BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UITILITIES AND TRANSPORTATION COMMISSION Complainant, v. AVISTA CORPORATION d/b/a AVISTA UTILITIES Respondent.	)))))))))))	DOCKETS UE-150204 and UG-150205 (*Consolidated*)

CONFIDENTIAL POST-HEARING BRIEF

OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

November 4, 2015

(REDACTED VERSION)

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I. INTRODUCTION

1 Pursuant to WAC § 480-07-390 and Prehearing Conference Order 03, the Industrial Customers of Northwest Utilities ("ICNU") submits this post-hearing brief requesting that the Washington Utilities and Transportation Commission ("WUTC" or the "Commission") reject the attrition adjustment proposed by Avista Utilities ("Avista" or the "Company") and reduce the Company's current revenues by $24.8 million.[1/] Avista is overearning and has not demonstrated the need for an attrition adjustment. Further, the Company has not carried its burden of proof to justify its electric revenue requirement recommendation of $3.9 million on rebuttal, or $(72,000) based on its November Power Supply Update, filed October 29, 2015.

2 An attrition adjustment is not justified for the following reasons:

- The record plainly establishes that the Company is in good financial health and has been overearning in recent years, and thus, Avista is not experiencing financial distress warranting this extraordinary ratemaking measure;
- Avista is not suffering from regulatory lag, given the Company's projection to file annual rate cases for at least the next five years with or without an attrition adjustment;
- A traditional, modified historical test year approach with limited pro forma adjustments has produced and will produce sufficient rates;
- The attrition recommendations of both Avista and Staff are contrary to the Commission's "known and measurable" and "used and useful" standards;
- The regulatory compact requires fair and equitable balancing of risks and rewards between Avista and its ratepayers—the attrition adjustments

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1/ ICNU's recommendation for a $24.8 million reduction to Avista's current revenues is based upon the cross-answering testimony of ICNU witness Bradley G. Mullins. In light of the Company's proposal for a $(72,000) reduction to its current rates in its November Power Supply Update, filed on October 29, 2015, Mr. Mullins' proposal to reduce revenue by $34.8 million overall could result in a $34.8 million decrease to the Company's current revenues. Notwithstanding, figures referenced in briefing are generally based on amounts originally calculated in prior testimony.

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proposed in this case would simply increase customer risks without any corresponding benefit to ratepayers; and

- As the last approval of an attrition adjustment occurred in the 1980s in a materially different period of unprecedented high inflation, a ratemaking paradigm shift of this magnitude should first be addressed in the Commission's current investigatory docket regarding attrition, U-150040.

3 As supported by Mr. Mullins, Avista's revenue requirement should be calculated using a modified historical test period and the following adjustments should be made:

Table 1
ICNU Revenue Requirement Recommendation ($000)[2/]

			Revenue Deficiency per Revised Staff DR 131, Attach B:	**$10,037 ***
Adj. No.	Description	Company Pro Forma	ICNU Pro Forma	Adjustment
4.02	Reject 2016 AMA Capital	2,676	-	(2,676)
4.04	Reject O&M Offsets	(205)	-	205
4.05	Reject Attrition Recon.	(1,363)	-	1,363
3.11/3.12U	CY 2014 AMA Rate Base	2,309	2,440	130
4.01	2015 Capital Additions	27,639	8,010	(19,629)
3.06	Property Tax	3,335	1,182	(2,153)
4.03	AMI Meter Retirement	4,202	-	(4,202)
3.10	Colstrip & CS2 Maint.	5,191	2,705	(2,486)
3.03	Executive Compensation	231	(270)	(500)
ICNU-1	Corporate Jet	-	(806)	(806)
3.02	Pro Forma Labor	4,037	-	(4,037)
3.04	Pro Forma Benefits	3,415	3,415	-
			Total:	**(34,792)**
			Revenue Deficiency (Sufficiency):	**(24,755)**

* Does not reflect November Power Supply Update filed October 29, 2015

[2/] Exh. No. BGM-5T at 2, Table 1-CA.

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II. BACKGROUND

A. Avista Enjoys a Strong Financial Position and Is Over-earning despite Continued and Unsuccessful Attrition and Attrition-Related Rate Requests

4 Every year since 2005, the Company has either filed a general rate case or received/requested a rate increase similar in size to that typically requested in a general rate proceeding.[3/] The two exceptions to the Company's pattern of annual general rate case filings are 2006 and 2013. In 2006, Avista requested a $28.9 million, or 8.8% rate increase related to production and transmission costs, in Docket UE-061411. Likewise, while 2013 did not include a general rate case filing, the Company received a very significant rate increase as part of a multi-year rate order issued in its 2011/2012 general rate case. This is a service territory with little to no load growth and is a community with economic challenges.[4/]

5 The Commission has been considering the Company's express attrition claims since the consolidated 2011/2012 general rate case.[5/] In the years prior to this, the Company's general rate increase requests annually included expansive, "proto-attrition" adjustments designed to replace historical ratemaking methodology—i.e., discreet adjustments premised upon the same bases now associated with full, explicit attrition claims.[6/] In all this time, however, the Commission has yet to depart from its

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3/ Exh. No. BGM-1CT at 9:11-13.

4/ E.g., Exh. No. SLM-1T at 9:4-5, Illustration No. 6 (stating "a significant reduction in use-per-customer beginning around 1980"); id. at 11, Illustration No. 7 (showing a low increase in sales growth from 2005 to projected 2018 levels).

5/ See WUTC v. Avista, Dockets UE-110876 *et al.*, Order 08/03 at ¶ 19 (May 14, 2012) (finding relation between attrition adjustment proposals and 2011 general rate case issues).

6/ See, e.g., WUTC v. Avista, Dockets UE-070804 *et al.*, Exh. No. SLM-1T at 22:13-15 (regarding major capital expenditures planned in the future); WUTC v. Avista, Dockets UE-080416 and UG-080417 (*consolidated*), Exh. No. SLM-1T at 29:8-13 (describing pro forma adjustments based on claims of rising materials costs, allegedly necessitating "recovery levels in excess from traditional, historical test-year computations"); WUTC v. Avista, Dockets UE-090134 *et al.*, Exh. No. SLM-1T at 23:10-15 (repeating the 2008 general rate case claims); WUTC v. Avista, Dockets UE-100467 and UG-100468 (*consolidated*), Exh. No. SLM-1T at 43:15-21 (repeating the 2008 and 2009 general rate case claims).

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"longstanding practice of using a modified historical test period with limited pro forma adjustments,"[7/] having elected not to approve an attrition adjustment for the Company.

6 Notwithstanding the absence of any attrition adjustments over the past decade, Avista is now in very sound financial health and has actually over-earned for its Washington electric operations for at least the past two years, including equity returns as high as 11.5% actual and 10.6% normalized in 2014.[8/] The Company reported a 72.8% increase in net income in 2014 as well, allowing Avista to pay shareholders $78.3 million in dividends (after paying $73.3 million in 2013) and to repurchase $79.9 million in common stock last year.[9/] Standard & Poor's recently noted that Avista has "[c]onsistent access to capital markets to fund capital spending," in addition to finding that the Company has enjoyed a "strong" liquidity position in 2014 and 2015.[10/] On top of all this, the Company reported an 8.02% electric rate of return for Washington operations for the twelve months ended June 30, 2015, on an Average-of-Monthly-Average basis—further indicating that Avista's strong financial position and over-earning continues, independent of near-constant and failed attempts to secure an attrition adjustment.[11/] This is certainly not a company in need of special assistance in the form of a quasi-automatic rate increase.

B. Company Attrition Claims Are Caused by Purposeful Capital Overspending, without Consideration of Ratepayer Impact

7 In the three years prior to Avista's express "attrition" claims (2009-2011), the Company only spent between 88-95% of its planned capital budget; in the three full

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7/ Exh. No. CRM-1T at 9, n.2.

8/ E.g., Exh. No. KON-1T at 13:9-17; Exh. No. BGM-1CT at 9:2-4 (citing Exh. No. BGM-4C at 75 (the Company's Response to Staff Data Request ("DR") 148)).

9/ Exh. No. BGM-1CT at 8:3-10.

10/ Bench Exh. No. 8 (Avista's Response to Bench Request No. 5, Att. B at 2, Att. C at 2).

11/ Re Avista Monthly Operating Reports for the Quarter Ending June 30, 2015, Docket UE-151630, Initial Filing (Aug. 6, 2015).

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years since (2012-2014), the Company has spent 103-108% of its budget.[12/] This marked shift in the Company's pattern of capital spending did not happen by chance. Rather, [redacted] [13/] The incentive to follow a plan of capital over-spending, consciously pursued in order to increase shareholder earnings, is nothing new to the realm of utility regulation. The phenomenon is widely documented and commonly referred to as the Averch-Johnson Effect.[14/]

8 The fact that the Company's attrition requests have precisely coincided with a pattern of capital overspending is crucially important. As Mr. Mullins has testified:

> [A]bsent regulatory policies to deter over spending, ratepayers will have no protection against unconstrained capital spending on the part of the utility. Traditionally, the Commission's adherence to a modified historical test period has served to partially check this incentive to overspend. If the modified historical test period is abandoned in favor of a trend-based revenue requirement methodology, not only would that check be eliminated, but utilities would be provided with an even greater incentive to overspend."[15/]

Thus, Avista's continued attrition requests would enhance the increased shareholder returns already being realized through the Company's recent capital over-spending practices, all to the detriment of customers. The question remains unanswered: Why does Avista need this aggressive capital spending when it is experiencing little to no load growth?

12/ Exh. No. BGM-4C at 22 (the Company's Response to ICNU DR 202).
13/ Id. at 30 (the Company's Response to ICNU DR 220C, Conf. Att. A at 75) (emphasis added).
14/ Exh. No. BGM-1CT at 13:5-11 (citing Harvey Averch & Leland L. Johnson, *Behavior of the Firm Under Regulatory Constraint*, 52 Am. Econ. Rev. 996, 1052 (1962)).
15/ Id. at 14:3-9.

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9 The record contains too many indications of a purposeful over-spending program to ignore. In the years prior to Avista's continual attrition requests, the Company had rewarded executives for capital expenditure control through an incentive plan component; more recently, however, the Finance Committee of the Board of Directors "acknowledged *with pleasure* that the 2012 capital spend was not significantly under budget[,] which had been the case historically."[16] The Company now "manages the actual capital expenditures each year to be close to the planned amount,"[17] doing so by means of the Capital Planning Group's ("CPG") designed such that capital projects and programs are intentionally [18]

10 Indeed, the "CPG approves or declines [capital expenditure] requests based on managing a total budget amount,"[19] not upon any prioritized need for capital spending in relation to the ability of customers to shoulder ever-increasing rates. The Company claims that, in setting the overall level of capital investment each year, Avista considers "the degree of overall rate pressure faced by our customers."[20] When asked to provide any studies that would support this claim, however, the Company could only refer ICNU to a spreadsheet containing Avista's Consolidated Statements of Income.[21] Likewise, the Company has neither "conducted studies of the economic impact of current or future rate increases on its ratepayers," nor does it track the income of its customers.[22]

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[16] Compare Exh. No. BGM-4C at 26 (the Company's Response to ICNU DR 212), with id. at 19 (the Company's Response to ICNU DR 69, Att. A at 54) (emphasis added).
[17] Id. at 26 (the Company's Response to ICNU DR 212).
[18] Id. at 2 (the Company's Response to ICNU DR 20C, Conf. Att. C at 63).
[19] Id. at 83 (the Company's Response to Public Counsel ("PC") DR 72).
[20] Exh. No. MTT-1T at 10:1-6.
[21] Exh. No. BGM-4C at 23 (the Company's Response to ICNU DR 203).
[22] Id. at 21, 46 (the Company's Responses to ICNU DR 197 and Staff DR 111).

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11 The considerable danger in allowing Avista to manage its capital expenditures without regard to customers or demonstrated actual need, and only in reference to its own budgeted targets, has been noted by both Staff and Public Counsel. As Staff observed in the Commission's recent investigatory docket on attrition, "projections of future levels of expense and rate base may become a self-fulfilling prophesy [sic] …. [A] utility may 'prove' its projections of the future to be true by modifying its business decisions to create the projected future."[23/] Similarly, Public Counsel recently warned "that projections may become a 'self-fulfilling prophecy' where there is an incentive for rates of capital expenditure to be driven by an effort to match earlier projections."[24/]

12 In practice, the Company has ensured that actual capital expenditures match and then exceed original forecasts on an annual basis. This is accomplished via end-of-year expenditure ramping. The CPG "has a list of shovel-ready work that can be activated in November *should there be any available funds*."[25/] That is, the Company has designed a program to guarantee full capital spending rather than preserving cost controls. This late-year ramping is apparent in the record, given both actual expenditures in 2014 and forecast expenditures in 2015.[26/] Such evidence speaks powerfully to a Company whose spending practices need to be carefully reined in, rather than fueled, carte blanche, through the grant of an "undistributed increase" to revenue in the form of an attrition adjustment.[27/]

23/ Re Investigation of Possible Ratemaking Mechanisms to Address Utility Earnings Attrition, Docket U-150040, Staff Comments at 8 (Mar. 27, 2015).
24/ Docket U-150040, PC Comments at 20 (Mar. 27, 2015).
25/ Exh. No. BGM-4C at 18 (the Company's Response to ICNU DR 69, Att. A at 37) (emphasis added).
26/ Id. at 54-74 (the Company's Response to Staff DR 143 Rev. 2, Att. A & B).
27/ Exh. No. BGM-1CT at 6:24-25.

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C. Attrition Mechanisms Have only Been Approved Due to Extraordinary Circumstances Causing Financial Distress, Circumstances Not Present with Avista

13 In 2012, when Avista first began making explicit attrition requests, the Commission described the availability of an attrition adjustment as follows in a Puget Sound Energy, Inc. ("PSE") general rate case: "This form of adjustment was available to utilities during the early 1980's in an environment *of exceptional inflation and high interest rates*; it is equally available today if shown to be *a needed response* to the challenges posed by PSE's current intensive capital investment program to replace aging infrastructure."[28/]

14 The Commission's emphasis in 2012—that an attrition adjustment is reserved for "exceptional" circumstances, and only when necessary—fully agrees with the Commission's decision in 1993, rejecting a proposed attrition adjustment for Washington Natural Gas: "An adjustment for attrition is an extraordinary measure, not generally included in general rate relief. A request for such an adjustment should be based on extraordinary circumstances …."[29/] In other words, while the Commission acknowledged the continuing availability of an attrition adjustment in 2012, the Commission also conditioned that availability to necessary circumstances (i.e., "a needed response") because, as articulated in 1993, an attrition adjustment is exceptional, and "not generally included in general rate relief."

15 "Exceptional" circumstances, such as the high interest rate and inflationary circumstances of the 1980s, do not describe Avista's present situation. In approving an attrition adjustment in 1981, the Commission stated that evidentiary support

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[28/] WUTC v. PSE, Dockets UE-111048 and UG-111049 (*consolidated*), Order 08 at ¶ 489 (May 7, 2012) (emphasis added).

[29/] WUTC v. Wash. Natural Gas, Docket UG-920840, Fourth Suppl. Order at 29-30 (Sept. 27, 1993).

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for attrition "must be of such character that will lead us to a firm conviction that not to do otherwise will jeopardize the company's financial integrity."[30/] As already noted, however, the market's affirmation of Avista's consistent "access to capital markets to fund capital spending" and "strong" liquidity position are a far cry from the Company's circumstances in the 1980s, when the Commission granted an attrition allowance after noting "an imbalance in its ability to raise necessary construction funds" which had "adversely affected the company's financial indices."[31/]

16 In fact, the Company cannot rationally claim that its attrition request is founded on "extraordinary circumstances" because it: 1) has made several requests for an attrition adjustment since 2012; and 2) testified at hearing that it plans to continue filing annual general rate cases and to base its requests in those annual filings on attrition studies. Thus, completely contrary to the Commission's unambiguous pronouncement that an attrition adjustment "is an extraordinary measure, not generally included in general rate relief," the record conclusively establishes that Avista seeks to make attrition adjustments a *regular* feature of WUTC ratemaking, by *constantly* including such adjustments in rate filings. Even during the period in the 1980s in which attrition adjustments were approved, this result would have been unacceptable to the Commission, which affirmed, while approving an attrition adjustment, that "sound regulatory practice requires that the attrition allowance be used *sparingly*."[32/]

17 In sum, when the Commission stated in 2012 that an attrition adjustment was available as "a needed response" to challenges posed by a utility's capital program,

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30/ WUTC v. Wash. Water Power Co., Cause Nos. U-81-15 and U-81-16, Second Suppl. Order, 1981 WL 725219 (Nov. 25, 1981).

31/ Id.

32/ WUTC v. Pac. Power & Light Co., Cause No. U-84-65, Fourth Suppl. Order, 1985 WL 1160109 (Aug. 2, 1985) (emphasis added).

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nothing in the Commission's order indicated that attrition adjustments should henceforth be substituted for traditional ratemaking as a general response to capital investment. Avista's recent history of sound financial health, strong shareholder returns, considerable over-earnings, and favorable market ratings shows a Company that is far removed from any hint of financial distress—and one that is most definitely not experiencing exceptional circumstances necessitating an extraordinary rate mechanism.

III. LEGAL STANDARDS

18 Avista bears the burden of proof to demonstrate that its tariffs are just and reasonable.[33/] This burden includes "the burden of going forward with evidence and the burden of persuasion."[34/] The Company retains this burden throughout the proceeding and must establish that any proposed rate change is just and reasonable.[35/]

19 When setting rates, a utility is allowed an opportunity to recover its operating expenses and to earn a rate of return on its property that is used to provide service.[36/] The amount of a utility's operating expenses included in rates is typically "based on actual operating expenses in a recent past period referred to as the 'test period' or 'test year.'"[37/] The Commission also removes from rates all property not used and useful to serve Washington customers,[38/] all non-recurring or one-time expenses, and other costs that a utility is unlikely to experience during the term of the proposed rates.[39/]

33/ RCW § 80.04.130(4); WAC § 480-07-540; WUTC v. Avista, Dockets UE-100467 and UG-100468 (*consolidated*), Order 01 at ¶ 12 (Apr. 5, 2010).

34/ WAC § 480-07-540.

35/ WUTC v. Avista, Docket UG-041515, Order 06 at ¶¶ 22, 24 (Dec. 7, 2004); Cause No. U-84-65, Fourth Suppl. Order.

36/ People's Org. for Wash. Energy Resources ("POWER") v. WUTC, 104 Wn.2d 798, 808-11 (1985) ("POWER II"); WUTC v. PSE, Dockets UE-090704 and UG-090705 (*consolidated*), Order 11 at ¶ 19 (Apr. 2, 2010).

37/ POWER II, 104 Wn.2d at 810.

38/ RCW § 80.04.250; WUTC v. PacifiCorp, Dockets UE-050684 and UE-050412, Order 04/03 at ¶¶ 48-70 (Apr. 17, 2006); POWER v. WUTC, 101 Wn.2d 425, 430 (1984) ("POWER I").

39/ WUTC v. Avista, Dockets UE-991606 and UG-991607, Third Suppl. Order at ¶¶ 205-07 (Sept. 29, 2000).

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Costs that are abnormal, fluctuate, or are not accurately estimated in the test period must be normalized to achieve an expected cost level based on typical conditions.[40/] Regardless of prudence, costs and expenses that do not benefit ratepayers or were incurred to benefit shareholders are not recoverable.[41/]

IV. ARGUMENT

20 Staff, Public Counsel, and ICNU all agree that the Commission should significantly reduce Avista's electric revenue requirement (within the range of $20 to $30 million), based on analysis "[h]olding to the Commission's longstanding practice of using a modified historical test period with limited pro forma adjustments."[42/] These largely similar recommendations, based expressly on traditional ratemaking analysis, are appropriate to balance ratepayer interests—e.g., in fair and reasonable rate levels—against Avista's need for sufficient rates, taking into consideration the Company's significant over-earnings. Accordingly, the Commission should approve an electric revenue reduction in this $20 to $30 million range, consistent with ICNU's $24.8 million recommended reduction.

21 Moreover, as it is a fundamental duty of the Commission to regulate "in the public interest,"[43/] the balance of interests achieved through a considerable revenue reduction also justifies the rejection of an attrition adjustment—as such an adjustment would only benefit shareholders, through an undistributed revenue requirement increase not connected with any used and useful plant.[44/] Conversely, maintaining and ensuring

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40/ Id. at ¶ 34.

41/ U.S. West v. WUTC, 134 Wn.2d 74, 126-27 (1997); WUTC v. Avista, Dockets UE-080416 and UG-080417 (*consolidated*), Order 08 at ¶ 29 (Dec. 29, 2008).

42/ Exh. No. CRM-1T at 9, n.2 (finding a $20.9 million reduction appropriate); Exh. No. DMR-1CT at 5:13-14 (recommending a $29.7 million reduction); Exh. No. BGM-5T at 2, Table 1-CA (recommending a $24.8 million reduction).

43/ RCW § 80.01.040.

44/ McGuire, TR. 457:5-11.

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financial discipline on the part of any utility is foundational to the regulatory compact enforced by the Commission:

> Without the assurance that … economic discipline is expressed in a company's investment decisions, we lose a fundamental component of the regulatory compact - the belief that owners are expected to be careful and prudent with their capital. It is risk of loss (or disallowance) that drives competent and well-thought out investment decisions.[45/]

In other words, given the record in this proceeding, an undistributed revenue increase based on alleged attrition would serve only to diminish the risks for Avista shareholders without rewarding ratepayers, since the traditional incentive for the Company to earn its returns through prudent capital management would be largely removed.

22 Also, while Avista and Staff have both advocated for an attrition adjustment in this proceeding, the two parties disagree sharply on conceptual and technical components foundational to their respective attrition analyses. For instance, lead Staff witness Chris McGuire testified at hearing that "it's important to point out here that there remains a few *notable difference[s]* between Staff's electric and natural gas attrition studies in comparison to Avista's electric and natural gas attrition studies."[46/] Among these "notable differences," Mr. McGuire does not believe that the Company's proposed revenue adjustment, based on its attrition study as presented in its rebuttal case, "was derived objectively and scientifically."[47/]

23 Yet, such scientific objectivity comprises a sine qua non from Staff's point of view, given Mr. McGuire's hearing testimony that "it's extraordinarily important to be scientifically objective" in developing an attrition study.[48/] Thus, the strong opposition of

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45/ WUTC v. Rainier View Water Co., Inc., Docket UW-110054, Order 05 at p. 27 (Oct. 17, 2012) (Oshie, concurring).
46/ McGuire, TR. 432:24-433:3 (emphasis added).
47/ Id. at 471:17-21.
48/ Id. at 471:22-24.

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Public Counsel, ICNU, and the Northwest Industrial Gas Users ("NWIGU") to an attrition adjustment, coupled with the inability of Avista and Staff to find consensus on critical attrition elements (including trending calculations absolutely fundamental to any attrition analysis),[49/] weighs heavily in favor of rejecting any attrition proposal in this proceeding.

A. The Need for an Attrition Adjustment Has Not Been Demonstrated

24 The Commission opened an investigatory docket only this year regarding "possible ratemaking mechanisms to address utility earnings attrition."[50/] Nevertheless, after material input from several utilities, Staff, and other major stakeholders in that proceeding—including Public Counsel, ICNU and NWIGU—the Commission has issued no policy determinations or initiated further process in the docket. Thus, relevant standards previously articulated by the Commission regarding proposed attrition adjustments remain in effect, i.e., that an attrition adjustment is available as "a needed response" to "exceptional" circumstances, and as "an extraordinary measure, not generally included in general rate relief."

25 At hearing, Staff also testified to the primacy of Commission attrition standards, as articulated in such previous orders. Specifically, when asked by Commissioner Jones about whether the Commission had issued a policy statement on

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49/ E.g., Id. at 460:14-461:4 (explaining Staff's belief that Avista calculated and used the rate of growth in its attrition study incorrectly); id. at 474:5-16 (stating that, of the "major differences between Staff's and Avista's attrition analysis on rebuttal, "far and away the biggest is the escalator for O&M"); id. at 482:9-14 (testifying to Staff's belief, in regard to Avista's underlying assumption that benefit and non-benefit expenses will grow at the same rate, that the Company has not "provided any evidence that that's true").

50/ Docket U-150040, Notice of Recessed Open Meeting and Notice of Opportunity to File Written Comments (Feb. 5, 2015).

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attrition, Mr. McGuire asserted: "I would argue that the *historical orders are a better indicator* of a policy perspective …."[51/]

26 Staff's testimony affirms that the Commission's attrition policy is better ascertained through the standards articulated in the Commission's 1993 and 2012 orders than through Commission statements in Docket U-100522, which were issued in the form of a "Report and Policy Statement."[52/] This is significant because Mr. McGuire mistakenly referred to "a Commission *order* … in Docket U-100522," an "order" which allegedly contains primary support for his plenary view that an attrition adjustment is appropriate "to protect the company from lost margin *due to any reason*."[53/] Yet, Docket U-100522 was an investigatory proceeding (and, largely focused upon decoupling), containing no orders and culminating only in the aforementioned "Report and Policy Statement"—meaning that, according to Staff's own testimony, any policy perspectives therein should be given less weight than those stated in actual Commission orders.

27 Thus, in light of the evidence presented in the record, it cannot be said that Avista has met the Commission's attrition standards as affirmed in recent historical orders. Rather, Avista's attrition "request has been largely justified on the basis of incorporating forward looking capital forecasts into rate base,"[54/] and not on "exceptional" or "extraordinary circumstances."

28 Moreover, the Company's historic practice of filing annual general rate

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51/ McGuire, TR. 475:24-476:15 (emphasis added).

52/ Re Investigation into Energy Conservation Incentives, Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets (Nov. 4, 2010).

53/ McGuire, TR. 463:10-16 (emphasis added). Contra WUTC v. PSE, Dockets UE-060266 and UG-060267 (*consolidated*), Order 08 at ¶ 39 (Jan. 5, 2007) ("It requires extraordinary circumstances to support a departure from fundamental ratemaking principles. In prior cases the Commission has required a clear and convincing showing that the Company will be denied any reasonable opportunity to earn its authorized rate of return without extraordinary relief.") (internal quotations and citation omitted).

54/ Exh. No. BGM-1CT at 7:14-15 (citing Exh. No. SLM-1T at 4:14-12:3).

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cases, coupled with its intent to continue this practice, also means that Avista has mitigated and intends to mitigate the impact of regulatory lag.[55/] Accordingly, the Company has no need for the "extraordinary measure" of an attrition adjustment to secure rate relief.[56/] This fact is compounded by the Commission's recent approval of revenue decoupling for Avista, which itself provides earnings relief. For instance, the Company stated in its 2014 general rate case, when decoupling was first approved, that, as a result of decoupling, "energy efficiency programs would no longer negatively impact the Company's earnings."[57/] Likewise, in its decoupling policy statement, the Commission stated: "By reducing the risk of volatility of revenue based on customer usage, both up and down, such a[n electric decoupling] mechanism can serve to reduce risk to the company …."[58/]

29 In short, Avista has not adequately demonstrated that an attrition adjustment is "a needed response" to present circumstances. The Company expects low load growth in the rate period, at a level comparable to conditions forecast by Pacific Power & Light Company ("Pacific Power") in its recent general rate case.[59/] But, even after considering Pacific Power's comparable projection of low load growth, the Commission found that its long-standing revenue requirement methodology—i.e., using a modified historical test period, with limited pro forma adjustments—would provide Pacific Power with the opportunity to earn a fair rate of return. Similarly, Avista should

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55/ Id. at 9:14-15. The Commission has noted the definition of "regulatory lag as: 'the time interval between the occurrence of a cost or revenue and the recognition of the same cost or revenue in rates.'" Dockets UE-111048 and UG-111049 (*consolidated*), Order 08 at p. 36, n.122 (quoting *Utility Ratemaking: The Fundamentals and the Frontier*, NRRI, at 2-3 (April 2011)).

56/ Exh. No. BGM-1CT at 9:15-16.

57/ WUTC v. Avista, Dockets UE-140188 and UG-140189 (*consolidated*), Joint Testimony in Support of the Settlement Stipulation at 28:15 (Aug. 29, 2014).

58/ Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation targets at ¶ 27.

59/ Exh. No. BGM-5T at 5:3-6.

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be also be afforded sufficient rates, allowing it a fair opportunity to earn its rate of return, if the Commission holds to its traditional ratemaking practices in this proceeding.[60/]

1. The Company's Attrition Proposal Would Violate the Commission's "Known and Measurable" and "Used and Useful" Standards

30 In order to determine whether proposed rates are just and reasonable, the Commission evaluates capital items by applying the known and measurable and the used and useful standards.[61/] The Commission has reaffirmed the known and measurable standard on multiple occasions in recent years, including in 2015 within the final order of Pacific Power's most recent general rate case:

> The known and measurable test requires that an event that causes a change in revenue, expense or rate base must be known to have occurred during, or reasonably soon after, the historical 12 months of actual results of operations, and the effect of that event will be in place during the 12-month period when rates will likely be in effect. Furthermore, the actual amount of the change must be measurable. This means the amount typically cannot be an estimate, a projection, the product of a budget forecast, or some similar exercise of judgment – even informed judgment – concerning future revenue, expense or rate base.[62/]

31 Avista's attrition adjustment proposal falls well short of meeting this standard. Specifically, the revenue increase purportedly justified by the Company's historical trending analysis would not represent known and measurable capital items—by definition, the trending analysis is a projection or forecast of future capital investment and expenditures.[63/] While the Commission has made exceptions to the traditional known and measurable standard, "these are few and demand a high degree of analytical rigor."[64/] Conversely, Avista's trending-based adjustment would merely "represent an abstract

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60/ Id. at 5:6-12.

61/ Exh. No. BGM-1CT at 16:13-18.

62/ WUTC v. Pacific Power, Dockets UE-140762 *et al.*, Order 08 at ¶ 167 (Mar. 25, 2015) (quoting WUTC v. Pacific Power, Docket UE-130043, Order 05 at ¶ 205 (Dec. 4, 2013) (quoting Dockets UE-090704 and UG-090705 (*consolidated*), Order 11 at ¶ 26)).

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layer of 'padding' added to rate base to reflect some future, unknown expenditure to the utility."[65/]

32 Moreover, because the Company's trending analysis does not produce actually known and measurable capital expenditures, the Commission cannot determine that such unknown capital expenditures are used and useful.[66/] "RCW 80.04.250 allows the Commission to determine for rate making purposes the value of property 'used and useful for service in this state.'"[67/] But, according to the Supreme Court of Washington in POWER I, the unknown and unmeasurable future capital expenditures represented by the Company's proposed attrition adjustment do not satisfy the statutory "used and useful" requirement: "Obviously, an uncompleted utility plant is neither employed for service nor capable of being put to use for service; therefore, such a plant is not 'used and useful' for service as required by RCW 80.04.250."[68/]

33 Simply put, the used and useful statute prohibits the Company's proposal to incorporate indeterminate future capital amounts into tariff charges, as the Washington Court of Appeals recently recognized when citing to POWER I: "It is beyond cavil that tariffs may not repeal or supersede a statute."[69/] The Supreme Court's decision in POWER I is especially relevant to the consideration of the attrition adjustment proposed by Avista, given the Commission's recognition "[t]hat the legislature subsequently amended the [used and useful] statute to provide a *specific exception* for CWIP," as a

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63/ Exh. No. BGM-1CT at 16:18-20.
64/ Dockets UE-140762 *et al.*, Order 08 at ¶ 167 (quoting Docket UE-130043, Order 05 at ¶ 205 (quoting Dockets UE-090704 and UG-090705 (*consolidated*), Order 11 at ¶ 26)).
65/ Exh. No. BGM-1CT at 17:1-3; accord Exh. No. BGM-5T at 9:1-10:2.
66/ Exh. No. BGM-1CT at 17:3-5.
67/ WUTC v. PSE, Docket UG-110723, Order 07 at p. 6, n.13 (May 18, 2012).
68/ POWER I, 101 Wn.2d at 430.
69/ Pub. Util. Dist. No. 2 of Pac. County v. Comcast of Wash. IV, Inc., 184 Wash.App. 24 at ¶ 47, n.23 (2014).

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result of POWER I.[70] That is, the legislature authorized just one limited CWIP exception to the Court's holding in POWER I, but made no other modifications to the statute that could be viewed as detracting from the Court's identification of a general statutory prohibition against including "uncompleted utility plant" in rates. Thus, the Company's attrition proposal falls within the general statutory prohibition, since it is founded not on CWIP but on speculative capital expenditure trending (i.e., "uncompleted utility plant").

34 The extent to which the Company's attrition adjustment would incorporate statutorily proscribed, unused and not useful plant, is illustrated by Staff's attrition proposal. Although Staff's attrition proposal was about $10 million less than Avista's,[71] Staff's attrition allowance would still result in an increase to gross plant of about $177.0 million for electric service.[72] Given Staff's independent determination that only $56.7 million of post-test-period capital actually satisfies the Commission's used and useful standard on a pro forma basis,[73] however, Mr. Mullins has explained that, "if Staff's attrition study were to be approved, *$120.3 million* in capital that has not been demonstrated to be used and useful would be added to rate base, contrary to the Commission's long-standing practice."[74]

35 When asked about this very issue at hearing,[75] Mr. McGuire admitted: "I am not testifying to the used and useful nature of any specific plant beyond July of 2015 …. [A]n attrition allowance is an undistributed increase in revenue. This is not any acceptance of some specific plant addition in the future."[76] Functionally, therefore,

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[70] Dockets UE-050684 *et al.*, Order 06/05/02 at ¶ 28 (July 14, 2006) (emphasis added).
[71] McGuire, TR. 475:12-16.
[72] Exh. No. BGM-5T at 8:12-13 (citing Exh. No. CRM-2 at 5:37, column G).
[73] Id. at 8:16-18 (citing Exh. CSH-1T at 21, Table 4); McGuire, TR. 438:5-6 ("The pro forma study is an independent analysis of the revenue requirement").
[74] Exh. No. BGM-5T at 8:18-20 (emphasis added).
[75] McGuire, TR. 456:11-457:11.
[76] Id. at 457:5-11.

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Staff's attrition recommendation ignores the used and useful standard and is entirely contrary to long-standing Commission practice. Consequently, with a still larger attrition proposal than Staff, Avista would add *even more* plant into rate base that has not been demonstrated to be used and useful, contrary to both Commission practice and Washington statute.

2. Avista's Attrition Analysis is Conceptually and Technically Unsound

36 As a threshold matter, the Company's proposal to establish rates based on historical trends is unreliable. As Mr. Mullins has demonstrated in the Company's last two general rate cases, historical trending analysis can lead to markedly illogical results, such as when natural gas forecasting using historical price data produces price forecasts below zero.[77/] Also, a trend-based revenue requirement methodology actually penalizes a utility for working hard to reduce costs and to carefully prioritize capital expenditures; specifically, such a utility could be subject to a negative attrition adjustment, which has prompted Pacific Power to oppose the use of a trend-based attrition allowance methodology recently.[78/] In fact, Pacific Power expressly opposed an adjustment similar to Avista's current attrition proposal because such "mechanisms assume a consistent level of growth in the costs that PacifiCorp is actively managing to control."[79/]

37 Moreover, the Company's attrition methodology should be rejected as being a full two steps removed from traditional known and measurable rate standards, as it purports to add multiple levels of subjectivity into traditionally objective ratemaking. Specifically, the Company explains that even with non-linear compounding contained in its trending analysis—i.e., at this "trending" point, the Company is already one step

[77/] Exh. No. BGM-1CT at 11:10-18, Figure 1 at p. 12.
[78/] Id. at 12:5-9.
[79/] Id. at 12:9-13:1 (quoting Dockets UE-140762 *et al.*, Exh. No. RBD-1T at 11:8-17).

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removed from traditional known and measurable ratemaking methodology—additional adjustments, *layered onto the trending analysis*, are still allegedly necessary because "historical growth rates are insufficient for capturing the impact of surging capital-related expenditures after 2013."[80/] Thus, by applying a unilateral adjustment on top of trending projections, the Company is asking the Commission to take a radical two-step leap from long-standing ratemaking practices.

38 Additional flaws in the proposed attrition methodology are also apparent in the record. The Company used historical data from 2001-2013 for its trend analysis.[81/] Notwithstanding, Avista's Chief Economist, Grant Forsyth, testified that "2001-2006 is *not a valid reference period*" because 2007 represents a "kink point," or a significant shifting in the prior historical trend of the Company's capital expenditures, such that "it is no longer representative of the Company's expenditure trend."[82/] The purported invalidity of this 2001-2006 period for use in the Company's trending analysis is later confirmed by the testimony of Mr. Forsyth, stating that "we do not foresee a return to the expenditure trend of the 2001-2006 period."[83/]

39 Further, the second period used in the Company's trending analysis, 2007-2013, must also be considered as "not a valid reference period," because it is followed by a second "kink point" in 2014. As the Company explains: "Due to this accelerated level of transfers to plant for 2014 to 2016, it is necessary to increase the annual growth rate above the rate experienced from the 2007-2013 historical period …. [U]se of the

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80/ Exh. No. BGM-4C (the Company's Response to ICNU DR 61).
81/ Exh. No. GDF-1T at 3:4.
82/ Id. at 4:16-5:15 (emphasis added).
83/ Id. at 5:18-19. The Company apparently placed so little practical reliance on this period that it neglected to include workpapers, in its initial filing, containing any data prior to 2007 in support of its trending analysis.

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historical trend (2007-2013) would significantly understate net plant investment and depreciation expense for 2016."[84/]

40 In short, the Company is effectively claiming that the 2007-2013 period "is no longer representative of the Company's expenditure trend" due to a 2014 kink point, just as it stated that the 2001-2006 period did not represent the 2007-2013 period due to the 2007 kink point. Taken together, this means that the Company's attrition analysis is almost entirely composed of data from a historical range of years not deemed to be "valid" under Avista's own evaluation.

B. Avista's Electric Revenue Requirement Should Be Significantly Reduced Based on Commission Precedent and Record Evidence

1. Avista's Proposal to Use a Forecast Rate Base Period Is Not Consistent with Traditional Commission Practice

41 ICNU recommends the use of a calendar year 2014 rate base period, calculated on an Average-of-Monthly-Average ("AMA") basis, which would result in a slight increase to the Company's revenues of $0.1 million on a Washington-allocated basis relative to the use of 2014 End-of-Period rate base.[85/] The Company's proposal to use a forecast calendar year 2016 rate base period, although calculated on an AMA basis,[86/] "pushes too far in the direction of a future test year approach to be consistent with the 'modified' historical test period traditionally used by this Commission."[87/] Indeed, the Company's proposal even goes beyond what is customarily permitted in states which actually use a future test year.[88/]

84/ Exh. No. BGM-4C (the Company's Response to ICNU DR 62).
85/ Exh. No. BGM-1CT at 19:1-5; Exh. No. BGM-5T at 11:18-23.
86/ Exh. No. JSS-1T at 34:4-10.
87/ Exh. No. BGM-1CT at 18:11-13.
88/ Id. at 18:13-19.

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2. Application of the Commission's Recently Affirmed Pro Forma Capital Standards Invalidates Most of the Company's Proposed Level of Post-Test-Year Capital

42 ICNU recommends a $19.6 million and a $2.7 million reduction to Avista's revenue requirement, respectively, in relation to 2015 and 2016 post-test-year capital on a Washington-allocated basis.[89/] The Company has failed to demonstrate that most of its proposed pro forma capital additions satisfy the Commission's known and measurable and used and useful standards, in additional to numerous projects not rising to the level of "major" plant additions typically approved by the Commission.

43 As recently affirmed in March 2015, the Commission's "long-standing practice is to consider post-test-year capital additions on a case-by-case basis following the used and useful and known and measurable standards."[90/] Also, the Commission has historically required a utility to meet its burden of proof to demonstrate that the pro forma plant is "used and useful for service in this state."[91/] Pursuant to this burden of proof, the Commission has required the utility to demonstrate "'quantifiable' benefits to ratepayers in Washington,"[92/] in order to include major pro forma additions in rates. Given these traditional standards, ICNU recommends that the Commission reject "any projects expected to be placed into service in calendar year 2016, as those additions will occur too far beyond the test period to be considered in the Commission's review."[93/] That is, capital additions not expected to be in service for some time cannot be rationally viewed as known, measurable, used, useful, or providing any "quantifiable" ratepayer benefits.[94/]

89/ Exh. No. BGM-5T, Table 1-CA, Adj. Nos. 4.01 & 4.02.
90/ Dockets UE-140762 *et al.*, Order 08 at ¶ 165 (citing Docket UE-130043, Order 05 at ¶ 198).
91/ Id. at ¶ 166 (citing Dockets UE-050684 and UE-050412, Order 04/03 at ¶ 49).
92/ Id. (citing Dockets UE-050684 and UE-050412, Order 04/03 at ¶ 51).
93/ Exh. No. BGM-1CT at 25:6-8.
94/ POWER I, 101 Wn.2d at 430.

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44 Moreover, as explained by Mr. Mullins, the Commission usually considers only "major" pro forma capital additions, and "has typically not considered small or routine capital additions for inclusion in rates on a post-test-year basis, noting in the Pacific Power 2014 general rate case that 'the relative size of many of the Company's proposed plant additions in this case falls short of any reasonable definition of 'major.''"[95/] Similarly, many of Avista's projects fall short of the customary definition of "major" capital additions typically considered by the Commission. In particular, many of the 150 projects included in Avista's pro forma proposal "are non-discrete 'blanket' capital accounts consisting of numerous, and often undetermined, underlying capital projects."[96/] As such, the majority of capital items in the Company's pro forma proposal do not provide the Commission "*any ability to review* on the basis of being known and measurable and used and useful."[97/]

45 Accordingly, ICNU recommends that the Commission exclude all indeterminate "blanket" capital from its review, while also using the natural threshold of $10.0 million in considering "major" electric projects to be placed into service in the calendar year 2015.[98/] Based on these parameters, review of post-test-year electric capital additions would consist of six projects.[99/]

46 ICNU recommends, however, that the Commission reject all of these six projects, with the exception of Project Compass. This recommendation is based on the thorough analysis of Mr. Mullins, in which all projects except Project Compass contained

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95/ Exh. No. BGM-1CT at 22:15-19 (quoting Dockets UE-140762 *et al.*, Order 08 at ¶ 170).
96/ Id. at 20:18-19.
97/ Id. at 23:13-15 (emphasis added).
98/ Id. at 24:6-23. In recommending the use of a natural $10.0 million threshold for purposes of this proceeding, ICNU does not advocate that the Commission adopt a "bright-line" standard. Id. at 24:6-10.
99/ Id. at 24:15-20.

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one or more of the following deficiencies: 1) workpapers did not demonstrate which component capital items had been placed into service or quantifiable benefits associated with projects; 2) significant discrepancies in the Company's supporting data; and 3) delays in placing plant into service.[100/]

3. Pro Forma Property Tax Expense Should Be Calculated over the Rate Base Period Used in this Proceeding without Escalation

47 ICNU recommends an adjustment to reduce Avista's property tax expense by $2.1 million on a Washington-allocated basis.[101/] This adjustment is appropriate because it updates the Company's property tax calculations to be consistent with a 2014 rate base period.[102/] Moreover, ICNU's proposed adjustment eliminates escalation in Avista's property tax rates, as Public Counsel also recommends, which is proper because such escalation does not represent a known and measurable change.[103/]

4. The Commission Should Reject the Company's Proposal to Defer Major Maintenance Expenses as Contrary to Normalized Ratemaking Standards

48 ICNU recommends a Washington-allocated $2.5 million reduction to revenue requirement related to operations and maintenance expense for Colstrip and Coyote Springs 2 ("CS2").[104/] As Mr. Mullins has explained, the Company's initial proposal to include major maintenance costs for Colstrip and CS2 "in revenue requirement the year that they are incurred assumes that the Company will file a rate case every year (a scenario neither the Commission nor non-utility stakeholders have traditionally supported)."[105/] Conversely, ICNU's proposal to normalize the level of

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100/ Id. at 25:9-28:18.
101/ Exh. No. BGM-5T, Table 1-CA, Adj. No. 3.06.
102/ Exh. No. BGM-1CT at 30:8-10.
103/ Exh. No. BGM-5T at 13:3-14.
104/ Id., Table 1-CA, Adj. No. 3.10.
105/ Exh. No. BGM-1CT at 36:12-15.

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expense associated with Colstrip and CS2 is in keeping with the Commission's standard ratemaking practice.[106]

49 In recognition of both ICNU's and Staff's concerns regarding the Company's initial failure to normalize major maintenance costs, Avista has proposed to defer Colstrip and CS2 expenses in the year that they occur, beginning in 2016, with amortization spread over a four-year period.[107] Nevertheless, the Company's rebuttal proposal fails to normalize major maintenance expenses, in the traditional ratemaking sense of averaging costs over a maintenance time cycle, because the recommended deferral would simply result in customers repaying the Company for its actual expenses on a dollar-for-dollar basis. In fact, within Avista's extended quotation from 2011 hearing testimony of an ICNU witness, this very point concerning normalized averaging is plainly stated: "you basically have to either use some sort of a *four-year average* for the maintenance or come up with a benchmark."[108]

5. The Company Is Overcharging Ratepayers for Executive Compensation

50 In 2012, the Commission was "disappointed" that the appropriate level of executive compensation and the appropriate methodology for determining that level were not addressed in the 2011/2012 general rate case settlement.[109] The Commission was "convinced," however, that it would "have another opportunity to examine executive compensation," especially "in light of Avista's stated intent to look aggressively at cost cutting measures."[110] The disposition of successive Avista rate cases through settlement

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[106] See, e.g., Id. at 36:19-37:4; Exh. No. BGM-3 at 8; Dockets UE-991606 and UG-991607, Third Suppl. Order at ¶ 34.
[107] Exh. No. KON-1T at 45:15-46:9.
[108] Id. at 48:5-7 (quoting Docket UE-110876, Joint Testimony, page 24) (emphasis added).
[109] Dockets UE-110876 *et al.*, Order 14/09 at ¶ 78 (Dec. 26, 2012).
[110] Id.

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has meant that the Commission has still not had the opportunity to examine the Company's executive compensation levels and methodology. Nonetheless, this proceeding presents the Commission with the perfect opportunity to do so.

51 To this end, ICNU recommends a $0.5 million reduction to Avista's revenue requirement associated with executive compensation on a Washington-allocated basis.[111/] This proposed reduction is based on two components. First, the Company has included about $325,000 in Washington-allocated costs associated with restricted stock dividends which have traditionally been excluded from rates, based on the Company's own admission that such costs comprise "amounts focusing on shareholder value."[112/] Second, ICNU recommends a $325,000 per executive cap on the level of overall executive compensation reflected in revenue requirement, based on Mr. Mullins' findings that Avista executives are being paid substantially more than executives at comparable Northwest public utilities, coupled with "the lack of formal documentation and quantifying analysis when Company executives estimate percentages of their time spent on non-utility operations."[113/] Finally, while not included in ICNU's $0.5 million adjustment, Mr. Mullins has also demonstrated that Washington electric revenue requirement should likely be reduced by $45,000 more, based on the Company's failure to split director fees evenly between shareholders and customers, based on a 2009 Commission order.[114/]

6. Corporate Jet Costs Exceeding Comparable Commercial Fares Should Be Excluded from Rates

52 ICNU recommends a $0.8 million revenue requirement reduction related

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111/ Exh. No. BGM-5T, Table 1-CA, Adj. No. 3.03.
112/ Exh. No. BGM-1CT at 38:18-39:8 (quoting Dockets UE-120436 *et al.*, Exh. No. KSF-1T at 29:24-26).
113/ Id. at 37:18-38:17.
114/ Id. at 39:9-18.

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to excessive corporate jet costs on a Washington-allocated basis.[115/] This recommendation is based on Mr. Mullins' calculation of the difference between the average cost per person for flights on the Company's corporate jet and commercial airlines. Specifically, Avista proposes to charge ratepayers approximately $2,954 per round trip flight on the corporate jet instead of the $318 average cost per equivalent round trip flight on commercial airlines.[116/] ICNU strongly believes that Avista's proposal to fund these excessive costs through rates is unconscionable and that the Commission should require shareholders to fund such extravagance above the cost of commercial flights.

7. The Company's Pro Forma Labor Adjustment Is Inconsistent with Commission Standards

53 Avista's revenue requirement should be reduced by $4.0 million on a Washington-allocated basis in relation to the Company's pro forma labor expense.[117/] The Company's proposal to escalate labor expenses through the end of 2016, a full 27 months beyond the end of the test period, is inconsistent with Commission ratemaking standards. The Commission traditionally has not allowed pro forma adjustments beyond twelve months, in keeping with the long-standing known and measurable test,[118/] and the Commission recently rejected a similar escalation proposal by Pacific Power to also extend expenses 27 months beyond the test period.[119/]

54 Further, the Company's election not to use a full-time-equivalent ("FTE") labor model means that the record lacks "information necessary to determine the amounts that would be expected to be assigned to capital on a pro forma basis," causing Mr.

115/ Exh. No. BGM-5T, Table 1-CA, Adj. No. ICNU-1.
116/ Id. at 14:3-9; Exh. No. BGM-6 at 13.
117/ Exh. No. BGM-5T, Table 1-CA, Adj. No. 3.02.
118/ Exh. No. BGM-1CT at 42:2-5 & n. 95.
119/ Id. at 42:13-20.

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Mullins to conclude that "it is not possible to develop a calculation of pro forma labor expense that is consistent with the Commission's known and measurable standard."[120] If the Company's non-FTE model is used, however, ICNU still recommends a reduction to Avista's pro forma labor expense of $3.4 million on a Washington-allocated basis, which appropriately: 1) limits the pro forma adjustment to known wage increases expected through the end of 2014; and 2) excludes any incremental labor expense associated with Project Compass until such evaluation can be performed within the context of an overall FTE model.[121]

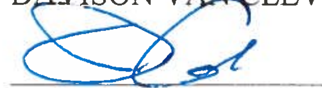
V. CONCLUSION

55 Based upon the evidence in the record in this proceeding, and given the reasons stated in this brief along with those contained in ICNU's testimony and exhibits, ICNU respectfully requests that the Commission reject an attrition adjustment for Avista and reduce the Company's revenue requirement by $24.8 million.

Dated in Portland, Oregon, this 4th day of November, 2015.

Respectfully submitted,

DAVISON VAN CLEVE, P.C.



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120/ Id. at 43:1-20.

121/ Id. at 43:21-44:5.