

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, dba  
AVISTA UTILITIES,

Respondent.

DOCKETS UE-150204 and  
UG-150205 (*Consolidated*)

COMMISSION STAFF'S  
SUPPLEMENTAL ARGUMENT ON  
BRIEF

1 We offer for your consideration additional argument to present more clearly and  
forcefully, Commission Staff's case on attrition and whether the Commission should grant  
Avista's request for an attrition allowance.

2 We offer no new or additional evidence, only an enhanced emphasis of the key  
elements of our argument, while not exceeding the brief's 60-page limitation. In short, the  
facts, circumstances, and record evidence warrant an attrition allowance in this case.

3 Through his own attrition study, Commission Staff witness Chris McGuire  
determined that "rates calculated using a modified historical test year approach will likely be  
insufficient to provide the Company with a fair opportunity to earn the Settlement rate of  
return."<sup>1</sup> To provide Avista with an opportunity to earn a fair rate of return, Staff  
recommends the Commission provide Avista with an attrition allowance of \$14.7 million for  
electric operations and \$5.4 million for natural gas operations.<sup>2</sup> As Staff explains, this

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<sup>1</sup> CRM-1T, 5:13-15.

<sup>2</sup> CRM-1T, 28:8-12.

attrition allowance would provide revenues incremental to the revenue requirement calculated using a modified historical test year approach.<sup>3</sup>

4 The Commission has previously determined that prospective changes to load may create the circumstances sufficient to warrant an attrition adjustment.<sup>4</sup> Low load growth ails Avista presently.<sup>5</sup> Given Avista's level of load growth priced at current rates coupled with ongoing capital expansion, Mr. McGuire's attrition study shows a likelihood that Avista will not be able to recover its ordinary business expenses and earn a fair return on rate base.<sup>6</sup> Therefore, Avista will likely experience earnings attrition in the rate-effective period. As Mr. McGuire testified, "Avista has been experiencing very low load growth over the last several years, and if that load growth continues at a slow pace, the Company is not going to be able to generate the revenues necessary to cover the expenses moving forward."<sup>7</sup> It is Avista's need to maintain the reliability of its electricity and gas delivery systems coupled with low growth in load that defines an extraordinary circumstance. Thus, "extraordinary circumstances" has been met in this case.

5 The Commission need only rely on an attrition study to determine whether the Company is experiencing differential rates of growth in revenues, expenses and rate base.<sup>8</sup> Mr. McGuire explains that "[a]n attrition study evaluates prevailing rates of growth in revenue, expenses and rate base to determine if there is evidence to indicate whether those

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<sup>3</sup> CRM-1T, 5:19-20.

<sup>4</sup> *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Co.*, Cause U-77-83, 2<sup>nd</sup> Supp. Order at 10, CRM-1T at n.25, CRM-6 at 2.

<sup>5</sup> CRM-1T, 16:10-15.

<sup>6</sup> CRM-1T, 27:16-28:4.

<sup>7</sup> McGuire TR. 446:24-447:3.

<sup>8</sup> CRM-1T, 28:19-22. Mr. McGuire explains that "In ratemaking, the term "attrition" typically refers to the erosion of a company's rate of return over time because the historical test period relationship in revenues, expenses and rate base does not hold during a future rate year. If this erosion occurs, it can deprive the utility of a reasonable opportunity to earn a fair rate of return."

relationships, known and measured in the test period, are likely to be materially different than those in the rate-effective period.”<sup>9</sup> Staff’s objective attrition analysis, while adhering to the basic scientifically objective, analytical parameters accepted by this Commission,<sup>10</sup> demonstrates that an attrition allowance is warranted in this case.<sup>11</sup> Reliance on a modified historical test year requires that the test year relationships between revenue, expenses and rate base will hold into the rate year. Mr. McGuire’s attrition analysis proves that these relationships will fall out of balance during the rate year thus requiring the attrition adjustment presented by Mr. McGuire.

6 Put simply, there is ample evidence in this case, both subjective and scientific, demonstrating that the simple determination of rates based on an historical modified test year will not suffice to offer Avista an opportunity to earn a fair rate of return, and that an attrition allowance is necessary to provide Avista with that fair opportunity. Staff reiterates our support of an attrition allowance as a reasonable means to determine fair, just, reasonable and sufficient rates.

DATED this 4th day of December 2015.

Respectfully submitted,

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Attorney General



SALLY BROWN  
Senior Assistant Attorney General  
Counsel for Washington Utilities and  
Transportation Commission Staff

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<sup>9</sup> CRM-1T, 34:1-4.

<sup>10</sup> CRM-1T, 33:6-13.

<sup>11</sup> See CRM-2 and CRM-3.