed, reviewed and any required refund, if applicable, will occur in the Company's next GRC or other proceeding, to amend rates for any amounts subject to refund. As noted above, any amounts subject to refund included in rates would be deferred until such time as rates are adjusted to reflect the Commission's decision. Any deferred balances would be returned to customers in a later proceeding or as otherwise ordered by the Commission.

Q. Without minimizing the importance of the subsequent review of "provisional" expenditures, as described above, would you put that review into some kind of perspective?

A. Yes. First of all, Avista wants to make sure that the Commission and the parties have a full and fair opportunity to review all "provisional" expenditures for 2022-2024, to be assured that they are prudent and reflect actual costs of in-service, "used and useful" plant. We recognize that this subsequent review of Annual Reports by the parties calls for accelerated treatment, but it should also be acknowledged that by far the vast majority of expenditures in 2022-2024 relate to a continuation of existing Business Cases in the 2021 test year (only the level of investment has changed). As such, the parties and the Commission will have already reviewed such Business Cases during the eleven-month long rate case process, as 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. This should facilitate any subsequent review of changes in expenditure levels within each Business Case.

For illustrative purposes, witnesses Ms. Rosentrater, Mr. Kensok and Mr. Thackston, who address most of the capital projects, have included yearly bar charts for 2021-2024 depicting the yearly spend within each existing Business Case versus "provisional" expenditures associated with an entirely new Business Case in 2022-2024. As shown, in the aggregate chart below that combines the results in those areas covered by the witnesses, in excess of 90% of "provisional" expenditures have their genesis in existing test period Business Cases, which relate to.

Chart No. 1 – Avista Total Annual Capital Additions 2021-2024



VI. PROPOSED TWO-YEAR TAX CREDIT AMORTIZATIONS TARIFF SCHEDULES 78 / 178

Q. Please summarize the Company's proposal to return incremental deferred tax credit balances to customers to mitigate, in part, the Company's requested base rate increases in this case.

A. The Company proposes to return Washington's share of remaining deferred tax credit balances of $25.5 million for electric and $12.5 million for natural gas, over a two-year amortization period, beginning with the effective date of this case.[36] Returning these dollars over the two-year period beginning December 2022 and ending December 2024, would mitigate, in part, the Company's requested increases, reducing the bill impact to Washington electric and natural gas customers over the Two-Year Rate Plan.

As discussed by Mr. Miller, the return of these incremental tax dollars would be returned through new "Residual Tax Customer Credit" Tariff Schedule 78 for electric and Tariff Schedule 178 for natural gas. The amortizations of approximately $17.4 million for electric and $8.7 million for natural gas, annually, through Tariff Schedule 78 (electric) and 178 (natural gas), would offset a portion of the Company's electric and natural gas bill impact to customers in RY1 by 2.4% and 3.3%, respectively, through December 2024.

Q. Please summarize the creation of the deferred tax benefits for customers, and what those balances represent.

A. On October 30, 2020, the Company filed with this Commission its "Petition for an Order Authorizing Approval to Change Its Accounting for Federal Income Tax Expense of Certain Plant Basis Adjustments and Deferral of Associated Changes in Tax Expense" (Tax Accounting Petition). This Tax Accounting Petition sought authorization to change its accounting for federal income tax expense from the normalization method to a

[36] As discussed below, these additional tax credits are in addition to the tax credits being returned to customers over the two-year period October 1, 2021 through September 2023.

flow-through method for certain "non-protected" plant basis adjustments,[37] including Industry Director Directive No. 5 (IDD #5) and meters[38], and authority to defer any tax benefit owed customers, as a result of the tax accounting change. As approval of this tax accounting change was required by <u>all three of Avista's jurisdictions</u> (Washington, Idaho and Oregon), a separate Tax Accounting Petition or Application was also filed in Avista's Idaho and Oregon jurisdictions. Approvals from all three jurisdictions were received, first from the Idaho Public Utilities Commission (IPUC) in Order No. 34906 in Case Nos. AVU-E-20-12 and AVU-G-20-07. This Commission approved the Company's Tax Accounting Petition per Order 01 in Dockets UE-200895 and UG-200896, on March 11, 2021. And finally, the Public Utility Commission of Oregon approved the Company's Tax Accounting Application on May 4, 2021, per Order No. 21-131, in Docket No. UM 2124. This provided the final grant of authority required from each of Avista's jurisdictions to consistently change its accounting for federal income tax expense from a normalization method to a flow-through method across all three jurisdictions. This final authorization also allowed for the immediate benefits to customers to be deferred for later return to customers.[39] As noted

[37] As described in Company testimony of witness Krasselt, Exh. RLK-1T in Dockets UE-200900, et. al., during 2020, Avista worked with consultants from the Deloitte accounting firm on a 2019 tax review project. The outcome of this project was to expand on the tax deduction for repairs expenses that the Company originally implemented in 2014. This change allowed the Company to deduct costs for tax purposes that previously were capitalized, thereby reducing current federal income taxes owed to the IRS. While the Company expanded its deduction for repairs expenses, the deferred taxes for this deduction will continue to be normalized and therefore, are not part of the deferral application or the credits available for the Tax Customer Credits.

[38] In addition to the repairs review, Avista filed two new accounting method changes with the IRS to modify its tax method for accounting for certain costs relating to IDD #5 and meters. IDD #5 relates to mixed services costs that are part of the capitalized book costs of utility property but can be capitalized to inventory and expensed for tax purposes as a cost of goods sold expenditure. The meter accounting method change allows Avista, for income tax purposes, to deduct meter costs instead of capitalizing them if the per unit cost is less than $200. These changes were included with the 2019 federal tax return that was filed in October 2020 and was the basis of the request for an accounting change in the Company's Tax Accounting Petition.

[39] A deferral to record the tax benefit by service and jurisdiction to a regulatory liability was recorded in May 2021, effective with the Company's April 2021 closing process.

within the Company's Tax Accounting Petition, to reflect the tax accounting change for regulatory purposes and return the customer benefits in each state, any changes needed to be effective concurrent with each State's next general rate case.

As result of the tax accounting change approved by all jurisdictions, the Company recorded a deferred system tax benefit of $150.8 million, including the tax benefit specifically owed to Washington electric and natural gas customers of approximately $58.1 million and $28.2 million, respectively, through December 31, 2020. Additional, on-going tax credits will continue to accrue annually and be deferred for customers in FERC Account No. 254.3 – Regulatory Liability (at a grossed-up amount). The net of these two accounts equals the amount that had been previously recorded in FERC Account. No. 282900 and continue to be included as an offset to rate base until funds are returned to customers through a separate tariff as discussed below. This allows customers to continue to receive the benefits of the "basis" adjustments, as a reduction to rate base, until such time the flow-through benefits are returned to customers or included in rates.

Q. How are the deferred tax benefits through December 31, 2020 currently being returned to customers?

A. In Avista's most recently concluded GRC, per Order 08/05, paragraphs 119-121, in Dockets UE-200900, et. al., the Commission ordered the return of the electric and natural gas deferred tax credit balances recorded as of December 31, 2020, through separate Tariff Schedules 76 (electric) and 176 (natural gas) that would result in no change in customer billed rates over a two-year period. beginning October 1, 2021. Therefore, the electric and natural gas tax credits expected to be returned to customers annually through Tariffs 76/176, for the period October 1, 2021 through September 30, 2023, is approximately $17.4 million and $8.7 million, respectively. The Commission also approved any remaining and incremental deferred tax credit balances be returned to customers over a ten-year period, at least until revisited in the next GRC. Per Order 08/05, reexamination of (1) the total remaining tax customer credit balance at the end of the two-year amortization period plus the incremental annual deferred tax benefit and (2) the appropriate amortization for returning the Tax Customer Credit to customers going forward, would be appropriate in the next GRC.

Q. After considering amounts already designated for return to customers as just described, what are the remaining expected deferred tax credit benefits owed customers?

A. The expected remaining Tax Credit balances for Washington electric and natural gas to return to customers is approximately $25.5 million and $12.5 million, respectively as of December 31, 2023. These balances reflect the actual deferred tax credit balances as of December 31, 2020 for Washington electric and natural gas operations, adjusted to include the annual estimated incremental tax credit deferrals from January 1, 2021 through December 31, 2023, and adjusted to exclude the annual estimated amortizations of the tax credit deferred balances per Order 08/05 in Dockets UE-200900, et. al. (amortized October 1, 2021 through September 30, 2023). This is shown in Table No. 8 below:

Table No. 8 - Tax Credit Balances Expected December 31, 2023

Washington Electric and Natural Gas Tax Credit Balances		
	(Millions)	
	WA Electric	WA Natural Gas
Balance at 12/30/2020	$ (57.0)	$ (27.4)
Incremental Deferrals (2021 - 2023)	$ (3.7)	$ (2.7)
UE-200900 et. al. 2-Year Amortization (Tariff 76/176)	$ 35.2	$ 17.7
Estimated Remaining at 12/31/2023	$ (25.5)	$ (12.5)
Residual 2-Year Amortization (Tariff 78/178)	$ 25.5	$ 12.5

Q. How does the Company propose to return the deferred tax credit benefits owed customers estimated at December 31, 2023?

A. The Company proposes to return the deferred tax credit benefits owed customers of $25.5 million for electric and $12.5 million for natural gas as of December 31, 2023 to customers over a two-year amortization period beginning December 2022, current with the effective date of this case, through separate Tariff Schedules 78 (electric) and 178 (natural gas) labeled "Residual Tax Customer Credit." The annual amortization amount returned to customers, therefore, would be $12.7 million for electric and $6.2 million for natural gas. Again, this is shown above in Table No. 8.

As discussed by Mr. Miller, for RY1, the proposed annual electric base revenue increase is $52,852,000, or 9.6% (base). On a total billed revenue basis, after incorporating the proposed "Residual Tax Customer Credit" Schedule 78 offset, it would be 7.4%. For natural gas, for RY1, the proposed annual base revenue increase is $10,922,000, or 9.5% (base). On a total billed revenue basis, after incorporating the proposed "Residual Tax Customer Credit" Schedule 178 offset, it would be 2.5%.

VII. BALANCING ACCOUNT PROPOSALS

Q. Please explain the purpose of this section of your testimony.

A. The purpose of this section of my testimony is to generally describe the Wildfire Expense Balancing Account (WF Balancing Account) established in the Company's last GRC, Dockets UE-200900, et. al., and how that balancing account will operate over time. This includes expense tracking, reporting to the Commission, and the appropriate method to surcharge or rebate any Wildfire expense balances deferred over time.

In addition, I will discuss the proposal for an additional balancing account for insurance expense. The Company believes a balancing account for insurance expense is necessary, given the volatility of those expenses, and the significant impact that variability can have on customer rates and on Company results. The use of an insurance balancing account to track amounts above or below any approved baseline established in this case, is similar to that approved for Wildfire Plan expenses, and would also protect the Company and its customers with respect to any significant costs variations during the Two-Year Rate Plan that are different from that approved by the Commission.

A. Wildfire Balancing Account (Approved in Dockets UE-200900, et. al.)

Q. Would you please explain what was approved with regards to the Wildfire Expense Balancing Account in the Company's last general rate case?

A. Yes. In the Company's prior GRC, in Dockets UE-200900, et. al., per Order 08/05, the Commission approved a two-way Wildfire Expense Balancing Account that would track the variability in wildfire expenses Avista makes to address the growing frequency of extreme and dangerous wildfires in Avista's service territory,[40] as proposed by the Company, with certain modifications and clarifications.

These modifications included the Commission setting the Wildfire Expense Balancing Account base, effective October 1, 2021, at $3.065 million for Washington electric operations.[41] Further, the Commission clarified the operation of the Wildfire Balancing Account as follows in para(s). 258-259:

> We authorize the Wildfire Balancing Account to operate outside of GRCs to the extent that we expect the account to true up deferral balances annually for return to ratepayers or recovery for the Company, with the first true up occurring on or about September 30, 2022.[323] Modifications to the mechanics of the account, such as the application of a new base level of wildfire expense, additional requirements, or performance-based metrics, should be considered in GRCs.
>
> [[323] We are aware, and we intend, that the first true up will likely occur during the pendency of Avista's next GRC. The Wildfire Balancing Account will function for its first true up as authorized in this Order, with any subsequent true up being subject to any modifications made during GRCs, unless otherwise specifically ordered by the Commission for compelling cause.]
>
> We will review and revise the Wildfire Balancing Account as necessary in Avista's next GRC, which Avista has indicated it intends to file in early 2022. Thus, we require Avista to include with its initial filing proposals for our review of new metrics that should apply in the context of multi-year rate plans, of performance-based measurements that should apply, and of any other proposals for effectively monitoring wildfire expenses.

In the Wildfire Expense Balancing Account, approved by the Commission, Avista is

[40] Order 08/05, in Dockets UE-200900, et. al., at p. 2. Also, at para(s). 237 and 238, the Commission stated, "Avista has demonstrated that the circumstances are not normal, but extraordinary. We cannot know, at this time, when the relative threat, risk, and cost of wildfires will no longer be extraordinary and will become normal. But, in time and through utility efforts, Avista must address the challenge, and it appears that any future normal level will be at increased levels appropriately matched to counter the increased threat. ... [W]e find that these extraordinary circumstances warrant an expansive use of the regulatory tools the Commission possesses, including approval of a new wildfire balancing account and of Avista's Deferral Petition."
[41] Order 08/05, para. 250.

to record the deferral balances (expense levels higher or lower than the GRC established base) into a balancing account recorded as a separate regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit), Interest will not accrue on the unamortized balance.

Q. As per the Commission Order, any change in the Wildfire Expense Balancing Account baseline is to be considered in the context of a GRC. Is the Company recommending a new baseline in this GRC?

A. Yes, it is. In the prior GRC establishing the baseline, the Commission approved actual annualized 2020 wildfire expenses totaling $3.065 million for Washington. Wildfire expenses in 2020 however, reflected only the first six months of the Wildfire Plan, which even annualized, do not reflect the full level of expected Wildfire expenses going forward, or during the Two-Year Rate Plan. As explained by Mr. Howell within his testimony, annual Wildfire expense is expected to be $8.1 million in 2022, $8.2 million in 2023, and $8.5 million in 2024, on a system basis. The majority of these costs relate to distribution "Risk Tree." Washington's share of these incremental wildfire expenses is approximately $5.1 million annually,[42] or approximately $2.0 million <u>higher than</u> the current baseline. Reflecting incremental Washington Wildfire expenses in the 12ME 09.2021 test period of $2,156,000, the incremental expense pro formed in Adjustment 4.04 "Provisional Wildfire 2022 Cap EOP & O&M," as discussed below, totals $2,950,000.

Q. What has caused the Company to increase its planned wildfire O&M expense over its 10-year plan?

[42] Washington' share is determined based on incremental direct and allocated wildfire <u>non-labor</u> expense.

A. As discussed by Mr. Howell, while capital Wildfire Plan elements are projected to decline after 10 years, the majority of operating expense items are on-going and are generally related to enhanced vegetation management. As shown in Table No. 9 below, operating expense levels are expected to flatten by 2025 and remain so during the balance of the ten-year period. Specially, Wildfire Expenses are planned to increase during 2022 through 2024, and level off to approximately $7.6 million for the remaining of the 10-Year Wildfire Plan.

Table No. 9 – System Wildfire Expense

System Wildfire Expense - see Howell Exh. DRH-1T, Illustration No. 3								
	2022	2023	2024	2025	2026	2027	2028	2029
System Wildfire Expense	$8,140	$8,215	$8,465	$7,615	$7,615	$7,365	$7,165	$7,065

As explained by Mr. Howell, a major O&M category in the Wildfire plan is related to the Enhanced Risk-Based Vegetation Management Program. Although Avista has had a robust vegetation management program in place for many years, the existing program consists of routine maintenance cycle-trimming and risk-tree inspection and mitigation. In the past, these were focused on about 1,500 miles (20% of the system) annually. In 2020 this existing program was separated into two programs based on the new Wildfire Resiliency Plan: 1) Routine Maintenance and 2) Risk-Tree Identification and Mitigation ("Risk-Tree").[43] Each of these programs have different scopes and budgets in order to continue our routine cycle trimming and to give additional focus to "risk-trees" under the Wildfire Resiliency Plan. With the additional focus on protecting lives and property from wildfire,

[43] Routine distribution and transmission maintenance is budgeted annually at approximately $8.9 million. This routine expense is separately tracked and accounted for from all Wildfire-related expenses. Any deferral of wildfire expense is tracked incrementally to the Wildfire Expense Balancing Account baseline, and will also ensure it is incremental to the routine maintenance expense included in base rates.

the Wildfire Plan Risk-Based Vegetation Management Program has enhanced the existing tree trimming program with additional measures: 100% risk-tree identification on an annual basis versus a five-year cycle, as well as transmission LiDAR and distribution satellite data collection in order to identify risk-trees and existing or potential vegetation issues. In addition, we have added two new programs, Fuel Reduction Partnerships, and Customer Choice Right Tree Right Place as described by Mr. Howell within his testimony.

The Company will provide actual expense levels in 2022 for Wildfire expense that reflect the level of Wildfire expense planned over the Two-Year Rate Plan, to support the revised baseline, during the process of the case. The Wildfire Balancing Account, of course, provides the added protection that allows the Company to defer any balances above or below the established baseline (including any off-setting direct O&M savings that may occur).[44] The Company has also established a performance-based metric with regard to this "100% risk-tree identification," as discussed by Mr. Howell and Mr. Ehrbar.

Q. What amount has the Company deferred to date for incremental Wildfire expenses?

A. The incremental Wildfire expense deferred as of December 31, 2021, includes both the deferred expense approved by the Commission for the Company's deferred incremental wild fire expenses for January – September 2021 of $1.84 million,[45] as

[44] Although the Company is unaware of direct O&M savings at this time, through the operation of the balancing account, O&M costs will be tracked net of cost savings, thereby effectively capturing over time any embedded cost savings

[45] Docket UE-200894, related to Avista's "Petition for an Accounting Order Authorizing Accounting and Ratemaking Treatment of Costs Associated with the Company's Wildfire Resiliency Plan" (Wildfire Deferred Accounting Petition). Docket UE-200894, was consolidated with Dockets UE-200900 et. al. The Commission approved the Company's Wildfire Deferred Accounting Petition, allowing Avista to defer all incremental Wildfire expenses for the period January 1, 2021 through September 30, 2021.

well as deferred amounts for the Wildfire Expense Balancing Account effective October 1, 2021 through December 31, 2021 of $618,000, for a total of $2.5 million. The Company anticipates deferring an additional $2.0 million during 2022, reflecting the difference between the current baseline level of $3.065 million and the 2022 expected level of $5.1 million for Washington. The total deferral expected for the period January 1, 2021 through December 31, 2022 is shown in Table No. 10 below.

Table No. 10 – Washington Electric Deferred Wildfire Expenses 2021-2022

Estimated Washington Electric Deferred Wildfire Expenses 2021-2022 (000s)		
Wildfire Deferral Jan- Sept 2021 per Docket UE-200894	$	1.8
Wildfire Balancing Account Deferral Oct - Dec 2021	$	0.6
Wildfire Balancing Account Deferra Jan- Dec 2022 (estimated)	$	1.0
Total Wildfire Expense Deferred 2021 - 2022	**$**	**3.5**

Q. Following the Commission's order with regard to the operation of the Wildfire Balancing Account, please describe the annual true-up planned by the Company.

A. In accordance with the Commission's Order, as described above, the Wildfire Balancing Account is to operate outside of the Company's GRCs, with an account true-up of the deferral balances annually, for return to ratepayers or recovery by the Company. As ordered, the first true-up is to occur on or about September 30, 2022.

The Company, therefore, plans to file by July 31, 2022 a compliance filing with the Commission in Dockets UE-20090, et. al., requesting the Wildfire deferred balance as of June 30, 2022, for return to ratepayers or recovery by the Company, effective October 1, 2022. This would be through a separate tariff, related specifically to the Wildfire deferred expense balance recorded by the Company at that time. With this filing the Company, will provide support for the incremental expenses deferred for the period January 1, 2021 through June 30, 2022, expected to be $3.5 million (or a 0.6% bill impact),[46] along with the change in revenue reflected in the filing, the impact to average customers, and approximate increase or decrease per kwh, per month. Supporting workpapers will accompany the filing.[47]

Going forward, however, the Company proposes to adjust the annual filing and effective date, as follows, in order to better align with other annual tariff filings. The Company proposes that beginning in 2023, the Company will file annually by September 1st, with an effective date of November 1st, subject to any modifications made during this or future GRCs, reflecting the annual revised tariff rate. This alignment will coincide with the Company's annual Residential Exchange (Schedule 59) filing, and the proposed revised filing date, for reasons set forth by Company witness Mr. Bonfield within his testimony, of the Company's Low Income Rate Assistance Program (LIRAP) (Schedule 92). If any annual deferral amount does not lend itself to a change in rates at that time of less than $500,000 (or less than 0.1% billed), the Company will file its annual compliance filing as required, requesting no change in the tariffed rate, and continuing those smaller deferrals over into the next filing.

B. Insurance Expense Balancing Account

Q. Please briefly discuss the Company's proposal for an Insurance Expense

[46] The anticipated balance for the period January of 2021 through June of 2022 is approximately $3.5 million (2021 amount of $2.5 million plus six months of the 2022 expected deferral or $1.0 million).
[47] This process is similar to the other Company filings such as the current annual electric Residential Exchange or natural gas Purchased Gas Cost Adjustment (PGA), in which the Company files annually by August 31st, with an effective date of November 1st – allowing a two-month review.

Balancing Account.

A. The Company proposes, similar to the Wildfire Expense Balancing Account, the Commission approve a two-way Insurance Expense Balancing Account, that would track the variability in insurance expenses. The Company propose to operate its Insurance Expense Balancing Account consistent with its proposed operation of its Wildfire Expense Balancing Account, discussed above. The Company proposes that it would file an annual compliance filing by September 1st with an effective date of November 1st, with the Commission in the dockets in this case, requesting that the insurance expense deferred balance as of July 31st, be rebated or surcharged through a separate tariff related specifically to the insurance expense deferred balance recorded by the Company at that time. This alignment will coincide with the Company's annual Residential Exchange (Schedule 59) filing, and the proposed <u>revised</u> filing date of the annual LIRAP (Schedule 92), along with the Wildfire Balancing Account deferral previous discussed. In that annual filing, the Company would provide support for the incremental expenses deferred for the period August 1st of the prior year to July 31st of the current year for review, the change in revenue reflected in the filing (increase or decrease), the impact to average customers, and approximate increase or decrease per kwh or per therm, per month. Supporting workpapers would accompany the filing. Future filings would be subject to any modifications made during future GRCs. If any annual deferral amount does not lend itself to a change in rates at that time of less than $500,000 (or less than 0.1% billed), the Company will file its annual compliance filing as required, requesting no change in the tariffed rate, and continuing those smaller deferrals over into the next filing.

Similar to the accounting treatment of the Wildfire Expense Balancing Account, Avista would record any deferral balances (expense levels higher or lower than the GRC established base) into a balancing account recorded as a separate regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit). Interest would not accrue on the unamortized balance.

Q. What pro forma insurance expense has the Company pro formed into this case for use as a "base" over the Two-Year Rate Plan?

A. As discussed below, the Company has included incremental expected insurance expense in Pro Forma Insurance Expense Adjustment (3.12) for RY1, and Pro Forma Insurance Expense Adjustment (5.05) for RY2, related to general liability, directors and officers ("D&O") liability[48], property and other (Cyber, Colstrip and Worker's Comp) insurance. For RY1, the Company has included the substantial incremental increase above the 12ME 09.2021 test period level of insurance expense ($9.2 million system), to the level of insurance expense the Company originally expected during RY1 effective December 2022 ($16.4 million system). For RY2, the Company has included the incremental increase above RY1 level of insurance expense, to the level of insurance expense the Company originally expected during RY2, effective December 2023 ($18.8 million system). By way of comparison, the amount of insurance included in current rates is approximately $6.7 million system. Table No. 11 provides the year-over-year increase from that included in authorized rates as approved in Dockets UE-200900, et. al., as of the 12ME 09.2021 test period levels, for 2022 (mostly prepaid expense levels[49]), and the updated expected amounts for RY1 (2023) and RY2 (2024).

[48] The amount included for D&O insurance is reduced by 10% per Dockets UE-090134 and UG-090135.

[49] See prepaid expense discussion and impact on working capital below starting at page 118, line 15.

Table No. 11 – Insurance Expense 12/2020 through 12/2024[50]

Insurance Expense (000s)					
				PF RY1*	PF RY2*
	Authorized Level	Test Period Level	Invoiced Levels*	Expected Levels	Expected Levels
	12.31.2020	09.30.2021	12.31.2022	12.31.2023	12.31.2024
System Expense	$ 6,655	**$ 9,201**	$ 13,903	**$ 15,652**	**$ 17,324**
Growth in Expense		**38.3%**	**51.1%**	12.6%	10.7%
Percent Increase in Insurance 2022 versus Authorized			**108.9%**		
Percent Increase in Insurance 2023 Expected versus Authorized				**135.2%**	
Unrecovered Expense in 2022 (System)			$ 7,248		
Washington Share of Unrecovered Insurance in 2022			**$ 4,763**		
***These balances will be updated with final invoices, and adjusted percentage increases in first quarter of 2022.**					

As can be seen in Table No. 11 above, actual insurance expense increased 38.3% between insurance levels at 12ME 09.2021 versus that currently authorized (2020 levels), as per recent invoices received for prepayment, will increase an incremental 51.1% in 2022, with additional increases of approximately 12.6% and 10.7%, in 2023 and 2024, respectively.

More importantly, **2022 invoice levels** (majority invoiced for prepayment as of December 2021), reflect an increase **above current authorized** levels of over $7.2 million (system), or an approximate an **increase of 109%.** Washington's share of this increase in 2022 that will be absorbed by shareholders, because actual levels will be higher than authorized levels per Dockets UE-200900, et. al., total approximately $4.8 million of lost recovery of insurance expense for Washington operations alone. This would not have happened with a balancing account.

[50] Actual expenses as of 12ME 09.2021 noted above, reflect all insurance pro formed in this case including general liability, D&O Liability, property, and "other" insurance including, worker's comp, cyber and Colstrip related insurance. In past general rate cases the Company has not pro formed the "other" insurance premiums because these types of insurance had not materially changed year over year, leaving test period amounts. That is no longer the case, especially with regards to cyber insurance, while currently is approximately $383,000 in the historical test period, Cyber insurance is expected to increase to approximately $890,000 in 2023, over 132% premium increase.

The expected increase in Rate Year 1 for 2023, compared to current authorized levels, is an increase of 135.2% or $9.0 million (system). This alone is a substantial driver of the increases in O&M impacting the Company's requested revenue requirement in this case, as noted above.[51]

Prior to the update, currently included in Adjustment (3.12) for RY1 increased insurance expense for WA electric is an increase of $4.3 million for electric and $503,000 for natural gas, above 12ME 09.2021 test period levels. Adjustment (5.05) for RY2 includes increased insurance expense for WA electric of $1.5 million for electric and $101,000 for natural gas. These amounts included in the Company's case, will be adjusted once the final invoices are received in March 2022. As discussed below, the majority of the increases in insurance year over year in recent years, is related to wildfire insurance premiums increasing between 2020 and 2022 by over 200%, alone, all of which is allocated to electric service (Washington and Idaho.).

Q. Does this explain why the Company is proposing the Commission approve a balancing account at this time for insurance expense?

A. Yes, it does. It is evident from the unprecedented increases the Company has seen in recent years (200% in general liability alone from 2020 to 2022), that these increases are undoubtedly "**extraordinary**" and volatile from past years, are financially harmful to the Company as noted by the lost recovery of $4.8 million in expense for Washington alone in

[51] New invoicing was received in December 2021 for the Company's general and property insurance premiums for the period December 2021 through December 2022, informing the pro forma December 2022 through December 2024 amounts for RY1 and RY2 (and reflected in Table No. 11 above), after completion of the Company's final revenue requirement in this case. Additional invoices for D&O insurance premiums will be received in March 2022. The Company will update the estimated amounts included in its revenue requirement, for RY1 and RY2, as soon as the final D&O actual invoices are available.

2022, and are beyond the Company's control, notwithstanding our best efforts under the Wildfire Resiliency Plan.

Q. If this Commission were to simply now approve the level of insurance expense as requested based on the updated RY1 and RY2 levels shown in Table No. 11 above, would that make the need for an Insurance Expense Balancing Account unnecessary?

A. No, it would not. If this Commission approved the proposed RY1 and RY2 level of insurance expense included by the Company, that might ensure the Company may recover its insurance expenses over the Two-Year Rate Plan, as expected today; if however, the recent levels have taught the Company anything, it is that future levels of insurance are unpredictable. The amounts included for RY1 and RY2 are based on informed judgement of the Company today. However, an Insurance Expense Balancing Account is absolutely necessary to protect the Company from future losses, similar to what it will experience in 2022, as insurance premiums continue to increase as is expected based on current discussions with insurance providers. Furthermore, an Insurance Expense Balancing Account <u>would also protect customers</u>, especially during a multi-year rate plan, if insurance premiums were ever to begin to decline back to levels seen in past years, or even any reduction at all over current or future levels approved by the Commission.

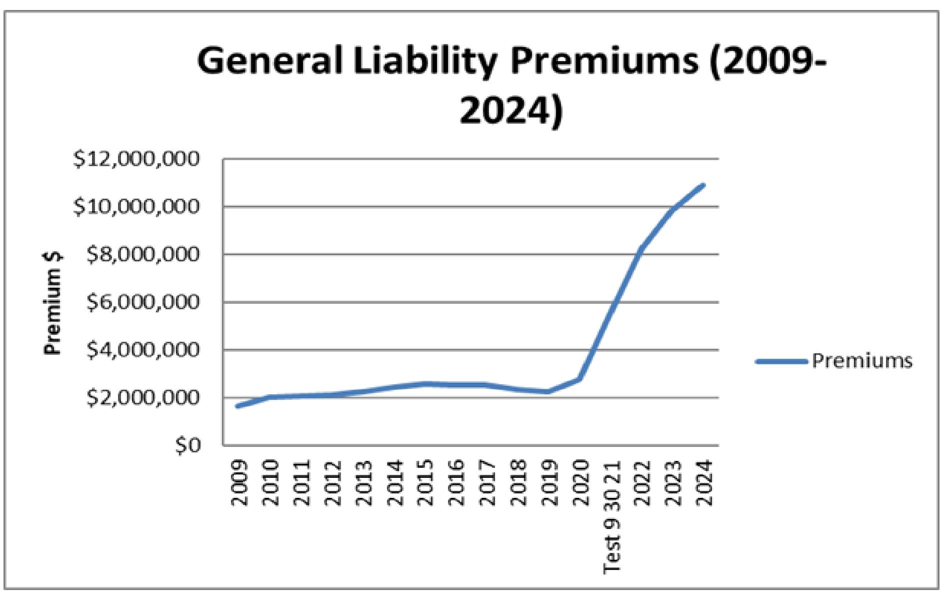
Q. Please summarize what generally causes variability in insurance expense year over year.

A. Insurance premiums by line of coverage vary from year to year, with some rising in a particular year, while others may fall in the same year. <u>Premium changes</u> are affected by losses incurred by Avista, losses that occur in both the domestic and international marketplace, and changes in risk exposure across industries and Avista itself. Premiums, even during less tumultuous market periods, will tend to rise and fall from year to year as insurance companies make rate adjustments. At times, significant loss events happen in the marketplace or at Avista, that can significantly amplify these variations in premium changes from year to year. It is often difficult to forecast premium changes going forward, as the occurrence of significant unanticipated losses across the marketplace or by Avista can dramatically impact future premiums. The significant increases in premium increases in General Liability, Property, and Other Insurance from 2020 forward, are due in whole, or in part, to loss activity in the marketplace and Avista's claims and changes in risk exposure.

Q. Please discuss the variability in <u>general liability premiums</u> and the cause of increased insurance expense experienced by Avista in the last few years.

A. As shown in Chart No. 2, general liability premiums (that would address wildfire premiums) for Avista began to increase sharply beginning in 2020.

<u>Chart No. 2 – General Liability Premiums (2009 – 2024)</u>



Premium increases have been largely related to wildfire exposure in the industry at large, and especially in the West. Up until the Labor Day Fires that occurred in the Pacific Northwest in the fall of 2020, the insurance market's focus on wildfire exposure was largely on California and some of the other southwestern States due to extreme drought conditions. The occurrence of the Labor Day fires in combination with severe to exceptional drought in our region resulted in insurance companies classifying many utilities as high risk from a wildfire standpoint. This change in exposure translated to insurance companies requesting significant increases in premiums, or withdrawing from offering coverage for wildfire altogether.

Avista's general liability premiums increased 101% in 2021 primarily due to insurance companies considering Avista as a heightened wildfire risk following the 2020 Labor Day fires and an expectation that some of the fires will result in future claims. Premiums continued to increase at the December 31, 2021 (for 2022) renewal. Our initial 2022 increase estimate of 40% provided in initial projections in November of 2021 actually wound up being a 49% increase based on invoiced premiums. Premiums will remain highly volatile into the future and are not expected to trend downward going forward. Therefore, the level of general liability premium increases built into the Company's case for insurance expense, should be considered conservative in all respects.

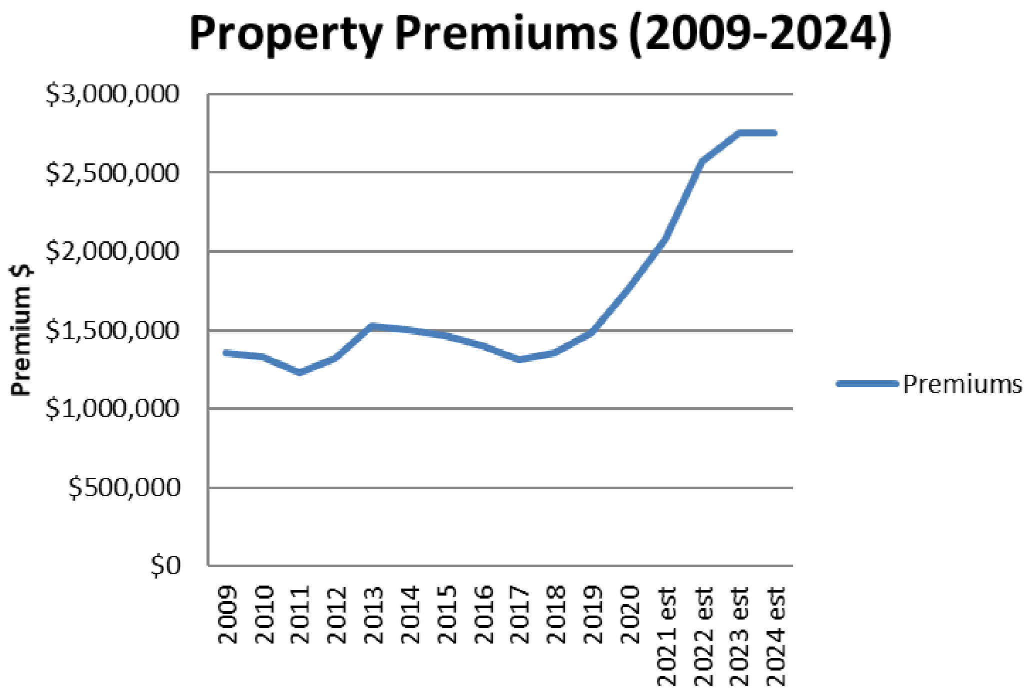
Q. What is Avista doing to control insurance costs related to wildfire insurance?

A. Over the course of the last several years, the availability of insurers willing to provide wildfire insurance has significantly declined. The limited capacity of wildfire coverage has resulted in not only a significant increase in premiums but a reduction in the effectiveness of such tools as increasing retention levels (i.e. the "deductible"). In the past, the premium reduction using these strategies would have warranted assuming an increase in exposure for rate payers, however, in this tight market, the payback for accepting increased risk does not merit the small return in premium reduction. At this point in time, our ability to manage wildfire-related premium costs comes through optimizing total wildfire premiums by achieving the most efficient premium cost structure through the continuation of coverage. This analysis involves analyzing costs and assigning limits to carriers that result in the best overall premium outcomes. Avista's establishment of its Wildfire Resiliency plan has been instrumental in terms of securing wildfire insurance both in the near term, as well as going forward. However, the insurance market now views these plans as a base requirement to be considered for wildfire coverage, and do not assign any type of premium reduction for having such plans.

Q. Turning now to property insurance premiums, please discuss the variability and the cause of in increased insurance expense experienced by Avista.

A. As shown in Chart No. 3, property insurance premiums have followed a cyclical pattern since 2009, of up then down through time, with a more pronounced upswing in premiums beginning in 2019 due to industry losses resulting from hurricanes Harvey, Irma, and Maria in 2017.

<u>Chart No. 3 – Property Insurance Premiums (2009 – 2024)</u>

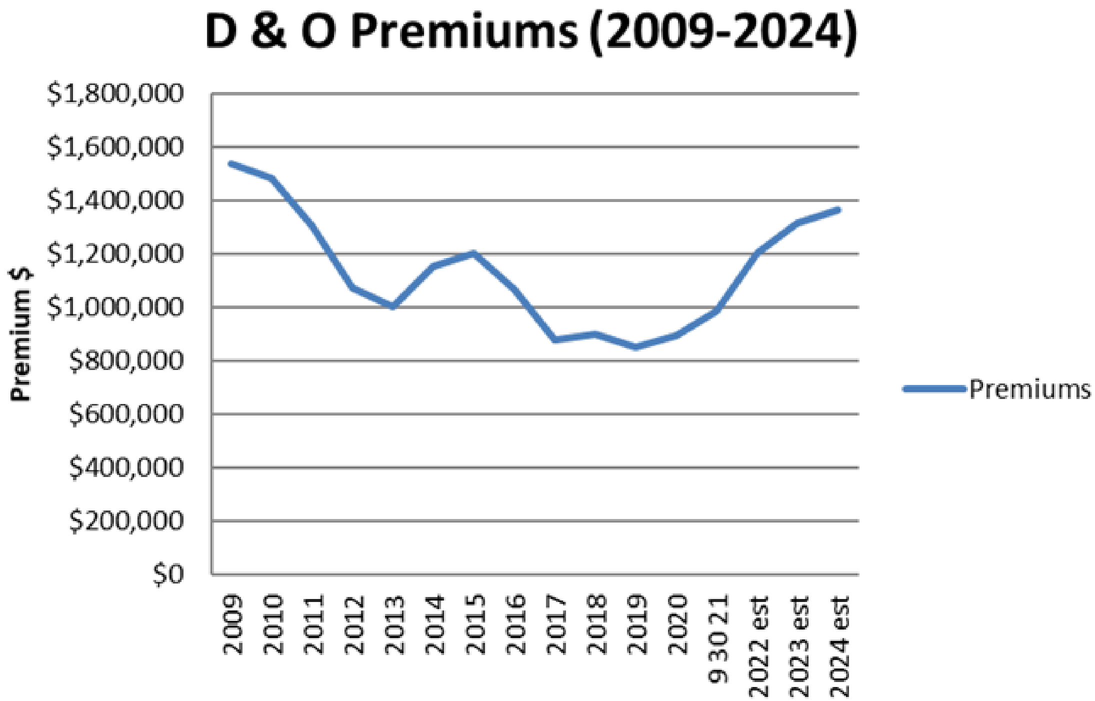


Most property insurers have returned to profitability in 2021, which should result in the leveling of rate increases experienced in the 2019 – 2021 period. Barring any large catastrophic property loss events in the next year, a mid, single digit increase is expected for 2023 followed by an approximate flat renewal in 2024.

Q. Please now summarize the remaining insurance premiums, for D&O and other insurance, for worker's comp, cyber and Colstrip, and their impact on Avista.

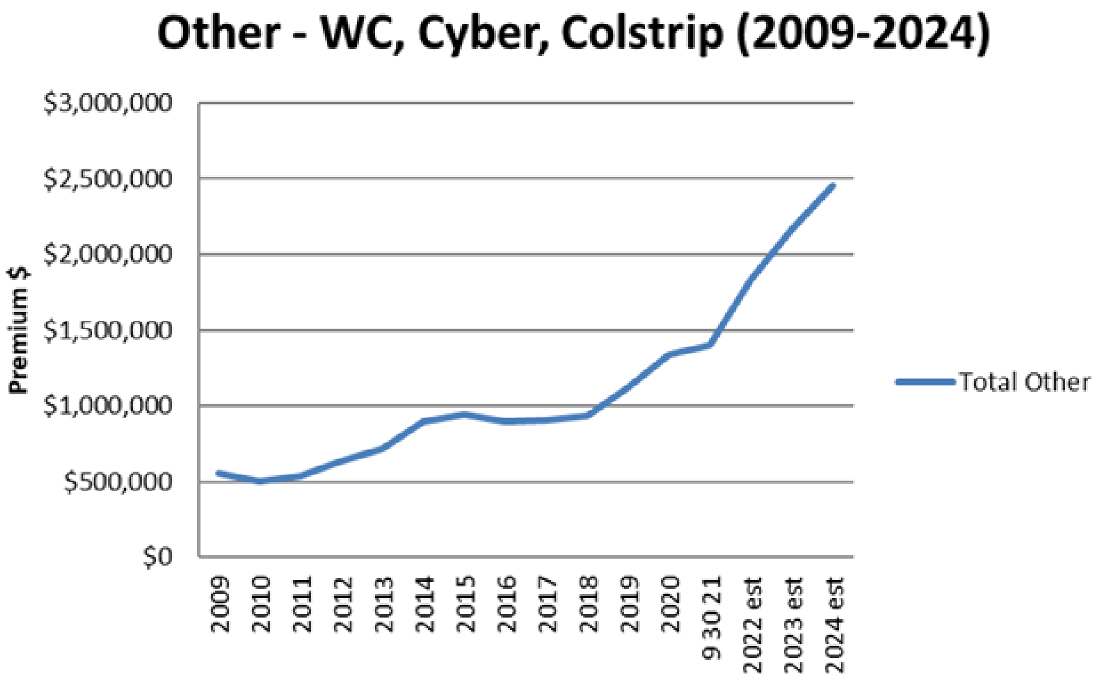
A. Chart Nos. 4 and 5 below, provides charts of "D&O" insurance premiums, and "Other" insurance premiums (reflecting worker's comp, cyber and Colstrip).

Chart No. 4 – D&O Insurance Premiums (2009 – 2024)



With regard to Directors and Officers (D&O), D&O premiums have followed a somewhat cyclical pattern since 2009. Premiums have been rising since 2019 due to an increase in the number and size of claims, primarily related to securities claims associated with merger and acquisition activity across numerous industries. Industry losses are beginning to moderate, which should translate to a slower rate of rate increases in the near term. An increase of approximately 9% is projected for 2023 followed by an increase of approximately 4% in 2024.

Chart No. 5 – Other Insurance Premiums (2009 – 2024)



For "Other" insurance (Workers' Comp, Cyber, Colstrip), this category has continually increased since 2009. Part of the increase was fueled by the addition of the cyber insurance coverage in October of 2013. Going forward, Cyber insurance will be the biggest driver of this category spend. Avista's Cyber premium increased 64% at the October 17, 2021 renewal and is expected to increase approximately 42% at the October 17, 2022 renewal, and 20% in 2023 and 2024. These increases are being driven by the dramatic increase in "ransomware" events across numerous industries during the last couple of years. Premiums in this category will continue to trend up for the foreseeable future.

VIII. RY2 REVENUE REQUIREMENT USING GROWTH RATES *INFORMATIONAL* – CROSS CHECK TO PRO FORMA RY2 RESULTS

Q. As discussed above, the Company relies on its electric and natural gas Pro Forma Studies to determine its RY1 and RY2 revenue requirements proposed in this case. Has the Company completed other analyses for comparison purposes in determining the appropriate revenue requirement?

A. Yes, it has. In addition to the electric and natural gas Pro Forma Studies discussed above, the Company has also completed an analysis that relies on trended historical data to produce "escalation growth rates" that can be applied to specific regulatory balances, in the determination of future revenue requirements during multi-year rate plans. In this study, the intent was to utilize growth rates that could be applied to the Company's RY1 electric and natural gas Pro Forma Study results, to determine the RY2 revenue requirement needs, in total and above RY1 levels.

Specifically, as discussed below, electric and natural gas growth rates produced by Dr. Forsyth for specific regulatory balances, based on historical trended data for the period 2014 through 2020, using available Washington electric and natural gas Commission Basis Report (CBR) annual data, are applied to the Company's Washington electric and natural gas Pro Forma Study RY1 results, to calculate the RY2 revenue requirement. The Washington electric and natural gas escalated RY2 revenue requirements were then measured against to the Company's electric and natural gas Pro Forma Study revenue requirements, for comparison purposes. The electric and natural gas escalated RY2 results have been provided as Exh. EMA-6, page 1 for electric and page 2 for natural gas.

Q. Please explain the purpose of Dr. Forsyth's testimony and exhibits.

A. As discussed by Dr. Forsyth, his testimony at Exh. GDF-1T, describes the methodology used to generate the growth rates for certain regulatory balances for escalation purposes, which he characterized as a direct and transparent method. Dr. Forsyth's Exh. GDF-2 provides the historical annual CBR data used, and the specific growth rates analyzed. In future Washington cases, the Company <u>may</u> use this growth rate methodology for the purpose of escalating certain regulatory balances in the determination of future revenue requirements during multi-year rate plans, and beyond first or second year pro forma study levels. However, the calculated growth rates as discussed by Mr. Forsyth in this case, will only be used here to produce an electric and natural gas revenue requirement for RY2, as a cross-check (or reasonableness check), for comparison to the Company's RY2 pro forma analysis. The Company is not otherwise relying on his testimony or this analysis for the derivation of its proposed RY2 revenue requirement.

Q. Before describing the results from the escalation analysis, why did the Company choose the 2014-2020 period for calculating the Escalation Growth Rates?

A. As described by Dr. Forsyth, the Company believes this period is the most representative of the current linear trend in the relevant regulatory accounts. Using a longer-times series requires potentially more complicated calculations to adjust for changes in trends, including periods where the trend may exhibit non-linear behavior.[52]

Q. What were the resulting "Escalator Growth Rates" produced by Dr.

[52] As discussed by Dr. Forsyth, the Company also considered escalator growth rates calculated using linear regression. Growth rates using a linear regression analysis were found to be comparable in size using the same 2014-2020 period. However, there are certain complex issues around regression analysis that have been discussed in some of the Company's past rate filings around attrition adjustments. The method proposed here has advantages over a regression analysis, because it does not depend on arguments surrounding more advanced statistics, or software packages, to generate an escalator growth rate for any account category. In this sense, it is computationally direct and transparent.

Forsyth that were ultimately used in the escalated RY2 revenue requirement?

A. Table No. 12 below shows the calculated "Escalator Growth Rates" produced by Dr. Forsyth that were used within the RY2 escalated study.

Table No. 12 – Escalator Growth Rates Per Dr. Forsyth – Electric and Natural Gas

	Category	Electric		Category	Natural Gas
	Escalator Growth Rates Per Dr. Forsyth				
1)	Adjusted Operating Expenses	3.55%	1)	Adjusted Operating Expenses	4.37%
2)	Total Depreciation	5.88%	2)	Total Depreciation	7.06%
3)	Adjusted Taxes Other Than Income Tax	2.59%	3)	Adjusted Taxes Other Than Income Tax	4.27%
4)	Plant In Service - Intangible	8.76%	4)	Plant In Service - Storage	3.14%
5)	Plant In Service - Production	3.40%	5)	Plant In Service - Distribution	5.63%
6)	Plant In Service - Transmission	5.20%	6)	Plant In Service - General	10.29%
7)	Plant In Service - Distribution	4.78%	8)	Accumulated Depreciation - Storage	3.47%
8)	Plant In Service - General	5.26%	9)	Accumulated Depreciation - Distribution	3.82%
9)	Accumulated Depreciation - Intangible	12.02%	10)	Accumulated Depreciation - General	10.54%
10)	Accumulated Depreciation- Production	3.20%	11)	Deferred Federal Income Taxes	6.79%
11)	Accumulated Depreciation - Transmission	3.26%			
12)	Accumulated Depreciation - Distribution	4.73%			
13)	Accumulated Depreciation - General	5.20%			
14)	Deferred Federal Income Taxes	6.35%			

Provided as Exh. EMA-6, pages 1 (electric) and 2 (natural gas), are the results of the escalation study using Dr. Forsyth's "Escalator Growth Rates" above. As shown on pages 1 (electric) and 2 (natural gas) of Exh. EMA-6, column (b), the Company starts with the final RY1 proposed increase results (produced after all RY1 adjustments), similar to column (f) on page 1 of Exh. EMA-2 and Exh. EMA-3, representing the Pro Forma results of operations for RY1 (effective 12.2022), all under existing rates.

Q. How do these escalated RY2 results as shown on Exh. EMA-6, page 1 and 2, compare to the RY2 Pro Forma Study results for RY2 in Exh. EMA-2 and Exh. EMA-3?

A. Table No. 13 below shows the comparison of the RY2 revenue requirement based on the escalated RY2 results shown in Exh. EMA-6, page 1 and 2, compared to the electric and natural gas Pro Forma Study results for RY2 per Exh. EMA-2 (electric) and Exh. EMA-3 (natural gas).

Table No. 13 – RY2 Revenue Requirement Comparison

RY2 Revenue Requirment Comparison		
	Electric	**Natural Gas**
Escalation Studies - Exh. EMA-6, page 1 & 2	$ 21,100	$ 6,587
Electric Pro Forma Study - Exh. EMA-2, page 3	$ 17,133	
Natural Gas Pro Forma Study - Exh. EMA-3, page 3		$ 2,172
Escalation Result Greater than Pro Forma Result	$ 3,967	$ 4,415

As shown in Table No. 13, for both electric and natural gas, if the Company were to use the results of the escalation study to support the Company's RY2 revenue requirement, the results would reflect a higher increase, by approximately $4.0 million for electric, and $4.4 for natural gas.

Q. Are the results of the electric and natural gas escalation study reasonable in comparison to the electric and natural gas Pro Forma Studies?

A. Yes, they are. Even though the Company is not otherwise relying on the electric and natural gas escalation study analysis for its proposed RY2 revenue requirements in this case, in future Washington cases, the Company may use this growth rate methodology for the purpose of escalating certain regulatory balances in the determination of future revenue requirements, during multi-year rate plans, beyond first or second year pro forma study levels. That is because in a third or fourth year of a Multiyear Rate Plan, it becomes increasingly difficult to arrive at pro forma results.

What the escalation studies show is that if Avista had used this method, Avista could actually support an even higher revenue requirement. It is reasonable to suppose that the results of the escalation studies are more accurate as to what the Company will experience during RY2, effective December 2024, than what was actually included by the Company in its electric and natural gas Pro Forma Studies. Given the inflation risk and risk of increasing costs expected by the Company in the coming few years, as discussed by Mr. Forsyth, the Company's Pro Forma Study results are conservative.

SECTION 2 – DERIVATION OF TWO-YEAR RATE PLAN PRO FORMA STUDIES

IX. DERIVATION OF ELECTRIC AND NATURAL GAS TWO-YEAR RATE PLAN PRO FORMA STUDIES

Q. Please explain what is shown in the electric and natural gas Two-Year Pro Forma Studies, provided as Exh. EMA-2 and Exh. EMA-3.

A. Exh. EMA-2 (electric) and Exh. EMA-3 (natural gas) shows actual and pro forma electric and natural gas operating results and rate base for the pro forma test period for the State of Washington. Exh. EMA-4 provides the service and jurisdiction allocation methodologies used by the Company in preparation of its Washington jurisdiction electric and natural gas Pro Forma Studies.[53]

Specifically, page 1, of both Exh. EMA-2 and Exh. EMA-3, Column (b), shows 12ME 09.2021 actual operating results and components of the average-of-monthly-average

[53] 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).

rate base as recorded[54]; column (c) shows total restated adjustments to actual net operating income and rate base; (d) shows the Restated Results Total (actual results reflecting all restating adjustments); (e) is the total of all pro forma adjustments to net operating income and rate base for RY1; and column (f) is Pro Forma results of operations for RY1 (effective 12.2022), all under existing rates. Column (g) shows the RY1 revenue increase required which would allow the Company to earn a 7.31% rate of return. Column (h) reflects pro forma operating results for RY1 with the requested increase of $52,852,000 for electric and $10,922,000 for natural gas.

Page 2 of both Exh. EMA-2 and Exh. EMA-3, show similar columns starting with column (a) that includes RY1 (effective 12.2022) pro forma results (equal to column (f) on page 1 of Exh. EMA-2 and Exh. EMA-3), reflecting operating results and components of rate base for RY1 results. Column (b), of page 2, is the total of all adjustments to net operating income and rate base to reflect RY2 results; and column (d) is the RY2 (12.2023 effective) pro forma results of operations, all under existing rates. Column (e) and (f) shows the revenue increases required in RY1 and RY2 to allow the Company to earn a 7.31% rate of return for RY2. Column (g) reflects RY2 pro forma operating results with the requested increases of $17,133,000 for electric and $2,172,000 for natural gas, above that requested in RY1.

Q. What does page 3 of Exhs. EMA-2 and EMA-3 show?

[54] Actual plant rate base (cost, accumulated depreciation and associated DFIT) uses the 12ME 09.2021 AMA balances. Plant rate base is first restated (restated adjustment) to a 12ME 09.2021 End-of-Period (EOP) rate base, and then further adjusted (pro forma adjustment) to adjust to 12ME 12.2021 including capital projects completed and transferred to plant during 2021. As discussed above, beyond 12.2021, provisional adjustments are included for capital additions from January 2022 through December 2023 for RY1, and January 2024 through December 2024 for RY2.

A. Page 3 of Exh. EMA-2 shows the RY1 and RY2 revenue requirement calculations for electric of $52,852,000 and $17,133,000, respectively, at the requested 7.31% rate of return. This page also shows the percentage base revenue increase for electric RY1 and RY2, of 9.6% and 2.8%, respectively. Percentages on a billed basis for electric are 9.8% and 3.0%, prior to the impact of the “Residual Tax Customer Credit” Tariff Schedules 78 (electric), discussed by Mr. Miller.

Page 3 of and Exh. EMA-3 (natural gas) shows the RY1 and RY2 revenue requirement calculations for natural gas of $10,922,000 and $2,172,000, respectively, at the requested 7.31% rate of return. This page also shows the percentage base revenue increase for electric RY1 and RY2, of 9.5% and 1.7%, respectively. Percentages on a billed basis for electric are 5.8% and 1.1%, prior to the impact of the “Residual Tax Customer Credit” Tariff Schedules 178 (natural gas), discussed by Mr. Miller.

Q. What does page 4 of Exhs. EMA-2 and EMA-3 show?

A. Page 4, of both Exhs. EMA-2 and EMA-3 shows the Cost of Capital and Capital Structure included in the Pro Forma Studies, including: 1) 48.5% Common Equity / 51.5% Debt capital structure; 2) Return on Equity of 10.25%; and 3) cost of debt of 4.54%, resulting in an overall Rate of Return (weighted average cost of capital) of 7.31%. Mr. Thies discusses the Company’s proposed rate of return and the pro forma capital structure utilized in this case, while Company witness Mr. McKenzie provides additional testimony related to the appropriate return on equity for Avista. Both Mr. Thies and Mr. McKenzie also address the incremental 5 basis points (.05%) included in the Company’s ROE to reflect flotation costs.[55]

Q. Would you now please explain page 5 of Exh. EMA-2 and Exh. EMA-3?

A. Yes. Page 5 shows the derivation of the net-operating-income-to-gross-revenue-conversion factor. The conversion factor reflects uncollectible accounts receivable, Commission fees and Washington State excise taxes. Federal income taxes are reflected at 21%.

Q. Turning to pages 6 through 15 of Exh. EMA-2, and pages 6 through 13 of Exh. EMA-3, would you please explain what those pages show?

A. Yes. Page 6 of both Exh. EMA-2 and Exh. EMA-3 begins with actual operating results and rate base for the twelve-months-ending September 30, 2021 test period on an AMA basis in column (1.00). Individual normalizing and restating adjustments that are standard components of our annual reporting to the Commission begin in column (1.01) on page 6 and continue through column (2.20) on page 8 for electric, and column (2.16) on page 8 for natural gas.

For electric, for RY1, Exh. EMA-2, individual pro forma adjustments begin in column (3.00P) on page 9 and continue through column (3.19) on page 12, and provisional adjustments begin in column (4.01) on page 12 and continue through column (4.08) on page 13. The final column on page 13 includes the "RY1 12.2022 FINAL TOTAL" representing

[55] An increase in ROE of five basis points (.05%) to reflect flotation costs, increases the Company's proposed revenue requirement requested in this case for Washington electric by $542,000 in RY1 and $21,000 in RY2, and for Washington natural gas by $136,000 in RY1 and $5,000 in RY2. This total of $704,000 over the Two-Year Rate Plan for Washington operations is reasonable, and as explained by Mr. Thies, is representative of the annual costs unrecovered elsewhere for sale agent fees, registration fees and legal expenses incurred when the Company issues equity. For example, for 2021, as of September 30, 2021, the Company had incurred $0.9 million in flotation costs. These costs have ranged as high as $1.1 million in recent years. Flotation costs are not recorded on the income statement and are not included in the cost of capital. Common equity raised through the sale of stock is recorded net of these costs. Mr. McKenzie also explains that there are further opportunity costs associated with issuing equity and flotation costs related to the overall cost of equity.

the total pro forma operating results and net rate base for the RY1 pro forma period (effective 12.2022).

Electric RY2 adjustments begin on page 14 through 15 of Exh. EMA-2, and include all electric individual pro forma / provisional adjustments, in columns (5.01) through column (5.13). The final columns on page 15 include the "RY2 12.2023 FINAL TOTAL" and "RY2 INCREMENTAL 12.2023-I FINAL TOTAL" columns, representing the total pro forma operating results and net rate base for the RY2 pro forma period (effective 12.2023), and the incremental balances above the RY1 pro forma rate year.

For natural gas, for RY1, Exh. EMA-3, individual pro forma adjustments begin in column (3.01) on page 9 and continue through column (3.15) on page 11, and provisional adjustments begin in column (4.01) through column (4.03) on page 11. The final column on page 11 includes the "RY1 12.2022 FINAL TOTAL" representing the total pro forma operating results and net rate base for the RY1 pro forma period (effective 12.2022).

Natural Gas RY2 adjustments begin on page 12 through 13 of Exh. EMA-3, and includes all natural gas individual pro forma / provisional adjustments, in columns (5.01) through column (5.10). The final columns on page 13 include the "RY2 12.2023 FINAL TOTAL" and "RY2 INCREMENTAL 12.2023-I FINAL TOTAL" columns, representing the total pro forma operating results and net rate base for the RY2 pro forma period (effective 12.2023), and the incremental balances above the RY1 pro forma rate year.

Q. Please now turn to the final page of Exh. EMA-2 and EMA-3, and describe this page.

A. The last page, page 16 of Exh. EMA-2 and page 14 of Exh. EMA-3, provides a one-page summary list of all RY1 and RY2 restating, pro forma and provisional adjustments, by adjustment number and description, with individual NOI, rate base and revenue requirement amounts, as well as overall NOI, rate base and revenue requirement balances, and the rates of return on an actual, restated and pro forma levels, for RY1 and RY2 for ease of reference.

The testimony that follows explains the reason and theory for each of the electric and natural gas Commission Basis, restating, pro forma and provisional adjustments, as well as the calculation, where appropriate. These adjustments were prepared consistent with current regulatory principles and the manner in which they have been addressed in recent cases (i.e., Dockets UE-190334/UG-190335 and UE-200900/UG-200901), unless otherwise noted. The Company has also provided workpapers, both in hard copy and electronic formats, which include additional details and calculations related to each of these adjustments after the filing of this case.

X. STANDARD COMMISSION BASIS AND RESTATING ADJUSTMENTS

Q. Please explain each of the Commission Basis and restating adjustments included, starting on page 6 of both Exh. EMA-2 and Exh. EMA-3, the reason for the adjustment and its effect on the Washington electric and natural gas net operating income and/or rate base for the historical test period.

A. Starting on page 6 of Exh. EMA-2 and Exh. EMA-3, Column (1.00) the **Results of Operations** reflect the Company's actual operating results and total net rate base experienced by the Company for year ending September 30, 2021 on an AMA basis. Columns following the Results of Operations column (1.00), (columns (1.01) – (2.20) for electric and columns (1.01) – (2.16) for natural gas) mainly reflect normalizing and restating adjustments necessary to restate the actual results based on prior Commission orders, reflect appropriate annualized expenses, correct for errors, or remove prior period or non-recurring amounts reflected in the year ending September 30, 2021.[56] A summary of each adjustment follows:

The first column on page 5, Electric Adjustment (1.01) and Natural Gas Adjustment (1.01), entitled **Deferred FIT Rate Base,** adjusts the electric and natural gas accumulated deferred federal income tax (ADFIT) rate base balance included in the Results of Operations column (1.00) to the adjusted ADFIT balance reflected on an AMA basis, as shown within my workpapers provided with the Company's filing. 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.

The effect of these adjustments on Washington rate base is a decrease of $680,000 for electric and an increase of $227,000 for natural gas. The effect of this change to net operating income (NOI), due to the Federal Income Tax (FIT) expense on the restated level of interest on the change in rate base, is a reduction of $3,000 for electric and an increase of $1,000 for natural gas.[57]

The next column on page 6, Electric Adjustment (1.02) and Natural Gas Adjustment (1.02) - **Deferred Debits and Credits,** is a consolidation of previous Commission Basis or

[56] Included with the electric and natural gas restating adjustments is an End-Of-Period (EOP) 09.30.2021 Net Plant adjustment, adjusting net plant from an average-of-monthly-average (AMA) 09.30.2021 historical test year balance to a 09.30.2021 EOP net plant historical test-year balance, similar to that approved by the WUTC in Avista's last litigated general rate case proceeding (Dockets UE-200900 et. al.).

[57] The net effect of Federal Income Tax (FIT) expense on the restated level of interest expense due to a change in rate base, is shown within each individual adjustment. The restated debt interest impact per individual rate base adjustment can be seen on line 28, page 8 of Exhs. EMA-2 and EMA-3.

other restating rate base adjustments and their net operating income (NOI) impact. The net impact on a consolidated basis of this adjustment increases Washington electric rate base by $19,000 and decreases NOI by $1,000. For Washington natural gas, this adjustment increases rate base by $1,000, and has no effect on NOI.

Adjustments included in the Deferred Debits and Credits consolidated adjustment are those necessary to reflect restatements from 2019 actual results (included in column 1.00 "Per Results of operations"), based on prior Commission orders, and are explained below.

The following items are included in the consolidated adjustment:

- **Colstrip Common AFUDC (electric)** is associated with the Colstrip plants in Montana and impacts rate base. Differing amounts of Colstrip common facilities were excluded from rate base by this Commission and the IPUC until Colstrip Unit 4 was placed in service. The Company was allowed to accrue AFUDC on the Colstrip common facilities during the time that they were excluded from rate base. It is necessary to directly assign the AFUDC because of the differing amounts of common facilities excluded from rate base by this Commission and the IPUC. In September 1988, an entry was made to comply with a Federal Energy Regulatory Commission ("FERC") Audit Exception, which transferred Colstrip common AFUDC from the plant accounts to Account 186. These amounts reflect a direct assignment of rate base for the appropriate average-of-monthly-averages amounts of Colstrip common AFUDC to the Washington and Idaho jurisdictions. Amortization expense associated with the Colstrip common AFUDC is charged directly to the Washington and Idaho jurisdictions through Account 406 and is a component of the actual results of operations. The rate base amount included in the results of operations accurately reflects the average-of-monthly-averages amount for the test period. No adjustment from that recorded within results of operations is necessary. This adjustment expires in December 31, 2021, and therefore is eliminated in Pro Forma Deferred Debits, Credits & Regulatory Amortizations Adjustment 3.02 ("PF Adjustment 3.02") discussed below.

- **Restating CDA Settlement Deferral (electric)** reflects the net assets and DFIT balances associated with the 2008/2009 past storage and §10(e) charges deferred for future recovery are reflected on a 12ME 09.30.2021 test period AMA basis within results of operations. A ten-year amortization expense, as approved in Docket UE-100467, of the CDA Settlement Deferral is accurately reflected in results of operations. No adjustment from that recorded within results of operations is necessary. This adjustment expired in November 2020, and therefore is eliminated in PF Adjustment 3.02 discussed below.

- **<u>Restating CDA/SRR (Spokane River Relicensing) CDR Deferral (electric)</u>** the net assets associated with the CDA Tribe settlement 4(e) Spokane River relicensing conditions deferred for future recovery are reflected on a 12ME 09.30.2021 test period AMA basis within results of operations. A ten-year amortization expense of the CDA/SRR CDR Deferral, as approved in Docket UE-100467 is accurately reflected in results of operations. No adjustment from that recorded within results of operations is necessary. This adjustment expired in November 2020, and therefore is eliminated in PF Adjustment 3.02 discussed below.

- **<u>Restating Spokane River Deferral</u>** reflects the net asset and DFIT balances related to the Spokane River deferred relicensing costs deferred for future recovery are reflected on a 12ME 09.30.2021 test period AMA basis within results of operations. A ten-year amortization expense of the Spokane River Deferral, as approved in Docket UE-100467, is accurately reflected in results of operations. No adjustment from that recorded within results of operations is necessary. This adjustment expired in November 2020, and therefore is eliminated in PF Adjustment 3.02 discussed below.

- **<u>Restating Spokane River PM&E Deferral (electric)</u>** reflects the net asset and DFIT balances related to the Spokane River deferred PM&E costs deferred for future recovery are reflected on a 12ME 09.30.2021 test period AMA basis within results of operations. A ten-year amortization expense of the Spokane River PM&E Deferral, as approved in Docket UE-100467, is accurately reflected in results of operations. No adjustment from that recorded within results of operations is necessary. This adjustment expired in November 2020, and therefore is eliminated in PF Adjustment 3.02 discussed below.

- **<u>Restating Montana Riverbed Lease (electric)</u>** reflects the costs associated with the Montana Riverbed lease settlement. In this settlement, the Company agreed to pay the State of Montana $4.0 million annually beginning in 2007, with <u>annual inflation adjustments</u>, for a 10-year period for leasing the riverbed under the Noxon Rapids Project and the Montana portion of the Cabinet Gorge Project. The first two annual payments were deferred by Avista as approved in Docket UE-072131. In Docket UE-080416 (see Order No. 08), the Commission approved the Company's accounting treatment of the deferred payments, including accrued interest, to be amortized over the remaining eight years of the agreement starting on January 1, 2009. The 10-year amortization of the first two annual payment deferral expired on December 31, 2016, therefore there is no rate base balance. The lease continues on a year-to-year basis adjusted for annual inflation, with payments being paid into escrow until resolution of pending litigation. No adjustment from that recorded within results of operations is necessary, as the annual lease expense is correctly recorded.

- **<u>Customer Advances (electric and natural gas)</u>** decreases rate base for money advanced by customers for line extensions, as they will be recorded as contributions-in-aid-of-construction at some future time. To reflect the normalized balance as of September 30, 2021, rate base was increased $20,000 for electric. No adjustment for natural gas is necessary.

- **<u>Customer Deposits (electric and natural gas)</u>** reduces electric and natural gas rate base by the average-of-monthly-averages of customer deposits held by the Company, as ordered by this Commission in Dockets UE-090134 and UG-090135. To reflect the normalized balance as of September 30, 2021, rate base was decreased $1,000 for electric, and increased $1,000 for natural gas. The corresponding interest paid on customer deposits is reclassified to utility operating expense, at the current UTC interest rate of 0.1%. The effect on Washington is an increase in expense of $1,000 for electric, and no change in expense for natural gas.

In summary, as noted above, the net impact on a consolidated basis of the adjustments described above decreases Washington net operating income for electric by $1,000, and has no impact on natural gas NOI. Washington rate base was increased by $19,000 for electric and $1,000 for natural gas. (Electric and Natural Gas Adjustment (3.02) Pro Forma Deferred Debits, Credits & Regulatory Amortizations, explained below, adjusts certain items listed above to reflect RY1 pro forma rate period result levels of deferred debits and credit balances and amortization expense as ordered in prior cases.)

Continuing on page 6 of Exh. EMA-2 and EMA-3, column (1.03) **<u>Working Capital</u>** - electric and natural gas working capital is included in the Company's Results of Operations column (1.00) on a twelve-months ending September 30, 2021 test period AMA basis. The Company uses the Investor Supplied Working Capital (ISWC) methodology to calculate the amount of working capital reflected in its actual results of operations. This method is consistent with that approved by the Commission in the Company's last electric and natural gas litigated general rate cases, Dockets UE-200900 et. al. To properly reflect the working capital balance based on the method approved in Dockets UE-200900 et. al., an adjustment to electric and natural gas working capital rate base is necessary from that recorded within results of operations. The impact of this adjustment reduces rate base $295,000 for electric and $160,000 for natural gas. The impact to NOI is a reduction of $1,000 for electric and $1,000 for natural gas.[58]

Eliminate B & O Taxes, column (2.01) electric and natural gas, eliminates the revenues and expenses associated with local business and occupation (B & O) taxes, which the Company passes through to its Washington customers. The adjustment eliminates any timing mismatch that exists between the revenues and expenses by eliminating the revenues and expenses in their entirety. B & O taxes are passed through on a separate schedule, which is not part of this proceeding. The effect of this adjustment is to increase Washington electric and natural gas net operating income by $7,000 and $1,000, respectively.

Restate Property Tax, column (2.02) electric and natural gas, restates accrued property tax during the test period to actual property tax paid during the twelve-month period ending September 30, 2021. The effect of this adjustment decreases Washington electric net operating income by $2,000 and natural gas net operating income by $1,000. As explained below, Adjustment (3.11) Pro Forma Property Tax increases property tax expense to reflect the levels of expense expected during RY1, and Adjustment (5.04) Pro Forma Property Tax increases property tax expense to reflect the levels of expense expected during RY2.

Uncollectible Expense, column (2.03) electric and natural gas, restates accrued test period expense levels for uncollectibles at September 30, 2021, to the current authorized

[58] In Order 08/05 of Dockets UE-200900 et. al., the Commission ordered Avista to address the effect of prepayments on cashflow and whether the capital it uses for prepayments is also included in its investor-supplied working capital. These areas are addressed in Section XI. "RY1 & RY2 Pro Forma & Provisional Adjustments" below, with regards to Pro Forma Insurance Expense (Adjustment 3.07) and Pro Forma IS/IT Expense (Adjustment 3.13), starting at page 118, line 15, below.

levels approved in Dockets UE-200900 et. al. for net write-offs. Due to COVID-19 and the 2020-2021 unprecedented accrued bad debt expense levels, and the authority by this Commission to record the deferral of COVID-19 net benefits and expenses (including bad debt expense), the Company determined the most reasonable level of net write-offs for the rate effective period is that approved in the prior Company's GRC. The effect of this adjustment decreases Washington electric net operating income by $1,242,000, and Washington natural gas net operating income by $1,515,000.

Regulatory Expense, the last adjustment on page 6, column (2.04) electric and natural gas, restates recorded regulatory expense for twelve-months ended September 30, 2021, to reflect the UTC assessment rates applied to revenues for the test period, and for electric, the actual levels of FERC fees paid during the test period. The effect of this adjustment decreases Washington electric net operating income by $33,000, and Washington natural gas net operating income by $7,000.

Q. Please turn to page 7 of Exh EMA-2 and Exh. EMA-3 and explain the adjustments shown there.

A. Turning to page 7 of Exh. EMA-2 and Exh. EMA-3, the first adjustment in column (2.05) **Injuries and Damages**, restates electric and natural gas accrued injuries and damages expense with a six-year rolling average of injuries and damages payments not covered by insurance. As a result of the Commission's Order in Docket U-88-2380-T, the Company changed to the reserve method of accounting for injuries and damages not covered by insurance. The Commission reaffirmed this methodology in Order 08/05 in Dockets UE-200900 et. al. The effect of this adjustment increases Washington electric net operating income by $98,000, and natural gas net operating income by $36,000.

<u>FIT/DFIT/ITC Expenses</u>, column (2.06) electric and natural gas, reflects the appropriate level of FIT and DFIT <u>calculated at 21%</u> within Results of Operations for the year ending September 30, 2021, removing the impact of prior period FIT/DFIT adjustments. For electric, this adjustment also reflects the appropriate level of investment tax credits (ITC) on qualified generation. The FIT and DFIT adjustment required to reflect the appropriate Washington electric and natural gas balances, decreases net operating income by $813,000 for electric, and $363,000 for natural gas.

<u>Office Space Charged to Non-Utility</u>, column (2.07) electric and natural gas, removes a portion of electric and natural gas office space costs[59] based on the relationship of labor hours charged to subsidiary/non-utility activities by employee compared to total labor hours by employee. These percentages are applied to the employees' office space (expressed in square feet) and multiplied by office space costs/per square foot. This restating adjustment is made as a result of the Commission's Third Supplemental Order in Docket U-88-2380-T. This adjustment removes the portion of electric and natural gas expense that has not already been reflected in the test period as non-utility. The effect of this adjustment increases Washington electric and natural gas net operating income by $43,000 and $13,000, respectively.

<u>Restate Excise Taxes</u>, column (2.08) electric and natural gas, removes the effect of a one-month lag between collection and payment of electric and natural gas taxes. The effect of this adjustment decreases Washington electric and natural gas net operating income by $14,000 and $2,000, respectively.

[59] Office space is comprised of office building operating and fixed costs, utilities, administrative, security, HVAC, depreciation and property taxes, as well as other costs related to employee use of phones, laptops, etc.

Net Gains/Losses, column (2.09) electric and natural gas, reflects a ten-year amortization of net gains realized from the sale of real property disposed of between 2011 and September 30, 2021. This restating adjustment is made as a result of the Commission's Order in Dockets UE-050482 and UG-050483. The effect of this adjustment increases electric and natural gas net operating income by $50,000 and $9,000, respectively.

Weather Normalization (electric), column (2.10) for electric, normalizes weather sensitive kWh sales by eliminating the effect of temperature deviations above or below historical norms. Company witness Mr. Garbarino is sponsoring this adjustment. The effect of this particular adjustment decreases net operating income by $1,291,000.

Weather Normalization & Gas Cost Adjustment (natural gas), column (2.10), normalizes weather sensitive gas therm sales by eliminating the effect of temperature deviations above or below historical norms. This adjustment also restates therms sold to reflect the weather normalized therms and then reprices the adjusted therms sold based upon the authorized weighted average cost of gas. Company witness Mr. Anderson is sponsoring this adjustment. The effect of this adjustment to net operating income nets to zero.

Eliminate Adder Schedule Adjustments, column (2.11) electric and natural gas, removes the impact of the electric and natural gas adder schedule revenues and related expenses which are recovered/rebated by separate tariffs and, therefore, are not a part of base rates. For electric, rate schedules such as Schedule 59 Residential Exchange credit, Schedule 74 Tax Reform Temporary rebate, Schedule 75 Decoupling Rebate/Surcharge, Schedule 91 Tariff Rider (DSM), Schedule 92 Low Income Rate Assistance Program Rate, Schedule 93 ERM rebate, Schedule 94 BPA rebate, Schedule 95 Optional Renewable and Schedule 98 REC Revenue Surcharge/Rebate are removed. For natural gas, rate schedules such as Schedule 174 Tax Reform Temporary rebate, Schedule 175 Decoupling Rebate/Surcharge, Schedule 189 Fixed-Income Senior & Disabled Residential Service Discount Rate Adjustment, Schedule 191 Tariff Rider (DSM), Schedule 192 Low Income Rate Assistance Program Rate and Schedule 155 Gas Cost surcharge/rebate are removed. In addition, various accounts associated with the cost of natural gas managed through the PGA deferral mechanism are consolidated into City Gate Purchases in this adjustment.

Mr. Garbarino (electric) and Mr. Anderson (natural gas) sponsor these two adjustments. There is no effect of this adjustment on Washington natural gas net operating income, as the adjustment to expense is equal to the adjustment to revenue. For electric, the removal of most schedules reflect expense that is equal to the adjustment to revenue, however, the removal of the Schedule 95 Optional Renewable revenues and expenses has the effect of decreasing electric net operating income by $1,000.

Miscellaneous Restating Non-Utility/Non-Recurring Expenses, column (2.12) electric and natural gas, is the final adjustment on page 5 of Exh. EMA-2 and Exh. EMA-3. This adjustment removes a number of expenses reclassed to non-utility from the Company's electric and natural gas test period actual results, and removes, reclassifies or restates other expenses incorrectly charged between service and or jurisdiction. In addition, the Company has removed or restated certain Director and Officer related expenses per Dockets UE-090134 and UG-090135. Specifically, director fees and director meeting expenses were reduced by $464,000 electric and $146,000 natural gas expense to reflect 50% of overall expenses in utility operations, and the Company has also removed 10% of total Directors' and Officers' insurance expense to reflect the non-utility/subsidiary portion. Finally, the Company has also removed the utility-portion of the Company's Long-Term Incentive Plan

(LTIP) related to restricted shares expense, as ordered in Dockets UE-150204 and UG-150205 in the amount of $878,000 electric and $277,000 natural gas expense. The net reduction of these expenses for electric and natural gas is approximately $1,440,000 and $481,000, respectively. Therefore, the overall net impact of this adjustment is an increase to electric NOI of $1,138,000 and to natural gas NOI of $380,000.

Restating Incentive Expense, column (2.13) electric and natural gas, restates actual O&M incentive compensation expense recorded for the twelve-month-period ending September 30, 2021, to reflect a six-year average (2015-2020) of actual payouts. The use of a six-year average of payouts is consistent with Staff's methodology approved by the Commission in the litigated Dockets UE-170485 and UG-170486, as well as Dockets UE-200900 et. al.

For executive officers, the six-year average expense payout of O&M metrics related to efficiencies in cost management (O&M cost-per-customer), customer service and reliability have averaged approximately $991,000 (system) in operating expenses. Incentive compensation related to financial metrics are excluded from the Company's filing with expenses borne by shareholders. For non-executive officers, the six-year average of incentive compensation expense payout is $5.5 million (system) for O&M metrics designed to drive cost-control, and delivery of safe, reliable service with a high level of customer satisfaction. The net effect of this adjustment, including both executive and non-executive changes, decreases Washington NOI by approximately $2,164,000 for electric and $683,000 for natural gas.

Q. Please continue an explanation for adjustments on page 8.

A. The first adjustment on page 8, **Restate Debt Interest,** column (2.14), restates electric and natural gas debt interest using the Company's pro forma weighted average cost of debt included in the pro forma studies of 2.35%, on the Results of Operations level of rate base shown in column (1.00) only, resulting in a revised level of tax deductible interest expense on actual test period rate base. The Federal income tax effect of the restated level of interest for the test period decreases Washington net operating income by $1,023,000 for electric and $251,000 for natural gas.

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

Restate 09.2021 AMA Rate Base to EOP, column (2.15), reflects net plant after ADFIT as of September 30, 2021 on an AMA basis per results of operations, adjusted to reflect net plant after ADFIT at September 30, 2021 on an EOP basis per results of operations, consistent with the methodology approved in Dockets UE-200900 et. al. The effect of this adjustment increases Washington electric and natural gas rate base by $74,189,000 and $26,495,000, respectively. This adjustment also increases Washington electric NOI by $365,000 and natural gas NOI $130,000.

Eliminate WA Power Cost Deferral (electric), column (2.16), removes the effects of the financial accounting for the Energy Recovery Mechanism (ERM.) The ERM normalizes and defers certain net power supply and transmission revenues and expenses pursuant to the Commission-approved deferral and recovery mechanism. The adjustment removes the ERM rebate revenue as well as the deferral and amortization amounts and certain directly assigned power costs and net transmission costs associated with the ERM. The effect of this adjustment increases net operating income by $1,679,000.

<u>Nez Perce Settlement Adjustment (electric)</u>, adjustment column (2.17), reflects a decrease in production operating expenses. An agreement was entered into between the Company and the Nez Perce Tribe in 1999 to settle certain issues regarding previously owned hydroelectric generating facilities of the Company. This adjustment directly assigns the Nez Perce Settlement expenses to the Washington and Idaho jurisdictions. This is necessary due to differing regulatory treatment in Idaho (Case No. WWP-E-98-11) and Washington (Docket UE-991606). This restating adjustment is consistent with prior dockets since Docket UE-011595. The effect of this adjustment increases net operating income by $5,000.

<u>Normalize CS2/Colstrip Major Maintenance (electric),</u> column (2.18), includes an adjustment to normalize major maintenance expense associated with Avista's Colstrip/Coyote Springs II (CS2) thermal projects. In Order 05, page 56, paragraph 153 of Docket UE-150204, the Commission ordered the Company, for regulatory purposes, to normalize and recover its major maintenance expense associated with these plants over a three-year period for Colstrip and four-year period for CS2 to match the major maintenance cycles for each plant.

In 2018 through 2021, Colstrip major maintenance occurred totaling approximately $6.2 million system.[60] For regulatory purposes consistent with Docket UE-150204, the regulatory amortization expense level for Colstrip to include for 2021 totals $1.76 million on a system basis (which is approximately one-third of 2018 - 2021 Colstrip major maintenance).

[60] For Colstrip, major maintenance in past years typically occurred two out of every three years.

For CS2, 2019 through 2021 major maintenance occurred totaling approximately $3.7 million system.[61] For regulatory purposes consistent with UE-150204, the regulatory amortization expense level to include in 2021 totals $786,000 on a system basis. To adjust to the current level of amortization ($2.55 million) as of September 30, 2021, Adjustment 2.16 reflects a decrease in expense for Washington's share (65.54%) totaling $1.694 million. The net effect of this adjustment increases NOI by approximately $1,338,000.

Authorized Power Supply (electric), column (2.19). This adjustment restates the actual power supply costs for the test year ending September 30, 2021 to the level currently authorized in Case No. UE-170485 (current authorized during the 12ME 09.30.2021 test period). This adjustment results in an increase in Washington operating net income of $4,324,000. See adjustment 3.00P (Pro Forma Power Supply) and 3.00T (Pro Forma Transmission Revenues) for the Company's proposed change in power supply net expense and base power supply costs.

Restate 09.2021 Tax Credit Regulatory Liability to EOP, final restating column (2.20) electric and column (2.16) natural gas, restates regulatory liability account 254.393 "Customer Tax Credit" from an AMA to an EOP basis at September 30, 2021. In April 2021, with approval of the Company's request to defer the Tax Customer Credit benefit by each of Avista's jurisdictions (Washington, Idaho and Oregon), related to the pass through of certain tax basis adjustments (IDD#5 and meters), the Company transferred the ADFIT associated with IDD#5 and meters from FERC 282.900 (ADFIT) to FERC 254.393

[61] For CS2, major maintenance can vary, typically occurring every four years for a major overhaul, as is the case for the T3 Transformer ($2.2 million). This amount was amortized over 4-years. However, in the case of certain major maintenance on the steam turbine ($1,145,000), this work is typically completed approximately every seven years. These amounts therefore were amortized over 7-years.

(Regulatory Liability). Since FERC account 282.900 (ADFIT) is being adjusted to September 30, 2021 EOP in restating adjustment 2.15, consistency requires the associated regulatory liability recorded in FERC 254.393 must also be restated to September 30, 2021 EOP. The effect of this adjustment decreases Washington electric and natural gas rate base by $24,902,000 and $12,206,000, respectively. This adjustment also decreases Washington electric NOI by $122,000 and natural gas NOI $60,000.

Q. Please provide an explanation for the final column on page 8, "Restate Total".

A. The last column on page 7, entitled **Restated Total**, subtotals all the preceding columns (1.00) through column (2.20) electric and column (2.16) natural gas. These totals represent actual operating results and rate base plus the standard normalizing adjustments that the Company includes in its annual Commission Basis reports (CBRs). However, the Restated Total column does not represent September 30, 2021 test period results of operation on a normalized commission basis as usually filed annually (on a calendar basis) with the WUTC on or before April 30. Differences exist related to the following: 1) inclusion of proposed (pro forma) cost of debt (pro forma versus CBR cost of debt) impacting Adjustment 2.14 above; 2) restating power supply expense to annualized authorized Power Supply amounts in electric Adjustment 2.19 (revenue associated with the approved annual authorized level is included in Adjustment 3.01 Pro Forma Revenue Normalization), and 3) the inclusion of Adjustment 2.15 Restate 2019 AMA Rate Base to EOP.

<u>XI. RY1 & RY2 PRO FORMA & PROVISIONAL ADJUSTMENTS</u>

<u>A. RATE YEAR 1 – PRO FORMA STUDY</u>

Q. Turning to pages 9 through 13 of Exh. EMA-2 and 9 through 11 Exh. EMA-3 and explain the <u>pro forma and provisional RY1</u> adjustments provided there.

A. Starting on page 9 of Exh. EMA-2 (electric) and Exh. EMA-3 (natural gas) are individual <u>RY1 "Pro Forma"</u> adjustments, (3.00) through (3.19) on page 12, for electric and (3.01) through (3.15), on page 11, for natural gas. These adjustments pro form costs beyond levels included in the Company's restated 2019 results and are reflective of costs incurred during the rate year, beginning December 2022. Individual <u>RY1 "Provisional"</u> adjustments, for electric begin in column (4.01) on page 12 and continue through column (4.08) on page 13, and for natural gas, begin in column (4.01) through column (4.03) on page 11. These adjustments reflect "provisional" amounts reflective of costs incurred during the rate year (RY1), beginning December 2022, impacting net plant and related expenses, that are subject to review and refund in a future period. Each of these adjustments are described below. RY2 pro forma and provisional adjustments are separately discussed later in this testimony.

<u>1.) RY1 (12.2022 – 12.2023) Pro Forma Adjustments</u>

Q. Please begin with the first adjustment on page 9 of the electric Pro Forma Study, Exh. EMA-2.

A. The first RY1 Pro Forma adjustment on page 9 of the electric Pro Forma Study, Exh. EMA-2, is adjustment **<u>Pro Forma Power Supply (electric)</u>**, column (3.00P). This adjustment was made under the direction of Mr. Kalich, as explained in detail in his testimony, outlining the system level of pro forma power supply revenues and expenses that are proposed in this adjustment. As discussed above, in Restating Adjustment (2.19) "Authorized Power Supply (electric)," actual power supply costs for the test year ending September 30, 2021 are restated to the level currently authorized in Docket No. UE-170485 current authorized during the 12ME 09.30.2021 test period. This adjustment, therefore, adjusts the restated 09.30.2021 test period authorized level of power supply related revenue and expenses, to that proposed for the twelve-month RY1 rate period, using historical loads. This adjustment calculates the Washington jurisdictional share of those figures. The net effect, therefore, of adjustment (3.00P) Pro Forma Power Supply, increases Washington net operating income by $16,242,000. [62] Although this adjustment alone, is a significant change, the increase in RY1 proposed power supply costs above current authorized net power supply costs approved in Dockets UE-200900, et., al., is an increase of approximately $2.3 million system, or $1.4 million Washington over current rates.

As explained further by Company witness Mr. Kalich at Exh. CGK-1T, at this time the Company is only proposing a 60-day update for RY1 for net ERM power supply costs/transmission revenues (and ERM baseline), and no incremental Pro Forma Adjustment (3.00P or 3.00T) change in RY2. However, the Company is requesting approval in this proceeding for a trigger, that would allow Avista to file, for Commission review and approval, a 60-day update to its baseline power supply costs prior to RY2 should net power supply costs (includes transmission revenues) increase or decrease by 10% from the authorized base for RY 1 (or approximately $14 million system).

The adjustment in column (3.00T), **<u>Pro Forma Transmission Revenue and</u>**

[62] As discussed by Mr. Kalich at Exh. CGK-1T, Adjustment PF (3.00P), includes Washington share ($3.8 million) of EIM system annual benefits of $5.8 million. The calculation of the annual EIM benefits are discussed by Mr. Kinney at Exh. SJK-1T.

Expense (electric), was made under the direction of Company witness Mr. Schlect and is explained in detail in his testimony. This adjustment includes pro forma transmission-related revenues and expenses to reflect the twelve-month RY1 rate period.

Similar to 3.00P Power Forma Power Supply adjustment discussed above, Restating Adjustment (2.19) "Authorized Power Supply (electric)," also restates actual transmission revenues for the test year ending September 30, 2021 to the level currently authorized in Docket No. UE-170485 current authorized during the 12ME 09.30.2021 test period. This adjustment, (3.00T) therefore, adjusts restated 09.30.2021 test period Authorized transmission revenues, to that proposed for the twelve-month RY1 rate period. This adjustment calculates the Washington jurisdictional share of those figures. The net effect, therefore, of adjustment (3.00T) Pro Forma Power Transmission Revenue and Expense, increases Washington net operating income by $8,376,000.[63] However, similar to 3.00P discussed above, the net change related to RY1 proposed transmission revenue, above current authorized transmission revenue approved in Dockets UE-200900, et. al., results in a decrease in revenue requirement of approximately $5.4 million system, or $3.5 million Washington over current rates.

Therefore, including the incremental net power supply costs of $1.5 million (revenue requirement) noted in Adjustment 3.00P, offset by incremental transmission revenues of $3.5 million (revenue requirement) per Adjustment 3.00T, over existing current rates effective October 1, 2021, results in a net decrease in overall Washington electric revenue requirement in this proceeding for net power supply (and transmission revenues) of

[63]Similar to Adjustment (3.00P), Pro Forma Power Supply, no further adjustment is proposed for RY2. However, if the trigger was met requiring a 60-day update in RY2, as discussed above, transmission revenues for the RY2 authorized base would be updated as well.

approximately $2.0 million.

The next adjustment on page 9 of the electric Pro Forma Study Exh. EMA-2, and the first adjustment on page 9 of the natural gas Pro Forma Study, Exh. EMA-3, is adjustment **Pro Forma Revenue Normalization**, column (3.01), that adjusts electric and natural gas October 1, 2020 through September 30, 2021 test period customers and usage for any known and measurable (pro forma) changes. In addition, the adjustment re-prices billed, unbilled, and weather adjusted usage at the base tariff rates approved for the test period, as if the October 1, 2021 base tariff rates were effective for the full 12-months of the test year. This adjustment also removes the impact of test period decoupling deferrals (GRC resets the base) and decoupling earnings sharing. For natural gas, this adjustment also eliminates Schedule 150 Gas Cost revenue and the associated cost of purchased gas. Mr. Garbarino is sponsoring electric adjustment (3.01), which has the effect of increasing NOI by $10,041,000. Mr. Anderson is sponsoring natural gas adjustment (3.01), which has the effect of increasing NOI by $6,871,000.

Pro Forma Def. Debits, Credits and Regulatory Amortizations, column (3.02), adjusts certain electric and natural gas items included in electric and natural gas restating adjustments (1.02), which are included on an AMA 2019 Commission Basis level, to the level in effect for RY1, beginning December 2022. For electric, this adjustment removes any remaining regulatory rate base balance and expense associated with expiring regulatory amortizations prior to the rate effective period December 2022[64]: 1) Colstrip Common AFUDC; 2) CDA Lake Settlement Deferral; 3) CDA/SRR (Spokane River Relicensing)

[64] For a description of each deferral item, see discussion provided above for restating adjustment (1.02) Deferred Debits and Credits.

CDR Deferral; 4) Spokane River Deferral; and 5) Spokane River PM&E Deferral. In addition, this adjustment includes the increased electric expense associated with the annual CPI adjustment for the Montana Riverbed Lease. Finally, this adjustment also removes the expiration of electric and natural gas FISERV Fee Free amortization, and removes the test period electric Wildfire Deferral expense. The effect of this adjustment reduces electric total rate base by $27,000, decreases electric NOI by $906,000, and increases natural gas NOI by $393,000.[65]

Pro Forma 2023 ARAM DFIT, column (3.03), adjusts the electric and natural gas ARAM DFIT amortization expense included in the 09.2021 12ME test period to reflect the level of ARAM DFIT amortization expense expected in the RY1 effective period. As a result of the December 31, 2017 Tax Cuts and Jobs Act (TCJA), Avista had an electric plant excess ADFIT balance (Regulatory Liability) of approximately $208.3 million as of December 2017. In accordance with the TCJA's Average Rate Assumption Method (ARAM), the Company is required to reverse (i.e. normalize) these "protected" balances over the depreciable lives of the capital assets that created the ADFIT. The Company estimates the ARAM for Avista results in an amortization period of approximately 36 years from December 31, 2017. This long-term tax benefit was included in base rates effective May 1, 2018, in Dockets UE-170485 et. al. The amortization of this balance over 36 years provides a tax benefit to customers (reduction in rates) of approximately $5 million Washington electric and $1 million Washington natural gas. The annual excess plant DFIT amortization benefit will vary annually as the IRS ARAM is not calculated on a straight-line

[65] There are no further deferred debit/credit regulatory rate base and/or expense adjustments necessary beyond RY1.

basis. This adjustment updates the DFIT amortization expenses. The effect of this adjustment decreases electric NOI by $634,000 and natural gas NOI by $27,000.

Pro Forma AMI Regulatory Amortization, column (3.04), restates 12ME 09.2021 test period balances, removing deferred expense balances, and recording the proper amounts for electric and natural gas AMI regulatory balances and amortizations during the RY1 effective period, as approved in Docket No UE-200900, et., al. For electric the following adjustments are made: 1) regulatory amortization expense is increased by $12.9 million to reflect the net amortization expense of the Regulatory AMI asset ($3.8 million), and removal of AMI related deferral expense (FERC Account 407) from the test period ($9.1 million); 2) operating expenses are reduced $2.1 million, to reflect RY1 incremental O&M savings associated with the completed AMI project; 3) production accumulated depreciation (A/D) is reduced $21.0 million, associated with the removal of existing (expired) meters; and 4) Regulatory Deferred Debits are increased by $51.4 million to reflect the reclass of electric AMI deferred balances to an AMI Regulatory Asset associated with the deferral of existing (expired meters) and the deferral of depreciation expense on the AMI investment approved by the Commission until the AMI investment was complete. The net effect of these adjustments, therefore, decreases electric NOI by $8,348,000 and increases total electric rate base by $30,417,000.

Similarly, natural gas balances were adjusted as follows: 1) Regulatory AMI amortization expense is increased by $4.1 million to reflect the net amortization expense of the asset ($1.1 million), and removal of AMI related deferral expense (FERC Account 407) from the test period ($3.0 million); 2) operating expenses are reduced $0.7 million, to reflect RY1 incremental O&M savings associated with the completed AMI project; 3) production

A/D is reduced $4.1 million, associated with the removal of existing (expired) meters; and 4) Regulatory Deferred Debits are increased by $12.7 million to reflect the reclassification of natural gas AMI deferred balances to an AMI Regulatory Asset associated with the deferral of existing (expired meters) and the deferral of depreciation expense on the AMI investment approved by the Commission until the AMI investment was complete. The net effect of these adjustments, therefore, decreases natural gas NOI by $2,657,000 and increases total natural gas rate base by $8,617,000.

Pro Forma Other Amortization (natural gas), column (3.05), includes the two-year amortization credit of three natural gas outstanding regulatory liability residual balances over the two-year rate plan. The first two natural gas liability balances arose from the Tax Cuts and Jobs Act of 2017 approved for rebate through a separate tariff in Docket No. UG-180177, with any residual balances to be returned/recovered in a future general rate case proceeding. Balances related to December 2017 balance changes were recorded and were required to be amortized through deferred tax account 410100. Balances related to 2018 deferred benefits, due to existing rates based on the higher tax rate until the new tax rate were incorporated in customer rates, were recorded in another account and amortized through regulatory credits account 407230. This adjustment proposes to return the combined remaining balance of $196,711 from January 2023 through December 2024, or $98,356 per year.

The third natural gas deferred balance is the residual provision for rate refund associated with the 2015 Avista Remand, returned to customers as described in Order 09 in Docket No. UG-190335 (page 44, Remand Return) through separate tariffs on a per therm charge basis, from April 1, 2020 through March 31, 2021. This adjustment proposes to return the remaining balance of $136,040 from January 2023 through December 2024 or $68,020 per year. The net effect of this adjustment increases NOI by $131,000.

Turning to page 10 for electric, adjustment **Pro Forma Colstrip Trust Fund & Other Amortizations (electric)**, column (3.05), includes the two-year amortization expense or credit of two outstanding regulatory asset balances and one outstanding regulatory liability balance over the two-year rate plan. The first electric deferred balance arose from the Settlement Stipulation approved in Docket No. UE-190334 in section 13, and footnote 14 page 13. In Docket No. UE-190334, Certain Colstrip Generation assets were excluded for prudence review until the following GRC, with approval to defer the incremental accelerated depreciation on those assets (accelerated to 2025), with a carrying charge at the FERC rate, until the assets were either included in rates or deemed imprudent in the next GRC. In the final order for Dockets UE-200900 et. al., the Commission adopted Staff's recommendation for treatment of Colstrip and the incremental accelerated depreciation deferral concluded with the new rates effective October 1, 2021. This adjustment proposes to recover a total balance of $513,829 from January 2023 through December 2024 or $256,914 per year.

The second electric deferred balance arose from the Settlement Stipulation approved in Docket No. UE-190334, in section 14 Miscellaneous subsection (l) Colstrip Community Transition Fund, that was established April 1, 2020 totaling $3.0 million. The Colstrip Community Transition Fund was established with equal portions from Shareholders ($1.5 million) and customers ($1.5 million). The customer portion was deferred for future rate recovery without a carrying charge. This adjustment proposes to recover the customer portion of $1.5 million from January 2023 through December 2024 or $750,000 per year.

The third electric deferred balance is the residual provision for rate refund associated with the 2015 Avista Remand, returned to customers as described in Order No. 09 in Docket No. UE-190334 (page 44), through separate tariffs on a per kWh charge basis from April 1, 2020, through March 31, 2021. This adjustment proposes to return a total balance of $255,203 from January 2023 through December 2024 or ($127,601) per year. The net effect of this adjustment decreases NOI by $695,000.

Pro Forma LEAP Deferral (Gas Line Extension) Amortization (natural gas), column (3.06), adjusts the existing LEAP deferral amortization expense and rate base balance recorded in the 12ME 09.2021 test period, to reflect the revised LEAP AMA rate base (net of ADFIT) balance of $2.2 million, and the revised amortization expense of $1.7 million during the rate-effective period (RY1) based off the approved regulatory treatment approved in prior Avista proceeding as discussed below. The effect of this adjustment decreases net rate base by $4,202,000 and increases NOI by $287,000.

On February 25, 2016, per Docket UG-152394, Order 01, the Commission approved the changes to the Company's natural gas line extension tariff Schedule 151, for a temporary three-year period. Specifically, the Commission approved the use of any excess single-family residential line extension allowance as a rebate on customers' purchase and installation of high efficiency natural gas space and/or hot water heating equipment, if the customer is converting to natural gas from another fuel source. The Commission also approved the Company's proposed ratemaking treatment, allowing the Company to defer, for opportunity for later recovery in rates, the excess line extension allowance paid to Washington residential customers upon conversion to natural gas. The Commission approved a five-year amortization period for balances included in future general rate cases, with a return on the unamortized balance. Per Order 01, the deferral began on March 1, 2016 and expired February 28, 2019.

In Docket UG-170486, the Commission approved the amortization of the then-deferred balance of $2.9 million as of March 31, 2017 over five years.[66] This Commission approved in Docket UG-190335 the updated deferred balance of approximately $10.7 million (an incremental amount of $7.8 million), and an additional amortization of the incremental $7.8 million over five-years beginning April 1, 2020 through March 31, 2025. This adjustment restates the 09.2021 test period deferred asset balance to the rate period balance on a 2023 AMA basis (RY1), and reflects the annual amortization expense of the remaining amortization, previously approved by the Commission, during the rate-effective period. Pro Forma Adjustment (5.06) below, reduces the LEAP Regulatory Asset balance and amortization expense further to reflect the levels for AMA 2024 during RY2.

Pro Forma CETA Labor Expense (electric), column (3.06), reflects the incremental labor expense of three additional employees beginning in 2022, totaling approximately $357,000 annually, required to meet CETA legislation. As discussed by Company witness Mr. Bonfield at Exh. SJB-1T, new requirements outlined in the CETA legislation are related to public participation, distribution planning including evaluation of distributed energy resources, and customer benefit indicator development, monitoring and reporting. These new requirements will result in an increase to workload required to meet these obligations. While the Company anticipates the need for several incremental positions to meet all the CETA requirements, the Company initially is proposing in this case to

[66] A portion of the LEAP deferral amortization (Tranche 1) expired in 2022 as reflected in natural gas Adjustment (3.06).

include only three additional new positions resulting directly from CETA, or that will be supporting CETA. Mr. Bonfield provides additional detail by employee within his testimony supporting this new expense. The effect of this adjustment decreases NOI by $282,000.

Q. The next three adjustments (3.07) through (3.09) relate to pro forma labor and benefit adjustments, located on page 10 of Exh. EMA-2 and Exh, EMA-3. Prior to addressing each of the adjustments, please provide an overview of the Company's total compensation philosophy.

A. As discussed by Company witness Mr. Everitt, Avista is committed to providing total compensation to employees that will attract and retain qualified people required to meet the needs and expectations of all utility stakeholders, including but not limited to, customers, shareholders and regulators. To that end, the Company provides employees with cash compensation (base pay and variable pay in the form of pay-at-risk incentive compensation) and a comprehensive benefit package including medical and retirement. The overall package is designed to meet the following goals:

- Clearly identify the specific measures of Company performance that are likely to create long-term value for the Company's customers and shareholders;
- Keep employees focused on cost control, customer satisfaction, reliability and operational efficiencies by awarding variable pay for meeting pre-determined metrics;
- Promote a culture of safety;
- Pay competitively compared to others within our market;
- Reward outstanding performance; and
- Align elements of the incentive plans among all Company employees, including executive officers.

Each component is carefully considered within the overall package in order to provide total compensation which will be cost-effective for the Company, as well as attract and retain employees. Compensation components within the overall package may be adjusted over time to achieve the goal of recruiting and retaining qualified employees. The Company generally targets overall compensation levels within the range that is 15% above or below the median of Avista's peer group.

Q. Please now explain the pro forma labor and benefit adjustments starting with adjustment (3.07) Pro-Forma Labor Non-Exec on page 10 of Exh. EMA-2 and EMA-3.

A. **Pro Forma Non-Exec Labor & Union Incentive,** column (3.07), reflects changes in base pay, which together with pay-at-risk (Short Term Incentive Compensation) is designed to provide competitive compensation in the marketplace. Mr. Everitt discusses the Non-Exec Labor Adjustment in detail within his testimony. However, the specific electric and natural gas adjustments included in Exh. EMA-2 and Exh. EMA-3, reflect changes to 12ME 09.2021 test period union and non-union wages and salaries, excluding executive salaries, which are handled separately in adjustment (3.08). For non-union employees, the adjustment annualizes the impact of the actual increases effective March 2021, and includes adjustments for increases effective in March of 2022 and a minimum increase in March of 2023 (prorated basis) for the December 2022 RY1 effective period. Board approval of the increases for March 2022, and a minimum for March 2023, was approved January 5, 2022, based on 2022-2023 salary planning surveys. Mr. Everitt provides further explanation for the increases in salaries for non-officer employees, and the actual March of 2022 and March 2023 percentage increases pro formed by the Company within his confidential testimony at Exh. PJE-1TC.

Union employee labor increases, as well as pro forma Union Incentive increases included in this adjustment, are made in accordance with confidential contract terms being negotiated with the Union, as discussed by Mr. Everitt in Confidential Exh. PJE-1TC. In total, Non-Exec (union and non-union) labor expense for RY1 increased expense approximately $6.1 million electric and $1.8 million natural gas. The effect of this adjustment decreases electric and natural gas NOI by $4,850,000 and $1,432,000, respectively, for RY1.

Once the contract negotiations are complete, the Company will update any changes impacting this adjustment during the process of the case. March 2024 increases are discussed below for Pro Forma Adjustment (5.02) for RY2.

Pro Forma Labor-Executive, column (3.08), reflects 2022 annual salary levels approved by the Board of Directors. This salary level is allocated between Utility and Non-Utility based on the 09.2021 test period levels actual percentages (90% utility / 10% non-utility) – this percentage is consistent with the level included in Order No. UE-170485. This adjustment increases expense for electric by $64,000 and for natural gas by $20,000, beginning December 2022 for RY1. The effect of this adjustment decreases electric and natural gas NOI by $51,000 and $16,000, respectively. No further changes in executive labor expense is included for RY2.

Pro Forma Employee Benefits, column (3.09) electric and natural gas, adjusts the 12ME 09.2021 Retirement Plans (401(k) and Pension), and Medical Insurance for active employees and for those retired (post-retirement medical) to the expected amount for the rate-effective period beginning December 2022 for RY1. Annually, the Company works with independent consultants in order to determine the appropriate level of expense for both the Retirement Plans (Willis Towers Watson) and the Medical Plans (Mercer). The impact of these changes is summarized in Table No. 14 below: [67]

Table No. 14 - Benefit Adjustment

Pro Forma Benefit Adjustment RY1 - Washington Electric and Natural Gas				
Benefit Adjustment	**System**	**O&M**	**WA Electric**	**WA Natural Gas**
Retirement	$ (4,086)	$ (2,337)	$ (1,141)	$ (348)
Medical	$ 2,676	$ 1,531	$ 748	$ 228
Total	$ (1,410)	$ (806)	**$ (393)**	**$ (120)**

The Company offers a comprehensive benefit plan for employees. Employees have several choices to elect benefits, such as medical and life insurance, so they can determine the best fit for their circumstances. The plans are designed to be competitive with the overall market practices and are in place to attract and retain qualified employees. Periodically, to aid in benchmarking, Avista participates in a comprehensive benefit evaluation study (BENEVAL) performed by an independent actuarial company, Willis Towers Watson. Similar to cash compensation, the Company generally targets the level of benefits it offers to be within +/- 15% of the market median.

Q. Please describe the Retirement portion of the Benefit Adjustment included in Adjustment 3.09 and Washington's share of this expense.

A. The Company's Retirement portion of the calculation adjusts the 401(k) expense and Pension Plan from the 12ME 09.2021 to reflect what will be in effect during rate effective period December 2022, resulting in an overall system O&M expense reduction of $2.3 million. Estimates for Pension Plan expense is determined annually by Willis Towers Watson based on the expected return on assets, discount rates and asset value. The primary contributor to this decrease in expense is related to changes in asset value due to the actual return on assets for 2021 partially offset by changes in the discount rate and the

[67] Benefits associated with capital labor are embedded within the Company's capital adjustments.

expected long-term return on assets for 2022. Assumptions utilized in the calculation are presented to and approved by the Board of Directors annually. In addition, these calculations and assumptions are reviewed by the Company's outside accounting firm annually for reasonableness and comparability to other Companies. The Company has included in this case the most recent estimates provided by our actuary for 2023. <u>We anticipate updates for 2022 and 2023 to be available sometime in the first quarter of 2022, and the Company will adjust pension expense at that time to reflect the appropriate amount for the RY1 rate effective period beginning December 2022.</u>

Q. Please summarize the changes to the Company's retirement plan that occurred in 2013.

A. In October 2013, the Company revised the defined benefit pension plan such that, as of January 1, 2014, the plan is closed to all non-union employees hired or rehired on or after January 1, 2014.[68] All actively employed non-union employees that were hired prior to January 1, 2014, and were covered under the defined benefit pension plan at that time, will continue accruing benefits as originally specified in the plan. A defined contribution 401(k) plan replaced the defined benefit pension plan for all non-union employees hired or rehired on or after January 1, 2014. Under the defined contribution plan the Company will provide a non-elective contribution as a percentage of each employee's pay based on the age of the employee. This defined contribution is in addition to the existing 401(k) contribution where Avista matches a portion of the pay deferred by each participant. In addition to the above changes, the Company also revised our lump sum calculation for non-union retirees

[68] Changes were applicable to Local Union 659 (Oregon operations) effective April 1, 2014. Mr. Everitt discusses additional pension changes agreed to per the confidential Union Contract.

under the defined benefit pension plan to provide non-union participants who retire on or after January 1, 2014 with a lump sum amount equivalent to the present value of the annuity based upon applicable discount rates.

Q. Please now provide an overview of how medical expenses are determined by the Company.

A. Avista sponsors a self-funded medical plan that provides various levels of overage for medical, dental and vision as a portion of employee benefits. Annually, medical premiums[69] for the Company are estimated by an independent consultant, Mercer,[70] based on medical trend, which is a combination of utilization (the pattern of use or intensity of services used for a particular timeframe), and the estimated increase in the costs (such as medical services, office visits, medical equipment, etc.) to treat patients from one year to the next. The following factors are taken into consideration in the development of premiums:

- Population Profile – the number and composition of participating employees (such as single person, family, age, etc.).
- Estimated Medical and Prescription Costs – the increase in unit cost for a given medical service or treatments, the mix and intensity of differing types of service, and new treatments/therapy/technology.
- Laws and Regulation – changes and associated costs, such as those required as part of the Affordable Care Act.

Actual medical expense will vary from premium cost estimates based on variations in plan utilization and actual components in the medical trend. For the past several years, actual expense had been lower than our premium cost estimates, resulting in lower costs for

[69] In this context, "premium" is defined as total medical costs including both the Company and employee contribution.
[70] Mercer is currently the world's largest human resources consulting firm, with more than 20,500 employees, based in more than 40 countries.

the Company and our customers. Some reasons include the effects of the Company's wellness programs, the severity of flu season in a given year, the level of acute or chronic illness, or for a variety of other reasons. However, due primarily to increased utilization rates, price increases and our population profile, medical expenses have been trending upward.

As with the Pension Plan, estimates for the Post-Retirement Medical piece of the Medical adjustment are based on the expected return on assets, discount rates and asset value. In this case, the primary contributor to the increase in expense is related to an increase in cost trend assumptions. We anticipate updates for 2022 to be available sometime in the first quarter of 2022, and the Company will adjust expected medical expense, in this case, at that time. The net effect of the changes in medical costs on O&M expense described above, reflect an increase in system O&M expense of $1.5 million.

As shown in Table No. 14 above, the overall net impact of changes in pension and medical expense on a system O&M expense basis is a decrease of $806,000, or $393,000 Washington electric and $120,000 Washington natural gas. Therefore, the Pro Forma Employee Benefits adjustment increases NOI for electric by $311,000 and for natural gas by $95,000. Again, the Company will update the level of expense as soon possible during the process of the case, after receiving updated consultant information expected in early 2022.

Pro Forma Adjustment (5.03) below, includes the change in employee Benefits expected for RY2, above RY1 levels.

Q. Please continue on page 10 of exhibits Exh. EMA-2 and Exh. EMA-3 and continue with your discussion on pro forma adjustments.

A. Returning to page 10, of both Exh. EMA-2 and Exh. EMA-3, is electric and natural gas pro forma adjustment **Remove LIRAP Labor,** column (3.10). This adjustment removes Company electric and natural gas labor included in the 12ME 09.2021 test period associated with Avista's support of the Low Income Rate Assistance Program (LIRAP). As described by Mr. Bonfield, the passage of CETA and SB 5295 have opened the door to new opportunities to serve our low-income customers through offerings, such as rate discounts, that can more appropriately address an individual household's energy burden. With this legislation in mind, Avista proposes to replace its existing grant-based LIRAP components, LIRAP Heat and the Energy Grant, as well as its Senior/Disabled Rate Discount, with an income-based bill discount model for all eligible low-income customers through a separate LIRAP tariff rider. If approved, Company labor associated with administering this program would be recovered through the LIRAP tariff rider. Therefore, Adjustment (3.10) removes the labor associated with the current LIRAP funding included in test period expenses ($69,000 electric and $23,000 natural gas), consistent with the Company's proposal to reallocate the labor costs to the LIRAP tariff rider. The effect of this adjustment increases NOI by $55,000 for electric and by $18,000 for natural gas.

Continuing on page 10 of Exh. EMA-3, for natural gas, but turning to page for 11 of Exh. EMA-2, for electric, **Pro Forma Property Tax,** column (3.11), restates the 12ME 09.2021 level of property tax expense included in adjustment (2.02) Restate 2019 Property Tax, to the level of property tax expense the Company will experience during RY1 effective December 2022. The property on which the tax is calculated is the property value as of December 31, 2022, taxed at existing rates. The effect of this adjustment decreases NOI by $760,000 for electric and by $457,000 for natural gas. Pro Forma Adjustment (5.04) below, includes the change in Property Taxes expense expected for RY2, above RY1 levels.

<u>Pro Forma Insurance Expense</u>, column (3.07). This adjustment increases the 12ME 09.2021 test period level of insurance expense for general liability, directors and officers ("D&O") liability, property and other (Cyber, Colstrip and Worker's Comp) insurance, to the level of insurance expense the Company is expecting during RY1 effective December 2022. The amount included for D&O insurance is reduced by 10% per Dockets UE-090134 and UG-090135. New invoicing was received in December 2021 for the Company's general and property insurance premiums for the period December 2021 through December 2022, informing the pro forma December 2022 through December 2023 amounts for RY1, after completion of the Company's final revenue requirement in this case. Additional invoices for D&O insurance premiums will be received in March 2022. The Company will <u>update</u> the estimated amounts included here for RY1 as soon as the actual invoices are available. (See further discussion on the determination of insurance expense values included in the Company's case, as well as the Company's proposed Insurance Expense Balancing Account, in Section VII. B. "Balancing Account Proposals" above.) The effect of this adjustment decreases NOI by $3,391,000 for electric and by $397,000 for natural gas. Pro Forma Adjustment (5.05) below, includes the change in insurance expense expected for RY2, above RY1 levels.

The next adjustment on page 10 for natural gas, and page 11 for electric, is adjustment **<u>Pro Forma IS/IT Expense</u>,** column (3.13), which adjusts the actual level of information services and technology (IS/IT) expense included in the 12ME 09.201 test year to that expected during over the Two-Year Rate Plan, effective December 2022. This adjustment includes the incremental costs primarily associated with contractual agreements in place, including amortization of pre-paid multi-year contracts, or are the continuation of costs for products and services that have increased beyond the 12ME 09.2021 historical test period associated with products and services, licensing and maintenance fees, and other costs for a range of information services programs knowns. These incremental expenditures are necessary to support Company cyber and general security, emergency operations readiness, electric and natural gas facilities and operations support, and customer service. In addition, this adjustment includes incremental labor expense for six new employees, driven by compliance of cyber security and application patching requirements dictated by the Department of Homeland Security's (DHS) Transportation Security Administration (TSA). Mr. Kensok supports and sponsors these increased costs, providing more information within his testimony. The effect of this adjustment decreases NOI by $997,000 for electric and by $293,000 for natural gas. No further adjustments to IS/IT expense for RY2 are included by the Company, as the increases in amortization known at this time were not material. The Company will update during the process of the case, if necessary, if more information to support a higher amount in RY2 becomes available.

Q. In the Company's last general rate case, did the Commission order Avista to address prepaid expenses (related to insurance and IT expenses) and explain the impact of prepayments on customers and working capital?

A. Yes. In Order 08/05 in Docket Nos. UE-200900, UG-200901, and UE-200894 (Consolidated) at Page 64, Paragraph 175, the Commission stated the following:

> Avista's failure to establish 2021 insurance expenses as known and measurable is, in part, due to its failure to support the prudency of its prepayments. When Avista makes prepayments, that capital is not available for other uses. We would expect Avista to address the effect of prepayments on cashflow and, in turn, the cashflow effect and other impacts prepayments have on customers. In addition, we would expect Avista to explain whether the capital it uses for prepayments is also included in its investor-supplied working capital (ISWC), where the capital earns a return for

the Company. If included, Avista must explain why its ratepayers should be charged for the prepayment expense in addition to the ISWC treatment. Going forward, if Avista seeks to recover pro forma expenses related to prepayments, invoices, or quotes, it must make a showing of prudency as we have detailed, above. Avista should be prepared to show how prepayments of expenses and assets should be considered in multi-year rate plans, what performance-based regulatory mechanisms should apply, what their impacts to customers may be, and what review processes are appropriate.

Q. Please first address what is considered a prepaid expense on the Company's books.

A. Typically, vendors provide a good or service during a month and the Company records the expense in the same month. Customers are paying for that service in the same month, so there is minimal impact on the Company's cash. Certain vendors require an <u>advance payment</u> for the goods or services that will be received in the future over a set period of time, such as is true for insurance expense and certain IS/IT prepaid multi-year contractual agreements, as discussed in the adjustments above. The Company receiving those goods or services will record the up-front payment as a <u>prepaid expense</u> and will amortize the expense over the contract life. The amortization expenses are recorded monthly to match with the customers' payments. But, because the cash was paid during an earlier period than the receipt from customers, there is an impact to the Company's cash, and therefore, its working capital.

Q. What type of expenses does Avista typically prepay?

A. The majority of Avista's prepaid expenses are for insurance and IT services. For insurance and many of the IT contracts, the Company does not have an option of paying monthly. The vendor requires an up-front payment so Avista must expend the cash and record the prepayment. For some IT contracts, there is an option to pay monthly. Company witness Mr. Kensok explains the benefits to customers by paying up-front at Exh. JMK-1T. For example, as explained by Mr. Kensok, one way Avista manages and control it IS/IT costs is to identify opportunities to consider annual and multi-year agreements with software and service vendors when business needs align with the duration of the agreement, locking in pricing at or below current or expected market pricing, providing protection from adverse market conditions, benefitting both Avista and our customers. In addition, the IS/IT Department looks to reduce expense over time, by seeking further discounts from vendors in exchange for pre-payment of annual and multi-year agreements. In doing so, Avista prudently approaches pre-payment of software agreements when the benefits of prepayment outweigh the cost, or where the vendor requires it as part of the agreement.

With regard to insurance, Avista has several insurance policies for property and liability. These policies are renewed annually. <u>Avista is required to pay up-front</u> the entire premium for the upcoming policy period. The Company records the prepayment in FERC Account No. 165100 – Prepayments - Prepaid Insurance. Each month, the Company amortizes the costs by debiting FERC Account No. 924000 – Property Insurance and FERC Account No. 925100 – Injuries and Damages.

With regard to IS/IT expenses, the Company uses many software products and services to operate its business for Washington customers. Prepaid IT costs represent prepaid technology costs associated with the products, services, licensing and maintenance fees that are not capitalized. In the past, the Company would obtain a perpetual license that was capitalized as plant-in-service. A maintenance fee was also paid, which could be for the period of 12 months or longer. More recently, many software vendors have changed models. Software and services can now be obtained with a term license or as a software as a service model. For these models, the Company is allowed to capitalize the implementation costs of these software products as plant-in-service and the remainder of the contracts are expensed over the life of the contract. Those fees, including the maintenance fees and the term/software service fees, are recorded as a prepaid in FERC Account No. 165150 – Prepayments – Prepaid License Fees. These costs are amortized over their contract period and are recorded in various FERC accounts, depending on the type of software and how it is used.

Q. In summary, how does Avista record these costs?

A. When the contract is paid, the prepaid account is debited. Each month, the costs are amortized, by crediting the prepaid account and debiting an expense account.

Q. How are these costs recovered from customers?

A. These costs are recovered from customers in a manner that is very similar to capital investment costs. Capital investment costs are recorded as plant-in-service. Through depreciation, a monthly cost is recorded by debiting depreciation expense and crediting accumulated depreciation. The net book value of the capital costs (plant-in-service minus accumulated depreciation) is included in rate base and the return <u>on</u> this rate base is included in customers' rates. The return <u>of</u> the costs (i.e. depreciation expense) is also included in customers' rates.

Similarly, prepaid insurance is recorded in FERC Account No. 165100 – Prepayments - Prepaid Insurance, and prepaid IS/IT expenses are recorded in FERC Account No. 165150 – Prepayments – Prepaid License Fees on the Company's balance sheet as a prepaid asset. Through amortization, a monthly cost is recorded by debiting amortization expense and crediting Prepaid Insurance and Prepaid License Fees. The

Prepaid Insurance and Prepaid License Fees balances are included in Working Capital and the return on this balance is included in customers' rates. The return of the costs (i.e. amortization expense) is also included in customers' rates. Therefore, Customers' rates include both the return on the prepaid asset and the return of the expense by including the prepaid balance in the Company's ISWC component of rate base.

Q. So, to be clear, the Company is not double counting the return on the prepaid expense by including the prepaid asset in rate base in addition to including it in its ISWC?

A. Correct, Avista only includes the prepaid expense in rate base once, by including it in its ISWC.

Q. Please explain how Avista determines what to include in rate base for prepaids, and insurance and IT expenses in this case.

A. Please see Table No. 15 below for an example.

Table No. 15 – Prepaid Expense Example

	Prepaid Expense Example						
			Test Period			**Rate Year**	
		Dec-19	**Dec-20**	**Dec-21**	**Dec-22**	**Dec-23**	**Dec-24**
Line		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
1	Contract #1						
2	Payment	$ 10,000	$ -	$ -	$ -	$ -	$ -
3	Amortization	(3,333)	(3,333)	(3,333)	-		
4	Prepaid Balance	$ 6,667	$ 3,333	$ -	$ -	$ -	$ -
5	Contract #2						
6	Payment	$ -	$ -	$ -	$ 11,000	$ -	$ -
7	Amortization				(3,667)	(3,667)	(3,667)
8	Prepaid Balance	$ -	$ -	$ -	$ 7,333	$ 3,667	$ -
9	Annaul Amortization	$ (3,333)	**$ (3,333)**	$ (3,333)	$ (3,667)	**$ (3,667)**	$ (3,667)
10	Prepaid Balance	$ 6,667	$ 3,333	$ -	$ 7,333	$ 3,667	$ -
11	Prepaid Balance AMA	$ -	**$ 5,000**	$ 1,667	$ 3,667	**$ 5,500**	$ 1,833

This example in Table No. 15 shows a contract signed in January 2019 for a 3-year period for $10,000 (line 2). The Company will amortize one-third for each year in 2019, 2020, and 2021 (line 3). The prepaid balance at the end of each of these years is shown on Line 4. The example shows the renewal of this contract in January 2022 for $11,000 (line 6), which is a 10% increase over the first-year contract amount. The Company will amortize one-third for each year in 2022, 2023, and 2024 (line 7). The prepaid balance at the end of each of these years is shown on Line 8.

In this example, 2020 is the test period for the filed rate case. The test period has $3,333 of amortization expense and an AMA balance of $5,000 included in ISWC (line 11). Since the Company knows that this contract will have a 10% increase in the renewal period and the rate year of 2023 will include this increase, the Company pro forms $334 of expense, so the test year level of expense of $3,333 plus the pro forma expense of $334 equals $3,667, which is the rate year level of expense. For the rate base amount included in ISWC, the Company does not adjust the balance from the AMA level included in the test year. So, the return on $5,000 would be included in customers' rates. In the example, the rate year AMA level is $5,500, which is slightly more than the final amount included in customers' rates. Because there are approximately 300 general ledger accounts that make up ISWC, the Company would not have any way to forecast the change in every account to determine a rate year level.

Q. For multi-year rate plans, how does Avista plan to address prepaid balances that are include in ISWC and the associated insurance and IS/IT expenses?

A. For the expense level included in the rate years, the Company plans to pro form the known and measurable expenses for each year, similar to single year general rate cases. In addition, the AMA test period level of ISWC will not be adjusted any further in a future year rate period. With regards to the prepaid balance in working capital, if the Commission has concerns with this proposed method, the Company would be willing to perform an after-the-fact review of the AMA level of ISWC in the rate year and compare to the level built into customers' rates. If the level in the rate year is less than the level in customers' rates, the Company would defer the excess return on the investment for future credit to customers.

Q. Please summarize how Avista gets recovery of prepaid expenses.

A. Recovery of prepaid expenses is very similar to the recovery of capital investment. The unamortized balance of the prepaid expense is included in rate base, by including in ISWC just as the net book value of capital investment is included in rate base. The periodic amortization of these investments is included in results of operations and are recovered from customers just as depreciation expense is recovered.

Q. Please continue with the next electric and natural gas adjustment on page 11 of Exh. EMA-2 and Exh. EMA-3.

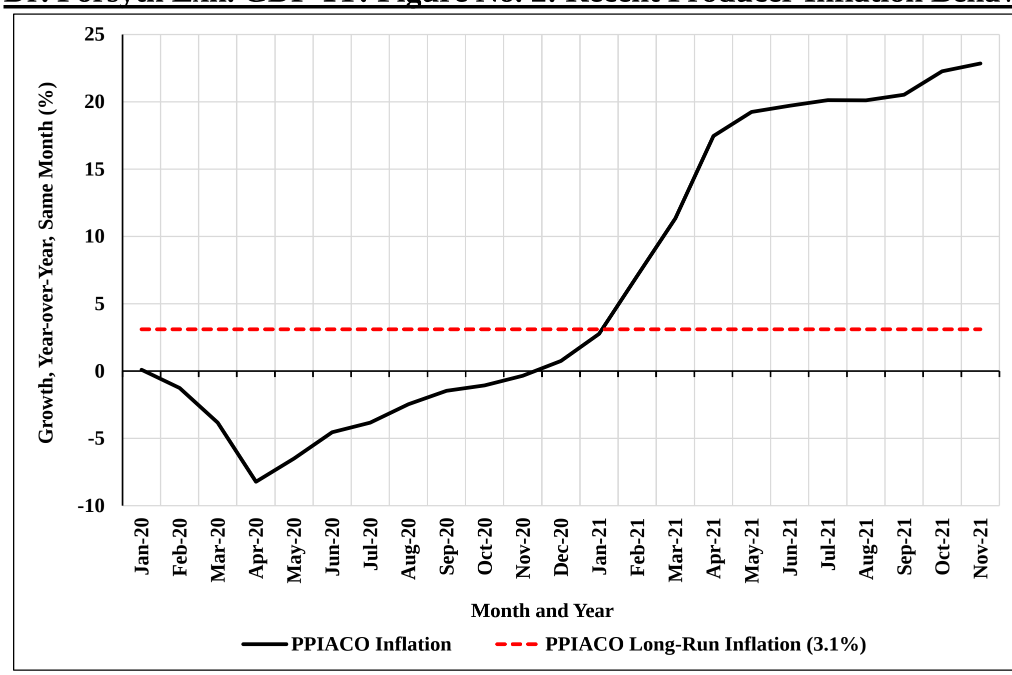
A. Continuing on page 11, of Exh. EMA-2 and Exh. EMA-3, is electric and natural gas adjustment **Pro Forma Miscellaneous O&M Expense,** column (3.14). This adjustment reflects escalated increases in certain Company O&M and A&G expenses, from the 12ME 09.2021 test year through RY1, effective December 2022 through December 2023, not otherwise pro formed within the Company's electric or natural gas Pro Forma Studies. An annual escalation rate of 7.05% for electric and 7.29% for natural gas was applied by FERC account to certain O&M and A&G annual balances as of 09.2021 through December 2023 (or 2.25 years). All 12ME 09.2021 test period expenses restated or pro formed within the electric or natural gas Pro Forma Studies, are excluded prior to the use of the escalation, including the following expenses: 1) all labor and benefits, including, salaries, incentives, pension and medical costs; 2) insurance expenses and amortizations; 3) IS/IT expenses, 4) power supply costs, 5) Montana riverbed lease expenses, 6) Colstrip and CS2 major maintenance expenses, 7) EIM expenses, 8) wildfire related expenses, 9) administrative expenses (office space charges), and 10) other expenses removed through restating adjustments (i.e., miscellaneous restating, eliminate adder schedule balances, gas supply costs, and revenue-related expenses).

Q. Why did the Company use an escalation rate on the miscellaneous O&M and A&G accounts, not otherwise pro formed elsewhere, of 7.05% for electric and 7.29% for natural gas?

A. The Company based its increase in miscellaneous O&M and A&G based on the two-year average of Commission Basis adjusted O&M/A&G expenses above 2018 to 2020. In the past few years Avista has seen more significant increases in O&M across its service territories than in previous years, including 6.1% above 2018 levels in 2019, and an incremental 7.6% in 2020 above 2019 levels, resulting in a two-year average of 7.05% for Washington electric operations. For Washington natural gas, O&M increased 5.7% above 2018 levels in 2019, and an incremental 8.4% in 2020 above 2019 levels, resulting in a two-year average of 7.29%.

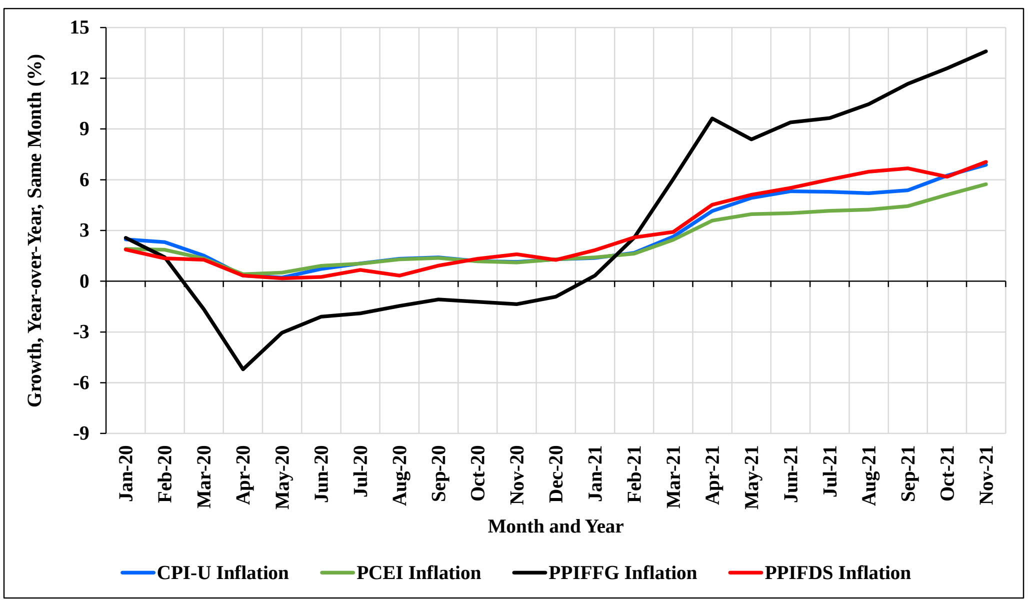
As discussed by Dr. Forsyth in his testimony at Exh. GDF-1T, starting at page 8, line 10, because of the supply chain disruptions caused by the COVID pandemic, markets are experiencing escalating inflation rates at both the consumer and producer (business-to-business) level. Escalating inflation will impact the cost of the goods and services purchased by the Company. As noted by Dr. Forsyth, discussing inflation "spells," historically, the length of time (often called a "spell") that inflation remains above the long-run average is strongly correlated with the size of the inflation spike the market may experience. Through his analysis of historical "spells" and year-over-year, same month growth for the All Commodity Producer Price Index (PPIACO) calculated by the Bureau of Labor Statistics for the period 2020 and 2021, a new above average inflation spell started in February 2021. By November 2021, the last month in the current series, the year-over-year, same month growth rate reached nearly 23%--the highest in the current spell. The size of the current spike through November 2021 suggests that the current inflation spell could be prolonged. In turn, this could have a prolonged impact on future expenditure growth as the prices of the goods and services purchased by the Company increase at a faster than average rate. Dr. Forsyth's Figure No. 2 (reproduced here) shows the changes in the recent PPIACO inflation behavior:

Dr. Forsyth Exh. GDF-1T: Figure No. 2: Recent Producer Inflation Behavior



Dr. Forsyth also looked at year-over-year, same month growth for the Consumer Price Index for urban consumers (CPI-U); the Personal Consumption Expenditures Index (PCEI), the Federal Reserve's preferred measure of consumer inflation; and the Producer Price Index for Final Demand Finished Goods (PPIFFG) and Final Demand Services (PPIFDS)[71]. The consumer price indices are measuring prices paid by households and the producer price indexes are measuring prices received by producers, which are frequently not direct sales to household consumers. All four index examples show inflation pressures building simultaneously going through November 2021, with PPIFFG inflation rate at approximately twice the rate of consumer (CPI-U and PCEI) and PPIFDS inflation. Dr. Forsyth's Figure No. 3 (reproduced here) shows the behavior changes in these inflations:

<u>Dr. Forsyth Exh. GDF-1T: Figure No. 3: Recent Inflation Behavior from other Index Measures</u>



[71] U.S. Bureau of Economic Analysis, Personal Consumption Expenditures: Chain-type Price Index [PCEPI], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCEPI, December 27, 2021. U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL, December 28, 2021. U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Final Demand: Finished Goods [WPSFD49207], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WPSFD49207, December 28, 2021. U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Final Demand: Final Demand Services [PPIFDS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PPIFDS, December 28, 2021.

Based on the Company's historical increased expenses in recent years, as well as that described by Dr. Forsyth of inflationary impacts on the market place in which Avista's utility business operates, impacting the cost of the goods and services purchased by the Company, the Company believes the escalation percentage of 7.05% for electric and 7.29% for natural gas, used for the limited miscellaneous O&M and A&G expenses included in Adjustment 3.14, to be conservative. Workpapers provided to all Parties provide detailed analysis of this adjustment. This adjustment decreases Washington net operating income by $7,720,000 for electric and $1,777,000 for natural gas.

Pro Forma Adjustment (5.07) below, includes the change in Miscellaneous O&M/A&G expense expected for RY2, above RY1 levels.

Q. Please continue on page 11 of Exh. EMA-2 and EMA-3, with the next pro forma adjustment.

A. The next adjustment, shown on page 11 of Exh. EMA-2 and EMA-3, reflects the final natural gas pro forma adjustment in RY1, and the next RY1 pro forma adjustment for electric. This adjustment is **Pro Forma 09.2021 EOP Rate base to 12.31.2021,** column (3.15), restates 09.2021 EOP historic test year balances to EOP balances as of December 31, 2021. As discussed, and sponsored by Mr. Baldwin-Bonney, 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 accumulation depreciation and ADFIT. The second component includes actual additions for the month of October and expected additions for November and December 2021. Increases in expense, accumulated depreciation and ADFIT were calculated on these assets. Lastly, retirements expected to be incurred during the fourth quarter of 2021 were adjusted, reducing expense and gross plant and increasing A/D and ADFIT for the period. (All of these adjustments omit EIM, Wildfire Recovery, and Colstrip additions as each of these projects have specific adjustments (Adjustments 3.17 through 3.19) to account for their additions to plant as discussed below). In January 2022, the Company will record final actual additions through year-end December 31, 2021, and will provide updated actual transactions to all Parties, and an updated Adjustment (3.15) as soon as available in February 2022. The impact of this adjustment increases net rate base by $34,834,000 for electric and $10,748,000 for natural gas, and decreases NOI by $1,539,000 for electric and $333,000 for natural gas.[72]

Pro Forma Transportation Electrification Return (Kicker) (electric), column (3.016), includes the incentive rate of return (return "kicker") for RY1 on the Transportation Electrification capital investments included in this case. As discussed by Mr. Magalsky, pursuant to RCW 80.283.360, the Company is seeking an incentive rate of return of 2% as allowed per statute, which totals approximately $49,000 in Rate Year 1 (2023), and an incremental $36,000 in Rate Year 2 (2024). Grossed up for taxes, the amount included in Exh. EMA-2, page 11, column (3.16) totals $62,000 for RY1. The impact on electric NOI for this adjustment is a decrease of $49,000. The incremental Transportation Electrification Return for RY2, above RY1 levels is included in Pro Forma Adjustment (5.06) below.

Q. Continuing on page 12 of electric Exh. EMA-2, please discuss the final three electric RY1 pro forma adjustments.

[72]Offsetting factors on pro forma capital additions for the period October 2021 through December 2021 are reflected in PF Adjustment 3.15 through inclusion of retirements and reductions to rate base for reducing existing net plant for A/D and ADFIT. Other offsets related to 2021 additions included in the test period 12ME 09.2021 (January – September 2021) would already be reflected in the test period.

A. The final RY1 pro forma adjustments begin with **Pro Forma EIM Capital 2021-2022 Additions and Expense (electric)**, in column (3.17), that reflect increases in capital additions and expenses related to the Company's decision to join the Western Energy Imbalance Market (EIM) operated by the California Independent System Operator (CAISO), as supported and discussed by Mr. Kinney. Specifically, this adjustment reflects capital additions of $7.8 million for EIM investment pro formed for the period October 1, 2021 through June 30 2022, together with associated A/D, ADFIT, and depreciation expense of $1.3 million, reflecting the investment completed by the "go-live" date of EIM in March of 2022,[73] previously approved by the Commission in Dockets UE-200900 et. al. This adjustment also reflects Washington's share of incremental operating expenses including incremental labor and other expenses in RY1 above test period 12ME 09.2021 levels, totaling approximately $949,000. These incremental expenses reflect labor expense of $788,000, and other expenses, such as IT expense, system integrator (Utilicast), CAISO implementation fee expenses, etc. of $161,000. Washington's incremental labor expense of $788,000 represents the labor expense level expected during RY1, including new hires planned through September 30, 2022.[74] Mr. Kinney provides testimony in support of the Company's EIM expenditures, and provides an update on the EIM investment, as well as the EIM benefits in his direct testimony at Exh. SJK-1T. The net impact of this adjustment

[73] Capital additions from April 2022 to June 2022, consistent with that approved in Dockets UE-200900 et. al., reflect trailing invoices paid to vendors after "go-live" date in March of 2022 and final approval of vendor meeting contract milestones.
[74] The Company did not pro form increases associated with labor loadings, i.e. expected incremental pension, medical, and other labor costs. Therefore, total labor expenses included are conservative relative to actual planned labor expenses.

increases electric net rate base by $6,302,000 and decreases NOI by $1,724,000.[75]

In Dockets UE-200900 et. al., Order 08/05 at paragraph 34, the Commission stated: "We find that the Settling Parties agreement as to EIM capital and expenses should be approved and that the process for the review of provisional pro forma of Avista's pro forma EIM adjustment should occur in Avista's next GRC." As discussed in Exh. EMA-6T of Dockets UE-200900, et. al., actual costs through December 2020, and planned expenses through June of 2021 were provided to parties during the process of that case.

However, as discussed by Mr. Kinney at Exh. SJK-13T, starting at page 4, in order to meet all requirements to join the EIM in March 2022, Avista needed to complete all of its equipment upgrades/replacements and integrate all new software by July 1, of 2021 per the CAISO implementation schedule. Between July 1, 2021 and March 2, 2022 Avista would conduct market simulation testing and parallel operations per the CAISO schedule. Since Avista needs to be prepared for market operations well in advance of market "go-live" date, all capital projects were to be completed prior to new rates going into effect of the prior case (October 1, 2021).

Although the equipment related projects were completed by July 2021, the software applications (while complete) will not officially transfer to plant until all testing is complete and the Company officially joins the EIM in March of 2022. In addition, all expenses associated with EIM at that time, such as the Utilicast consulting costs, hardware/server costs and software license costs, vendor professional services, hosting fees, and support fees were also known per terms of the contracts, and the actual payments are tied to passing

[75] Offsetting factors on pro forma capital additions for the period October 2021 through June 2022 are reflected in Adjustment (3.00P) Pro Forma Power Supply (discussed previously).

different testing milestones and will be paid accordingly through the EIM go-live date. Finally, all budgeted new positions to support on-going market operations were to be hired by September 2021, to support market testing as indicated in the EIM Resource Plan, so the associated costs of incremental labor to support testing were also known. Therefore, the costs associated with EIM integration are known and measurable at this time, (and were available for review by the Parties during Dockets UE-200900 et. al.), and all but the software application plant addition (transferring to plant in March 2022), was in-service prior to new rates going into effect.

With regards to the "subject to review and refund" provisional reporting of EIM, the Commission at paragraph 38 in Order 08/05, stated:

> Avista committed to "communicating with the other Parties through periodic 'expenditure reports' filed on a quarterly basis, commencing October 15, 2021," for the provisional portion of the EIM pro forma adjustment. We consider this agreement implicit in the Settling Parties' agreement because, as we stated in our Used and Useful Policy Statement, such reporting is a necessary condition of allowing any provisional portion of a pro forma adjustment in rates. [footnotes omitted]

Prior to the filing of this case the Company has filed two EIM expenditure reports providing actual transaction detail as of September 30, 2021 and December 31, 2021, respectively, in Dockets UE-200900, et. al. As noted in those reports, the Company anticipates final costs to materialize through completion of the project in 2022, as approved in Dockets UE-200900, et. al. The Company will continue to provide actual transfers-to-plant, as well as transactional CWIP balances, as required, through the final quarterly reports (as of March and June ending 2022) until EIM go-live, and all investments have transferred to plant-in-service. The Company's final report after go-live, provided on or before July

2022, will provide total <u>actual capital transfers to plant</u>, versus that included by the Company and approved by this Commission, for review by Parties to Dockets UE-200900, et. al. Any Washington-share amount of actual EIM transfers-to-plant balances, less than Washington's-share of expected EIM transfer-to-plant amounts approved by this Commission in Dockets UE-200900, et. al, will be subject to refund and can be adjusted in this current GRC, or in another proceeding, as ordered by the Commission.

<u>Pro Forma 12.2021 EOP Wildfire Additions (electric),</u> (column 3.18), reflects <u>pro forma</u> Wildfire capital additions including actual additions in October 1, 2021, and expected additions for November and December 2021, related to the Company's Wildfire Plan, as supported by Mr. Howell. In addition, this adjustment includes depreciation expense, and the impact on A/D and ADFIT on these investments. Mr. Howell provides testimony in support of the Company's Wildfire Resiliency Plan expenditures and provides an update on the Company's ten-year Wildfire Resiliency Plan.

In January 2022, the Company will record final actual additions through year-end December 31, 2021, and will provide updated actual transactions to all Parties, and an updated Adjustment (3.18) as soon as available in February 2021. The net impact of this adjustment increases electric net rate base by $2,497,000 and increases NOI by $7,000.

Incremental pro forma Wildfire expenses above 12ME 09.2021 test period levels, as well as, "provisional" Wildfire capital investment for 2022 and 2023 included in RY1, above 2021 RY1 levels, are included below in PV Adjustments (4.04) and (4.05). Further "provisional" Wildfire capital investment for 2024 included in RY2, above 2023 RY1 levels, is included below in PV Adjustment (5.10). See also discussion on the Company's Wildfire Expense Balancing Account, in Section VII. A. "Balancing Account Proposals".

Q. Please discuss the final electric <u>pro forma</u> adjustment on page 12 of Exh. EMA-2.

A. The final pro forma adjustment on Exh. EAM-2, on page 12 is **<u>Pro Forma 12.2021 EOP Colstrip Additions and Amortization (electric)</u>**, column (3.19), that reflects the Company's pro forma adjustment to recover its investment in Colstrip Units 3 and 4 for activity[76] through December 31, 2021, after reflecting an accelerated depreciation rate to year 2025 as approved in the Company's 2019 general rate case (Docket No. UE-190334). The adjustment increases regulatory amortization expense by $0.4 million, increases depreciation expense by $0.1 million and reduced O&M expenses by $0.1 million for offsets that will be realized due to efficiencies gained by the capital additions. In addition, the adjustment reduces Colstrip net plant by $5.0 million (after including pro formed Colstrip capital additions between October 1, 2021 through December 31, 2021), and increases the regulatory asset by $1.9 million. The net impact of this adjustment (3.19 alone), decreases electric net rate base by $3,045,000 and decreases NOI by $359,000.

The Company has also included Colstrip plant additions between January 1, 2022 and December 31, 2024 in separate provisional adjustments, described below.

A summary of Colstrip issues that were <u>resolved in the 2019 and 2020 general rate cases</u> and form the basis for the accounting that has been included in this general rate case follows:

- The depreciation schedule for Colstrip Units 3 and 4 generating units was accelerated to 2025.

- The Colstrip transmission assets were not accelerated and therefore are being

[76] Activity includes capital additions with associated impact to A/D and ADFIT for the depreciation expense recovered from customers. In addition, it includes the impact of deferring D&R costs to the regulatory asset and the amortization of the associated regulatory assets.

depreciated over the same life as non-Colstrip transmission assets.

- The Colstrip plant-in-service at December 31, 2020 has been determined to be prudent.

- The investment in Smart Burn determined to be imprudent in the Company's last general rate case (Dockets UE-200900, et. al.) was written off in September 2021, and therefore, not included in the test period ended September 30, 2021.

- "Temporary" tax credits of approximately $11.7 million that were created with the Tax Cuts and Jobs Act (TCJA) of 2017 were used to offset the increased costs associated with the acceleration of depreciation / asset retirement obligation (ARO) costs on the current Colstrip Unit 3 and 4 assets.[77]

- Deferred accounting was approved to accumulate the Colstrip ARO costs not recovered from customers through existing rates, to be amortized over approximately 34 years, through 2053. These costs are also referred to as decommissioning and removal costs (D&R). The Company has included the annual amortization of $979,000 of these D&R costs. See further details about the Colstrip ARO below.

The capital additions between January 1, 2020 and December 31, 2024 have been included in this case for prudency determination, in RY1 and RY2. Mr. Thackston sponsors the Colstrip capital additions testimony, describing the Colstrip capital that has been included in this general rate case.

As described above, the Company was authorized to begin recovery of the D&R costs that will be incurred for future closure of the facility. In the 2019 general rate case, Washington's share of these costs was estimated to be approximately $33 million.

[77] The primary provision of the TCJA was a reduction in the federal corporate tax rate from 35% to 21%, reducing the current and deferred tax expense currently included in customers' rates. The TCJA also required accumulated DFIT balances as of December 2017 to be revalued at the lower corporate rate (21%). The difference between the original balance recorded at 35% and the new balance recorded at 21%, resulted in excess DFIT (EDIT). EDIT was categorized as "protected" and "unprotected." "Protected" EDIT is generally defined as capital assets (plant) depreciated under Internal Revenue Code (IRC) section 167, and these timing differences are required to be recorded and then reversed (i.e. normalized) over the depreciable lives of the capital assets that created the EDIT. "Unprotected" EDIT mainly represents non-plant related deferred assets/liabilities. The non-plant EDIT balances have no IRC requirement as to when they must be reversed.

Annually, the Company evaluates this estimate and updates the costs. The most current estimate of D&R costs is $28 million that will be recovered from customers. After factoring in the amount customers will have paid by January 2023, the annual amount that has been included in this case is $819,408 which is slightly less than the amount being collected from customers through December 31, 2023 of $979,164. Of the $28 million currently estimated D&R costs, the Company has incurred approximately $4.0 million through September 30, 2021. For ease of reviewing, a summary table of all Colstrip adjustments, including the pro forma Adjustment 3.19 described above and the three provisional adjustments (Adjustment Nos. 4.06, 4.07 and 5.11) described later below, is summarized in Table No. 16.

<u>Table No. 16 – Colstrip Investment[78]:</u>

Colstrip Investment ($millions)

	9/30/2021 EOP	ADJ 3.19 Pro Form 12/31/2021 EOP	ADJ 4.06 Provisional 12/31/2022 EOP	ADJ 4.07 Provisional 12/31/2023 AMA	ADJ 5.11 Provisional 12/31/2024 AMA	Total Colstrip Adjustments	12.31.2024 AMA
Plant Cost	$ 219.0	$ (2.0)	$ 4.0	$ 0.5	$ 3.0	$ 5.6	$ 224.7
Accumulated Depreciation	(175.8)	(3.0)	(12.1)	(6.5)	(13.7)	(35.3)	(211.1)
ADFIT	-	0.0	0.0	0.1	0.3	0.4	0.4
Net Plant after ADFIT	43.3	(5.0)	(8.1)	(5.9)	(10.4)	(29.3)	14.0
Colstrip Regulatory Asset	(5.4)	1.9	2.1	1.1	2.2	7.4	1.9
Net Rate Base	$ 37.84	$ (3.04)	$ (5.98)	$ (4.76)	$ (8.18)	$ (21.96)	$ 15.87
O&M Offsets	$ -	$ (0.1)	$ -	$ -	$ -	$ (0.1)	$ (0.1)
Depreciation Expense - At Authorized Deprec. Rates	11.5	0.1	0.4	0.2	0.2	1.0	12.5
Depreciation Expense - Accelerated on Additions	-	-	-	0.7	1.3	2.0	2.0
Regulatory Amortization	(3.6)	0.4	0.6	(0.2)	-	0.9	(2.7)
Total Expenses	$ 7.9	$ 0.4	$ 1.1	$ 0.7	$ 1.5	$ 3.7	$ 11.7

[78] After completion of the Company's revenue requirement in this case it was determined that certain Colstrip projects spend in 2023 and 2024, rather than when those projects would transfer to plant in service in 2024 (2023 spend) and 2025 (2024 spend), had been included in the Colstrip transfers in error. Therefore, the Colstrip Investment Table No. 16 above showing the "Plant Cost" for columns 12/31/2023 AMA and 12/31/2024 AMA, and totals for Colstrip will vary from that as shown by Mr. Thackston in his Colstrip investment tables. Table data above, Colstrip transfers to plant and resulting revenue requirement, will be corrected during the process of the case. While there will be a reduction to net plant and revenue requirement in the 2023 Provisional Colstrip discussed later below, the <u>net</u> impact to the 2024 Colstrip Provisional Adjustment was not materially different from that included in the Company's case, after adding 2023 capital spend to 2024 transferred additions, and removing 2024 spend to 2025 transferred additions (not included in this Two-Year Rate Plan.) See Mr. Thackston Exh. JRT-8C for the correct transfer to plant table for 2023 and 2024.

As shown in Table No. 16, the overall effect of all Colstrip adjustments over the Two-Year Rate Plan increases expenses by $3.7 million and decreases total rate base by $21.96 million.

2.) RY1 (12.2022 – 12.2023) Provisional Adjustments

Q. Moving now to "provisional" adjustments in RY1, would you please discuss the eight electric "provisional" adjustments (4.01-4.08) on pages 12 and 13 of Exh. EMA-2, and the three natural gas "provisional" adjustments (4.01-4.03) on page 11 of Exh. EMA-3?

A. Yes. Starting on page 12 of Exh. EMA-2 and page 11 of Exh. EMA-3 is the first of two (4.01 and 4.02) RY1 "provisional" adjustments reflecting 2022 and 2023 capital additions as sponsored by Mr. Baldwin Bonney at Exh. JBB-1T. As discussed by Mr. Baldwin-Bonney with regard to the 2022 – 2023 additions in RY1, as well as the 2024 additions described below with RY2 adjustment, "provisional" capital additions included in this case have been grouped to fit the Commission's defined categories in its Used and Useful Policy Statement[79]. These "provisional" categories are: 1) specific, identifiable and distinct; 2) programmatic (on-going programs or scheduled investments), and 3) short-lived assets and 4) Mandatory and Compliance (mainly "programmatic," but required to meet regulatory and other mandatory obligations). Although within Mr. Baldwin-Bonney's capital adjustment testimony, exhibits, and workpapers, the 2022 through 2024 provisional capital additions are separately discussed and grouped in the four (4) groupings above,[80]

[79] Policy Statement, issued January 31, 2020, in Docket No. U-190531.
[80] Capital witnesses also provide capital additions annually for 2022 through 2024 within these four categories on a system basis.

these groupings are consolidated by year upon entry into the Company's electric and natural gas Pro Forma Studies, as discussed below.

The first RY1 provisional adjustment, **Provisional Capital Groups 2022 Additions EOP,** column (4.01), for electric and natural gas, reflects all capital additions per Business Cases from January 1, 2022 through December 2022. This adjustment, sponsored by Mr. Baldwin-Bonney, is composed of three parts. The first is the annualized effects of the plant in service as of December 2021, adjusting to annualized depreciation expense and annual effects on A/D and ADFIT as of EOP 2022. 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 2022. 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).

The net impact of this adjustment on electric increases net rate base by $78,398,000 and decreases NOI by $1,704,000. For natural gas, this adjustment increases net rate base by $32,039,000 and decreases NOI by $329,000. Detailed information supporting these capital additions are included in testimony and exhibits of witnesses Mr. Thackston, Ms. Rosentrater, Mr. Kensok and Mr. Magalsky. Details supporting this adjustment is available in Exh. JBB-2 (native version) provided with this filing, as well as in Mr. Baldwin-Bonney's workpapers provided to all Parties after filing of this case.

The second RY1 provisional adjustment, **Provisional Capital Groups 2023 Additions AMA,** column (4.02), for electric and natural gas, reflects all capital additions per Business Cases from January 1, 2023, through December 2023. This adjustment, sponsored by Mr. Baldwin-Bonney, is also composed of three parts. The first adjusts for the effects of the plant in service as of December 2021, adjusting for A/D and ADFIT to 2023 AMA. The second component accounts for the effects from retirements on all plant incurred during 2023. 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 2023 (on an AMA basis).

The net impact of this adjustment on electric increases net rate base by $14,181,000 and decreases NOI by $1,813,000. For natural gas, this adjustment increases net rate base by $6,587,000 and decreases NOI by $514,000. Detailed information supporting these capital additions are included in testimony and exhibits of witnesses Mr. Thackston, Ms. Rosentrater, Mr. Kensok and Mr. Magalsky. Details supporting this adjustment are available in Exh. JBB-2 (native version) provided with this filing, as well as in Mr. Baldwin-Bonney's workpapers provided to all Parties after filing of this case.

Q. Turning now to page 13 of Exh. EMA-2 and continuing on page 11 of Exh. EMA-3, please discuss the next "provisional" adjustment.

A. The next "provisional" adjustment for RY1 for electric, and final RY1 adjustment for natural gas is adjustment **2022-2023 Capital O&M Offset & Revenue,** column (4.03). This adjustment, as described above in Section IV. B. "Offsetting Factors," includes RY1 reductions for: 1) direct O&M savings for certain capital Business Cases, 2) an incremental "2% O&M efficiency" adjustment, reducing O&M expense, for all remaining capital Business Cases (not required for regulatory purposes), and 3) offsetting revenue associated with the Growth Capital Business Case. These direct O&M offsets, "2%

efficiency" O&M offsets and revenues are shown in detail in Exh. EMA-5.[81] The net impact of this adjustment increases NOI by $6,174,000 for electric and $2,754,000 for natural gas.

Provisional Wildfire 2022 EOP Capital Additions and O&M Expense (electric), (column 4.04), reflects the incremental pro forma increase in wildfire expense of $2.9 million for Washington electric operations. This increase reflects a revised total for wildfire expense during RY1 of $5.1 million, versus the 12ME 09.2021 test period level of $2.2 million.[82] In addition, this adjustment includes the "provisional" capital additions related to the Company's Wildfire Plan from January 1, 2022 through December 2022 on an EOP basis. This adjustment includes annual depreciation expense, and the impact on A/D and ADFIT on wildfire investments from the 09.2021 test period through December 2022 EOP. Mr. Howell provides supporting testimony and exhibits regarding the Company's Wildfire Resiliency Plan at Exh. DRH-1T. The net impact of this adjustment increases electric net rate base by $13,806,000 and decreases NOI by $2,512,000.

Provisional Wildfire 2023 AMA Capital Additions and Pro Forma O&M Expense (electric), (column 4.05), reflects the "provisional" capital additions related to the Company's Wildfire Plan from January 1, 2023 through December 2023 on an AMA basis. In addition, this adjustment includes depreciation expense, and adjusts A/D and ADFIT to reflect all wildfire investments as of December 2023 AMA. Mr. Howell provides supporting

[81] See also incremental revenues for EIM included in PF "Power Supply" Adjustment (3.00P), incremental O&M savings related to AMI included in PF Adjustment (3.04), reduced O&M labor expense for retirements included in PF Adjustment (3.07), and Colstrip O&M savings in (3.19) for RY1.

[82] System level wildfire expenses for 2022, 2023 and 2024 are $8.3 million, $8.4 million and $8.6 million respectively. Washington's share of the 2023 level of expense of $5.1 million has been included here in Adjustment 4.03 and is proposed to establish the new Wildfire Balancing Account expense baseline over the Two-Year Rate Plan. See Wildfire Expense Balancing Account discussion at Section VII A. "Balancing Accounts Proposals" above. No further change in wildfire expense in RY2 is necessary.

testimony and exhibits regarding the Company's Wildfire Resiliency Plan at Exh. DRH-1T. The net impact of this adjustment increases electric net rate base by $7,135,000 and decreases NOI by $298,000.[83]

Further "provisional" Wildfire capital investment for 2024 included in RY2, above 2023 RY1 levels, is included below in PV Adjustment (5.10).

Q. With regard to Wildfire investments included by the Company over its Two-Year Rate Plan, has the Company recognized any benefits or direct cost savings?

A. As discussed by Mr. Howell, the goal of wildfire resiliency is to reduce the overall risk associated with wildfires. In short, the benefits of this plan are largely measured in terms of risk reduction for all parties involved as well as cost avoidance. The Company, however, recognizes a potential for costs savings and cost shifts from operating and maintenance expense towards capital investment. Furthermore, the overall impact of cost savings and cost shifts will not be well understood until the plan is fully operational and longer-term performance data can be obtained and analyzed. However, one of the objectives of this plan is to reduce the number of equipment failures and tree-related outages and by doing so, avoid emergency response and customer outage costs.

Although the Company is unable to include direct offsetting factors at this time, as discussed in Section VII. A. "Balancing Account Proposals", with regard to the Wildfire Balancing Account previously approved by the Commission in Dockets UE-200900, et. al., through the operation of the balancing account, O<u>&M costs will be tracked net of cost savings</u>, thereby effectively capturing over time any embedded cost savings.

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[83] Overall Wildfire Plan costs included in the Company's case for RY1 pro forma and provisional expenditures, results in an increase in revenue requirement of $5,980,000 over test period levels.

Provisional 2022 EOP Colstrip Capital and Amortization (electric), column (4.06), reflects the Company's provisional adjustment to recover its investment in Colstrip Units 3 and 4 for activity between January 1, 2022 and December 31, 2022 on an EOP basis. The adjustment increases regulatory amortization expense by $0.6 million, increases depreciation expense by $0.4 million. In addition, the adjustment reduces Colstrip net plant by $8.1 million (after including pro formed Colstrip capital additions between January 1, 2022 and December 31, 2022), and increases the regulatory asset by $2.1 million. See description for Adjustment 3.19 – Colstrip 12.2021 pro forma adjustment above for additional details. The net impact of this adjustment decreases electric net rate base by $5,981,000 and decreases NOI by $894,000.

Provisional 2023 AMA Colstrip Capital and Amortization (electric)[84], column (4.07), reflects the Company's provisional adjustment to recover its investment in Colstrip Units 3 and 4 for activity between January 1, 2023 and December 31, 2023 on an AMA basis. The adjustment decreases regulatory amortization expense by $0.2 million, increases depreciation expense by $0.9 million. In addition, the adjustment reduces Colstrip net plant by $5.9 million (after including pro formed Colstrip capital additions between January 1, 2023 and December 31, 2023), and increases the regulatory asset by $1.1 million. See description for Adjustment 3.19 – Colstrip 12.2021 pro forma adjustment above for additional details.

The increase of depreciation expense of $0.9 million is made up of $0.2 million from using authorized depreciation rates on the capital additions and $0.7 million of accelerated

[84] See footnote 78 above, regarding changes in Colstrip transfer to plant balances in 2023 and 2024.

depreciation. The Company is required to have all depreciation expense on Colstrip collected from customers by December 31, 2025. As was done in the previous rate case, Avista added depreciation expense on all capital additions after September 30, 2021 to have the additions fully depreciated by December 31, 2025. If the additions that the Company has included in this case are not approved, and therefore, the accelerated depreciation expense is not included in customers' rates beginning with this case (December 2022), all of the depreciation on plant that is added will have to be collected from customers in 2025. The net impact of this adjustment decreases electric net rate base by $4,757,000 and decreases NOI by $574,000.[85] Mr. Thackston discusses capital additions for Colstrip.

Q. Please describe the final electric RY1 "provisional" adjustment on page 13 of Exh. EMA-2.

A. The final electric, RY1 "provisional" adjustment, as shown on page 13 of Exh. EMA-2, is **Provisional EIM 2023 AMA Capital Additions (electric),** (column 4.08), reflects the "provisional" capital additions related to the Company's EIM investment in 2023 on an AMA basis. In addition, this adjustment includes depreciation expense, and reduces rate base by reflecting A/D and ADFIT on all EIM investments as of December 2023 on an AMA basis.

As discussed by Mr. Kinney at Exh. SJK-1T, as with any software application, there will be annual license costs and required upgrades to coincide with market enhancements and updates developed by the CAISO. Avista anticipates the capital costs to be $499,974 (system) in 2023 and $585,791 (system) in 2024 based on discussions with software vendors

[85] Overall Colstrip-related costs included in the Company's case for RY1 pro forma and provisional expenditures and amortizations, results in an increase in revenue requirement of $1,086,000 over test period levels.

and internal reviews. Mr. Kinney provides testimony in support of the Company's EIM expenditures and the 2023-2024 post implementation investment are included in Exh. SJK-2, EIM Modernization and Operational Efficiency Business Case. The net impact of this adjustment decreases electric net rate base by $902,000 and decreases NOI by $369,000.[86]

Q. Completing the electric and natural gas <u>Pro Forma Studies for RY1</u>, please discuss the final column on page 13 of Exh. EMA-2 and page 11 of Exh. EMA-3.

A. For electric, the final column on page 13 of Exh. EMA-2, is the final RY1 total column labeled "RY1 Dec. 2022 FINAL TOTAL," showing the RY1 total pro forma operating results (NOI of $109,633,000) and rate base ($2,045,845,000) for the RY1 pro forma test period, and the total electric revenue requirement need of $52,852,000.

For natural gas, the final column on page 11 of Exh. EMA-3, is the final RY1 total column labeled "RY1 Dec. 2022 FINAL TOTAL," showing the RY1 total pro forma operating results (NOI of $29,391,000) and rate base ($514,942,000) for the RY1 pro forma test period, and the total natural gas revenue requirement need of $10,922,000.

<u>B. RATE YEAR 2 – PRO FORMA STUDY</u>

Q. Please now turn to page 14 of Exh. EMA-2 for electric, and page 12 of Exh. EMA-3 for natural gas, and explain what the columns there represent.

A. Starting on page 14 of Exh. EMA-2 (electric) and page 12 of Exh. EMA-3 (natural gas) begins the incremental adjustments for RY2, that are necessary to adjust the pro forma operating results for RY1 (representing the RY1 electric and natural gas Pro

[86] Overall EIM costs included in the Company's case for RY1 pro forma and provisional expenditures, results in an increase in revenue requirement of $3,293,000 over test period levels.

Forma Studies), to produce the electric and natural gas Pro Forma Studies for RY2.

Individual RY2 "Pro Forma" adjustments, start in column (5.00) through (5.07) on page 14, for electric and page 12, for natural gas. These adjustments pro form incremental costs expected in RY2, above RY1 levels, beginning December 2023.

Individual RY2 "Provisional" adjustments, for electric begin on page 15 in column (5.08) and continue through column (5.12), and for natural gas, begin on page 13 in column (5.08) through column (5.09). These adjustments reflect incremental "provisional" costs expected in RY2, beginning December 2023, impacting related pro forma expenses, as well as, net plant that are subject to review and refund in a future period. Each of these adjustments are described below.

1.) RY2 (12.2023 – 12.2024) Pro Forma Adjustments

Q. Starting on page 14 for electric and 12 for natural gas, would you please discuss the RY2 pro forma adjustments?

A. Yes. Starting on page 14 for electric, and 12 for natural gas, pro forma adjustments reflect the incremental increases in expenses and rate base adjustments for RY2, effective December 2022 through December 2023, above RY1 pro forma levels.

The first RY2 pro forma adjustment, **Pro Forma 2024 ARAM DFIT,** column (5.00), adjusts the electric and natural gas ARAM DFIT amortization expense from that included in RY1 (per Adjustment 3.03 above), to reflect the level of ARAM DFIT amortization expense expected in the RY2 effective period. See description above in PF (3.03). The effect of this adjustment decreases NOI in RY2 by an incremental $842,000 for electric and by an incremental $169,000 for natural gas, from RY1 levels.

<u>Pro Forma 2024 AMI Regulatory Amortization</u>, column (5.00), adjusts the electric and natural gas AMI Regulatory Asset balances and O&M expenses from that included in RY1 (per Adjustment 3.04 above). Washington O&M expense is <u>reduced</u> an incremental $791,000 for electric and $264,000 for natural gas to reflect incremental O&M savings in RY2 beyond RY1 levels. In addition, the Regulatory AMI Asset (Deferred Debits) balances are decreased $3.0 million for electric and $0.8 million for natural gas, to reflect the reduced regulatory asset balances during RY2 on an AMA basis, due to the amortization of the AMI Regulatory Asset. The net effect of these adjustments, therefore, increases NOI by $610,000 for electric and $204,000 for natural gas. This adjustment also reduces total rate base by $2,992,000 for electric and $848,000 for natural gas.

<u>Pro Forma Non-Exec Labor & Union Incentive,</u> column (5.02), reflects incremental changes in base pay in RY2 for non-executive/non-union labor and union labor and incentive above RY1 levels. Mr. Everitt discusses the Non-Exec Labor Adjustment in detail within his testimony. However, the specific electric and natural gas adjustments included in Exh. EMA-2 and Exh. EMA-3, reflect incremental changes from RY1 to RY2 union and non-union wages and salaries, excluding executive salaries. For <u>non-union</u> employees, the adjustment annualizes the impact of the March 2023 increase, and includes an adjustment for increases expected in March of 2024 (on a prorated basis) for the December 2023 RY2 effective period, as discussed by Mr. Everitt.

<u>Union</u> employee labor increases, as well as pro forma Union Incentive increases included in this adjustment, are made in accordance with confidential contract terms as discussed by Mr. Everitt. In total, incremental Non-Exec (union and non-union) labor expense for RY2 above RY1 levels, increased expense approximately $1.95 million electric

and $552,000 natural gas. The effect of this adjustment decreases electric and natural gas NOI by $1,540,000 and $436,000, respectively, for RY2, above RY1 levels.

Pro Forma Employee Benefits, column (5.03) electric and natural gas, adjusts the incremental changes in Retirement Plans (401(k) and Pension), and Medical insurance for active employees and for those retired (post-retirement medical) to the expected amount for the rate effective period beginning December 2023 for RY2, above RY1 levels. (See discussion in adjustment (3.09) above.) The impact of these changes is summarized in Table No. 17 below:

Table No. 17: Benefit Adjustment RY2

Pro Forma Benefit Incremental RY2 Adjustment - Washington Electric and Natural Gas				
Benefit Adjustment	**System**	**O&M**	**WA Electric**	**WA Natural Gas**
Retirement	$ 463	$ 265	$ 129	$ 39
Medical	$ 1,190	$ 681	$ 333	$ 101
Total	$ 1,653	$ 946	$ 462	$ 140

As shown in Table No. 17 above, the overall net impact of the incremental changes in pension and medical expense on a system O&M expense basis in RY2, above RY1 levels, is an increase of $946,000, or $462,000 Washington electric and $140,000 Washington natural gas. Therefore, Pro Forma Employee Benefits adjustment (5.03) decreases NOI for electric by $365,000 and for natural gas by $111,000. Again, the Company will update the level of expense as soon possible during the process of the case, after receiving updated consultant information expected in early 2022.

Pro Forma Property Tax, column (5.04) electric and natural gas, restates the RY1 level of property tax expense included in adjustment (3.11) Pro Forma Property Tax for RY1, to the level of property tax expense the Company will experience during RY2 effective December 2023 through December 2024. The property on which the tax is calculated is the property value as of December 31, 2023, taxed at existing rates. The effect of this adjustment decreases NOI by $495,000 for electric and by $207,000 for natural gas.

Pro Forma Insurance Expense, column (5.05), restates the RY1 level of insurance expense included in adjustment (3.12) Pro Forma Insurance Expense for RY1, to the level of insurance expense the Company will experience during RY2 effective December 2023 through December 2024, for general liability, directors and officers ("D&O") liability, property and other (Cyber, Colstrip and Worker's Comp) insurance. The amount included for D&O insurance is reduced by 10% per Dockets UE-090134 and UG-090135. New invoicing was received in December 2021 for the Company's general and property insurance premiums for the period December 2021 through December 2022, informing the pro forma December 2023 through December 2024 amounts for RY2, after completion of the Company's final revenue requirement in this case. Additional invoices for D&O insurance premiums will be received in March 2022. The Company will update the estimated amounts included here for RY2 as soon as the actual invoices are available. See further discussion on the determination of insurance expense values included in the Company's case, as well as the Company's proposed Insurance Expense Balancing Account, in Section VII. B. "Balancing Account Proposals" above. The effect of this adjustment decreases NOI by $1,194,000 for electric and by $80,000 for natural gas.

Pro Forma Transportation Electrification Return (Kicker) (electric), column (5.06), includes the 2% incentive rate of return (return "kicker") for RY2 on the Transportation Electrification capital investments included in this case, above RY1 levels discussed above in PF adjustment (3.16), which totals approximately $36,000 in Rate Year 2 (2024). Grossed up for taxes, the amount included in Exh. EMA-2, page 14, column (5.06) totals $46,000 for RY2. The impact on electric NOI for this adjustment is a decrease of $36,000.

<u>Pro Forma LEAP Deferral (Gas Line Extension) Amortization (natural gas)</u>, column (5.06), adjusts the RY1 AMA 2023 LEAP deferral amortization expense and rate base balance as discussed in PF Adjustment (3.06) above, to reflect the revised LEAP AMA 2024 rate base (net of ADFIT) balance of $919,000, and the revised amortization expense of $1.6 million during the rate-effective period (RY2) based off the approved regulatory treatment approved in prior Avista proceedings as discussed previously. The effect of this adjustment decreases net rate base by $1,250,000 and increases NOI by $148,000.

Q. Please continue with the <u>final RY2 pro forma</u> adjustment, located on page 14 of electric Exh. EMA-2 and page 12 of natural gas Exh. EMA-3.

A. The final RY2 pro forma adjustment on page 14 of electric Exh. EMA-2 and page 13 of natural gas Exh. EMA-3, is adjustment **<u>Pro Forma Miscellaneous O&M Expense,</u>** column (5.07). This adjustment reflects escalated increases in certain Company O&M and A&G expenses, to reflect incremental expenses in RY2, beyond RY1 levels in adjustment (3.14), effective December 2023 through December 2024, not otherwise pro formed within the Company's electric or natural gas Pro Forma Studies. The same escalation growth rate used in RY1, applied by FERC account to certain O&M and A&G annual balances as of RY1, is used to escalate RY2 above RY1 levels, of 7.05% for electric and 7.29% for natural gas. Again, based on the Company's historical increased expenses in recent years, as well as that described by Dr. Forsyth of inflationary impacts on the market place in which Avista's utility business operates, impacting the cost of the goods and services purchased by the Company, the Company believes the escalation percentage of

7.05% for electric and 7.29% for natural gas, used for the limited miscellaneous O&M and A&G expenses for RY2 in adjustment (5.07), to be conservative. Workpapers provided to all Parties provide detailed analysis of this adjustment. This adjustment decreases Washington net operating income by $3,431,000 for electric and $790,000 for natural gas.

2.) RY2 (12.2023 – 12.2024) Provisional Adjustments

Q. Turning now to page 15 of Exh. EMA-2 for electric, and page 13 of Exh. EMA-3 for natural gas, please explain what the columns there represent.

A. Starting on page 15 of Exh. EMA-2 (electric) and page 13 of Exh. EMA-3 (natural gas) begins the incremental "provisional" adjustments for RY2, that are necessary to adjust the Pro Forma operating results for RY1 (representing the RY1 electric and natural gas Pro Forma Studies), to produce the final electric and natural gas Pro Forma Studies for RY2.

The first RY2 provisional adjustment, **Provisional Capital Groups 2024 Additions AMA,** column (5.08), for electric and natural gas, reflects all capital addition per Business Cases from January 1, 2024 through December 2024. This adjustment, sponsored by Mr. Baldwin-Bonney, is also composed of three parts. The first adjusts for the effects of the plant in service as of December 2021, adjusting for A/D and ADFIT to 2024 AMA. The second component accounts for the effects from retirements on all plant incurred during 2024. 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 2024 (on an AMA basis).

The net impact of this adjustment on electric increases net rate base by $76,786,000 and decreases NOI by $950,000. For natural gas, this adjustment increases net rate base by

$22,198,000 and increases NOI by $141,000. Detailed information supporting these capital additions are included in testimony and exhibits of witnesses Mr. Thackston, Ms. Rosentrater, Mr. Kensok and Mr. Magalsky. Details supporting this adjustment is available in Exh. JBB-2 (native version) provided with this filing, as well as in Mr. Baldwin-Bonney's workpapers provided to all Parties after filing of this case.

The next "provisional" adjustment for electric, and the final "provisional" adjustment for natural gas, is **Provisional 2024 Capital O&M Offset & Revenue, in** column (5.09). This adjustment, as described above in Section IV. B. "Offsetting Factors," includes RY2 reductions for: 1) direct O&M savings for certain capital Business Cases, 2) an incremental "2% O&M efficiency" adjustment, reducing O&M expense, for all remaining capital Business Cases (not required for regulatory purposes), and 3) offsetting revenue associated with the Growth Capital Business Case. These direct O&M offsets, "2% efficiency" O&M offsets and revenues are shown in detail in Exh. EMA-5.[87] The net impact of this adjustment increases NOI by $2,688,000 for electric and $1,128,000 for natural gas.

Provisional Wildfire 2024 AMA Capital Additions and Pro Forma O&M Expense (electric), (column 5.10), reflects the "provisional" capital additions related to the Company's Wildfire Plan from January 1, 2024 through December 2024 on an AMA basis. In addition, this adjustment includes depreciation expense, and adjusts A/D and ADFIT to reflect all wildfire investments as of December 2024 AMA. Mr. Howell provides supporting testimony and exhibits regarding the Company's Wildfire Resiliency Plan at Exh. DRH-1T. The net impact of this adjustment increases electric net rate base by $15,690,000 and

[87] See also incremental O&M savings related to AMI included in PF Adjustment (5.01) RY2.

decreases NOI by $289,000.[88]

Provisional 2024 AMA Colstrip Capital and Amortization (electric)[89], column (5.11), reflects the Company's provisional adjustment to recover its investment in Colstrip Units 3 and 4 for activity between January 1, 2024 and December 31, 2024 on an AMA basis. The adjustment increases depreciation expense by $1.5 million. In addition, the adjustment reduces Colstrip net plant by $10.4 million (after including pro formed Colstrip capital additions between January 1, 2024 and December 31, 2024), and increases the regulatory asset by $2.2 million.[90] See description for Adjustment 3.19 – Colstrip 12.2021 pro forma adjustment above for additional details.

The increase of depreciation expense of $1.5 million is made up for $0.2 million from using authorized depreciation rates on the capital additions and $1.3 million of accelerated depreciation. As described above in Adjustment 4.07, the Company is required to have all depreciation expense on Colstrip collected from customers by December 31, 2025, therefore, Avista added depreciation expense on all capital additions after September 30, 2021 to have the additions fully depreciated by December 31, 2025. The net impact of this adjustment decreases electric net rate base by $8,178,000 and decreases NOI by $1,234,000.

The final electric, RY2 "provisional" adjustment, as shown on page 15 of Exh. EMA-2, is **Provisional EIM 2024 AMA Capital Additions (electric),** (column 5.12). This adjustment reflects the "provisional" capital additions related to the Company's EIM

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[88] Overall Wildfire Plan costs included in the Company's case for RY2 provisional capital expenditures, results in an increase in revenue requirement of $1.9 million over RY1 levels.
[89] See footnote 78 above, regarding changes in Colstrip transfer to plant balances in 2023 and 2024.
[90] Overall Colstrip costs included in the Company's case for RY2 provisional capital expenditures, results in an increase in revenue requirement of $842,000 over RY1 levels.

investment in 2024 on an AMA basis for RY2. In addition, this adjustment includes depreciation expense, and reduces rate base by reflecting A/D and ADFIT on all EIM investments as of December 2024 on an AMA basis.

As discussed by Mr. Kinney at Exh. SJK-1T, as with any software application, there will be annual license costs and required upgrades to coincide with market enhancements and updates developed by the CAISO. Avista anticipates the capital costs to be $499,974 (system) in 2023 and $585,791 (system) in 2024 based on discussions with software vendors and internal reviews. Mr. Kinney provides testimony in support of the Company's EIM expenditures and the 2023-2024 post implementation investment are included in Exh. SJK-2, EIM Modernization and Operational Efficiency Business Case. The net impact of this adjustment decreases electric net rate base by $1,569,000 and decreases NOI by $34,000.[91]

Q. Completing the electric and natural gas <u>Pro Forma Studies for RY2</u>, please discuss the final two columns on page 15 of Exh. EMA-2 and page 13 of Exh. EMA-3.

A. For electric, the final two columns on page 15 of Exh. EMA-2, reflects the RY2 total column labeled "RY2 Dec. 2023 FINAL TOTAL," showing the RY2 total pro forma operating results (NOI of $102,251,000) and rate base ($2,125,582,000) for the RY2 pro forma test period, and the total electric revenue requirement need of $69,825,000 over the Two-Year Rate Plan, and the final column labeled "RY2 Incremental Dec. 2023-I FINAL TOTAL," showing the incremental revenue requirement in RY2, above RY1, of $17,133,000.

[91] Overall EIM costs included in the Company's case for RY2 provisional capital expenditures, results in a decrease in revenue requirement of $107,000 over RY1 levels, due to impact on net plant for A/D and ADFIT of short-lived assets.

For natural gas, the final two columns on page 13 of Exh. EMA-3, reflect the RY2 total column labeled "RY2 Dec. 2023 FINAL TOTAL," showing the RY2 total pro forma operating results (NOI of $29,220,000) and rate base ($535,042,000) for the RY2 pro forma test period, and the total electric revenue requirement need of $13,094,000 over the Two-Year Rate Plan, and the final column labeled "RY2 Incremental Dec. 2023-I FINAL TOTAL," showing the incremental revenue requirement in RY2, above RY1, of $2,172,000.

C. RY1 and RY2 Final Summary

Q. How much additional net operating income would be required for Washington electric operations to allow the Company an opportunity to earn its proposed 7.31% rate of return on a pro forma basis for the Two-Year Rate Plan?

A. For electric, the net operating income deficiency amounts to $39,919,000 for RY1 and $12,941,000 (incremental) for RY2, as shown on line 5, page 3 of Exh. EMA-2. The resulting revenue requirement is shown on line 7 and amounts to $52,852,000 for RY1, or a base increase of 9.6% (9.8%, prior to the Residual Customer Tax Credit), and $17,133,000 (incremental) for RY2, or a base increase of 2.84%.

Concurrent with the RY1 effective date (December 2022), the Company proposes to return to customers the incremental Residual Customer Tax Credit, beginning December 2022, through separate electric Tariff Schedule 78 "Residual Tax Customer Credit" of $25.5 million, amortized over two-years (or $12.7 million annually), offsetting the Company's requested electric base rate relief in part, over approximately 24 months. As discussed by Mr. Miller, electric Tariff Schedule 78 would be in effect December 2022 through December 2024.

Q. How much additional net operating income would be required for the

Washington natural gas operations to allow the Company an opportunity to earn its proposed 7.31% rate of return on a pro forma basis for the Two-Year Rate Plan?

A. For natural gas, the net operating income deficiency amounts to $8,251,000 for RY1 and $1,641,000 (incremental) for RY2, as shown on line 5, page 3 of Exh. EMA-3. The resulting revenue requirement is shown on line 7 and amounts to $10,922,000 for RY1, or a base increase of 9.51% (5.82% billed, prior to the Residual Customer Tax Credit), and $2,172,000 (incremental) for RY2, or an increase of 1.73% (1.09% billed).

Concurrent with the RY1 effective date (December 2022), the Company proposes to return to customers the incremental Residual Customer Tax Credit, beginning December 2022, through separate electric Tariff Schedule 178 "Residual Tax Customer Credit" of $12.5 million, amortized over two-years (or $6.2 million annually), offsetting the Company's requested electric base rate relief in part, over approximately 24 months. As discussed by Mr. Miller, electric Tariff Schedule 178 would be in effect December 2022 through December 2024.

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

A. Yes, it does.