

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-20_____

DOCKET NO. UG-20_____

DIRECT TESTIMONY OF
KAYLENE J. SCHULTZ
REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Kaylene J. Schultz. I am employed by Avista Corporation as Manager of Regulatory Affairs in the Regulatory Affairs Department. My business address is 1411 East Mission, Spokane, Washington.

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

A. I am a 2010 graduate from Gonzaga University with a Bachelor of Business Administration degree, majoring in both Accounting and Business Administration, with a concentration in Management Information Systems. After spending nearly eight years in the banking and capital markets sector, I joined Avista in September 2015 as a Natural Gas Analyst in the Company's Gas Supply Department. In January 2019, I joined the Regulatory Affairs Department as a Regulatory Affairs Analyst where I was, and continue to be, responsible for preparing annual filings and various applications related to the Purchased Gas Adjustments for all jurisdictions. In my current role as Manager of Regulatory Affairs, I am responsible for, among other things, preparing the capital additions pro forma adjustments in determination of the revenue requirement for all jurisdictions in which the Company provides utility services.

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

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

1 the State of Oregon, Docket UG-389.

2 **Q. What is the scope of your testimony?**

3 A. My testimony and exhibits in this proceeding will describe the Company’s
 4 restated twelve-months ended December 31, 2019 net plant from average-of-monthly-
 5 averages (AMA) to end-of-period (EOP) adjustment, as well as explain how specific grouped
 6 2020 pro forma capital additions through December 31, 2020, are incorporated into the
 7 proposed electric and natural gas revenue requirements sponsored by Company witness Ms.
 8 Andrews. The transfers-to-plant occurring through twelve-months ended December 31, 2020
 9 will be referred to as “2020”.

10 A table of contents for my testimony is as follows:

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19
 20 **Q. Are you sponsoring any exhibits?**

21 A. Yes. I am sponsoring Exh. KJS-2, which provides a summary of the capital
 22 additions included in each of the capital witnesses’ testimony¹ by project (business case) for
 23 years 2018 – 2020.

¹ Company witnesses Mr. Thackston, Ms. Rosentrater, Mr. Kensok and Mr. Magalsky sponsor testimony explaining the Company’s capital additions for the 2020 pro forma adjustments I sponsor.

II. SUMMARY OF CAPITAL ADJUSTMENTS

Q. Please summarize the adjustments made to the Company's request for rate relief regarding new additions in utility plant to serve customers.

A. As discussed by Ms. Andrews, the Electric and Natural Gas Pro Forma Studies include traditional restating and pro forma adjustments beyond the historical test year (2019). The Company started with utility plant rate base balances from historical accounting information, which for this case consists of the actual AMA balances for the twelve-months ended December 31, 2019, and made the following adjustments:

- (1) **Adjustment (1.01) – Deferred FIT Rate Base:** This adjustment adjusts the electric and natural gas accumulated deferred federal income tax (ADFIT) rate base balance included in the Results of Operations to the adjusted ADFIT balance reflected on an AMA basis. ADFIT reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS) and bond refinancing premiums.
- (2) **Adjustment (1.04) – Remove AMI Rate Base:** This adjustment reflects the removal of rate base and expense included in the Company's Results of Operations on a twelve-months ending restated December 31, 2019 test period AMA basis, associated with the Company's investment in its Advanced Metering Infrastructure (AMI) project for both electric and natural gas operations. Per Order 01 in Dockets UE-170327 and UG-170328, the Commission approved the deferral of depreciation expense for the Company's investment in its AMI project.
- (3) **Adjustment (2.19) – Restate 2019 AMA Rate Base to EOP:** This adjustment includes three components. The first component adjusts plant-in-service, accumulated depreciation (A/D) and ADFIT to restate the December 31, 2019 AMA rate base to December 31, 2019 EOP balances. This component also adjusts depreciation expense for new depreciation rates², if applicable, to reflect the full amount of annual expense associated with plant-in-service as of December 31, 2019 on an EOP basis. The second component removes the incremental difference of depreciation expense, plant-in-service, A/D and ADFIT related to new revenue growth to match 2019 test period revenues. The third component removes the incremental difference of depreciation expense, plant-in-service and A/D related

² Depreciation rates approved in Washington Commission Order No. 04, dated March 25, 2019 related to Dockets UE-180167 and UG-180168.

1 to the AMI project.³ The impacts of retirements through December 31, 2019 are
 2 included in the test year.

3
 4 (4) – (8) **PF Adjustment (3.11) – Customer at the Center 2020 Pro Forma Capital**
 5 **Additions; PF Adjustment (3.12) – Large Distinct Projects 2020 Pro Forma**
 6 **Capital Additions; PF Adjustment (3.13) – Programs 2020 Pro Forma Capital**
 7 **Additions; PF Adjustment (3.14) – Mandatory and Compliance 2020 Pro**
 8 **Forma Capital Additions; and PF Adjustment (3.15) – Short Lived Assets**
 9 **2020 Pro Forma Capital Additions.** Each of these adjustments include three
 10 components. The first component reflects the impact of retirements from January
 11 1, 2020 through December 31, 2020. The second component reflects certain
 12 additions to plant-in-service between January 1, 2020 and December 31, 2020 on
 13 an EOP basis, inclusive of the A/D, depreciation expense, and ADFIT⁴ associated
 14 with these additions for the period. The third component reflects the impact of
 15 offsets, if applicable, from January 1, 2020 through December 31, 2020.

16
 17 Ms. Andrews sponsors the remaining capital adjustments including pro forma capital
 18 additions related to Colstrip Units 3 and 4, Western Energy Imbalance Market (EIM), AMI
 19 and Wildfire Resiliency Plan. These capital additions are also included in the Electric and
 20 Natural Gas Pro Forma Studies.

21 An overall summary of the change in rate base associated with the adjustments
 22 outlined above is included as Table No. 1 (electric) and Table No. 2 (natural gas) below.
 23 Further discussion of the overall Washington capital plant investment approach and specific
 24 additions included in these adjustments are discussed in Section V of my testimony. Detailed
 25 calculations for each adjustment that I sponsor have been provided in my workpapers filed
 26 with the Company's case.

27 **Q. What is the change in electric and natural gas net plant for the capital**
 28 **adjustments included in this testimony?**

³ As discussed by Ms. Andrews, AMI deferred balances and the Company's investment in AMI have been included in Pro Forma AMI Capital Additions Adjustment 3.16 (electric and natural gas), with the completion of the project planned in early 2021, several months prior to new rates in effect October 1, 2021.

⁴ The associated ADFIT includes an estimated repairs deduction, where applicable, expected through 2020 on an EOP basis.

A. The results of the Electric and Natural Gas Pro Forma Studies reflect only a portion of the net plant that will be in service serving customers during the rate year beginning October 1, 2021 (Rate Year). Prior to reflecting the additional projects sponsored by Ms. Andrews (Colstrip Units 3 and 4, EIM, AMI, and Wildfire Plan capital additions), Electric net plant, after ADFIT, increases \$103,621,000 from the December 31, 2019 AMA results of operations balance of \$1,667,769,000 to a December 31, 2020 EOP balance of \$1,771,390,000. Table No. 1 below summarizes the adjustments for electric capital additions included in this testimony and sponsored by me.

Table No. 1:

| Washington Electric Adjustments in \$(000's) | | | | | |
|---|---------|--------------------|--------------------------|---------------------|--------------------|
| | Adj # | Plant in Service | Accumulated Depreciation | Accumulated DFIT | Net Plant |
| <u>Pro Forma Study</u> | | | | | |
| 2019 AMA | Results | \$3,125,125 | \$ (1,038,385) | \$ (418,971) | \$1,667,769 |
| Deferred FIT Rate Base | 1.01 | | | 47 | 47 |
| Remove AMI Rate Base | 1.04 | (57,668) | 6,178 | 3,384 | (48,106) |
| 2019 AMA to EOP Adj | 2.19 | 37,148 | (15,582) | (517) | 21,049 |
| 2020 Pro Forma Adj - Customer At Center | 3.11 | 3,726 | 6,154 | (564) | 9,316 |
| 2020 Pro Forma Adj - Large Distinct Projects | 3.12 | 15,633 | 8,385 | (710) | 23,308 |
| 2020 Pro Forma Adj - Programmatic | 3.13 | 43,319 | 10,338 | (2,119) | 51,538 |
| 2020 Pro Forma Adj - Mandatory & Compliance | 3.14 | 33,737 | 2,905 | (1,058) | 35,584 |
| 2020 Pro Forma Adj - Short-Lived | 3.15 | 3,707 | 7,710 | (531) | 10,886 |
| Pro Forma Study Total* | | \$3,204,728 | \$ (1,012,299) | \$ (421,039) | \$1,771,390 |
| *Electric Pro Forma Study Total balances exclude the effect of additional Pro Forma Adjustments sponsored by Ms. Andrews for Colstrip Units 3 and 4, EIM, AMI, and Wildfire Plan investments. | | | | | |

Prior to reflecting the AMI capital additions sponsored by Ms. Andrews, Natural Gas net plant, after ADFIT, increases \$27,226,000 from the December 31, 2019 AMA results of operations balance of \$384,669,000 to a December 31, 2020 EOP balance of \$411,895,000. Table No. 2 below summarizes the adjustments for natural gas capital additions included in this testimony and sponsored by me.

Table No. 2:

| Washington Natural Gas Adjustments in \$(000's) | | | | | |
|---|---------|-------------------|--------------------------|--------------------|-------------------|
| | Adj # | Plant in Service | Accumulated Depreciation | Accumulated DFIT | Net Plant |
| Pro Forma Study | | | | | |
| 2019 AMA | Results | \$ 677,239 | \$ (201,556) | \$ (91,014) | \$ 384,669 |
| Deferred FIT Rate Base | 1.01 | | | (994) | (994) |
| Remove AMI Rate Base | 1.04 | (21,328) | 1,959 | 1,019 | (18,350) |
| 2019 AMA to EOP Adj | 2.15 | 13,601 | (994) | 123 | 12,731 |
| 2020 Pro Forma Adj - Customer At Center | 3.11 | 1,393 | 1,707 | (177) | 2,923 |
| 2020 Pro Forma Adj - Large Distinct Projects | 3.12 | 6,317 | 1,048 | (174) | 7,191 |
| 2020 Pro Forma Adj - Programmatic | 3.13 | 5,954 | 1,457 | (217) | 7,194 |
| 2020 Pro Forma Adj - Mandatory & Compliance | 3.14 | 11,735 | 1,743 | (355) | 13,123 |
| 2020 Pro Forma Adj - Short-Lived | 3.15 | 1,852 | 1,722 | (166) | 3,408 |
| Pro Forma Study Total* | | \$ 696,764 | \$ (192,914) | \$ (91,955) | \$ 411,895 |
| *Natural Gas Pro Forma Study Total balances exclude the effect of the additional Pro Forma Adjustment sponsored by Ms. Andrews for AMI investments. | | | | | |

As discussed by Ms. Andrews, including all adjustments impacting plant additions offset by A/D and ADFIT, the total Pro Forma Electric and Natural Gas Studies reflect a net plant of \$1.79 billion for electric and \$416 million for natural gas, as shown in Exh. EMA-2 and Exh. EMA-3. By the end of calendar 2021, the Company expects to have net plant (offset by A/D and ADFIT) balances of \$1.91 billion electric and \$453.3 million natural gas. Comparing these balances to the pro forma levels included in this case, the Company is still understating its expected net plant balances for Washington by \$154 million, or \$117.2 million for electric and \$36.8 million for natural gas, resulting in regulatory lag during the rate effective period.

III. CAPITAL ADDITIONS WITNESSES

Q. Would you please provide a brief summary of the witnesses who provide testimony related to capital additions in this proceeding?

A. Yes. Other capital witnesses, besides Ms. Andrews and myself who support

1 the capital related adjustments, provide more detailed information on certain capital projects
2 and describe the need for and timing of these capital projects. The following witnesses are
3 presenting direct testimony supporting the capital addition adjustments I sponsor as outlined
4 in Section II above:

5 Mr. Jason Thackston, Senior Vice President of Energy Resources and Environmental
6 Compliance Officer, will address specific generation capital projects described in this
7 case. In addition, he will address the Colstrip Units 3 and 4 capital projects, included
8 in the Pro Forma Colstrip Adjustment sponsored by Ms. Andrews.

9
10 Ms. Heather Rosentrater, Senior Vice President of Energy Delivery, will explain
11 capital additions related to electric transmission and distribution (including AMI
12 capital additions included in the AMI Pro Forma Adjustment sponsored by Ms.
13 Andrews), natural gas delivery, facilities, fleet, as well as general plant.

14
15 Mr. James Kensok, Vice President and Chief Information and Security Officer, will
16 provide an overview of Avista's Information Service/Information Technology (IS/IT)
17 programs and projects. This includes summaries of the Company's capital additions
18 for a range of IS/IT systems used by the Company, many representing short-lived
19 assets.

20
21 Mr. Kelly Magalsky, Director of Products, Services, and Customer Technology, will
22 discuss capital additions related to the Company's "Customer at the Center" initiative,
23 as well as Avista's Electric Vehicle Supply Equipment (EVSE) Pilot program.

24
25 Additional capital witnesses that cover capital additions adjustments sponsored by Ms.
26 Andrews include:

27 Mr. David Howell, Director of Electric Operations and Asset Maintenance, will
28 discuss the Company's Wildfire Resiliency Plan.

29
30 Mr. Scott Kinney, Director of Power Supply, will provide an overview of Avista's
31 evaluation and decision to join the Western Energy Imbalance Market (EIM) operated
32 by the California Independent System Operator (CAISO).

33
34 Mr. Joshua DiLuciano, Director of Electrical Engineering, along with Ms. Rosentrater
35 as mentioned above, will speak to the Company's AMI project.

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

3 A. Mr. Thackston, Ms. Rosentrater, Mr. Kensok and Mr. Magalsky⁵ present
4 capital transfers-to-plant information (gross plant additions) on a calendar-year and system
5 (Washington, Idaho and Oregon jurisdictions) basis. Each witness’s testimony discusses two
6 specific sections for capital additions. The first section covers certain major capital additions
7 that are included in the Company’s historical 2019 test period, reflecting additions from
8 January 1, 2018 to December 31, 2019 on a system basis. The second section includes certain
9 pro forma capital additions from January 1, 2020 through December 31, 2020 on a system
10 basis. To be clear, information is being supplied for all (not just certain major capital
11 additions) for historical periods 2018 and 2019 (please see Exh. JRT-4⁶, Exh. HLR-10 and
12 Exh. JMK-2); the witnesses, however, only address certain major additions for the 2019
13 historical period in their testimonies.

14 Table No. 3 below reflects the calendar year transfers-to-plant (TTP) for certain major
15 projects that are discussed in each witness’ testimony, on a system basis:

⁵ These are the capital witnesses, as described above, that present direct testimony supporting the capital additions I sponsor. The additional capital witnesses present direct testimony for capital additions sponsored by Ms. Andrews.

⁶ After completion of the Company’s revenue requirement, it was discovered that the transfer-to-plant balance included in the 2019 historical test period for the Cabinet Gorge Gantry Crane Replacement project completed in 2019, was overstated by approximately \$1.4 million (system) in costs that should have been recorded to expense. This project is described by Mr. Thackston in Exh. JRT-4. This error was corrected in 2020. During the process of this case, the Company will update restating adjustment “Restate 2019 AMA Rate Base to EOP (2.19)” to correct for this error, reducing rate base by approximately \$904,000, depreciation expense by \$10,000, and increasing 2019 restating operating expense by approximately \$0.9 million (\$1.4 million system). The overall net impact of this correction increases the Company’s proposed revenue requirement by approximately \$821,000.

Table No. 3:

| Major Capital Projects TTP (System), \$ in (000's) | | | | | |
|---|-----------------|--------------------|-------------|-------------|-------------|
| Functional Area | Witness | Exhibit No. | 2018 | 2019 | 2020 |
| Generation/Production | Mr. Thackston | JRT-1T | \$ 16,449 | \$ 9,276 | \$ 15,703 |
| Electric Transmission & Distribution | Ms. Rosentrater | HLR-1T | 83,637 | 83,190 | 146,242 |
| Natural Gas Distribution | Ms. Rosentrater | HLR-1T | 38,335 | 40,817 | 43,774 |
| General Plant/Facilities | Ms. Rosentrater | HLR-1T | 37,394 | 23,191 | 16,046 |
| Enterprise Technology | Mr. Kensok | JMK-1T | 1,034 | 10,920 | 41,273 |
| Enterprise Technology (i.e. Customer at Center) | Mr. Magalsky | KEM-1T | - | - | 22,329 |
| Total | | | \$176,850 | \$167,394 | \$285,367 |

IV. 2018 & 2019 MAJOR CAPITAL PROJECTS INCLUDED IN TEST YEAR

Q. Please explain what the Company has included in its direct testimony and exhibits with regards to capital projects for 2018 and 2019.

A. Mr. Thackston, Ms. Rosentrater, Mr. Kensok and Mr. Magalsky provide capital project information and further support for certain major capital projects completed during 2018 and 2019.⁷ For projects completed January 1, 2018 through the 2019 test year ending December 31, 2019, Avista's capital witnesses will describe certain major projects completed during this time. For these major projects, each capital witness provides an overview of the need for the investments made and detail how those projects benefit our customers. The selection of major projects was based on any project, on a Washington-allocated basis, that was greater than \$5 million for electric operations and greater than \$2 million for natural gas operations. We believe this designation is consistent with the information provided in the Company's prior general rate cases. Please note that my

⁷ Information on all other non-major projects completed during 2018 and 2019 is set forth in Exh. JRT-4, Exh. HLR-10 and Exh. JMK-2.

1 testimony provides the Washington-allocated values, but Mr. Thackston, Ms. Rosentrater, Mr.
2 Kensok, and Mr. Magalsky testimonies discuss projects, and their costs, at a system transfer-
3 to-plant level.

4 **Q. Are the major capital additions for 2018 and 2019, included in each**
5 **witness's testimony, therefore, the only capital additions you are requesting for the 2019**
6 **test year?**

7 A. No, certain major capital described in each of the aforementioned witnesses'
8 testimony for 2018 and 2019 is only a portion of the total capital that is included in the
9 Company's 2019 historical test period. The Company is requesting all capital included in the
10 2019 test period in this case, which includes all capital additions through December 31, 2019.⁸
11 The Company included major capital project detail in each witness's testimony in order to
12 provide more information and support for its test year capital additions.

13

14

V. 2020 PRO FORMA CAPITAL ADJUSTMENTS

15 **Q. The Company included specific pro forma 2020 capital additions within**
16 **its request for rate relief. Would you please explain how the capital additions for 2020**
17 **were decided on?**

18 A. Yes. As discussed by Ms. Andrews, the Company typically has approximately
19 120 plus projects (business cases) completed on an annual basis which represent the
20 approximate \$405 million of capital spending for any given year. In order to minimize the
21 projects pro formed in this case for calendar 2020, the Company used the Commission's recent

⁸ Capital additions for 2018 and 2019 total approximately 123 capital projects (business cases) and \$766 million of (system) transfers to plant.

1 Used and Useful Policy Statement⁹, as well as the recent PSE Order 08 in Dockets UE-190529
 2 and UG-190530 (“PSE Order”)¹⁰, for guidance in selecting projects for inclusion in this
 3 proceeding as follows:

- 4 • First, the Company looked for a balance between the burden on parties to review and
 5 the Company’s need to recover 2020 capital additions that were already largely in-
 6 service serving customers at the time of filing the Company’s case (or would, within
 7 two months of filing, be in-service through December 31, 2020), ensuring these
 8 projects meet the Commission’s requirement that each project is “used and useful,”
 9 and “known and measurable.”
- 10
- 11 • Second, the Company grouped its projects to fit into the Commission defined
 12 categories: 1) specific, identifiable and distinct¹¹; 2) programmatic (on-going
 13 programs or scheduled investments), and 3) short-lived assets. The Company created
 14 a 4th category – reflecting projects that are mainly “programmatic,” and required to
 15 meet regulatory and other mandatory obligations, titled: 4) Mandatory and
 16 Compliance. The Company excluded all non-material projects generally less than
 17 \$500,000 electric and \$200,000 natural gas.

18

19 **Q. Please summarize the capital additions, by category, included in this case.**

20 A. Beyond the capital additions that are in-service in our twelve-months ended
 21 December 31, 2019 test year, the capital additions included in my testimony spans the period
 22 from January 1, 2020 through December 31, 2020. Capital additions in this period are limited
 23 to the five categories of select 2020 pro forma capital additions, as discussed later in my
 24 testimony. Table No. 4 identifies Avista’s planned System and Washington-specific electric
 25 and natural gas transfers-to-plant by plant category and witness for January 1, 2020 through

⁹ In the Commissions’ “Policy Statement on Property That Becomes Used and Useful After Rate Effective Date” (“Policy Statement”), Docket U-190531, at para. 11, p. 5, it defines three broad types of investments they would consider for inclusion in rates: 1) specific - clearly defined, identifiable or discrete; 2) programmatic - made according to a schedule, plan or method; and 3) projected: i.e., the use of a k-factor, an attrition adjustment, or a growth analysis.

¹⁰ PSE Order 08, para. 558, p. 163, the Commission explained its plan to address on a case-by-case basis the impact of short-lived assets on regulatory lag.

¹¹ The Company’s pro forma 2020 additions “Customer at the Center” fits into category 1) specific, identifiable and distinct.

1 December 31, 2020.

2 **Table No. 4: 2020 Pro Forma Capital Additions – System and Washington**

| System and Washington Capital Additions Transfers-To-Plant Twelve Months Ended December 31, 2020 In Thousands (\$000's) | | | | |
|--|----------------------|------------------|----------------------------------|-------------------------------------|
| Adj # - Plant Group | Witness | System | Washington - Electric | Washington - Natural Gas |
| PF 3.11 - Customer at the Center | | | | |
| | Mr. Magalsky | \$ 22,329 | \$ 10,787 | \$ 3,385 |
| | Total PF 3.11 | \$ 22,329 | \$ 10,787 | \$ 3,385 |
| PF 3.12 - Large Distinct Projects | | | | |
| | Mr. Thackston | \$ 8,597 | \$ 5,643 | \$ - |
| | Ms. Rosentrater | 32,620 | 16,339 | 6,757 |
| | Mr. Kensok | 4,673 | 2,257 | 708 |
| | Total PF 3.12 | \$ 45,890 | \$ 24,240 | \$ 7,466 |
| PF 3.13 - Programmatic | | | | |
| | Mr. Thackston | \$ 3,950 | \$ 2,593 | \$ - |
| | Ms. Rosentrater | 91,006 | 47,096 | 6,009 |
| | Mr. Kensok | 9,940 | 4,802 | 1,507 |
| | Total PF 3.13 | \$104,896 | \$ 54,491 | \$ 7,515 |
| PF 3.14 - Mandatory & Compliance | | | | |
| | Mr. Thackston | \$ 3,155 | \$ 2,038 | \$ - |
| | Ms. Rosentrater | 82,436 | 34,811 | 13,608 |
| | Total PF 3.14 | \$ 85,591 | \$ 36,849 | \$ 13,608 |
| PF 3.15 - Short-Lived | | | | |
| | Mr. Kensok | \$ 26,660 | \$ 12,476 | \$ 3,905 |
| | Total PF 3.15 | \$ 26,660 | \$ 12,476 | \$ 3,905 |
| Total 2020 Pro Forma Capital Additions | | \$285,367 | \$ 138,842 | \$ 35,879 |

20

21 **Q. Please describe how the capital additions for Washington provided in**

22 **Table No. 4 above are derived.**

23 **A. The Company directly assigns costs when appropriate. Costs not specifically**

1 identifiable to a specific jurisdiction are allocated in accordance with an approved allocation
2 procedure. Specific to Table No. 4 above, of the total capital additions (system) transfers-to-
3 plant for January 1 to December 31, 2020, approximately 10.5% or \$29.9 million was directly
4 assigned to Washington for electric projects specific to our Washington jurisdiction and
5 approximately 7.8% or \$22.3 million was directly assigned to Washington for natural gas
6 projects specific to our Washington jurisdiction. All other costs were allocated to Washington
7 as part of an allocation process, which designates costs as common to all services and
8 jurisdictions (CD.AA), common to electric operations only (ED.AN) or common to natural
9 gas operations only (GD.AA), as provided in Ms. Andrews' Exh. EMA-4.

10 **Q. Would you please describe each of the 2020 pro forma capital additions**
11 **adjustments you sponsor and provide the related transfers to plant-in-service included**
12 **in this case?**

13 A. Yes. The Company grouped selected 2020 pro forma projects to fit into the
14 Commission defined categories as noted above and described in more detail by Ms. Andrews.
15 To reiterate, the Company excluded all non-material projects generally less than \$500,000
16 electric and \$200,000 natural gas. This resulted in five grouped pro forma adjustments for
17 2020 capital additions that I sponsor as provided below. A general description of the pro forma
18 adjustments, along with a few examples of projects (business cases) that fall under each of the
19 specified plant investment drivers are as follows:

20 **1) Pro Forma 2020 Customer At The Center (PF 3.11)**

21 This adjustment reflects the increase in capital additions related to the investment in
22 large and distinct projects specific to the Company's focus on its customers at the center of
23 our business and priorities. Projects that fall under this plant category include: Customer

1 Facing Technology, Customer Experience Platform, and Customer Transactions Systems. Mr.
 2 Magalsky discusses this initiative, along with each of the capital additions included in Table
 3 No. 5 below, in greater detail in his testimony. Detailed business case narratives supporting
 4 each of the capital projects are included in Exh. KEM-2.

5 This pro forma adjustment reflects the increases in 2020 capital additions, together
 6 with associated A/D, ADFIT, and depreciation expense. Also reflected in this adjustment are
 7 2019 retirements of similar assets as an offset to expense, reducing the overall impact of this
 8 adjustment. The effect of this adjustment increases electric rate base by \$9,316,000 and
 9 increases expense by \$1,838,000. For natural gas, this adjustment increases rate base by
 10 \$2,923,000 and increases expense by \$577,000.

11 Table No. 5 below identifies Avista's planned Washington-specific capital additions
 12 transfers-to-plant under the Customer at the Center plant category for January 1, 2020 through
 13 December 31, 2020 by service.

14 **Table No. 5: Customer At The Center Capital Additions Transfers-to-plant**

| Washington Capital Additions Transfers-to-Plant | | | | | |
|--|----------------|--------------------------------|-----------------------------------|--|--|
| In Thousands (\$000's) | | | | | |
| Plant Category: Customer at the Center | | | | | |
| Business Case | Witness | Washington Electric | Washington Natural Gas | | |
| Twelve Months Ended December 31, 2020 | | | | | |
| Customer Facing Technology Program | Mr. Magalsky | \$ 7,465 | \$ 2,343 | | |
| Customer Transactional Systems | Mr. Magalsky | 869 | 273 | | |
| Strategic Initiatives* (Customer Experience Program) | Mr. Magalsky | 2,453 | 770 | | |
| Total Transfers-to-Plant | | \$ 10,787 | \$ 3,385 | | |

21 **2) Pro Forma 2020 Large and Distinct (PF 3.12)**

22 This adjustment reflects the increase in capital additions related to select large and
 23 distinct projects as supported by Mr. Thackston, Ms. Rosentrater and Mr. Kensok. Some

1 projects that fall under this plant category include, but are not limited to, the electric
2 Rattlesnake Flat Wind Farm project, the electric Labor Day 2020 Storm Damage project
3 (replacing Avista's Chelan-Stratford 115kV transmission line¹²), or the natural gas Cheney
4 High-Pressure Reinforcement project. A description for each of the capital additions included
5 in Table No. 6 is provided in Mr. Thackston, Ms. Rosentrater and Mr. Kensok testimonies.
6 Detailed business case narratives supporting each of the capital projects included in this
7 adjustment are contained in Exh. JRT-6, Exh. HLR-11 and Exh. JMK-3.

8 This pro forma adjustment reflects the increases in 2020 capital additions, together
9 with associated A/D, ADFIT, and depreciation expense. Also reflected in this adjustment are
10 2019 retirements of similar assets as an offset to expense, reducing the overall impact of this
11 adjustment. The effect of this adjustment increases electric rate base by \$23,308,000¹³ and
12 increases expense by \$455,000. For natural gas, this adjustment increases rate base by
13 \$7,191,000 and increases expense by \$186,000.

14 Table No. 6 below identifies Avista's planned Washington-specific capital additions
15 transfers-to-plant under the Large and Distinct plant category for January 1, 2020 through
16 December 31, 2020 by service.

¹² Preliminary project costs for the Chelan-Stratford Transmission Line Rebuild project from the 2020 Labor Day Storm are now expected to be lower than the estimated amount included in the Company's filing. Final project costs, once available will be updated during the pendency of the case, reducing the overall rate base and revenue requirement associated with this project.

Table No. 6: Large and Distinct Capital Additions Transfers-to-plant

| Washington Capital Additions Transfers-to-Plant | | | | | |
|---|-----------------|--------------------------------|-----------------------------------|--|--|
| In Thousands (\$000's) | | | | | |
| Plant Category: Large and Distinct | | | | | |
| Business Case | Witness | Washington Electric | Washington Natural Gas | | |
| Twelve Months Ended December 31, 2020 | | | | | |
| Cabinet Gorge 15 kV Bus Replacement | Mr. Thackston | \$ 919 | \$ - | | |
| Cabinet Gorge Automation | Mr. Thackston | 2,680 | - | | |
| Campus Repurposing Phase 2 | Ms. Rosentrater | 1,392 | 437 | | |
| CS2 Single Phase Transformer | Mr. Thackston | 2,044 | - | | |
| Digital Grid Network | Mr. Kensok | 1,068 | 335 | | |
| Electric Storm* (2020 Labor Day Storm Costs & Chelan-Stratford Tx Line) | Ms. Rosentrater | 8,085 | - | | |
| Natural Gas Cheney HP Reinforcement | Ms. Rosentrater | - | 4,918 | | |
| Jackson Prairie Joint Project | Ms. Rosentrater | - | 1,402 | | |
| Land Mobile Radio & Real Time Communication Systems | Mr. Kensok | 1,190 | 373 | | |
| Rattlesnake Flat Wind Farm Project 115kV Integration Project | Ms. Rosentrater | 6,862 | - | | |
| Total Transfers-to-Plant | | <u>\$ 24,240</u> | <u>\$ 7,466</u> | | |

3) Pro Forma 2020 Programmatic (PF 3.13)

This adjustment reflects the increase in capital additions related to projects associated with on-going, reoccurring annual projects as supported by Mr. Thackston, Ms. Rosentrater and Mr. Kensok; for purposes of adjustment and testimony preparation, the Company has deemed these types of projects as programs. Examples of some projects that fall under this category include Wood Pole Management, substation rebuilds, and distribution grid modernization. A description for each of the capital additions included in Table No. 7 is provided in Mr. Thackston, Ms. Rosentrater and Mr. Kensok testimonies. Detailed business case narratives supporting each of the capital projects included in this adjustment are contained in Exh. JRT-6, Exh. HLR-11 and Exh. JMK-3.

This pro forma adjustment reflects the increases in 2020 capital additions, together with associated A/D, ADFIT, and depreciation expense. Also reflected in this adjustment are

1 2019 retirements of similar assets as an offset to expense, reducing the overall impact of this
 2 adjustment. The effect of this adjustment increases electric rate base by \$51,538,000 and
 3 increases expense by \$1,288,000. For natural gas, this adjustment increases rate base by
 4 \$7,194,000 and increases expense by \$229,000.

5 Table No. 7 below identifies Avista's planned Washington-specific capital additions
 6 transfers-to-plant under the Programmatic plant category for January 1, 2020 through
 7 December 31, 2020 by service.

8 **Table No. 7: Programmatic Capital Additions Transfers-to-plant**

| Washington Capital Additions Transfers-to-Plant | | | | | |
|--|-----------------------|--------------------------|---------------------------|--|--|
| In Thousands (\$000's) | | | | | |
| Plant Category: Programmatic | | | | | |
| <u>Business Case</u> | <u>Witness</u> | <u>Washington</u> | <u>Washington</u> | | |
| | | <u>Electric</u> | <u>Natural Gas</u> | | |
| Twelve Months Ended December 31, 2020 | | | | | |
| Base Load Thermal Program | Mr. Thackston | \$ 1,512 | \$ - | | |
| Capital Tools & Stores | Ms. Rosentrater | 459 | 144 | | |
| Distribution Grid Modernization | Ms. Rosentrater | 3,706 | - | | |
| Distribution Minor Rebuild | Ms. Rosentrater | 5,758 | - | | |
| Downtown Network - Asset Condition | Ms. Rosentrater | 1,717 | - | | |
| Downtown Network - Performance & Capacity | Ms. Rosentrater | 2,667 | - | | |
| Electric Storm | Ms. Rosentrater | 2,005 | - | | |
| Enterprise & Control Network Infrastructure | Mr. Kensok | 3,336 | 1,047 | | |
| Environmental Control & Monitoring Systems | Mr. Kensok | 466 | 146 | | |
| Fiber Network Lease Service Replacement | Mr. Kensok | 509 | 160 | | |
| Fleet Services Capital Plan | Ms. Rosentrater | 3,045 | 1,430 | | |
| Natural Gas Non-Revenue Program | Ms. Rosentrater | - | 3,086 | | |
| Natural Gas Regulator Station Replacement Program | Ms. Rosentrater | - | 319 | | |
| Natural Gas Reinforcement Program | Ms. Rosentrater | - | 674 | | |
| Regulating Hydro | Mr. Thackston | 1,081 | - | | |
| SCADA - SOO and BuCC | Ms. Rosentrater | 1,367 | - | | |
| Segment Reconductor and FDR Tie | Ms. Rosentrater | 3,353 | - | | |
| Structures and Improvements/Furniture | Ms. Rosentrater | 1,134 | 356 | | |
| Substation - New Distribution Station Capacity Program | Ms. Rosentrater | 3,371 | - | | |
| Substation - Station Rebuilds Program | Ms. Rosentrater | 10,381 | - | | |
| Technology Failed Assets | Mr. Kensok | 491 | 154 | | |
| Transmission - Minor Rebuild | Ms. Rosentrater | 991 | - | | |
| Wood Pole Management | Ms. Rosentrater | 7,140 | - | | |
| Total Transfers-to-Plant | | <u>\$ 54,491</u> | <u>\$ 7,515</u> | | |

1 **4) Pro Forma 2020 Mandatory and Compliance (PF 3.14)**

2 This adjustment reflects increases in capital additions related to projects that are
3 mainly associated with on-going, reoccurring annual projects that are required to meet
4 regulatory and other mandatory obligations, such as compliance with mandatory federal
5 standards for transmission planning and operations, as sponsored by Mr. Thackston and Ms.
6 Rosentrater. Examples of some projects that fall under this category include Isolated Steel
7 Replacement, Aldyl-A Pipe Replacement, and the Spokane River and Clark Fork PM&E
8 implementation agreement projects. A description for each of the capital additions included
9 in Table No. 8 is provided in Mr. Thackston and Ms. Rosentrater testimonies. Detailed
10 business case narratives supporting each of the capital projects included in this adjustment are
11 contained in Exh. JRT-6 and Exh. HLR-11.

12 This pro forma adjustment reflects the increases in 2020 capital additions, together
13 with associated A/D, ADFIT, and depreciation expense. Also reflected in this adjustment are
14 2019 retirements of similar assets as an offset to expense, reducing the overall impact of this
15 adjustment. The effect of this adjustment increases electric rate base by \$35,584,000 and
16 increases expense by \$710,000. For natural gas, this adjustment increases rate base by
17 \$13,123,000 and increase expense by \$276,000.

18 Table No. 8 below identifies Avista's planned Washington-specific capital additions
19 transfers-to-plant under the Mandatory and Compliance plant category for January 1, 2020
20 through December 31, 2020 by service.

Table No. 8: Mandatory and Compliance Capital Additions Transfers-to-plant

| Washington Capital Additions Transfers-to-Plant | | | | |
|--|-----------------|--------------------------------|-----------------------------------|--|
| In Thousands (\$000's) | | | | |
| Plant Category: Mandatory & Compliance | | | | |
| Business Case | Witness | Washington Electric | Washington Natural Gas | |
| Twelve Months Ended December 31, 2020 | | | | |
| Clark Fork Settlement Agreement | Mr. Thackston | \$ 1,255 | \$ - | |
| Elec Relocation and Replacement Program | Ms. Rosentrater | 1,871 | - | |
| Natural Gas Cathodic Protection Program | Ms. Rosentrater | - | 410 | |
| Natural Gas Facility Replacement Program (GFRP) Aldyl A Pipe Replacement | Ms. Rosentrater | - | 10,930 | |
| Natural Gas Isolated Steel Replacement Program | Ms. Rosentrater | - | 514 | |
| Natural Gas PMC Program | Ms. Rosentrater | - | 1,242 | |
| Natural Gas Replacement Street and Highway Program | Ms. Rosentrater | - | 511 | |
| Joint Use* (previously embedded in Distribution Minor Rebuild) | Ms. Rosentrater | 1,982 | - | |
| Protection System Upgrade for PRC-002 | Ms. Rosentrater | 837 | - | |
| Saddle Mountain 230/115kV Station (New) Integration Project Phase 1 | Ms. Rosentrater | 18,817 | - | |
| Spokane River License Implementation | Mr. Thackston | 783 | - | |
| Transmission Construction - Compliance | Ms. Rosentrater | 6,156 | - | |
| Transmission NERC Low-Risk Priority Lines Mitigation | Ms. Rosentrater | 2,850 | - | |
| Westside 230/115kV Station Brownfield Rebuild Project | Ms. Rosentrater | 2,297 | - | |
| Total Transfers-to-Plant | | \$ 36,849 | \$ 13,608 | |

5) Pro Forma 2020 Short-Lived (3.15)¹⁴

This adjustment reflects increases in capital additions related to various short-lived capital projects as supported by Mr. Kensok. Examples of some projects that fall under this category include Endpoint Compute and Productivity Systems, Project Atlas, and Enterprise Security System projects. A description for each of the capital additions included in Table No. 9 is provided in Mr. Kensok's testimony. Detailed business case narratives supporting each of the capital projects included in this adjustment are contained in Exh. JMK-3.

¹⁴The Company filed an application with the Commission on October 9, 2020 requesting authorization for Avista to use an amortization period for its capitalized software license costs and its capitalized software implementation costs (short-lived assets) that aligns with the life of the underlying contract for Information Technology (IT) services. As described more fully in the application, Avista is currently authorized to amortize software over a five-year period. Accounting guidelines requires Avista to amortize capitalized costs over its useful period, which can be different than a standard five-year period. With this application, the Company is not requesting to impact customers' rates, or a prudence review of any related assets at this time. Approval of this application will only impact certain future short-lived assets on a go-forward basis and will have no impact on this proceeding.

1 This pro forma adjustment reflects the increases in 2020 capital additions, together
 2 with associated A/D, ADFIT, and depreciation expense. Also reflected in this adjustment are
 3 2019 retirements of similar assets as an offset to expense, reducing the overall impact of this
 4 adjustment. The effect of this adjustment increases electric rate base by \$10,886,000 and
 5 increases expense by \$1,966,000. For natural gas, this adjustment increases rate base by
 6 \$3,408,000 and increases expense by \$642,000.

7 Table No. 9 below identifies Avista's planned Washington-specific capital additions
 8 transfers-to-plant under the Short-Lived plant category for January 1, 2020 through December
 9 31, 2020 by service.

10 **Table No. 9: Short-Lived Capital Additions Transfers-to-plant**

| Washington Capital Additions Transfers-to-Plant | | | | | |
|--|----------------|-------------------|--------------------|--|--|
| In Thousands (\$000's) | | | | | |
| Plant Category: Short-Lived | | | | | |
| Business Case | Witness | Washington | Washington | | |
| | | Electric | Natural Gas | | |
| Twelve Months Ended December 31, 2020 | | | | | |
| Atlas | Mr. Kensok | \$ 1,351 | \$ 424 | | |
| Data Center Compute and Storage Systems | Mr. Kensok | 1,017 | 319 | | |
| Endpoint Compute and Productivity Systems | Mr. Kensok | 2,432 | 763 | | |
| Energy Delivery Operational Efficiency & Shared Services | Mr. Kensok | 1,557 | 488 | | |
| Energy Resources Modernization & Operational Efficiency | Mr. Kensok | 828 | 260 | | |
| Enterprise Communication Systems | Mr. Kensok | 1,496 | 469 | | |
| Enterprise Data Science | Mr. Kensok | 693 | 218 | | |
| Enterprise Security | Mr. Kensok | 1,367 | 420 | | |
| ET Modernization & Operational Efficiency - Technology | Mr. Kensok | 1,079 | 339 | | |
| Financial & Accounting Technology | Mr. Kensok | 656 | 206 | | |
| Total Transfers-to-Plant | | <u>\$ 12,476</u> | <u>\$ 3,905</u> | | |

21

22 **Q. Please explain what offsets have been included within the 2020 Pro Forma**
 23 **Capital Additions adjustments.**

1 A. First, for each of the five 2020 Pro Forma Capital Additions adjustments
2 described in my testimony, I have included the reduction in depreciation expense related to
3 2020 retirements on plant-in-service at December 31, 2019. The overall effect of reflecting
4 the 2020 retirements on plant-in-service at December 31, 2019, in each 2020 capital
5 adjustment, reduces the incremental depreciation expense pro formed in these adjustments by
6 \$1.5 million (or a reduction of 19%) for electric and \$0.4 million (or a reduction of 16%) for
7 natural gas.

8 In addition, each pro forma capital project included in the 2020 Pro Forma Capital
9 Additions adjustments, was also analyzed to determine if any additional offsets (e.g., reduced
10 O&M costs) were probable. For example, maintenance records were reviewed to determine
11 whether any specific maintenance costs were incurred in the test period that would be reduced
12 or eliminated by the investment at the facility.

13 When reviewing project offsets, typically projects may have two types of offsets. The
14 first type of offset is a redeployment of costs or efficiency gains, that do not generally allow
15 for an offset to its O&M costs, as there are no changes to the total level of expense that the
16 Company will incur during the rate year. The second type of offset includes actual or “hard”
17 incremental savings expected beyond the historical test period, that will occur during the rate-
18 effective period, as a result of the capital investment. These offsets result in an overall
19 reduction in the level of expense the Company will incur, such as a reduction in workforce or
20 energy savings.

21 After review of the 2020 capital projects included in this case, quantifiable savings
22 included as a reduction to O&M were included in Adjustment 3.13 – Programmatic 2020 Pro
23 Forma Capital Additions of approximately \$166,000 for electric operations associated with:

1 1) Wood Pole Management; 2) Distribution Grid Modernization; and 3) Downtown Network
2 – Performance and Capacity.

3 **Q. What conclusions have you drawn regarding the increased capital**
4 **additions included in this case?**

5 A. The Company is making substantial levels of capital additions in its electric
6 and natural gas system infrastructure to address customer growth, replacement and
7 maintenance of Avista’s aging system, and to sustain reliability and safety. As soon as this
8 new plant is placed in service, the Company must start depreciating the new plant and incur
9 other costs related to the addition. Unless these capital additions are reflected in retail rates
10 in a timely manner, it has a negative impact on Avista’s earnings, particularly because the new
11 plant is typically far more costly to install than the cost of similar plant that was embedded in
12 rates decades earlier. As plant is completed and is providing service to customers, it is
13 appropriate for the Company to receive timely recovery of the costs associated with that plant.

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

15 A. Yes, it does.