

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-160228

DOCKET NO. UG-160229

REBUTTAL TESTIMONY OF

KELLY O. NORWOOD

REPRESENTING AVISTA CORPORATION

Revised October 11, 2016 per Order No. 04

**I. INTRODUCTION**

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

A. My name is Kelly O. Norwood. I am employed by Avista Utilities as the Vice-President of State and Federal Regulation. My business address is 1411 E. Mission Avenue, Spokane, Washington.

**Q. Would you please briefly describe your educational background and professional experience?**

A. Yes. I am a graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. I joined the Company in June of 1981. Over the past 35 years, I have spent approximately 24 years in the Rates Department with involvement in cost of service, rate design, revenue requirements and other aspects of ratemaking. I spent approximately 11 years in the Energy Resources Department in a variety of roles, with involvement in resource planning, system operations, resource analysis, negotiation of power contracts, and risk management. I was appointed Vice-President of State & Federal Regulation in March 2002.

**Q. Please provide an overview of your rebuttal testimony.**

A. I will present the context in which the Commission should view the revenue adjustment proposals of the parties in this case. At a high level, I will explain why the Commission should not only employ the use of an attrition adjustment in establishing retail rates in this case, but, as the Commission has in recent cases, also carefully consider the application of the end result to the prospective rate period to ensure that the revenue adjustments are fair to customers and to the Company. I will close with an introduction of

1 other witnesses sponsoring rebuttal testimony on behalf of Avista, including identification of  
2 the topic areas each will cover.

3 **Q. Is the Company continuing to support its proposed 18-month rate plan?**

4 A. Yes. Avista continues to believe it is important to change the “cycle” of base  
5 rate adjustments from the middle of winter to the middle of the summer months, as discussed  
6 by Company witness Mr. Morris.<sup>1</sup> Staff witness Mr. Hancock expressed his support for  
7 changing the cycle of filings as follows:

8 A change away from wintertime filing dates would help spread workload across the  
9 year and reduce pressures caused by coincident filings from multiple companies.  
10 Intervening parties would likely be better able to represent their constituents and  
11 provide deeper analysis and commentary to the Commission in its efforts to produce  
12 outcomes in the public interest. Staff supports practices that will lead to a more  
13 thorough discovery process, better evidentiary record, and outcomes that further the  
14 public interest.<sup>2</sup>  
15

16 Avista is continuing to propose a two-step base rate adjustment for the period January  
17 1, 2017 through June 30, 2018. The first would occur on January 1, 2017, and the second on  
18 January 1, 2018.

19 **Q. Would the bill impact to electric customers for the second step rate**  
20 **increase on January 1 2018 be fully offset with Energy Recovery Mechanism (ERM)**  
21 **dollars, as originally proposed by the Company?**

22 A. Yes. As of August 31, 2016, the ERM had a rebate balance due customers of  
23 \$17.7 million. It is reasonable and appropriate to return a portion of these dollars to customers,  
24 and it would facilitate a smooth transition for customers to a summer-to-summer cycle of base  
25 rate adjustments. Under the 18-month rate plan proposal, together with the use of ERM rebate

---

<sup>1</sup> Exhibit No. \_\_\_\_ (SLM-1T), p. 3:9-17.

<sup>2</sup> Exhibit No. \_\_\_\_ (CSH-1T), p. 8:17-23.

1 dollars, customers would experience a bill increase January 1, 2017, but would not see another  
 2 bill increase related to base rates until July 1, 2018.

3 As the Company proposed in its original filing, a power supply update would be filed  
 4 with the Commission on November 1, 2016 for the January 1, 2017 base rate change, as well  
 5 as on November 1, 2017 for the January 1, 2018 base rate change. As in prior cases, these  
 6 updates in power supply costs, would occur just before new base retail rates go into effect, will  
 7 reflect the most recent information available for power supply costs.

8 To the extent the power supply update to be filed on November 1, 2017, for the January  
 9 2018 base rate change, would result in an increase in base retail rates, ERM rebate balance  
 10 dollars would be used to offset the increase such that customers would not experience a bill  
 11 change on January 1, 2018.

12 **Q. How is your testimony organized?**

13 A. A table of contents for my testimony is as follows:

<u>Description</u>	<u>Page</u>
15 I. Introduction	1
16 II. Context to Review Proposals in These Dockets	4
17 III. Proposals of Non-Company Parties in Prior Rate Cases 18 Have Been Demonstrated to be Unreasonable	7
19	
20 IV. After-the-Fact Results Confirm the Reasonableness of 21 the Commission’s Recent Revenue Adjustment Decisions	10
22	
23 V. The Modified Test Year Study Approach is Insufficient	14
24 VI. No Evidence of a Self-Fulfilling Prophecy	16
25 VII. Three Separate Studies Presented by Avista Support 26 Its Revenue Adjustments	18
27	
28 VIII. Avista’s Need for Revenue Increases Has Increased 29 Following Its Original Filing	26
30	

1 IX. Deferred Accounting Treatment May be Appropriate For  
2 Two Unique Issues 29

3  
4 X. Other Company Witnesses 45

5  
6 **Q. Are you sponsoring any exhibits with your testimony?**

7 A. No.

8

9 **II. CONTEXT TO REVIEW PROPOSALS IN THESE DOCKETS**

10 **Q. In response to the testimony of Staff and other parties in this case, do you**  
11 **have any opening comments regarding the context in which the Commission should**  
12 **consider the revenue adjustment proposals presented by the parties?**<sup>3</sup>

13 A. Yes. I would like to emphasize the importance of the context in which the  
14 Commission should view the revenue adjustment proposals that have been presented. In this  
15 case I believe all participants would agree that the overarching objective, with regard to the  
16 electric and natural gas revenue requirements, in its simplest form, is for the Commission to  
17 ultimately arrive at revenue adjustments that are: 1) fair to customers and, 2) fair to Avista.

18 Although Avista and other parties have employed a number of revenue requirement  
19 methods and models, we all know that adjustments to the inputs to the models can be made to  
20 achieve a broad range of end-result outcomes. As an example, ICNU's attrition analysis  
21 presented in this case produces an electric revenue decrease of \$3.8 million,<sup>4</sup> as compared to

---

<sup>3</sup> I will refer to each of the non-Company parties in these Dockets as follows: the Staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Unit of the Washington Office of Attorney General (Public Counsel), the Industrial Customers of Northwest Utilities (ICNU), the Northwest Industrial Gas Users (NWIGU), and The Energy Project.

<sup>4</sup> Exhibit No. \_\_\_\_ (BGM-1T), p. 3:11.

1 Avista's proposed electric revenue increase of \$38.6 million, also based on an Attrition Study.

2 This is a difference of \$42.4 million.

3 For illustrative purposes, and using authorized results from the Company's 2015  
4 general rate case, ten basis points (10 BPS) of Avista's return on equity (ROE) for its  
5 Washington electric operations is approximately \$1.0 million, and therefore this difference of  
6 \$42.4 million represents a difference of 420 BPS, or 4.2% in ROE. If the Commission were  
7 to order an electric revenue adjustment that was \$42.4 million lower than what it needed to be  
8 in order for the Company to earn its currently allowed ROE of 9.5%, this difference of \$42.4  
9 million would provide Avista with an ROE earnings opportunity of only 5.3%.<sup>5</sup> A mechanistic  
10 application of inputs to a model along with logical arguments that, on the surface, may appear  
11 to be reasonable, will not necessarily produce reasonable end results.

12 As this Commission has done in the past, it is critically important that all available  
13 evidence be considered in the determination of the end result, including a careful assessment  
14 that the application of that end result during the rate period will provide an outcome that will  
15 be fair to both customers and the Company. The end results of all modeling must be presented  
16 together with all other available evidence; which taken together should provide a reasonably  
17 high level of confidence that the end result is fair for both customers and the Company.

18 Avista will demonstrate in its rebuttal testimony that ICNU and NWIGU, in particular,  
19 have developed revenue adjustment proposals that do not align with, nor are supported by,  
20 other evidence in this case. Their proposals are simply not reasonable and should be dismissed.  
21 Public Counsel in its responsive testimony filed on August 17, 2016 did not even include  
22 electric or natural gas revenue requirement proposals for the Commission's consideration.

---

<sup>5</sup> I understand that ICNU's revenue decrease and Avista's increase are predicated on different levels of ROE. That difference, however, represents a small fraction of the overall \$42.4 million difference.

1 As the Commission develops its decisions in this case related to the electric and natural  
2 gas revenue adjustments, Avista requests that the Commission consider revenue adjustment  
3 proposals within the context of the following evidence:

- 4 1) **Proposals of Non-Company Parties in Prior Rate Cases Have Been**  
5 **Demonstrated to be Unreasonable:** ICNU and Public Counsel proposals, in  
6 particular, in recent general rate cases have been dramatically and consistently  
7 below the end results ordered by the Commission, and were not reasonable based  
8 on the evidence taken as a whole in those cases. Furthermore, the after-the-fact  
9 results have confirmed that their proposals were not reasonable, and would not  
10 have provided a reasonable opportunity for Avista to earn its authorized rate of  
11 return;  
12
- 13 2) **After-the-Fact Results Confirm the Reasonableness of the Commission's**  
14 **Recent Revenue Adjustment Decisions:** The after-the-fact earned returns by  
15 Avista following the recent general rate cases have confirmed that the  
16 Commission's revenue adjustment decisions were reasonable and fair to both  
17 customers and the Company;  
18
- 19 3) **The Modified Test Year Study Approach is Insufficient:** Both Avista and Staff  
20 have demonstrated in their filed testimony in this case that the use of a traditional  
21 historical test period with limited pro forma adjustments (Modified Test Year  
22 Study) will not produce sufficient revenue adjustments for the Company in this  
23 case;  
24
- 25 4) **No Evidence of a Self-Fulfilling Prophecy:** The Commission's recent approval  
26 of attrition adjustments has not resulted in, nor has it created, a "self-fulfilling  
27 prophecy" regarding utility investments or operating costs. Continuing investment  
28 in utility plant for Avista is driven by the need to build and replace infrastructure  
29 and install new technology, among other things, and not a particular Commission  
30 order or ratemaking methodology. The significant evidence presented by Avista  
31 in this case demonstrates the need for these investments. Utility operating costs  
32 are designed to operate the utility in a manner that results in safe, reliable service  
33 to customers with a high level of customer satisfaction, and Avista's compliance  
34 with various local, state and federal requirements. Avista's operating costs also  
35 reflect recent and continuing efforts to partner with customers, third-party vendors  
36 and other utility stakeholders to provide new products, services and information  
37 for customers toward an energy-efficient and low-carbon future;  
38
- 39 5) **Three Separate Studies Presented by Avista Support Its Proposed Revenue**  
40 **Adjustments:** Avista has presented three sets of robust analyses (a Modified Test  
41 Year Study, an Attrition Study, and a Cross Check Study) to support its proposed  
42 revenue adjustments. These three different analyses, accompanied by a significant

amount of supporting documentation, provide a high level of confidence that the revenue adjustments proposed by Avista are necessary for the rate period;

- 6) **Avista’s Need for Revenue Increases Has Increased Following its Original Filing:** Utility costs have increased following Avista’s filing of this general rate case; in contrast to Avista’s last general rate case where costs decreased following its original filing. Avista has continued to provide updated information to all parties throughout this case, irrespective of whether the information resulted in an increase or decrease to the proposed revenue adjustments. Although Avista is not requesting a greater revenue increase than its original filing, its need for electric and natural gas revenue increases exceed those originally filed; and
- 7) **Deferred Accounting Treatment May be Appropriate for Two Unique Issues:** The unique circumstances surrounding ~~Advanced Metering Infrastructure (AMI)~~ and the Montana Riverbed Litigation issues may warrant deferred accounting treatment as a solution to address the concerns expressed by parties in this case, and would also meet the needs of the Company.

**III. PROPOSALS OF NON-COMPANY PARTIES IN PRIOR RATE CASES HAVE BEEN DEMONSTRATED TO BE UNREASONABLE**

**Q. Please further explain your earlier statement that the proposals of non-Company parties in prior rate cases have been demonstrated to be unreasonable.**

A. Table No. 1 below summarizes the electric revenue adjustment proposals of ICNU, Public Counsel and Staff for the 2012 to 2015 general rate cases, in which new retail rates were established for the rate years 2013 through 2016. The table also shows the revenue adjustments ultimately ordered by the Commission in those cases.

**Table No. 1 – Summary of Electric Revenue Adjustment Proposals (\$ millions)**

	<u>2013 Rate Year</u>	<u>2014 Rate Year</u>	<u>2015 Rate Year</u>	<u>2016 Rate Year</u>
ICNU	(\$15.9)*	\$0*	(\$39.8)**	(\$29.7)**
Public Counsel	(\$23.3)*	\$0*	(\$20.7)**	(\$42.0)**
Staff	(\$20.4)*	\$0*	(\$2.9)**	(\$18.5)**
Commission Order	\$13.7	\$14.0	\$12.3	(\$8.1)

\* Through settlement the parties agreed on a two-year rate plan.  
 \*\* Reflects parties' revenue adjustment proposal including power supply update.



1 As is evident from the table, the proposals of ICNU and Public Counsel, in particular,  
2 in prior general rate cases have been dramatically below the revenue adjustments ultimately  
3 ordered by the Commission, on a consistent basis. In its recent orders approving the revenue  
4 adjustments, the Commission either explicitly or implicitly determined that the proposals of  
5 ICNU and Public Counsel were not reasonable.

6 Furthermore, as I will explain in more detail in the next section of my testimony, the  
7 after-the-fact earned returns for Avista confirm that the revenue adjustments ultimately  
8 ordered by the Commission were reasonable, and that the revenue adjustment proposals of  
9 ICNU and Public Counsel were indeed unreasonable. For example, in the 2014 rate case  
10 (Docket No. UE-140188) for the 2015 rate year, the Commission approved an electric revenue  
11 adjustment of \$12.3 million, together with an authorized rate of return (“ROR”) of 7.32%.

12 We know now, after-the-fact, that Avista earned an ROR of 7.33% for its electric  
13 operations for that 2015 rate year, which was almost identical to the authorized ROR of 7.32%.  
14 By comparison, for illustrative purposes, if the Commission had approved the ICNU proposed  
15 electric revenue decrease of \$39.8 million for 2015, instead of the \$12.3 million increase,  
16 Avista’s earned ROR for 2015 would have been an ROR of 4.95%, which is dramatically  
17 below the Commission authorized ROR for the period of 7.32%.<sup>6</sup>

18 Each year, on or before April 30<sup>th</sup>, Avista files a Commission Basis Report (CBR) with  
19 the Commission to report its earned return for the prior calendar year on a normalized basis.  
20 This CBR report is based on a methodology adopted by the Commission, and the CBR return  
21 reflects Avista’s return for that prior year based on normal operating conditions during the  
22 period, e.g., normal temperatures, normal hydroelectric production, and normal wholesale

---

<sup>6</sup> The equivalent return on equity earnings opportunity for Avista under the ICNU proposal would have been approximately 4.5%.

1 market conditions. These normalized conditions are comparable to the conditions under which  
2 retail rates were originally set in the prior general rate case for that rate period. Therefore, this  
3 CBR report provides an after-the-fact, “apples-to-apples” comparison of the ROR actually  
4 earned by Avista during that rate period, versus the ROR authorized by the Commission for  
5 that same period.

6 As in the prior general rate cases, the electric and natural gas revenue adjustment  
7 proposals presented by ICNU and Staff in this case are not reasonable, and will not provide  
8 Avista with the opportunity to earn a reasonable return during the rate period. And as noted  
9 earlier, Public Counsel did not present revenue adjustment proposals for the Commission’s  
10 consideration. The evidence presented in these dockets, including all of the most recent  
11 updated information, supports revenue adjustments in line with those proposed by the  
12 Company.

13 **Q. How do the natural gas revenue adjustment proposals of the non-**  
14 **Company parties, for the same time frame, compare with that ordered by the**  
15 **Commission?**

16 A. Table No. 2 below summarizes the natural gas revenue adjustment proposals of  
17 NWIGU, Public Counsel and Staff for the 2012 to 2015 general rate cases, which established  
18 retail rates for the 2013 through 2016 rate years. The table also shows the revenue adjustments  
19 ultimately ordered by the Commission in those cases.

**Table No. 2 – Summary of Natural Gas Revenue Adjustment Proposals (\$ millions)**

	<u>2013 Rate</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>2016 Rate</u>
	<u>Year</u>	<u>Year</u>	<u>Year</u>	<u>Year</u>
NWIGU	n/a*	\$0*	n/a	\$6.7
Public Counsel	\$1.8*	\$0*	\$4.8	\$3.3
Staff	\$1.1*	\$0*	\$7.1	\$9.0
Commission Order	\$5.3	\$1.4	\$9.3	\$10.8

\* Through settlement the parties agreed on a two-year rate plan.

As is evident from the table, the proposals of Public Counsel, in particular, in prior general rate cases have been well below the revenue adjustments ultimately ordered by the Commission, on a consistent basis.

As with the electric proposals discussed immediately above, the next section of my testimony will show that the after-the-fact earned returns for Avista's natural gas operations confirm that the revenue adjustment proposals of these parties were indeed unreasonable.

#### **IV. AFTER-THE-FACT RESULTS CONFIRM THE REASONABLENESS OF THE COMMISSION'S RECENT REVENUE ADJUSTMENT DECISIONS**

**Q. What were Avista's after-the-fact earned returns for 2013 through 2015, as compared with the returns authorized by the Commission?**

A. For 2013 through 2015, Avista's normalized returns on equity ("ROE") for its electric and natural gas operations were as shown in the table below. Actual earned returns are affected by factors such as the impact of varying hydro-electric generation on power supply costs (that fall within the deadband of the Energy Recovery Mechanism), etc. These types of abnormal conditions are normalized out for ratemaking, and for the Company's Commission Basis Reports filed annually with the Commission, as explained earlier. These normalized

1 CBR results provide an after-the-fact, “apples-to-apples” comparison with the ROE authorized  
2 by the Commission for the respective periods.

3 **Table No. 3 – 2013 through 2015 Earned Return on Equity**

	CBR Electric ROE	CBR Natural Gas ROE	CBR Total WA Jurisdiction (Weighted)	Authorized ROE
8 2013	9.9%	7.2%	9.5%	9.8%
9 2014	10.6%	6.4%	9.9%	9.8%
10 2015	<u>9.4%</u>	<u>7.0%</u>	<u>9.0%</u>	<u>(7)</u>
11 Average	10.0%	6.9%	9.5%	

12  
13 Table No. 3 shows that Avista generally over-earned for its electric operations and  
14 under-earned for its natural gas operations during the three-year period. But for Avista’s  
15 Washington utility operations as a whole were close to the authorized ROE.

16 **Q. With regard to Avista’s electric earned ROE of 10.6% for 2014 in Table**  
17 **No. 3 above, were there any unusual circumstances that caused the after-the-fact earned**  
18 **electric ROE to be above the allowed return?**

19 A. Yes. As discussed by Company witness Ms. Andrews on page 18 of Exhibit  
20 No. \_\_\_\_ (EMA-1T), pension and post-retirement medical expenses for 2013, 2014, and 2015  
21 were \$18.7 million, \$14.1 million, and \$18.7 million, respectively. The unexpected decrease  
22 in 2014 was related to favorable returns on the fund balances in 2014, and changes in interest  
23 rates and discount rates. Removing this aberration in expense for 2014, which was beyond the  
24 control of the Company, reduces the normalized ROE for Washington electric operations from  
25 10.6% to 10.2%, which is much closer to the authorized level.

<sup>7</sup> No stated ROE was agreed upon in the Settlement Stipulation approved by the Commission in Docket Nos. UE-140188 and UG-140189.

1           **Q.     What do these after-the-fact results suggest with regard to the revenue**  
2 **adjustments recently approved by the Commission?**

3           A.     These results indicate that the overall revenue adjustments approved for Avista  
4 by the Commission for 2013, 2014 and 2015, based on the underlying attrition analyses, were  
5 very close to what they should have been in order to allow Avista an opportunity to earn its  
6 allowed return for its Washington utility operations.

7           Ideally, the CBR earned returns for both the electric and natural gas operations  
8 individually should be in line with the authorized returns. And, in fact, for Avista's most recent  
9 operating results, the estimated normalized earned returns for both Avista's electric and natural  
10 gas operations individually are very close to the authorized ROE.

11           **Q.     What are the most recent ROE results for Avista's Washington electric**  
12 **and natural gas operations?**

13           A.     In Docket Nos. UE-140188 and UG-140189, the Commission approved an  
14 after-the-fact earnings test and earnings sharing mechanism for Avista's electric and natural  
15 gas operations in Washington. Each year, after the calendar year is concluded, if Avista earns  
16 more than the authorized rate of return for the year, one-half of any earning above the  
17 authorized rate of return is set aside for future rebate to customers. If Avista earns less than  
18 the authorized return there is no surcharge deferral; it is a one-way earnings test. This earnings  
19 sharing is determined separately for Avista's electric and natural gas operations.

20           Avista prepares these calculations on a quarterly basis to determine whether there  
21 should be a deferral entry for the recently completed quarter. If estimates show a rebate to  
22 customers from the earnings sharing for the current year, accounting entries are recorded each  
23 quarter and those entries affect the Company's reported earnings for the quarter.

1           In Avista's 2016 first quarter<sup>8</sup> and second quarter<sup>9</sup> 10Q filings with the Securities and  
2 Exchange Commission, the Company reported electric and natural gas earnings sharing  
3 deferrals for its Washington operations for the first six months of 2016 of \$0.3 million for its  
4 electric operations and \$0.5 million for natural gas. These earnings sharing numbers can be  
5 converted into equivalent ROE results for the first six months of 2016 to compare with the  
6 ROE authorized by the Commission for the same period. The estimated electric earnings  
7 sharing results are equivalent to a 9.54% electric ROE for the first six months of 2016, as  
8 compared to the authorized ROE of 9.5%. The natural gas earnings sharing results are  
9 equivalent to a 10.2% natural gas ROE for the first six months of 2016, as compared to the  
10 same authorized ROE of 9.5%.

11           At the time Avista prepares earnings sharing calculations for the most recent quarter-  
12 end, it also prepares calculations of the estimated earnings sharing for the balance of the  
13 calendar year based on all updated information available. The current estimate of earnings  
14 sharing deferrals for the entire calendar year of 2016 is \$0.7 million for Avista's Washington  
15 electric operations, and \$0.9 million for its Washington natural gas operations. Converting  
16 these earnings sharing results into equivalent ROEs yields an estimated electric ROE for 2016  
17 of 9.54% as compared to the authorized ROE of 9.5%, and for natural gas a 10.2% ROE as  
18 compared to the same authorized ROE of 9.5%.

19           These results indicate that the revenue adjustments ordered by the Commission for  
20 Avista for 2016 in its Order 05, in Docket Nos. UE-150204 and UG-150205 dated January 6,  
21 2016, were very close to what they needed to be in order for Avista to have the opportunity to  
22 earn its allowed return for 2016.

---

<sup>8</sup> Avista Corporation Form 10-Q, Securities and Exchange Commission, May 2016, pp. 44 and 46.

<sup>9</sup> Avista Corporation Form 10-Q, Securities and Exchange Commission, August 2016, pp. 41 and 43.

1           It also indicates that if the Commission had ordered revenue adjustments in line with  
 2 those proposed by the non-Company parties in that case, Avista would be experiencing  
 3 significant under-earnings during 2016.

4           The earned ROEs for Avista for 2013 through 2015, as well as the most recent results  
 5 for 2016, are an after-the-fact confirmation that the recent revenue increases granted by the  
 6 Commission, based on recognition of attrition, has resulted in earned returns very close to the  
 7 authorized ROEs. These results were realized not only with just the recognition of attrition,  
 8 but careful consideration of the appropriate level of the attrition adjustment based on all other  
 9 evidence in the record, to ensure that the end-result revenue adjustment would allow the  
 10 Company the opportunity to earn the return authorized by the Commission.

11  
 12           **V. THE MODIFIED TEST YEAR STUDY APPROACH IS INSUFFICIENT**

13           **Q.     Why should the electric and natural gas revenue adjustments in this case**  
 14 **be approved by the Commission based on an attrition analysis as proposed by Avista and**  
 15 **the Staff, instead of based solely on a Modified Test Year Study?**

16           A.     The after-the-fact earned returns from 2013 through 2015, as well as the results  
 17 thus-far for 2016, confirm that incorporating attrition in setting retail rates in recent general  
 18 rate cases was necessary in order for Avista to have the opportunity to earn its allowed return.

19           In Docket Nos. UE-120436 and UG-120437, in which revenue adjustments were  
 20 established for 2013 and 2014, Staff presented analyses and sponsored testimony supporting  
 21 revenue increases for 2013 and 2014 that incorporated the impacts of “significant attrition,”  
 22 and Staff stated that attrition for Avista “is present and ongoing”, as follows:<sup>10</sup>

---

<sup>10</sup> Docket Nos. UE-120436 et. al, Joint Testimony, page 26, lines 14-16.

1 Q. Please explain why Staff believes the rate increases in 2013 and 2014 are  
2 reasonable.

3 A. First, Staff's attrition analysis shows Avista is experiencing significant attrition  
4 in its utility operations. This is not a one-time phenomenon, because the  
5 historical trends demonstrate attrition is present and ongoing. (Id.)  
6

7 Both Avista and Staff have presented substantial evidence in this case that Avista  
8 continues to experience attrition, and if attrition is not reflected in the rates established in this  
9 case, revenues will not be sufficient for Avista to earn its allowed return. Mr. Hancock states:<sup>11</sup>

10 Staff's analysis indicates that, absent an attrition adjustment, Avista will likely  
11 experience attrition and that the forces driving attrition are more likely than not outside  
12 of the Company's control.  
13

14 The Commission has not limited itself, or the parties, to a single method to determine  
15 revenue requirements. RCW 80.28.010(1) (Duties as to Rates, Services, and Facilities)  
16 provides that "all charges made, demanded or received by any gas company, electrical  
17 company . . . shall be just, fair, reasonable and sufficient." (See also RCW 80.28.020) As the  
18 Supreme Court explained in the Hope Natural Gas case, the requirement that rates be "fair,  
19 just and reasonable" does not define a method by which rates are to be calculated; instead, the  
20 fixing of fair, just and reasonable rates involves a balancing of investor and consumer  
21 interests.<sup>12</sup> The "end result" must be reasonable.

22 The use of an attrition analysis, and an attrition adjustment, is also fully consistent with  
23 the matching principle. Through the attrition analysis, changes in rate base, operating expenses  
24 and revenues between the historical test period and the prospective rate year are all captured  
25 in the analysis, and provide for a proper matching during the prospective rate period.

---

<sup>11</sup> Exhibit No. \_\_\_\_ (CSH-1T), p. 3:13-16.

<sup>12</sup> Fed. Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944).



1 **VI. NO EVIDENCE OF A SELF-FULFILLING PROPHECY**

2 **Q. ICNU/NWIGU witness Mr. Mullins, on page 8 of his testimony<sup>13</sup>, makes**  
3 **reference to the concept of a “self-fulfilling prophecy” in relation to the use of an attrition**  
4 **adjustment. What is the Company’s response to this testimony?**

5 A. The Commission’s recent approval of attrition adjustments has not resulted in,  
6 nor has it created, a “self-fulfilling prophecy” regarding the level of utility investments or  
7 operating costs for Avista. Continuing investment in utility plant for Avista is driven by the  
8 need to build and replace infrastructure and install new technology, among other things, and  
9 not a particular Commission order or approach to ratemaking. The significant evidence  
10 presented by Avista in this case demonstrates the need for these investments.

11 In Avista’s pre-filed testimony, exhibits and workpapers submitted for this case, the  
12 Company provided significant documentation and explanation of the capital projects recently  
13 completed and planned for the near-term.<sup>14</sup> Avista provided additional information in response  
14 to discovery requests from the parties. Members of the Staff visited Avista’s main office on  
15 more than one occasion to conduct an audit of the Company’s capital expenditures and  
16 operating expenses. Following Avista’s filing on February 19, 2016, until the parties filed  
17 their responsive testimony on August 17th, the parties had six months to review and ask  
18 questions on any specific capital investment items, or category of the Company’s capital  
19 investment, for which they may have had concerns. It is noteworthy that no party in this case  
20 identified a single capital project that should not be done in the time frame in which the capital  
21 projects are being carried out by the Company.<sup>15</sup>

---

<sup>13</sup> Exhibit No. \_\_\_\_ (BGM-1T), p. 8.

<sup>14</sup> See the prefiled testimony and exhibits of Company witnesses Mr. Thies, Ms. Rosentrater, Mr. Kinney, Mr. Cox, and Ms. Schuh.

<sup>15</sup> We recognize, however, that Public Counsel has taken issue with the AMI project.

1 With regard to utility operating costs, Avista’s operating expenses are designed to  
2 operate the utility in a manner that results in safe, reliable service to customers with a high  
3 level of customer satisfaction; as well as Avista’s compliance with numerous local, state and  
4 federal requirements. Avista’s operating costs also reflect recent and continuing efforts to  
5 partner with customers, third-party vendors and other stakeholders to provide new products,  
6 services and information for customers toward an energy-efficient and low-carbon future. In  
7 his testimony on pat 19, line 1, Mr. Hancock noted that “Also, utilities are expected to provide  
8 a wider range of services and greater reliability than their counterparts of decades past.”

9 In addition, in his testimony on page 21, beginning on line 6, Mr. Hancock recognizes  
10 the reality of a continuing increase in both utility operating expenses and capital investment:

11 Q. What does Staff think is causing Avista’s attrition?

12 A. Expenses and capital investments are growing faster than revenues. The growth  
13 rates in expenses and capital investments are largely the result of factors that  
14 appear to be outside of the control of the utility. Revenue growth is flat. To the  
15 extent that revenues are a function of load growth, load growth nonetheless  
16 remains low.

17  
18 And on page 43 of his testimony, beginning on line 14, Mr. Hancock also states:

19 The chart below displays several measures of costs that utilities face, and lends support  
20 to Avista’s claims that growth in operating costs is outside of its control. (chart omitted)

21  
22 **Q. Does Public Counsel witness Mr. Watkins appear to understand what is  
23 driving the need for expenditures?**

24 A. No. As stated earlier, Avista’s capital investment and operating costs are  
25 driven primarily by its efforts to provide safe, reliable service to its customers, and to maintain  
26 a high level of customer satisfaction. No party in this case has provided any evidence that  
27 would indicate otherwise. Mr. Watkins chose selected subsets of data to develop cost trends,  
28 which he then uses to suggest that the Company has increased its spending following the

1 employment of attrition for ratemaking purposes.<sup>16</sup> Following the Company's filing in  
2 February 2016, Mr. Watkins had six months in which to ask Avista to explain the reasons for  
3 the cost increases in these subsets of data, either through discovery requests, a visit to Avista's  
4 offices, or, like members of Staff or consultants for other parties have done, call Avista by  
5 phone to inquire. He did none of the above.

6 Mr. Watkins uses the results from a subset of cost data, for which he has no  
7 understanding of the drivers underlying those costs, and makes inferences from the data that  
8 are misleading at best. Ms. Andrews provides explanations of the increases in costs reflected  
9 in some of the data provided by Mr. Watkins.

10

11 **VII. THREE SEPARATE STUDIES PRESENTED BY AVISTA SUPPORT ITS**  
12 **PROPOSED REVENUE ADJUSTMENTS**  
13

11

12

13

14 **Q. After reviewing the testimony and exhibits of Staff and other parties, do**  
15 **you believe the parties have recognized the importance of the relationship of the three**  
16 **studies taken together in the determination of the appropriate revenue adjustments in**  
17 **this case?**

17

18 A. Staff has; at least in part. Staff conducted and presented two studies: 1) a  
19 Modified Test Year Study sponsored primarily by Staff witness Ms. Huang, and 2) an Attrition  
20 Study sponsored by Mr. Hancock.

18

19

20

20

21 The Modified Test Year Study begins with a historical test period, with the revenues,  
22 expenses and rate base adjusted to reflect normalized operating conditions for that period; in  
23 this case the year 2015. The study then adds a limited number of pro forma adjustments to

21

22

22

23

23

---

<sup>16</sup> Exhibit No. \_\_\_\_ (GAW-1T), p. 18.

1 reflect certain changes that have occurred following the end of the historical test year. There  
2 was a time in the past when the Modified Test Year Study, with limited pro forma adjustments,  
3 provided a reasonable end result for the rate period. However, the circumstances facing Avista  
4 today, as well as other utilities, are very different, and the Modified Test Year Study no longer  
5 provides a reasonable end result for the prospective rate period. Mr. Hancock spoke to this  
6 change in conditions on page 21 of his testimony, beginning on line 13:

7 Historically, growth in sales due to electrification, persistent economic growth, and the  
8 wide-scale adoption of home appliances like refrigerators, air conditioners, and  
9 washing machines, mitigated some of the effects of growth in expenses and rate base.  
10 If sales grew at a rate that was reasonably close to the rate of growth in costs, utilities  
11 would remain financially sound. These conditions no longer exist. (emphasis added)  
12

13 And on page 20 of his testimony, Mr. Hancock stated his belief that this is the “new  
14 normal,” – and Avista agrees.

15 The second and perhaps more interesting part of the question is how long an attrition  
16 adjustment should be available to the Company. The current environment of low  
17 revenue growth is not temporary. It is the new normal. The Commission should  
18 recognize that at some point, prudent business practices would require the Company to  
19 adapt to this new normal. However, given that Avista operates in an industry that  
20 requires decades-long planning, Staff believes the Commission cannot realistically  
21 expect the Company to change course so drastically within only a handful of years.  
22 Additionally, rate base growth like Project Compass and the Spokane River Projects  
23 are, by definition, not normal.<sup>17</sup> (emphasis added, footnote omitted)  
24

25 As I indicated earlier in this testimony, Staff has concluded in this case that, because  
26 of this change in conditions which is continuing to persist,<sup>18</sup> the sole use of the Modified Test  
27 Year Study will not yield a revenue adjustment that is sufficient for the rate year, and Staff has  
28 added an attrition adjustment to the Modified Test Year Study results:

29 Staff recommends the Commission include an attrition adjustment to the modified  
30 historical test year analysis based on the attrition studies I present.<sup>19</sup>

---

<sup>17</sup> Exhibit No. \_\_\_\_ (CSH-1T), p. 20.

<sup>18</sup> Id.

<sup>19</sup> Id. p. 3:10-11.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

Avista agrees with the Commission’s definition of attrition in its Order 05 in Docket Nos. UE-150204 and UG-150205:

[A]ttrition occurs when the test-period relationship between rate base, expenses and revenues does not hold under conditions in the rate effective period, such that a utility’s expenses or rate base grows more quickly than revenues, and a utility would likely have no reasonable opportunity to earn its allowed rate of return. An attrition adjustment is a discrete adjustment to the modified historical test year that the Commission may use when it determines attrition is present.<sup>20</sup>

Avista agrees with Staff’s conclusion that the “attrition study serves as a complement to a traditional ratemaking approach, not as a substitute.”<sup>21</sup>

With all of that being said regarding these two studies, the third study presented by Avista is also complementary to the Modified Test Year Study and the Attrition Study, and is important in the ultimate determination of whether the end result revenue adjustment for the prospective rate year is fair for both customers and the Company.

**Q. Please explain.**

A. Following the completion of the Modified Test Year Study, the Attrition Study is performed to determine the level of the attrition adjustment that should be added to the Modified Test Year Study results. As has been explained in this case, both Avista and Staff have used historical data for the period 2007 through 2015 to determine the trends in the growth of rate base and utility operating expenses. These growth trends are then applied to the 2015 test period numbers to derive rate base and utility operating expenses for the 2017 rate year.<sup>22</sup>

---

<sup>20</sup> Docket Nos. UE-150204 & UG-150205 (consolidated), Order 05, ¶47.  
<sup>21</sup> Exhibit No. \_\_\_\_ (CSH-1T), p. 14:11-12.  
<sup>22</sup> Retail revenues for the rate year, for both electric and natural gas Attrition Studies, are based on the Company’s most recent retail load forecast. The methodologies employed for the load forecast have been refined over time and have been shared regularly with stakeholders in the Integrated Resource Planning processes in Technical

1           The Cross Check Study prepared by the Company is a third study which can be  
2 compared with the Attrition Study results. The Cross Check Study compared with the Attrition  
3 Study shows whether the growth in rate base and operating expenses from the 2015 test period  
4 to the 2017 rate year, will be higher or lower than the 2007 to 2015 historical trend. If the  
5 growth in rate base and expenses for 2015 to 2017 is expected to be materially different, higher  
6 or lower, than the trend for 2007 to 2015 would provide, then adjustments should be made to  
7 the Attrition Study so that the end result of the Attrition Study reflects a revenue adjustment  
8 for the 2017 rate year that will be fair for both customers and the Company.

9           **Q.     Has the Company and Staff made such adjustments to the attrition studies**  
10 **in this case or in the past?**

11           A.     Yes, in both instances. In this case, as well as in the prior general rate case,  
12 both Avista and Staff included what the Company referred to as “after attrition adjustments.”  
13 In the prior general rate case (Docket Nos. UE-150204 and UG-150205), Ms. Andrews and  
14 Staff witness Mr. McGuire included after attrition adjustments to the Attrition Study results.<sup>23</sup>  
15 And in this case, Ms. Andrews and Mr. Hancock have included after attrition adjustments to  
16 the Attrition Study results.<sup>24</sup>

17           **Q.     Why were these after attrition adjustments made?**

18           A.     In the last general rate case as well as this case, a determination was made by  
19 both the Company witnesses and the Staff witnesses that the results of the attrition analyses,

---

Advisory Committee meetings. This is the same approach was used by Avista and Staff in our last rate case in Docket Nos. UE-150204 and UG-150205.

<sup>23</sup> See Docket Nos. UE-150204 and UG-150205, Ms. Andrews’ Exhibit No. EMA-1T, p. 34 and Mr. McGuire’s Exhibit No. CRM-1T, p. 54.

<sup>24</sup> See Ms. Andrews’ Exhibit No. EMA-1T, p. 26 and Mr. Hancock’s Exhibit No. CSH-1T, p. 52.

1 using historical trends alone, did not yield revenue adjustments for the rate year that would be  
2 sufficient.

3 The Cross Check Study includes a comprehensive analysis of rate base and utility  
4 operating expenses for the prospective rate period, based on the best and most recent  
5 information available. In most cases the rate base investment for the rate year is either already  
6 underway or specific plans are currently in place. Specific plans for utility operating expenses  
7 for the rate year are also already in place. The Cross Check Study provides a detailed  
8 determination of the revenue adjustment necessary for the rate year, based on a significant  
9 amount of detailed information available to us today regarding the rate base and operating  
10 expenses that are expected to occur during the rate year.

11 The Cross Check Study in this case confirms that there will be a continuation of  
12 attrition through the prospective rate year for Avista. The study confirms that a revenue  
13 adjustment based on a Modified Test Year Study is insufficient. And as explained by Ms.  
14 Andrews, the Cross Check Study also confirms that after attrition adjustments are necessary  
15 in order to arrive at a sufficient revenue adjustment for the rate period. Furthermore, Ms.  
16 Andrews' analyses show that the Attrition Study, even including the after attrition adjustments,  
17 still falls short of the revenue adjustment supported by the Cross Check Study.

18 The electric and natural gas revenue adjustments proposed by Avista in this case, based  
19 on its attrition studies, are actually less than what is necessary to cover its planned capital  
20 investments and operating expenses for the rate period. Any reduction to Avista's proposed  
21 electric and natural gas revenue adjustments would further reduce the Company's opportunity  
22 to earn its allowed return for the rate period.

1 A comparison of the revenue adjustments supported by Avista's Modified Test Year  
 2 Study, the Attrition Study, and the Cross Check Study are shown in the table below. Table  
 3 No. 4 shows the revenue adjustments from the Company's original filing as well as the updated  
 4 numbers provided in our rebuttal testimony.

5 **Table No. 4:**

<b><u>Original Filing (February 2016)</u></b>			
	Modified Test		Cross-Check
<b><u>2017</u></b>	<u>Year Study</u>	<u>Attrition Study</u>	<u>Study</u>
Electric	\$11,843	\$38,568	\$43,474
Natural Gas	-\$1,151	\$4,397	\$6,386
	Modified Test		Cross-Check
<b><u>2018</u></b>	<u>Year Study</u>	<u>Attrition Study</u>	<u>Study</u>
Electric	\$0	\$10,301	\$11,535
Natural Gas	\$0	\$941	\$2,195
<b><u>Rebuttal Filing (September 2016)</u></b>			
	Modified Test		Cross-Check
<b><u>2017</u></b>	<u>Year Study</u>	<u>Attrition Study</u>	<u>Study</u>
Electric	\$16,866	\$40,101	\$48,277
Natural Gas	\$69	\$7,926	\$7,124
	Modified Test		Cross-Check
<b><u>2018</u></b>	<u>Year Study</u>	<u>Attrition Study</u>	<u>Study</u>
Electric	\$0	\$10,485	\$12,486
Natural Gas	\$0	\$1,536	\$2,309

20 **Q. Are there recent after-the-fact measures of whether the Cross Check Study**  
 21 **is a good apples-to-apples comparison to the Attrition Study for the prospective rate**  
 22 **period, and a good indicator of the revenue adjustment necessary for the rate period?**



1           A.     Yes. Underlying the revenue adjustments approved by the Commission in the  
2 last three general rate cases, for the rate years 2013-2016, were attrition analyses developed  
3 by the Company and Staff. Although the Commission did not approve specific attrition studies  
4 or methodologies, attrition analyses were the underlying foundation.<sup>25</sup>

5           In those same general rate cases, Avista provided Cross Check Studies which also  
6 showed the revenue adjustments needed for the rate period. The Cross Check Studies showed  
7 a need for revenue adjustments that were in line with those of the attrition studies.<sup>26</sup> Earlier in  
8 my testimony I summarized the after-the-fact earned returns for Avista for 2013 through 2015,  
9 and for the first six months of 2016. These after-the-fact earned returns not only confirm that  
10 the revenue adjustments based on the attrition analyses were reasonable and appropriate, but  
11 that the revenue adjustments shown in the Cross Check Studies were also in line with what  
12 was actually needed for the rate period.

13           The Cross Check Study provides critically important insight into the specific rate base  
14 and operating expenses that are expected to occur during the prospective rate period, and is a  
15 complementary study to the Modified Test Year Study and the Attrition Study in the  
16 development of the appropriate revenue adjustments.

17           **Q.     Would you please summarize the Company's views with respect to the**  
18 **necessary "end result" of these proceedings?**

19           A.     The Commission, using its informed judgment, must determine which of the  
20 tools it has available to best capture the level of rate base and operating expenses for the  
21 prospective rate period. The Commission has exercised its discretion in prior cases in its

---

<sup>25</sup> See Docket Nos. UE-120436 & UG-120437, Order 09, ¶10, Docket Nos. UE-140188 & UG-140189, Order 5, ¶48, and Docket Nos. UE-150204 & UG-150205, Order 05, ¶96-141.

<sup>26</sup> See Docket Nos. UE-140188 & UG-140189, Exhibit No. EMA-1T, p. 83:1-10, and Docket Nos. UE-150204 & UG-150205, Exhibit No. EMA-1T, p. 14:21-26.

1 determination of investment and operating costs to include in the rate period, and can do so in  
2 this case, irrespective of positions expressed by the other parties.

3 In its Order 05 in Docket Nos. UE-150204 and UG-150205, the Commission was clear  
4 in explaining the broad discretion available to it in developing an end result that is fair for both  
5 customers and the Company:

6 We believe we can exercise broad discretion to consider such seminal cases using our  
7 informed judgment in deciding whether or not an attrition adjustment is warranted  
8 given the specific facts and circumstances in a rate case.<sup>27</sup>

9  
10 And with regard to this case, the Commission has broad discretion in determining the  
11 manner in which the attrition adjustment is developed, including the use of after attrition  
12 adjustments as necessary, based on “the specific facts and circumstances” in this case.

13 On page 11 of his testimony, beginning on line 8, Mr. Gorman includes a quote from  
14 Moody’s Investor Services as follows:

15 The credit-supportive regulatory environment is the main reason for our stable outlook.  
16 We expect that the relationship between regulators and utilities in 2016 will remain  
17 credit-supportive, enabling utilities to recover costs in a timely manner and maintain  
18 stable cash flows.<sup>28</sup> (emphasis added)

19  
20 The after-the-fact earned returns for Avista in recent years have demonstrated that the  
21 retail rates established by the Commission for those periods provided “recovery of costs in a  
22 timely manner,” and resulted in retail rates that were fair to customers and the Company.

23 In this case it is critically important that the Commission continue to exercise its broad  
24 discretion using its informed judgment, and given the specific facts and circumstances in this  
25 case, to establish rates that are fair, just, reasonable and sufficient. The three complementary

---

<sup>27</sup> Commission Order 05, Docket Nos. UE-150204 and UG-150205, page 48, paragraph 129.

<sup>28</sup> Exhibit No. \_\_\_\_ (MPG-1T), p. 11:8-12.

1 studies, Modified Test Year, Attrition, and the Cross Check, provide a solid foundation for an  
2 end result that is fair for customers and the Company.

3

4 **VIII. AVISTA'S NEED FOR REVENUE INCREASES HAS INCREASED**  
5 **FOLLOWING ORIGINAL FILING**  
6

7 **Q. The non-Company parties in this case have proposed revenue adjustments**  
8 **lower than those originally filed by the Company. Based on the most recent information**  
9 **available, has the Company's need for revenue adjustments increased or decreased**  
10 **following its filing in February 2016?**

11 A. With regard to changes in numbers during the pendency of the case, our practice  
12 is to be transparent with any known changes or updated information, and throughout this case  
13 we have continued to provide updated information for any material changes that would affect  
14 revenue requirement, up or down. The Commission has previously expressed its desire to  
15 base its decisions on the best available information.<sup>29</sup>

16 Based on the most recent information available, Avista's need for electric and natural  
17 gas revenue adjustments have increased subsequent to its original filing in February 2016.

18 **Q. Please summarize Avista's updated electric and natural gas revenue**  
19 **requirements.**

20 A. Table No. 5 below summarizes the changes in electric and natural gas revenue  
21 requirements since our original filing in February 2016.

---

<sup>29</sup> Commission Order No. 04 in Docket Nos. UE-080416 and UG-080417, at paragraph 7.

**Table No. 5 – Updated Electric and Natural Gas Revenue Requirement (2017)**

		<u>\$Millions</u>	
		<u>Electric</u>	<u>Natural Gas</u>
1	1	\$38.6	\$4.4
2	2	\$1.5	\$3.5
3	3	<b>\$40.1</b>	<b>\$7.9</b>

Ms. Andrews provides additional details related to the information updates in her rebuttal testimony.

**Q. How do these changes subsequent to Avista’s original filing compare with what occurred in the Company’s last general rate case?**

A. In Avista’s last general rate case the Company’s need for a revenue increase, particularly for its electric operations, decreased significantly following its original filing. The table below shows Avista’s original electric revenue increase request in its 2015 general rate case of \$33.2 million, and the Company’s revised revenue adjustment proposal at the time of its rebuttal filing, based on updated information. The updated information resulted in a proposed revenue reduction of \$6.4 million.<sup>30</sup>

<sup>30</sup> Docket Nos. UE-150204 and UG-150205, Exhibit No. KON-1T, p. 34.

**Table No. 6 – 2015 Electric Revenue Requirement Reconciliation<sup>31</sup>**

<u>Line</u>		<u>Electric (\$millions)</u>
1	<b>Original Request</b>	<b>\$33.2</b>
2	<b>Multi-Party Partial Settlement</b>	
3	Cost of Capital	(\$3.8)
4	Power Supply Adjustments	(\$12.6)
5	<b>Subtotal May 1, 2015</b>	<b>\$16.8</b>
6	Additional Updates/Revisions	(\$6.8)
7	<b>Revised Revenue Requirement -- July 2015</b>	<b>\$10.0</b>
8	<b>Avista Proposal on Rebuttal</b>	
9	Delay Amortization of Existing Meters (AMI)	(\$4.1)
10	Normalize "Hours-Based" Thermal Maintenance	(\$3.0)
11	Other	\$0.7
12	<b>Subtotal -- Avista Proposal on Rebuttal</b>	<b>\$3.6</b>
13	<b>Estimated Power Supply Update – Nov 2015</b>	<b><u>(\$10.0)</u></b>
14	<b>Estimated Rate Adjustment</b>	<b>(\$6.4)</b>

Much of the reduction to the Company's original revenue increase request was caused by a reduction in power supply expense, due largely to the continuing decline in natural gas prices for thermal generation.<sup>32</sup>

The Commission ultimately ordered an electric revenue reduction of \$8.1 million. And as explained earlier in my testimony, the after-the-fact earnings results for 2016 show that this revenue adjustment approved by the Commission was very close to where it needed to be for the Company to earn its allowed return.

Following Avista's original filing in this case in February 2016, costs have gone up, and not down; in contrast to what occurred last year. The Company's need for an electric

---

<sup>31</sup> Id. (footnotes omitted)

<sup>32</sup> Exhibit No. EMA-5T in Docket Nos. UE-150204 and UG-150205, provides further explanation of other revenue requirement changes following the Company's original filing.

1 revenue adjustment for 2017 has increased from its original filing of \$38.6 million to \$40.1  
2 million, and the Company's need for a natural gas revenue adjustment has increased from \$4.4  
3 million to \$7.9 million, as shown in Table No. 5 earlier. The Company's need for an electric  
4 revenue adjustment for the January – June 2018 time period has increased from its original  
5 filing of \$10.3 million to \$10.5 million, and the Company's need for a natural gas revenue  
6 adjustment has increased from \$0.9 million to \$1.5 million.

7 Although Avista's need for electric and natural gas revenue increases exceed those  
8 originally filed, the Company is not requesting higher revenue increases than its original filing.

9

10 **IX. DEFERRED ACCOUNTING TREATMENT MAY BE APPROPRIATE FOR**  
11 **TWO UNIQUE ISSUES**  
12

13 **Q. Following review of the testimony of Staff and other parties, what are the**  
14 **~~two~~ specific issues in which deferred accounting may be a good solution to address the**  
15 **needs of all parties, including the Company?**

16 A. Staff and other parties expressed concerns in their testimony related to  
17 reflecting in retail rates in this case the costs associated with ~~Advanced Metering~~  
18 ~~Infrastructure~~, and the costs associated with the long-term lease arrangement for the Montana  
19 Riverbed. I will briefly explain each of these issues below, and why deferred accounting  
20 treatment would be a good solution to address the concerns of all parties, in the event the  
21 Commission does not approve the ratemaking treatment originally proposed by the Company  
22 in this case.

1 **Advanced Metering Infrastructure (AMI)**

2 **Q. What did Avista propose in this case regarding AMI, and what was the**  
3 **response of the other parties?**

4 A. Avista is moving forward with the implementation of AMI. In her testimony,  
5 Ms. Rosentrater explains in detail the Company's efforts already in progress to implement  
6 AMI. Avista is currently incurring operating costs and capital investment associated with  
7 AMI, and significant investment dollars are scheduled to be transferred to plant in service in  
8 2017.<sup>33</sup> This rate case is designed to establish new retail rates, in two steps, for the 18-month  
9 period January 2017 through June 2018. If the costs incurred by the Company for AMI during  
10 this period are not reflected in the revenue adjustments for the rate period, these costs would  
11 be absorbed by Avista, and it would not have the opportunity to earn its allowed return.

12 With regard to Staff, Mr. Nightingale's response to Avista's AMI proposal was as  
13 follows:

14 Because Avista has not yet placed AMI into service, I conclude that it is premature for  
15 the Commission to make a prudence determination and for Avista to recover any  
16 expenses for AMI.<sup>34</sup>  
17

18 The other parties also opposed a decision related to prudence in this case, as well as  
19 opposed recovery of any costs through retail rates in this case.<sup>35</sup>

20 **Q. Why did Avista present an updated cost benefit analysis for AMI in this**  
21 **case, and request recovery of the costs associated with AMI during the rate period?**

---

<sup>33</sup> See the Rebuttal Testimony of Karen K. Schuh, Exhibit No. \_\_\_\_ (KKS-8T).

<sup>34</sup> Exhibit No. \_\_\_\_ (DN-1T), p. 3:20.

<sup>35</sup> For Public Counsel and The Energy Project, see Exhibit No. \_\_\_\_ (BRA-1T), p. 61:14-15. For ICNU and NWIGU, see Exhibit No. \_\_\_\_ (BGM-1T), p. 25:20.

1           A.     In prior dockets the Commission established the criteria it employs in a  
 2 determination of prudence. In its Order 05 in Docket Nos. UE-150204 and UG-150205, related  
 3 to the prudence of Avista’s investment in Project Compass, the Commission reiterated this  
 4 prudence criteria:

5           *Decision.* In determining whether an investment is prudent, the Commission asks:

6  
 7           what would a reasonable board of directors and company management have decided  
 8 given what they knew or reasonably should have known to be true at the time they  
 9 made a decision. This test applies both to the question of need and the appropriateness  
 10 of the expenditures. The company must establish that it adequately studied the question  
 11 of whether to purchase these resources and made a reasonable decision, using the data  
 12 and methods that a reasonable management would have used at time the decisions were  
 13 made.<sup>36</sup> (emphasis added)

14  
 15           Avista has made the decision to move forward with the implementation of AMI, and  
 16 implementation is in progress. Based on the criteria above, the Commission has before it the  
 17 information necessary to make a determination of the prudence of Avista’s decision to move  
 18 forward with AMI, i.e., a decision has been made by the Company and “the data and methods”  
 19 used “at the time the decision was made,” in the form of testimony and exhibits that fully  
 20 explain the business case and the costs and benefits is provided in this case.

21           In this case Avista is only requesting recovery of the AMI-related costs during the rate  
 22 period, and the Company has provided supporting documentation for these costs. If, on an  
 23 after-the-fact basis, Avista spends more than the dollar amounts included in the rate period,  
 24 Avista would need to demonstrate the prudence of those dollars in a future case.

25           Avista is not requesting prudence at this time of all future investments and operating  
 26 costs associated with AMI. As the Company continues to deploy AMI in future years it will  
 27 request recovery of those incremental investments and costs for each respective year, and the

---

<sup>36</sup> Order 05, Docket Nos. UE-150204 and UG-150205, page 61, paragraph 170. (footnote omitted)



1 Commission will have the opportunity to review those costs and make a determination of the  
2 prudence of those specific costs.

3 **Q. On page 7 of his testimony, beginning on line 21, Mr. Nightingale states:**

4 **“To allow or suggest pre-approval would be counter to the Commission’s**  
5 **prudence practice and would limit the Commission’s ability to hold the Company**  
6 **accountable after the fact for appropriate expenditures and levels of expenditures**  
7 **for capital additions and operations.”**

8  
9 **Would a decision now on Avista’s decision to move forward with AMI be “counter to the**  
10 **Commission’s prudence practice?”**

11 A. No. A prudence decision now by the Commission on Avista’s decision to move  
12 forward with AMI, and the costs that have been included in this case, would be fully consistent  
13 with the Commission’s prudence criteria. As stated earlier, the Company has made the  
14 decision to move forward, and “the data and methods” used “at the time the decision was  
15 made” is before the Commission, consistent with its prudence criteria.

16 **Q. Would a Commission decision to provide recovery of the AMI costs in the**  
17 **rate period for this case “limit the Commission’s ability to hold the Company**  
18 **accountable after the fact for appropriate expenditures and levels of expenditures for**  
19 **capital additions and operations?”**

20 A. No. Avista has provided supporting documentation for the AMI-related costs  
21 for the rate period, demonstrating the reasonableness of those costs. All parties have had six  
22 months to review those costs and determine the reasonableness of those costs. It is appropriate  
23 for that level of costs to be recovered during the rate period.

24 If, after-the-fact, the Company were to spend more than that amount for AMI, the  
25 Commission would have the opportunity to determine the reasonableness of the additional  
26 expenditures.

1           **Q.    Has the Commission recently applied its prudence criteria in a general rate**  
2 **case order?**

3           A.    Yes. In its Order 12, dated September 1, 2016, in the Pacific Power and Light  
4 general rate case (Docket No. UE-152253) the Commission stated as follows on page 33,  
5 paragraph 94:

6           The Commission has often cited the prudence legal standard as thus:

7  
8           What would a reasonable board of directors and company management have decided  
9 given what they knew or reasonably should have known to be true at the time they  
10 made a decision? (emphasis added) (footnote omitted)  
11

12           And in Footnote 158 of the same Order, on page 36, the Commission also stated:

13           We conclude that the appropriate point in time to end our examination of prudence is  
14 on December 1, 2013. Although the Company, Staff, and intervening parties made  
15 vigorous attempts to include evidence and analysis after this point in time, we choose  
16 not to give any weight to such evidence and argument. (emphasis added)  
17

18           In this order, the Commission reinforced the point that the determination of prudence  
19 is based on the information available at the time the Company made a decision. In the current  
20 Avista rate case the Commission has before it the evidence supporting Avista's recent decision  
21 to move forward with AMI. A delay in a determination of the prudence of Avista's decision  
22 to move forward with AMI would cause the evidence available at the time the decision was  
23 made to become stale.

24           **Q.    On page 7, beginning on line 7, of Mr. Nightingale's testimony he states:**

25           **Regarding the actual installation of the AMI communication systems and meters,**  
26 **that will not occur until 2017 and will continue through full deployment, which**  
27 **Avista expects to accomplish by 2021.** (emphasis added)  
28

29           **Do you have concerns related to this portion of Mr. Nightingale's testimony?**

1           A.     Yes. In light of the balance of Mr. Nightingale's testimony recommending that  
2 all cost recovery wait until an after-the-fact review can be conducted, it is unclear from this  
3 portion of his testimony whether he is suggesting that no costs associated with AMI be  
4 recovered by Avista until after full deployment is completed in 2021. Such a result would  
5 have a significant, negative, financial impact on the Company.

6           Even if this were not the case, his recommendation to wait for any cost recovery until  
7 an after-the-fact review on a year-to-year basis can be conducted will also have a large negative  
8 financial impact on the Company. A year-to-year after-the-fact review would essentially  
9 involve a Company filing in 2018 to allow review of the AMI investment in 2017, with  
10 recovery of the 2017 costs to begin at the conclusion of the case in 2019. This would represent  
11 a two-year lag on recovery of a major investment by the Company.

12           The AMI project involves a significant investment of dollars, but it is very different  
13 than other investments of its size, such as a new power plant, and it is critically important that  
14 the ratemaking treatment match the uniqueness of the AMI project.

15           **Q.     How is the AMI project different than other projects of its size?**

16           A.     AMI is a major, multi-year project, but the dollars invested in the project will  
17 be transferred to plant in service as certain components are completed along the way. For  
18 example, when the meter data management system is completed in 2017 it will be transferred  
19 to plant in service, and as new AMI meters are installed they will transfer to plant in service  
20 on a month-to-month basis. Once investment is transferred to plant in service, allowance for  
21 funds used during construction (AFUDC) stops, and depreciation begins on the investment.  
22 Unless the depreciation and other costs are included in retail rates on a timely basis, the  
23 Company will not recover the costs, and will suffer negative financial impacts.

1 In contrast to AMI, when the Company builds a new power plant over a multi-year  
2 period, for example, it is a single project and the investment in the project generally does not  
3 transfer to plant in service until the multi-year project is completed. Until the project is  
4 complete the Company accrues AFUDC on the project to cover its carrying costs, and  
5 depreciation does not begin until the investment is transferred to plant in service.

6 For a major, multi-year project that transfers to plant in service all at one time, the  
7 Company has an opportunity to time a rate case to receive timely recovery of the costs. For  
8 AMI, because “chunks” of the investment will be periodically moved to plant in service, there  
9 would be no opportunity for Avista to receive timely recovery of the costs if the costs are not  
10 included in each rate case as proposed by Avista in this case, ~~or deferred accounting treatment~~  
11 ~~is approved for the project.~~

12 ~~**Q.— If the Commission does not include recovery of the AMI costs for the rate**~~  
13 ~~**period, as proposed by the Company in this case, why would deferred accounting be a**~~  
14 ~~**good solution to address the concerns of all parties, including the Company?**~~

15 ~~— A.— If the Commission does not approve recovery of the AMI costs for the rate~~  
16 ~~period as proposed by the Company in this case, Avista requests the Commission approve~~  
17 ~~deferred accounting treatment for the AMI project. With deferred accounting, the revenue~~  
18 ~~requirement associated with the AMI costs that are transferred to plant in service would be set~~  
19 ~~aside for the opportunity for future recovery. The use of deferred accounting for this unique~~  
20 ~~project would provide the following benefits for all stakeholders:~~

- 21 ~~1. **Non-Company Parties:** For the parties in this case that oppose including AMI~~  
22 ~~costs in retail rates, through the use of deferred accounting the AMI costs would be~~  
23 ~~excluded from retail rates at this time.~~
- 24
- 25 ~~2. **Avista:** With deferred accounting Avista would not experience the significant~~  
26 ~~negative financial impact from excluding AMI cost recovery in this case.~~

1  
2 ~~3. **Commission:** To the extent the Commission decides to defer a decision on the~~  
3 ~~prudence of the project itself, or the year by year costs associated with the project,~~  
4 ~~with deferred accounting the Commission will have the opportunity to review the~~  
5 ~~costs after the fact, and make a prudence determination prior to the Company~~  
6 ~~receiving recovery of the prudently incurred costs through retail rates.~~  
7 \_\_\_\_\_

8 ~~\_\_\_\_\_ With regard to WAC 480-07-370(1)(b), should the Commission not approve recovery~~  
9 ~~of the AMI costs for the rate period as proposed by the Company in this case, Avista requests~~  
10 ~~the Commission approve deferred accounting treatment for the AMI project. Ms. Andrews~~  
11 ~~provides additional details regarding the accounting for costs under deferred accounting~~  
12 ~~treatment for AMI.~~

13 ~~\_\_\_\_\_ **Q. Has the Commission already approved deferred accounting treatment for**~~  
14 ~~**one element of AMI?**~~

15 ~~\_\_\_\_\_ A. Yes. In Order 01 in Docket No. UE-160100 the Commission approved deferred~~  
16 ~~accounting treatment for the costs associated with the existing electric meters that will be~~  
17 ~~removed from service, as the new AMI meters are installed. This deferred accounting was~~  
18 ~~approved, in large part, because of the unique nature of the AMI project, and carries with it the~~  
19 ~~same benefits for stakeholders that were identified immediately above for non-Company~~  
20 ~~parties, Avista, and the Commission.~~

21 ~~\_\_\_\_\_ In the same vein, if the Commission does not approve recovery of the AMI costs for~~  
22 ~~the rate period as proposed by the Company in this case, expansion of the deferred accounting~~  
23 ~~treatment already approved for the AMI project would be a good solution to meet the needs of~~  
24 ~~all the parties in this case.~~

1 **Montana Riverbed Lease**

2 **Q. Please describe the Company's Montana Riverbed Lease.**

3 A. The Company agreed to pay the State of Montana \$4.0 million (electric  
4 system) annually beginning in 2007 with annual inflation adjustments. Avista's obligation to  
5 pay the State of Montana rent under the Hydropower Site Lease for the Noxon Rapids Project  
6 (effective January 1, 2007) continues for the forty-five (45) year term of the lease ending  
7 February 28, 2046, or sooner if the FERC license terminates before its scheduled expiration  
8 in 2046.<sup>37</sup> Per the initial agreement, after the first ten years of the lease (2007 - 2016) the  
9 parties are to meet to attempt to renegotiate the level of payments. These renegotiations for  
10 the riverbed lease payment levels began in 2016, but are on hold for reasons discussed below.  
11 The obligation to pay the agreed-upon level of rent, however, does not terminate after the  
12 initial ten year period of the Site Lease, and the Company is still required to make the  
13 scheduled rent payment in 2017 and beyond to the State of Montana, unless and until the  
14 parties both agree to an adjusted amount. The 2017 lease payment will be approximately \$5.2  
15 million of which \$3.4 million will be charged to Washington and is included in the Company's  
16 direct filed case.

17 **Q. Did any party propose to exclude these charges from the Company's**  
18 **direct filed case?**

19 A. Yes. Washington Staff Ms. O'Connell recommended that the Montana  
20 Riverbed Lease amount be removed. The effect of this modification is a reduction in revenue  
21 requirement of \$3,526,475.

---

<sup>37</sup> A copy of the Hydropower Site Lease is attached as Exhibit No. \_\_\_\_ (EMA-11) to Ms. Andrews' Rebuttal Testimony

1           **Q. Does the Company agree with the recommendation proposed by Ms.**  
2 **O’Connell?**

3           A. No. As noted above, the Company is still required to make the scheduled rent  
4 payment in 2017, and beyond, to the State of Montana, and therefore will continue to incur  
5 this expense, until such time as the parties are able to reach agreement on any adjusted level  
6 for the remainder of the lease.

7           **Q. Please provide the historical background regarding the Montana**  
8 **Riverbed Lease Agreement?**

9           A. In 2006, the State of Montana brought an action in Montana District Court  
10 against both Avista and PPL Montana (PPL) as owners of hydroelectric dams in the State,  
11 contending that these dams encroached on state-owned lands consisting of the beds and banks  
12 of what it argued were “navigable waters.” It argues that rent was owing for both prior  
13 trespass since the construction of the dams as well as prospectively for the term of the FERC  
14 license.

15           Several weeks before trial was to start against Avista and PPL Montana (“PPL”),  
16 District Court Judge Honzel entered an Order in 2007 finding that the Clark Fork River and  
17 various other rivers on which PPL had hydro facilities were navigable and therefore the bed  
18 and banks of those rivers were owned by the State of Montana (“State”). As a result, the only  
19 issues for trial was the amount of past damages and future rental payments owed by Avista  
20 and PPL.

21           Prior to trial, the State, through its expert, claimed that Avista owed \$200,374,752 in  
22 damages for past rent, and rent of \$8,416,510 per year starting in 2006. Faced with the District  
23 Court’s ruling on navigability, the significant judgment being sought, and the probability that

1 the Montana Supreme Court would affirm the District Court's ruling (which it ultimately did),  
2 Avista reached a settlement with the State. In exchange for Avista agreeing to pay \$4,000,000  
3 per year in rent (with an annual CPI adjustment), the State agreed to dismiss all of its other  
4 claims, including all damages for past rent. In addition, the Settlement Agreement contained  
5 a Most Favored Nation provision which provides, among other things, that if PPL achieved a  
6 more favorable outcome at trial or through settlement, Avista would receive the benefit of that  
7 outcome.

8       Following Avista's settlement, the case proceeded to trial against PPL. After hearing  
9 the evidence, Judge Honzel entered judgment against PPL for past rent of \$34,743,261 and  
10 for annual payments of \$6,207,919 starting in 2007. Based upon Judge Honzel's ruling, if  
11 Avista had remained in the case, it is likely judgment would have been entered against it for  
12 approximately \$59 million for past rents and more than \$7 million per year in future rents  
13 beginning in 2007, which, including post-judgment interest, would have exposed Avista's  
14 ratepayers to an additional \$98 million in costs, beyond the agreed-upon level of rent. Since  
15 Avista's settlement was much more favorable than the outcome PPL obtained at trial, the Most  
16 Favored Nation provision was not triggered.

17       After the Montana Supreme Court affirmed the District Court's ruling, PPL sought  
18 review in the U.S. Supreme Court. Of the 7,713 cases filed in the U.S. Supreme Court during  
19 its 2011 Term, the Court only accepted 79 cases. PPL's appeal was one of those few cases.  
20 Had the Court not accepted review, the decision of the Montana Supreme Court against PPL  
21 would have stood.

22       The U.S. Supreme Court ultimately ruled that the determination of riverbed title, under  
23 the Equal-Footing Doctrine, should be made on a segment-by-segment basis depending on the



1 facts. Consequently, the U.S. Supreme Court reversed the Montana Supreme Court and  
2 remanded the case against PPL back to Montana for further proceedings surrounding the  
3 navigability of each river segment.<sup>38</sup>

4 **Q. What is the current status of the negotiations for the Montana Riverbed**  
5 **Lease Agreement?**

6 **A.** The case is currently pending in the United States District Court for the District  
7 of Montana on remand for a determination of navigability and damages. A trial date  
8 concerning the navigability of the river on a segment-by-segment basis, has not yet been  
9 scheduled. Given the “Most Favored Nation” provision negotiated by Avista in its Settlement  
10 Agreement, if PPL (or its successor-in-interest, NorthWestern) achieves a more favorable  
11 outcome at trial or through settlement, the Most Favored Nation provision will be triggered  
12 and Avista will receive the benefit of that outcome through a reduction or elimination of the  
13 annual rent it is paying.

14 However, the level of rent payment owing under the Site Lease will only be adjusted  
15 for Avista if one of the following occurs: (1) Avista and the State of Montana agree to a  
16 negotiated rate prior to September 30, 2016<sup>39</sup> for the remaining term of the lease (something  
17 the state has thus far been unwilling to do, given the continued litigation over navigability in  
18 Federal and State courts following the U.S. Supreme Court’s remand of PPL’s appeal), or (2)  
19 If the amount of Rent is “reopened” under Section 5 of the Site Lease through application of  
20 the “Most Favored Nations Clause”, whereby PPL Montana receives a more favorable result  
21 through renegotiations or litigation, which also has not happened yet.

---

<sup>38</sup> This background information was provided by Avista in response to ICNU data request No. 115.

<sup>39</sup> On August 17, 2016, Avista and the State of Montana entered into a tolling agreement to extend the September 30, 2016 date until December 31, 2016. If the litigation is not resolved by then, the parties will discuss the need for further extensions.

1           The State of Montana has brought an amended Complaint on Remand in State Court  
 2 on March 31, 2016, in order to establish navigability, given the remand from the U.S. Supreme  
 3 Court to determine navigability. (Northwestern, as successor-in-interest to PPL Montana, also  
 4 has pending a motion to remove the case to Federal District Court in Montana.) The State of  
 5 Montana is thus far unwilling to concede the non-navigability of the waters at issue and means  
 6 to test that through further litigation, given the guidance received from the U.S. Supreme  
 7 Court; or through subsequent Governmental action by the State of Montana or its agencies  
 8 establishing a more favorable method for determining rent; or through a subsequent judicial  
 9 determination concerning the navigability of the Clark Fork River.

10           **Q.     Is Avista obligated to make a lease payment for 2017 and beyond?**

11           A.     Yes. The obligation to pay the agreed-upon rent does not terminate until 2046.  
 12 Until the pending litigation in Montana on remand resolves the factual question of  
 13 navigability, the State of Montana is unwilling to renegotiate a lower level of rent.<sup>40</sup>  
 14 Accordingly, under the Lease Agreement, Avista remains obligated to make future rental  
 15 payments until the matter is resolved through further litigation or settlement. Avista intends  
 16 to make future payments to the State of Montana, who will hold such payments in escrow,  
 17 pending resolution of the ongoing litigation. Such payments will result in an expense to the  
 18 Company until the litigation is resolved<sup>41</sup>. If successful in reducing the level of rent owing  
 19 through litigation or settlement, Avista would return to customers amounts paid by customers  
 20 that exceed the amounts owed.

---

<sup>40</sup> A motion in Federal Court in Montana, filed by Northwestern and Talen Montana (successor to PPL Montana) is also pending to confirm the non-navigability of the so-called "Great Falls Reach" relating to their projects, in light of findings from the U.S. Supreme Court pertaining to this waterway, which if granted, would benefit Avista and its ratepayers under its Most-Favored-Nation clause.

<sup>41</sup> As this is an ongoing obligation, Avista will be required to book the expense according to Generally Accepted Accounting Principles (GAAP).

1           **Q.     Should the 2017 Montana Riverbed Lease payment be included within the**  
2 **Company’s request for rate relief?**

3           A.     Yes. As Avista is presently still obligated to make the scheduled rent payment  
4 to the State of Montana for the Montana Riverbed Lease Agreement for 2017 and beyond, and  
5 because Avista and the State of Montana have not negotiated a modified rent payment, it is  
6 appropriate to continue to include the Montana Riverbed Lease payment as a recoverable  
7 expense. As mentioned, Avista would return to customers any amounts paid by customers  
8 that actually exceed the amounts owed, as determined through subsequent litigation or  
9 settlement.

10           **Q.     If the Commission were to remove the 2017 rate year expense for the**  
11 **Montana Riverbed Lease Agreement from the revenue requirement in this case, how**  
12 **does Avista request it be allowed to treat those payments?**

13           A.     If Avista is not allowed recovery during 2017 for the Montana Riverbed Lease  
14 expense it will incur and record in 2017, the Company requests deferred accounting for actual  
15 lease expenses incurred beginning in 2017 and beyond until conclusion of litigation or  
16 settlement resolving this matter. Deferred accounting treatment would allow removal of the  
17 expense for ratemaking purposes in each affected year, but provide the opportunity for  
18 recovery in a future period, protecting both customers and the Company, pending resolution  
19 of the ongoing litigation.

20           **Q.     What would be the impact on Avista’s requested electric rate relief of**  
21 **deferring these costs for later recovery?**

22           A.     Deferring the Montana Lease expense for 2017 would result in reducing the  
23 Company’s electric revenue requirement need by \$3,529,000.

1           **Q.     Has the Commission approved deferred accounting treatment of Montana**  
2 **Lease expenses in prior Avista rate case proceedings?**

3           A.     Yes. In Docket No. UE-072131 the WUTC allowed Avista to defer its first  
4 two annual Montana Lease expense payments (2007 and 2008) until those actual expenses  
5 could be reviewed and included in a future proceeding. In Docket No. UE-080416 (see Order  
6 No. 08), the Commission approved the Company's accounting treatment of the deferred  
7 payments, including accrued interest, and allowed amortization of the deferred balance over  
8 the remaining eight years of the initial 10-year agreement, starting on January 1, 2009.  
9 Similarly, the Company would request approval to treat any future rent payments as a deferred  
10 payment for future recovery until conclusion of the ongoing litigation.

11           **Q.     If the Commission does not include recovery of the Montana Riverbed**  
12 **Lease costs for the rate period, as proposed by the Company in this case, why would**  
13 **deferred accounting be a good solution to address the concerns of all parties, including**  
14 **the Company?**

15           A.     The use of deferred accounting for the Montana Riverbed Lease payments  
16 would provide the following benefits for all stakeholders:

- 17           1.   **Non-Company Parties:** For the parties in this case that oppose including Montana  
18 Riverbed lease costs in retail rates, through the use of deferred accounting these  
19 costs would be excluded from retail rates at this time.  
20  
21           2.   **Avista:** With deferred accounting Avista would not experience the significant  
22 negative financial impact from excluding cost recovery for the Montana Riverbed  
23 Lease payments in this case.  
24  
25           3.   **Commission:** To the extent the Commission decides that the Montana Riverbed  
26 Lease payments should not be included in retail rates, with deferred accounting the  
27 Commission will have the opportunity to review the costs after-the-fact, and prior  
28 to the Company receiving recovery of the costs.  
29

1 With regard to WAC 480-07-370(1)(b), should the Commission not approve recovery  
2 of the Montana Riverbed Lease costs for the rate period as proposed by the Company in this  
3 case, Avista requests the Commission approve deferred accounting treatment for the Montana  
4 Riverbed Lease costs. Ms. Andrews provides additional details regarding the accounting for  
5 costs under deferred accounting treatment for the Montana Riverbed Lease costs.

6 **Q. Regarding the possible alternatives of ~~deferred accounting with respect to~~  
7 ~~both AMI expenditures and the Montana Riverbed Lease costs~~, is the Company seeking  
8 an accounting order for ~~both matters in this case?~~**

9 A. Yes. If the Commission does not otherwise approve the recovery of costs  
10 included in the Company's filing in this proceeding, Avista believes that this alternative would  
11 serve to address the concerns of the parties in this docket. The necessary showing for such an  
12 accounting order has been made in this docket, including the proposed accounting treatment,  
13 as explained in Ms. Andrew's rebuttal testimony. If, however, the Commission's preference  
14 is for separately-filed petitions for an accounting order containing this information, Avista will  
15 do so at the conclusion of this case.

16 **Q. If the Commission were to approve deferred accounting treatment for  
17 ~~AMI and the Montana Riverbed Lease costs~~, what would be the Company's proposed  
18 revenue requirement be on rebuttal?**

19 A. Table No. 7 below provides the revenue requirement on rebuttal for 2017 and  
20 2018 should the Commission approve deferred accounting for ~~AMI and~~ Montana Riverbed  
21 Lease costs.

1 **Table No. 7: Rebuttal Revenue Requirement Incorporating Deferred Accounting**  
 2 **Treatment**  
 3

<u>Line</u>	<u>\$Millions</u>		
	<u>Electric</u>	<u>Natural Gas</u>	
5	<b>Original Requests</b>	<b>\$38.60</b>	<b>\$4.40</b>
6	1 Information Updates	\$1.50	\$3.50
7	2 <b>Avista Updated Revenue Requirement</b>	<b>\$40.10</b>	<b>\$7.90</b>
8	3 <del>Deferral of Advanced Metering Infrastructure</del>	<del>(\$3.80)</del>	<del>(\$1.20)</del>
9	4 Deferral of Montana Riverbed Lease	(\$3.50)	-
9	5 <b>Avista Revenue Requirement Including Deferrals<sup>1</sup></b>	<b>\$36.60</b>	<b>\$7.90</b>

10 <sup>1</sup> The Company is not requesting a higher increase for natural gas than its original filing.  
 11

12 **X. OTHER COMPANY WITNESSES**

13 **Q. Would you please provide a brief summary of the rebuttal testimony of the**  
 14 **other witnesses representing Avista in this proceeding?**

15 A. Yes. The following additional witnesses are presenting rebuttal testimony on  
 16 behalf of Avista:

17 Mr. Adrien McKenzie, Vice President of Financial Concepts and Applications  
 18 (FINCAP), Inc., responds to Staff and intervenor testimony concerning the fair return on  
 19 equity (ROE) for Avista. Mr. McKenzie concludes that the cost of equity recommendations  
 20 of Mr. Parcell and Mr. Gorman are simply too low and fail to reflect the risk perceptions and  
 21 return requirements of real-world investors in the capital markets.

22 Ms. Elizabeth Andrews, Senior Manager of Revenue Requirements, explains that the  
 23 Company's request for rate relief for both electric and natural gas remains as originally filed,  
 24 even though the Company's updated electric and natural gas Attrition Studies for the 18-month

1 rate plan (January 2017 through June 2018) reflect a higher need than originally requested.  
2 Ms. Andrews also discusses the various issues within the electric and natural gas Attrition  
3 Studies as proposed by Mr. Hancock and Mr. Mullins, and why their proposed revenue  
4 increases are not reasonable. In response to Mr. Watkins testimony regarding Avista's O&M  
5 and A&G expenses, she explains that his analyses are inappropriate and misleading, and do  
6 not represent Avista's changes in overall costs in recent years. Lastly, if the Commission  
7 decides to approve deferred accounting treatment ~~for the 2017 costs associated with the~~  
8 ~~Advanced Metering Infrastructure (AMI) project~~ and the Montana Riverbed Lease, Ms.  
9 Andrews explains the accounting entries that would be recorded.

10 Dr. Grant Forsyth, Chief Economist, will examine methodological issues associated  
11 Mr. Mullins' electric and natural gas model regression analyses, as well as Mr. Hancock's  
12 natural gas regression analyses. He will also examine the application of price indices used by  
13 Mr. Hancock within his analysis of determining appropriate growth rates for trending O&M  
14 expenses, as well as the use of certain price indices by Mr. Watkins, who compares these  
15 indices to the trend in Avista's actual expenditures over time.

16 Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, will  
17 explain why adjustments made to the Dispatch Model suggested by Mr. Mullins are not  
18 reflective of current fundamental market conditions and are not feasible given hydro license  
19 restrictions. His testimony will further counter ICNU's representation of the Dispatch Models  
20 accuracy, and address why creating a special Demand Response tariff is premature.

21 Mr. William Johnson, Wholesale Marketing Manager, will explain, in response to  
22 Staff and ICNU testimony, why the latest information regarding changes in certain power

1 supply and transmission contracts should be used, and will be reflected in its November 1,  
2 2016 power supply update.

3 Ms. Heather Rosentrater, Vice President of Energy Delivery, will respond to the  
4 testimony filed by Public Counsel and the Energy Project (“PC/EP”) witness Ms. Alexander  
5 and Staff witness Mr. Nightingale related to the AMI Project and explain why Avista has  
6 made the decision to move forward with the deployment of advanced metering for  
7 our Washington customers. She also addresses Avista’s distribution plant investments in  
8 response to the testimony filed by Staff, Public Counsel and ICNU/NWIGU.

9 Ms. Karen Schuh, Senior Regulatory Analyst, will respond to the positions of other  
10 parties regarding pro forma capital adjustments and their inclusion in the Modified Test Year  
11 Studies. In addition, she explains the fact that the rate making studies prepared by Staff and  
12 other parties do not reflect the balance of plant-in-service that will benefit customers during  
13 the 2017 rate year, and the January to June 2018 rate period. Among other things, she  
14 summarizes updates to the Company’s expected capital investments in utility plant through the  
15 2017 rate year and the January to June 2018 rate period to reflect the most current information.

16 Ms. Jennifer Smith, Senior Regulatory Analyst, will explain the Company’s updated  
17 Modified Test Year Studies and Cross Check Studies for both electric and natural gas to reflect  
18 adjustments by parties with which the Company agrees, and additional adjustments for updates  
19 and corrections that have been identified through the discovery process. Ms. Smith will also  
20 provide the Company’s response as to why certain adjustments proposed by the parties were  
21 not accepted.

22 Ms. Tara Knox, Senior Regulatory Analyst, explains that the Company’s electric cost  
23 of service study provides a fair representation of the costs to serve each customer group. She



1 explains that the Company's peak credit methodology is fair and consistent with past  
2 Commission practice, as is the Company's allocation of transmission costs. In addition, she  
3 provides testimony which demonstrates that, even if one were to change how AMI-related  
4 costs are classified in the study, the effect on the results of the study do not materially change.

5 Mr. Joseph Miller, Senior Regulatory Analyst, explains that the Company's natural  
6 gas cost of service study is reasonable and accurate for the purpose of setting rates. In his  
7 testimony he will show that the use of the Peak and Average cost assignment methodology is  
8 appropriate in that it provides a balance between the way the natural gas system is designed  
9 (peak) and the way it is used (average). He will further demonstrate that there is a more  
10 appropriate way to allocate distribution mains using a customer component than that proposed  
11 by NWIGU. Finally, Mr. Miller will show that, after changing the allocation of AMI-related  
12 costs, the effect on the Company's cost of service study is minimal.

13 Mr. Patrick Ehrbar, Senior Manager of Rates and Tariffs, discusses that, with the 2017  
14 and 2018 requested revenue requirements remaining unchanged from the Company's original  
15 filing as noted by Company witness Ms. Andrews, Avista continues to support its originally-  
16 filed electric and natural gas rate spread. In addition, he will provide the Company's response  
17 to the rate spread proposals of Staff, ICNU, and NWIGU. He will also provide the Company's  
18 response to testimony related to:

- 19 • Cost of Service Workshops – while the Company would be an active and  
20 engaged participant in a generic cost of service proceeding, Avista has  
21 concerns that a “one size fits all” approach is not necessarily appropriate;
- 22 • Basic Charge Increases – Avista continues to believe that the increases in basic  
23 charges proposed in this case should be approved, and are supported by the  
24 cost of service studies;
- 25 • Demand Side Management Funding for Schedule 25 – Avista does not agree  
26 that the usage in the third block of Schedule 25 should be exempt from  
27 contributing towards DSM, however the amount of funding provided could  
28 reasonably be adjusted;

- 1 • Natural Gas Transportation Service Applicability – Avista does not agree that
- 2 a new natural gas transportation rate schedule should be created; and
- 3 • Low Income Rate Assistance Program (LIRAP) – adjustments to LIRAP,
- 4 including program funding, are not necessary in this case given the recent five-
- 5 year LIRAP rate plan as well as continuing discussions in the LIRAP Advisory
- 6 Group regarding potential programs design options.
- 7

8 **Q. Does this conclude your rebuttal testimony?**

9 A. Yes.