BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-240006

DOCKET UG-240007

DIRECT TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

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

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

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

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

A. Aside from special projects, I am responsible for the preparation or support of normalized revenue requirement and ratemaking studies for the various jurisdictions in

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

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

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

A. My testimony and exhibits in this proceeding will support various adjustments in which I sponsor, that are included by Company witness Ms. Schultz within her overall electric and natural gas revenue requirement studies prepared for the Company's proposed Two-Year Rate Plan effective in December 2024 (Rate Year 1) and December 2025 (Rate Year 2). These adjustments include the following: 1) Restating Remove Test Period Colstrip Costs, 2) Pro Forma Wildfire Plan Expenses, 3) Pro Forma Insurance Expense, 4) Miscellaneous Operations and Maintenance (O&M) Expense, 5) Pro Forma 2024 – 2026 Capital Additions O&M and Revenue Offsets; 6) Pro Forma EDIT (RSGM) and 7) 2026 CS2 Major Maintenance Deferral and Pro Forma Amortization Expense.

In addition to the various accounting adjustments I sponsor, I will discuss the Company's requests to update its Wildfire Balancing Account[2] baseline to match pro formed wildfire plan expenses, as well as discuss the Company's proposal to continue its current Insurance Expense Balancing Account[3], including an update to the insurance baseline to reflect the significant increase and continued volatility associated with insurance expenses.

Other adjustments or accounting requestS which are more fully described within my

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[2] The Company's Wildfire Resiliency Plan ("Wildfire Plan") Wildfire Expense Balancing Account (WF Balancing Account) was established in the prior Avista general rate cases (GRC) Dockets UE-200900, et. al., with an update to the Wildfire Expense baseline in Dockets UE-220053, et. al.

[3] The Company's Insurance Expense Balancing Account was established in the prior Avista GRC Dockets UE-220053, et. al., (approved Settlement Stipulation) for the current Two-Year Rate Plan. Per Dockets UE-220053, et. al., Avista is required to support the continuation of its Insurance Expense Balancing Account in its next GRC, e.g., this case.

testimony include the Company's proposal to defer the Coyote Springs 2 (CS2) major maintenance (overhaul) expense that is planned for 2026, and the 4-year amortization of Washington's share of this expense, to recover between overhauls, [4] as well as a summary of the total O&M and revenue direct "offsets" included by the Company in this case.

A table of contents for my testimony is as follows:

Description		Page
I.	Introduction	1
II.	Sponsored Restating/Pro Forma Adjustments	6
III.	Wildfire Expense Balancing Account	17
IV.	Insurance Expense Balancing Account	24
V.	Pro Forma Offsetting Factors – Direct & Indirect	42
VI.	2026 CS2 Deferral of Major Maintenance and Recovery	47

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

A. Yes. I am sponsoring the following exhibits:

- Confidential Exh. EMA-2C provides charts and detail by line of insurance for the period 2009 through 2023 (actual) and estimated 2024, and Confidential estimated 2025 and 2026 values, pages 1-7.
- Exh. EMA-3 presents the "Capital Offsets Matrix" utilized by the Company to show all "direct," "2% efficiency" and "indirect" O&M and/or capital adjustments determined by the Company in relation to the 2024 pro forma and 2025 – 2026 "provisional" capital additions included as adjustments in this case.[5]
- Exh. EMA-4 is an internal Company memo discussing the EDIT accounting method change in effect as of January 1, 2022.
- Exh. EMA-5C provides the Company's electric and natural gas tariff sheets (Tariff WN U-28, WA Electric and Natural Gas Insurance Expense Balancing Mechanism) filing, filed with the Commission on September 1, 2023. This filing includes the confidential information required by the Commission, related to annual actions utilized by Avista to seek out, negotiate, and attain the best insurance at the lowest costs.

[4] CS2 major maintenance (overhaul) occurs every 32,000 fired hours, or approximately every four (4) years.

[5] As described further below, all "direct" and "2% efficiency" offsets have been included as electric and natural gas O&M expense reductions. See Ms. Schultz Exh. KJS-2 and Exh. KJS-3, PF Adjustments (4.02) for RY1 and (5.08) for RY2.

Q. Would you please summarize your direct testimony?

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

- I sponsor specific Washington electric and natural gas Pro Forma Adjustments as follows:
  1) Restating Remove Test Period Colstrip Costs, resulting in the removal of Colstrip costs from test period results that are excluded from "base rates" and recovered separately through Tariff Schedule 99, reducing electric rate base by approximately $24.9 million and net operating income (NOI) by $17 million, resulting in a net reduction to Washington electric revenue requirement of $279,000.
  2) Pro Forma Wildfire Plan expenses, reflecting $8.3 million of annual O&M electric expenses.
  3) Pro Forma Insurance Expense, reflecting annual electric and natural gas insurance expense of approximately $12.8 million and $2.3 million, respectively.
  4) Pro Forma Miscellaneous O&M Expense, reflecting an increase above test period levels for a limited sub-set of O&M expenses for electric and natural gas of $8.9 million and $1.6 million, respectively in Rate Year 1 ("RY1"), and $3.6 million and $653,000, respectively in Rate Year 2 ("RY2");
  5) Pro Forma 2024 – 2026 Capital Additions O&M and Revenue Offsets in RY1 and RY2, (see detail summary below).
  6) Pro Forma EDIT (RSGM), reflecting a change in accounting method for amortizing excess accumulated deferred federal income taxes (ADFIT), resulting in an increase in RY1 electric and natural gas revenue requirement of $122,000 and $181,000, respectively; and an incremental increase in RY2 electric revenue requirement only, of $1.0 million above RY1 levels.
  7) 2026 CS2 Major Maintenance Deferral and Pro Forma Amortization Expense, reflecting the proposed 4-year amortization of CS2 major maintenance expense in 2026 ($18.5 million system), resulting in amortization expense of $1.7 million in RY2 (amortization beginning July 1, 2026 through June 30, 2030).

- The Company is proposing to increase its electric Wildfire Expense Balancing Account baseline from $5,100,000 to $8,323,000 over the Two-Year Rate Plan, mainly as a result of significant increases in enhanced vegetation management efforts and risk-tree identification and removal. Including capital additions, sponsored by Company witness Mr. Howell, pro formed (or provisional) from July 1, 2023 through December 31, 2026, total O&M expense and pro formed return of and on capital investment, results in an overall increase to the

Washington electric revenue requirement included in this case (above existing authorized levels), of approximately $6.1 million in RY1, and $3.0 million incremental in RY2 above RY1 levels.

- The Company is proposing to continue the use of the currently approved "Insurance Expense Balancing Account," deferring actual insurance expense above or below the approved baseline proposed in this case, and to adjust the Insurance Expense Balancing Account baseline for electric from $8,271,000 to $12,795,000, and for natural gas from $1,746,000 to $2,247,000, for the Two-Year Rate Plan.

- The Company is proposing to defer the CS2 major maintenance (overhaul) expense of $18.5 million (system) that is planned for mid-2026, and to amortize Washington's share of the deferred balance (approximately $12.0 million) over the 4-year period beginning July 1, 2026 through June 30, 2030, to recover this expense between CS2 overhauls. The effect of this adjustment in RY2 (2026) to reflect this amortization is approximately $1.7 million.

- The Company has included in its electric and natural gas Pro Forma Studies, total O&M offsets, other revenue, retirements (reduced depreciation expense), and reduced net plant after ADFIT for the change in A/D and ADFIT on existing plant at June 30, 2023, adjusted to AMA 2025 for RY1 and AMA 2026 for RY2. These adjustments reduce the Company's revenue requirement in total by $49.5 million for electric and $9.3 million for natural gas, for RY1, and by $20.1 million for electric and $3.2 million for natural gas, for RY2, <u>or a total of $69.6 million for electric and $12.5 million for natural gas, over the Two-Year Rate plan)</u> as follows:

    1) <u>Direct O&M expense and "Other Revenue" reductions</u> **-** including an incremental "2% efficiency" adjustment on plant investment, and revenue associated with growth capital, total $9.8 million for electric and $1.4 million for natural gas, for RY1, and $4.4 million for electric and $362,000 for natural gas, for RY2.

    2) <u>Retirements</u> - reduces electric and natural gas depreciation expense (revenue requirement) by approximately $18.1 million for electric and $2.6 million for natural gas for RY1. For RY2, the result is a reduction of approximately $7.4 million for electric and $872,000 for natural gas.

    3) <u>Reduction to Net Plant after ADFIT for the change in A/D and ADFIT on existing plant at June 30, 2023, adjusted to AMA 2025 for RY1 and AMA 2026 for RY2</u> - reduces the Company's revenue requirement by $21.6 million for electric and $5.3 million for natural gas, for RY1, and by $8.3 million for electric and $2.0 million for natural gas, for RY2.

- The Company has reflected a change in accounting method for EDIT expense from the Average Rate Assumption Method (ARAM) to the Reverse South Georgia Method (RSGM). This accounting change results in a minimal increase to Washington electric and natural gas EDIT expenses in RY1, with a more substantive increase in EDIT expense in RY2, due to the mandatory removal of Colstrip costs on January 1, 2026, as described further below.

II. SPONSORED RESATING/PRO FORMA ADJUSTMENTS

Q. Would you please describe each of the restating and pro forma adjustments which you are sponsoring in this proceeding?

A. Yes. Below is a summary of each adjustment that I am sponsoring in this proceeding. Further discussion on certain adjustments is also provided in more detail later in my testimony, with further details provided within my workpapers provided to Parties after the filing of the Company's case.

Restating Colstrip Removal (Electric)

Q. Please describe the Restating Colstrip adjustment impacting RY1.

A. Electric Adjustment (1.04) Restating Colstrip adjustment, reflects the removal from actual twelve-month-ended 06.30.2023 (12ME 06.2023) test period balances of the Company's Colstrip Unit 3 and Unit 4 costs (exclusive of transmission investment and those costs included in the Energy Recovery Mechanism ("ERM")), including operating and maintenance ("O&M") and other expenses, depreciation expense, decommissioning and remediation ("D&R") costs, and return on rate base. These costs are recovered from customers through the separate Tariff Schedule 99 "Colstrip Tracker."[6] Therefore, these Colstrip costs are not included in base rates, and must be excluded from the Company's

[6] The Company was required to remove Colstrip Unit 3 and Unit 4 costs (exclusive of transmission investment and those costs included in the ERM) from base rates, and separately track these costs through Tariff Schedule 99 "Colstrip Tracker" per Docket UE-220053, et., al.

12ME 06.2023 test period results to determine RY1 expense and rate base levels. The effect of this adjustment decreases Washington electric rate base $24,878,000, revenues by $22,988,000, net expenses by $21,027,000, and net operating income (NOI) by $1,683,000, resulting in a net reduction to Washington electric revenue requirement of $279,000.

In addition to the above Colstrip Restating Adjustment, as discussed by Company witness Mr. Kalich, <u>Colstrip net power supply costs are included</u> in Pro Forma Power Supply Adjustment 3.00P and the Energy Recovery Mechanism (ERM) baseline in RY1 (2025). However, the Company is mandated, by January 1, 2026, to remove all Colstrip costs from customer rates, <u>with the exception of on-going D&R costs</u>. As discussed by Mr. Kalich, sponsor of the RY2 Pro Forma Power Supply Adjustment 5.00P, effective with the RY2 incremental base rate increase, the Company is proposing to revise net power supply costs and the ERM baseline to reflect the mandated removal of Colstrip effective with RY2. The net effect to Washington electric results of Pro Forma Adjustment 5.00P, increases the Company's requested revenue requirement by $59.5 million in RY2, solely due to removing the net impact of Colstrip generation.

Offsetting this increase in net power supply expense and base rates in RY2, however, will be the reduction in the separate Colstrip Tariff Schedule 99. Tariff Schedule 99, in order to comply with the January 1, 2026 mandate, will be reduced to reflect the reduction in Colstrip costs, removing Colstrip O&M and other expenses, depreciation expense, and return on rate base, reflecting only the recovery of D&R Regulatory Asset/Liability balances and amortization expense on an on-going basis. This reduction to Colstrip Tariff 99 will reduce "billed" rates to customers by approximately $35 million (system expense). As shown in Ms. Schultz's Exh. KJS-1T, Table No. 1 "Two-Year Rate Plan Revenue

Requirement & Percentages," in RY2, the Washington electric bill impact to customers is reduced by approximately $24.4 million, or 3.6%. This offset reflects the existing calendar 2024 Tariff Schedule 99 recovery amount and may vary from the actual balances removed prior to the mandatory January 1, 2026 date.[7]

In order to effectuate the change in base rates on the assumed RY2 effective date of December 21, 2025, and the mandatory change in Tariff Schedule 99 to remove the costs associated with Colstrip prior to January 1, 2026, the Company will file on or before October 21, 2025 to align the Colstrip Tariff 99 reduction and the RY2 base rate change, to become effective on December 21, 2025. This will allow for the Commission to authorize one net bill change for customers.

The following Table No. 1 (also appearing in Ms. Schultz' testimony at Exh. KJS-1T, Table No. 6), summarizes the net impact of the above Colstrip adjustments:

Table No. 1 – Washington Electric RY2 Revenue Requirement – Colstrip Offset

Breakdown of Washington Electric RY2 Revenue Requirement ($000s)		
Net Expense/Capital Investment Increase	$	18,618
Colstrip Power Supply Increase	$	59,512
Subtotal - Base Rate Increase	$	78,130
Schedule 99 Colstrip Tracker Reduction	$	(24,419)
Overall Bill Impact	**$**	**53,711**

As noted in Table No. 1 above, with the alignment of base rates and Colstrip 99, the overall bill impact, after the Colstrip Tracker Reduction (offset) of $24.4 million, would result in a net incremental $53.7 million bill impact to customer.[8]

[7] Company witness Mr. Miller (Exh. JDM-1T) discusses the bill impact to customers of reducing Tariff Schedule 99 in RY2.
[8] As discussed by Ms. Schultz, this would result in an overall bill impact in RY2 of 7.8%.

<u>Pro Forma Wildfire Plan Expense (Electric)</u>

Q. Please describe the Pro Forma Wildfire Plan Expenses adjustment in RY1.

A. <u>Electric Pro Forma Wildfire Plan Expenses, Adjustment (3.24)</u>, is pro formed in RY1, reflecting the net increase in expenses associated with the Company's Wildfire Resiliency Plan ("Wildfire Plan"), as supported by Mr. Howell.[9]

Specifically, this pro forma adjustment reduces the twelve-months-ended June 30, 2023 test period distribution and transmission operating expenses ($10,692,000) by $2,369,000 to reflect Washington's share of annual wildfire operating expenses expected during the Two-Year Rate Plan of <u>$8,323,000</u>. This adjustment also removes non-recurring test period deferred regulatory credit expense from the test period (removes FERC Account 407 balances), related to deferring wildfire expenses during the period July 1, 2022 through June 30, 2023, increasing administrative and general (A&G) Regulatory Amortization expense by $6,425,000. The net of this adjustment increases related wildfire expense by $4,056,000 above test period levels, prior to the impact of depreciation expense related to pro formed Wildfire Plan capital additions.[10] The effect of this adjustment (PF 3.24) decreases Washington electric net operating income ("NOI") by $3,204,000.

Section III. "Wildfire Expense Balancing Account" below, provides additional information supporting the pro forma expenses and capital investment included in this case,

[9] Wildfire Plan capital additions, together with associated accumulated depreciation (A/D), accumulated deferred federal income taxes (ADFIT), and depreciation expense, from July 1, 2023 through December 31, 2026 over the Two-Year Rate Plan are included in Pro Forma Capital Additions Adjustments 3.15 (12.2023 EOP) and 3.17 (12.2024 EOP), and Provisional Capital Additions Adjustment 4.01 (2025 AMA) in RY1, as well as Provisional Adjustment 5.07 (2026 AMA) in RY2, sponsored by Ms. Benjamin. Mr. Howell discusses the need for these additions in his direct testimony.

[10] *Ibid.*

as well as, the proposal to update the Wildfire Expense Balancing Account baseline to track expenses over the Two-Year Rate Plan, beginning with the RY1 effective date.

Pro Forma Insurance Expense (Electric and Natural Gas)

Q. Please describe the Pro Forma Insurance Expense adjustments in RY1.

A. Electric and Natural Gas Adjustment (3.12), Pro Forma Insurance Expense**,** is pro formed in RY1, reflecting increases above the 12ME June 30, 2023 test period insurance expense for general liability, directors and officers ("D&O") liability, property insurance, and other (Cyber, Colstrip and Worker's Comp) insurance expense, as discussed further below. Washington electric and natural gas pro forma insurance expense is adjusted to the level of insurance expense the Company is expecting during the Two-Year Rate Plan. The amount included for D&O insurance is reduced by 10% per Dockets UE-090134 and UG-090135. Final invoices for December 2023 for the Company's general and property insurance premiums, and estimated March 2024 for D&O and other insurance premiums were used to further estimate the planned insurance expense levels over the Two-Year Rate Plan. The Company will update any 2023/2024 estimated amounts, as well as updated insurance expense levels expected over the Two-Year Rate Plan included in this case as soon as any actual invoices in 2023/2024 are available. The effect of the electric and natural gas insurance adjustments (PF 3.12) increases insurance expense by $5.3 million for electric and $598,000 for natural gas, above test period levels. This results in pro formed electric and natural gas insurance expense levels of approximately $12,795,000 and $2,247,000, respectively. The effect of this adjustment decreases electric NOI by $4,155,000 for electric and $472,000 for natural gas.

Section IV. "Insurance Expense Balancing Account" below, provides additional information supporting the proposed continuation of the Company's current Insurance Expense Balancing Account, the pro forma level of expenses included in this case, as well as the proposed update to the Insurance Expense Balancing Account baseline to track expenses over the Two-Year Rate Plan, beginning with the RY1 effective date.

Pro Forma Miscellaneous O&M Expense (Electric and Natural Gas)

Q. Please describe the Pro Forma Miscellaneous O&M Expense adjustments impacting RY1 and RY2.

A. Electric and Natural Gas Adjustment (3.14), Pro Forma Miscellaneous O&M Expense in RY1, reflects escalated increases in certain Company O&M and A&G expenses, from the 12ME June 30, 2023 test year through RY1, effective in December 2024, through December 2025, not otherwise pro formed within the Company's electric or natural gas Pro Forma Studies (sponsored by Ms. Schultz). An annual escalation rate of 6.3% for electric and 4.57% for natural gas operations was applied by FERC account to certain O&M and A&G annual test period balances as of June 30, 2023, through December 2025 (or 2.5 years). All 12ME June 30, 2023 test period expenses restated or pro formed within the electric or natural gas Pro Forma Studies, are excluded prior to the use of the escalation, including the following expenses: 1) all labor and benefits, including, salaries, incentives, pension and medical costs; 2) insurance expenses and amortizations; 3) IS/IT expenses; 4) power supply costs; 5) Montana riverbed lease expenses; 6) Colstrip and CS2 major maintenance expenses; 7) wildfire related expenses; 8) administrative expenses (office space charges); and 9) other expenses removed through restating adjustments (i.e., miscellaneous restating, eliminate adder schedule balances, gas supply costs, and revenue-related expenses). This adjustment increases RY1 Washington expenses by $8,876,000 for electric and $1,634,000 for natural gas and decreases RY1 Washington NOI by $7,012,000 for electric and $1,291,000 for natural gas.

Electric and Natural Gas Adjustment (5.06), Pro Forma Miscellaneous O&M Expense in RY2 reflects escalated increases in certain Company O&M and A&G expenses, to reflect incremental expenses in RY2, beyond RY1 levels, effective December 2025, through December 2026, not otherwise pro formed within the Company's electric or natural gas Pro Forma Studies (sponsored by Ms. Schultz). The same escalation growth rate of 6.3% for electric and 4.57% for natural gas operations used in RY1, applied by FERC account to certain O&M and A&G annual balances as of RY1, is used to escalate RY2 above RY1 levels. This adjustment increases RY2 Washington expenses by $3,550,000 for electric and $653,000 for natural gas and decreases RY2 Washington NOI by $2,805,000 for electric and $516,000 for natural gas.

Q. Why did the Company use an escalation rate on the miscellaneous O&M and A&G accounts, not otherwise pro formed elsewhere, of 6.30% for electric and 4.57% for natural gas operations?

A. The Company based its increase in miscellaneous O&M and A&G expenses on the four-year average of Avista electric and natural gas actual operating expenses between the period 2018 to 2022. In the past few years, Avista has seen more significant increases in O&M across its service territories than in previous years, including for example for Washington electric operations, 6.07% above 2018 levels in 2019, an incremental 4.50% above 2019 levels in 2020, an incremental 4.39% in 2021 above 2020 levels, and finally, an incremental 10.27% in 2022 above 2021 levels, resulting in a four-year average of 6.30%.

Table No. 2 below summarizes both Washington electric and natural gas operations O&M year over year increases, percentage change and 4-year average:

Table No. 2 – Washington Electric and Natural Gas Year Over Year O&M

		2018	2019	2020	2021	2022	Average
Electric	**O&M**	$146,848	$155,757	$ 162,760	$ 169,899	$187,348	
	% Change		6.07%	4.50%	4.39%	10.27%	**6.30%**
Natural Gas	**O&M**	$ 37,298	$ 39,437	$ 42,735	$ 40,856	$ 44,368	
	% Change		5.73%	8.36%	-4.40%	8.60%	**4.57%**

Based on the Company's historical increased expenses in recent years, as well as the inflationary impacts on the marketplace in which Avista's utility business operates, impacting the cost of the goods and services purchased by the Company, and the expected level of expenses during the Two-Year Rate Plan, the Company believes the escalation percentage of 6.3% for electric and 4.57% natural gas, used for the limited miscellaneous O&M and A&G expenses included in electric and natural gas Pro Forma Adjustments 3.14 (RY1) and 5.06 (RY2), are reasonable.

Pro Forma 2024 – 2026 O&M Expense and Revenue Offsets (Electric and Natural Gas)

Q. Please describe the Pro Forma O&M Expense and Revenue Offsets adjustments in RY1 and RY2.

A. Electric and Natural Gas Adjustment (4.02), Pro Forma 2024 - 2025 Capital Additions O&M Expense & Revenue Offsets adjustments in RY1, as further described below in Section V. "Pro Forma Offsetting Factors – Direct & Indirect," include RY1 reductions for: 1) direct O&M savings for certain capital Business Cases, 2) an incremental "2% O&M efficiency" adjustment, reducing O&M expense, for all remaining capital Business Cases (not required for regulatory purposes), and 3) offsetting revenue associated with the Growth Capital Business Case. These direct O&M offsets, "2% efficiency" O&M offsets and revenues are shown in detail in Exh. EMA-3. The net impact of this adjustment increases NOI by $5,766,000 for electric and $492,000 for natural gas.

Electric and Natural Gas Adjustment (5.08), Pro Forma 2026 Capital Additions O&M Expense & Revenue Offsets adjustments in RY2, also described in Section V. "Pro Forma Offsetting Factors – Direct & Indirect," reflects additional offsets and revenues recorded in RY2 above RY1 levels for: 1) direct O&M savings, 2) an incremental "2% O&M efficiency" adjustment where applicable, and 3) offsetting revenue associated with the Growth Capital Business Case, in RY2. These direct O&M offsets, "2% efficiency" O&M offsets and revenues are shown in detail in Exh. EMA-3. The net impact of this adjustment increases NOI by $3,037,000 for electric and $190,000 for natural gas.

Pro Forma EDIT (RSGM) Expense (Electric and Natural Gas)

Q. Please describe the Pro Forma EDIT (RSGM) expense adjustments in RY1 and RY2.

A. Electric Adjustment and Natural Gas Adjustments (3.03), Pro Forma EDIT (RSGM) Expense**,** adjusted in RY1**,** adjusts the electric and natural gas 12ME June 30, 2023 test period excess deferred income tax (EDIT) expense to reflect the Reverse South Georgia Method ("RSGM") EDIT amortization expense over the Two-Year Rate Plan. The Company has pro formed the straight-line RSGM amortization expense for Washington electric and natural gas beginning RY1. The effect of this adjustment increases electric and natural gas deferred tax expense and decreases NOI by $92,000 for electric and $136,000 for natural gas. This has an impact of increasing the RY1 revenue requirement by $122,000 for electric and $181,000 for natural gas.

Electric Adjustment (5.09), Pro Forma EDIT (RSGM), in RY2, reflects the incremental adjustment to Washington electric EDIT for the impact of removing all costs, including Colstrip EDIT from base rates by January 1, 2026. (The level of EDIT expense remains the same for natural gas over the Two-Year Rate Plan.) The effect of this adjustment increases electric deferred tax expense and decreases NOI by $767,000 in RY2 above RY1 levels. This has an impact of increasing the RY2 electric revenue requirement by an incremental $1,019,000 above RY1 levels.

Q. Please summarize why it is necessary for the Company to revise the 12ME June 30, 2023 test period EDIT expense levels in RY1 and RY2.

A. As a result of the December 31, 2017, Tax Cuts and Jobs Act (TCJA), Avista had an electric plant excess ADFIT balance (Regulatory Liability) of approximately $208.3 million system as of December 2017, to return to customers. In accordance with the TCJA's Average Rate Assumption Method (ARAM), the Company was required to reverse (i.e. normalize) these "protected" balances over the depreciable lives of the capital assets that created the ADFIT. The Company originally estimated the ARAM for Avista resulted in an amortization period of approximately 36 years from December 31, 2017. This long-term tax benefit was included in base rates effective May 1, 2018, in Dockets UE-170485 et. al.

However, as described in Exh. EMA-4, containing an internal memo from the Company's Director of Tax, Mr. Loutzenhiser dated April 2022, an accounting change in 2022 associated with these excess deferred income taxes, was required. This memo (Exh. EMA-4), describes in detail the accounting change. In summary, the Company determined that cost of removal had not been properly accounted for within its excess deferred income taxes (EDIT) as required by the IRS. To correct this inadvertent error, the Company switched its method of amortizing EDIT from the Average Rate Assumption Method (ARAM) to the Reverse South Georgia Method (RSGM). The change was recorded effective January 1, 2022. The Company's filed revenue requirement in this case utilizes this method for both RY1 and RY2. As discussed further below in Section V. "Changes in Accounting Methods", the Company is required to change its method of accounting for its long-term tax benefit from the ARAM amortization method to the RSGM method of accounting effective January 1, 2022 as required by the IRS. As noted above, the adjustments to RY1 and RY2 to reflect the proper level of EDIT expense for those periods are not material, with the exception of the impact in RY2 to reflect the removal of Colstrip EDIT by January 1, 2026.

Pro Forma CS2 Amortization (Electric)

Q. Please describe the Pro Forma CS2 major maintenance adjustments recorded in RY1 and RY2.

A. Electric Adjustment (3.22), Pro Forma Remove Normalize CS2 Major Maintenance, in RY1, removes the normalized CS2 major maintenance expense, recorded in Adjustment 2.18 (Restating Normalize CS2 Major Maintenance Adjustment sponsored by Ms. Schultz). Because the Company does not believe it is appropriate to record CS2 major maintenance using a 4-year average for book purposes only, as discussed below (see Section VI. "2026 CS2 Deferral of Major Maintenance and Recovery" below), the Company proposes to adjust RY1 major maintenance expense to $0, reflecting actual test period, as well as RY1 expense levels. The effect of this adjustment reduces major maintenance expense by $334,000, and increases NOI by approximately $264,000. Resulting in a net $0 major maintenance expense in RY1 related to CS2.

<u>Electric Adjustment (5.11), Pro Forma CS2 Amortization</u>, reflects the deferral and amortization expense in RY2 associated with Washington's share of the Company's proposed CS2 major maintenance expense deferral of approximately $12.0 million ($18.5 million (system) overhaul scheduled for June 2026), and amortizing the deferred balance over a 4-year period beginning July 1, 2026 through June 30, 2030. The effect of this adjustment increases Washington electric RY2 amortization expense by $1,661,000 and decreases NOI by $1,312,000. This has an impact of increasing the RY2 revenue requirement by $1,744,000.

Section VI. "2026 CS2 Deferral of Major Maintenance and Recovery" below, provides additional information supporting the proposed deferral of the CS2 scheduled major maintenance expense (overhaul) scheduled for June 2026, and the proposed 4-year amortization of the deferred balance from July 1, 2026, through June 30, 2030, including a carrying charge on the deferral and proposed 4-year amortization period.

<u>III. WILDIRE EXPENSE BALANCING ACCOUNT</u>

Q. Would you please explain what was approved with regards to the Wildfire Expense Balancing Account and recovery in the Company's prior general rate cases (Dockets UE-200900, et. al. and Dockets UE-220053, et., al.)?

A. Yes. In Avista Dockets UE-200900, et. al., per Order 08/05, the Commission approved a two-way Wildfire Expense Balancing Account that would track the variability in wildfire <u>expenses</u> Avista makes to address the growing frequency of extreme and dangerous wildfires in Avista's service territory,[11] and to defer the difference in actual O&M Wildfire expenses, up or down, over the 10-Year Wildfire Resiliency Plan. The authorized wildfire expense "base" level was first set at $3.065 million for Washington electric operations, effective October 1, 2021[12], with any deferrals above or below this level to be deferred for later return to or recovery from customers.

In Order 08/05, the Commission also ordered the Wildfire Expense Balancing Account to operate outside of a GRC, truing up the deferral balances annually for return to ratepayers or recovery for the Company, with the first true up occurring on or about September 30, 2022. Any modifications to the mechanics of the account, such as the application of a new base level of wildfire expense, additional requirements, or performance-based metrics, should be considered in a future GRC. Finally, Avista was ordered to record the deferral balances (expense levels higher or lower than the GRC established base) into a balancing account recorded as a separate regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit). Interest was not to accrue on the unamortized balance.

In Avista Dockets UE-220053, et. al., per Order 10/04, the Commission authorized the wildfire expense "base" level to be revised to $5.1 million[13], effective December 21, 2021, through the Company's Two-Year Rate Plan, with any deferred balances to continue

[11] Order 08/05, in Dockets UE-200900, et. al., at p. 2. Also, at para(s). 237 and 238, the Commission stated, "Avista has demonstrated that the circumstances are not normal, but extraordinary. We cannot know, at this time, when the relative threat, risk, and cost of wildfires will no longer be extraordinary and will become normal. But, in time and through utility efforts, Avista must address the challenge, and it appears that any future normal level will be at increased levels appropriately matched to counter the increased threat. ... [W]e find that these extraordinary circumstances warrant an expansive use of the regulatory tools the Commission possesses, including approval of a new wildfire balancing account and of Avista's Deferral Petition."
[12] Order 08/05, para. 250.
[13] Order 10/04, para 150.

to be reviewed and recovered annually through the established Wildfire Tariff Schedule 88.

Q. Is the Company recommending a change in the Wildfire Expense Balancing Account baseline in this general rate case?

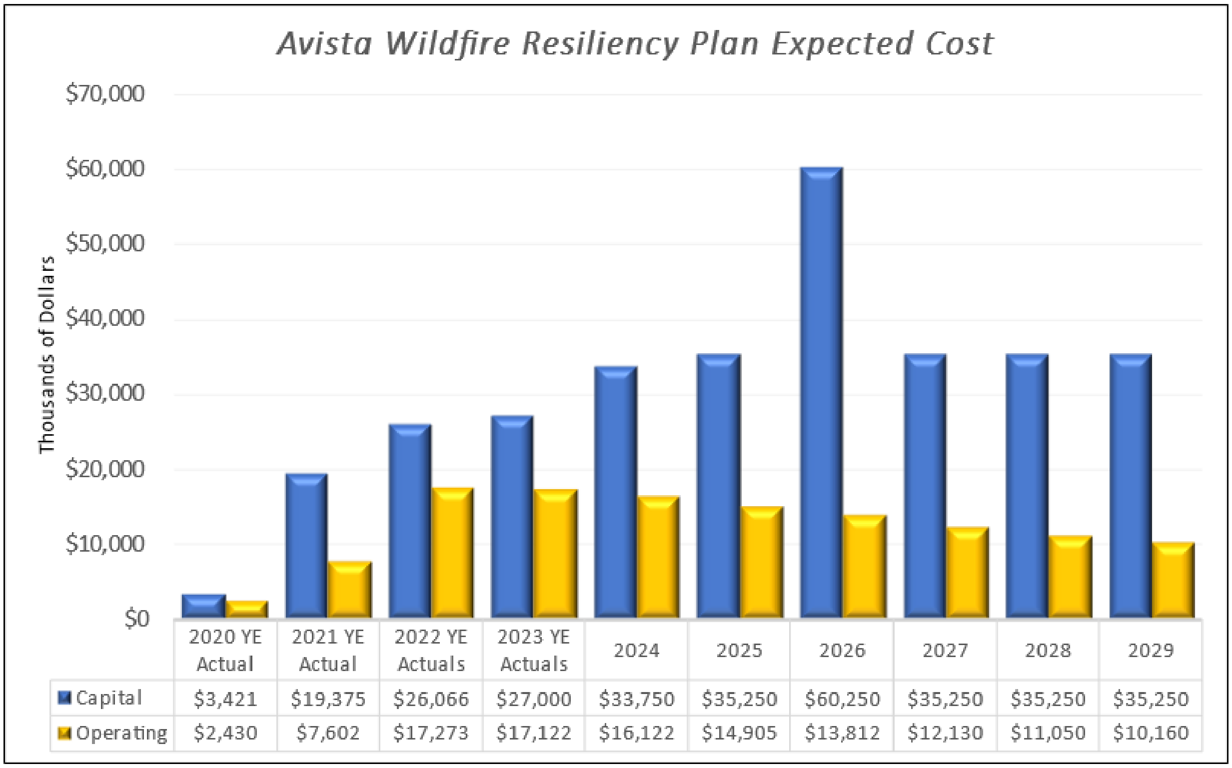
A. Yes, it is. The Company proposes to revise the Wildfire Expenses Balancing Account baseline, and therefore, the level of wildfire expense in this case, from $5,100,000 to $8,323,000, and to remain at that level over the Company's Two-Year Rate Plan. As explained by Mr. Howell, and shown in Illustration No. 1 below, annual wildfire expense is expected to be $14.9 million in 2025 and $13.8 million in 2026, on a system basis. Washington's share of these Wildfire Resiliency Plan expenses, excluding labor, total the $8,323,000 proposed baseline level. The small reduction in expected wildfire expense for RY2 (prorated, Washington share) is not materially different from RY1, therefore the Company is proposing that the balancing account baseline and wildfire expense level remain the same over the Company's Two-Year Rate Plan.

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

A. As discussed by Mr. Howell, operating expense levels are expected to peak in 2023 and then gradually decline as subsequent year inspections reveal fewer risk/hazard trees.[14] The annual level of capital and operating expense levels on a system basis over the Ten-Year Wildfire Plan, as discussed by Mr. Howell, are shown in Illustration No. 1 of his direct testimony (Exh. DRH-1T, page 10), and recreated below.

[14] It is noteworthy, as discussed by Mr. Howell, that while capital plan elements are projected to decline significantly after the Wildfire Plan 10-year program, the majority of operating expense items are on-going and are generally related to risk-based vegetation management.

<u>Illustration No. 1 – Annual Wildfire Resiliency Plan Costs (System)</u>[15]



	2020 YE Actual	2021 YE Actual	2022 YE Actuals	2023 YE Actuals	2024	2025	2026	2027	2028	2029
Capital	$3,421	$19,375	$26,066	$27,000	$33,750	$35,250	$60,250	$35,250	$35,250	$35,250
Operating	$2,430	$7,602	$17,273	$17,122	$16,122	$14,905	$13,812	$12,130	$11,050	$10,160

As explained by Mr. Howell, a major O&M category in the Wildfire plan is related to the Enhanced Risk-Based Vegetation Management Program. Although Avista has had a robust vegetation management program in place for many years, the existing program consists of routine maintenance cycle-trimming and risk-tree inspection and mitigation. In the past, these were focused on approximately 1,500 miles (20% of the system) annually. In 2020, this existing program was separated into two programs based on the new Wildfire Resiliency Plan: 1) Routine Maintenance and 2) Risk-Tree Identification and Mitigation

[15] As discussed below, Capital additions in 2026 reflect $25 million of enhanced Grid Hardening. Incremental capital additions for enhanced Grid Hardening beyond 2026 is yet to be determined, and therefore not shown in Illustration No. 1 above.

(“Risk-Tree”).[16] Each of these programs have different scopes and budgets in order to continue our routine cycle trimming and to give additional focus to “risk-trees” under the Wildfire Plan.

The Risk-Tree program has enhanced the existing tree trimming program with additional measures - 100% risk-tree identification on an annual basis versus a five-year cycle, as well as transmission LiDAR and distribution satellite data collection in order to identify risk-trees and existing or potential vegetation issues. As discussed by Mr. Howell, during the 2022 Wildfire Plan efforts, some of the biggest challenges in 2022 were completing 100% of the inspection of risk trees, with the number of risk trees identified resulting in a much bigger and more expensive proposition than originally anticipated – with risk tree identification results nearly double earlier estimates. This is only part of the increase in cost issues raised by Mr. Howell.

Although the Ten-Year Wildfire Plan includes expected annual wildfire expense amounts, the Wildfire Expense Balancing Account provides the added protection (for customers and Avista) that allows the Company to defer any balances above or below the established baseline (including any off-setting direct O&M savings that may occur).[17]

Q. What Wildfire Plan capital additions are expected over the 10-Year

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

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

Wildfire Plan horizon, and what additions has the Company included in this general rate case?

A. Capital additions over the Wildfire 10-Year Plan are shown in Illustration No. 1 above. As explained by Mr. Howell, most capital levels are expected to levelize by 2025 as all major programs reach their expected level of operations and remain so through 2029. However, $25 million (system) was added to Grid Hardening in 2026 (split 60/40 for Washington and Idaho) as we begin to implement Enhanced Grid Hardening (undergrounding in high fire risk areas). This will increase our capital budgets from 2026 forward by an amount that will be determined after our first year of experience with this new program.

Regarding Wildfire Plan capital additions (system) included in this general rate case, the Company has included in its Two-Year Rate Plan (and reflected in the Company's electric Pro Forma Study RY1 and RY2 results), Wildfire Plan capital additions for the period July 1, 2023, through December 31, 2026. These Wildfire capital additions reflect system (WA/ID) transfers-to-plant amounts of $14.0 million in 2023 (6 months), $33.7 million in 2024, $35.3 million in 2025 and $60.2 million in 2026, as shown in Table No. 3 below.

Table No. 3 – Capital Additions for Wildfire Resiliency (07.2023 – 2026 System)

WA GRC Plant Category	Project #	Business Case	07.2023-12.2023 TTP (System)	2024 TTP (System)	2025 TTP (System)	2026 TTP (System)	Exh. DRH-5 Page #
Large or Distinct Projects	1	Wildfire Resiliency Plan	$ 13,977,203	$ 33,749,996	$ 35,249,997	$ 60,249,995	2
Total Wildfire			**$ 13,977,203**	**$ 33,749,996**	**$ 35,249,997**	**$ 60,249,995**	

Specific to Washington Wildfire Plan capital costs included in the Company's case, capital additions, together with associated A/D, ADFIT, and depreciation expense, are included in Pro Forma Capital Addition Adjustments (3.15) and (3.17), and Provisional 2025 Capital Addition Adjustment (4.01) in RY1, and Provisional 2026 Capital Addition Adjustment 5.07 in RY2, sponsored by Ms. Benjamin. The overall increase in Washington electric rate base (net of A/D and ADFIT) as a result of these additions, reflect an increase of $37.7 million in RY1 and $27.2 million for RY2, or $65.0 million over the Two-Year Rate Plan, as shown in Table No. 4 below, (excerpt from Exh. KJS-1T, Table No. 2).

Table No. 4 - Wildfire Washington Additions

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

Witness	Pro Forma Jul-Dec 2023	Pro Forma 12 ME 2024	Pro Forma Total	Provisional 12 ME 2025	Rate Year 1 Total	Provisional 12 ME 2026	Incremental Rate Year 2	2-Yr Rate Plan Total
Mr. Howell	$ 8,705	$ 21,307	**$ 30,012**	$ 10,025	**$ 40,037**	$ 27,237	**$ 27,237**	**$ 67,274**

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

Q. What is the total overall incremental electric revenue requirement included in the Two-Year Rate Plan with regards to the Company's Wildfire Plan?

A. Reflecting each of these pro formed wildfire costs: O&M expense and pro formed/provisional return of and on capital investment - results in an overall increase to the Washington electric revenue requirement included in this case (above existing authorized levels), totaling approximately $6.1 million in RY1[18] and $3.0 million in RY2. Approval of these proposed incremental costs is an important element of the Company's Wildfire program and helps support the level of wildfire mitigation efforts proposed in the Company's Wildfire Plan.

Q. Are there any other changes you wish to propose with regards to the

[18] Or $8.9 million in Rate Year 1 above 12ME 06.30.2023 test period levels.

Wildfire Balancing Account mechanism and deferral of wildfire expenses?

A. Yes, there are. In the Company's original filed request to defer wildfire expenses through the Wildfire Balancing Account deferral mechanism and recovery of those costs, the Company inadvertently proposed "no interest on the unamortized Wildfire deferral balances." While the original intent by the Company was to not accrue interest as the balances were being deferred, the Company had intended to accrue interest as the balances were being amortized and recovered from customers (or returned to customers in the event of a liability balance). The Commission in its Order approved the Wildfire Balancing Account deferral, and the amortization of the deferral balances without a carrying charge of any kind or at any time.

The Company now proposes, that given the large deferral balances it has been experiencing over the last few years, and the higher carrying costs experienced by the Company to cover all its operating costs, as well as the delayed recovery of wildfire costs, the Commission now approve a carrying charge on any existing deferred Wildfire balance and any new deferred balances going forward, as well as while these balances are being amortized, at the Company's actual cost of debt, updated semi-annually (January 1 and July 1), effective with RY1.

IV. INSURANCE EXPENSE BALANCING ACCOUNT

Q. Prior to discussing what was approved in the Company's prior general rate case regarding the Company's existing Insurance Expense Balancing Account, please summarize the Company's proposal in this case.

A. The Company is proposing to continue the use of the current approved

"Insurance Expense Balancing Account," deferring actual insurance expense above or below the approved baseline proposed in this case, and to adjust the Insurance Expense Balancing Account baseline for electric from $8,271,000 to $12,795,000, and for natural gas from $1,746,000 to $2,247,000, for the Two-Year Rate Plan, beginning with the RY1 effective date.

Q. Would you please now explain what was approved with regards to the Insurance Expense Balancing Account and recovery in the Company's prior general rate cases (Dockets UE-220053, et., al.)?

A. Yes. In Avista Dockets UE-220053, et. al., per Order 10/04 (approved Settlement Stipulation), the Commission approved a two-way Insurance Expense Balancing Account that would track the variability in insurance expenses Avista makes to address the unprecedented increases and volatility in its insurance costs,[19] and to defer the difference in actual insurance expenses, up or down, over the Two-Year Rate Plan (UE-220053, et. al).[20] The authorized insurance expense "base" level was set at approximately $8.3 million for Washington electric operations and $1.7 million for natural gas operations, beginning December 21, 2021[21], with any deferrals above or below this level to be deferred for later return to or recovery from customers. The establishment of the Insurance Expense Balancing Account, however, as stated in the Full Multiparty Settlement Stipulation (Settlement), in Docket UE-220053, et. al., was "non-precedential, and its continuation may

[19] Order 10/04, in Dockets UE-220053, et. al., para. 141.
[20] Avista is to record any deferred balance (expense levels higher or lower than the general rate case established base) into a balancing account recorded as a separate regulatory asset in FERC Account 182.3 (Other Regulatory Assets), and credit FERC Account 407.4 (Regulatory Credit). Interest is not accrued on the deferred or amortized balance.
[21] Order 10/04, in Dockets UE-220053, et. al., para. 138.

be challenged in a future proceeding,"[22] requiring the Company in this case, to support the continuation of its Insurance Expense Balancing Account.

The Commission explains its support for approving the Insurance Expense Balancing Account per the Settlement, at Order 10/04, para. 141:

> …we find that Avista has demonstrated unprecedented increases and volatility in its insurance costs. We agree that Avista has shown the insurance expense increases in recent years are "extraordinary" and "volatile" and caused an under-recovery of approximately $5.3 million in 2022. We also find that Avista has demonstrated that it has taken and is taking appropriate steps to try to control these costs, but has shown unprecedented recent increases in insurance that are largely out of its control. These increases have been driven primarily by the Company's general liability premiums, which cover wildfire risk and property insurance premiums, and which tend to react to insurance industry losses due to natural disasters. In addition, we agree that these costs have increased due to factors outside the Company's control and despite the Company's best efforts under its Wildfire Resiliency Plan. *(footnotes omitted)*

Furthermore, at Order 10/04, para. 144 – 146, the Commission discusses its approval, the process for recovery, the limited timeframe of two years, and that the "Settlement should be conditioned" to ensure Avista takes appropriate action to negotiate and attain the best insurance at the lowest costs:

> Last, we find that the Settlement reasonably addresses the concerns from both perspectives as it counterbalances the creation of the account as a protection for both customers and the Company as well as with non-precedential treatment and a limited timeframe of two years. The proposed balancing account would protect ratepayers and the Company from over- or under-collection, by deferring actual insurance expense above or below the baseline amount (the amount included in base rates), similar to that approved in the 2020 Avista GRC for the Company's wildfire expense balancing account. The deferred accounting mechanism would ensure that customers pay no more and no less than the actual expenses incurred over the two-year rate plan. Recovery or refund of any deferred balance would be made through an annual compliance filing beginning September 1, 2023, to become effective November 1, 2023, where the insurance expense deferred balance as of July 31 would be rebated or surcharged through a separate tariff.

[22]See Full Multiparty Settlement Stipulation, Dockets UE-220053, et. al., Order 10/04, Appendix A, page 8.

> We emphasize that this is not precedential, but for this case only, and the authorization granted by this Order will cease at the conclusion of the MYRP. In addition, we find a condition necessary to underpin and safeguard the delicate balance in this term of the Settlement to ensure Avista will continue to seek the best insurance at the best price and any savings below the baseline will be returned to customers.
>
> Accordingly, we determine that approval of the Settlement should be conditioned on a modification to this term to ensure Avista takes appropriate action to negotiate and attain the best insurance at the lowest costs.
>
>> **Condition**. We condition our approval of the Settlement on the modification of this term to include the requirement that Avista document its action to seek out, negotiate, and attain the best insurance at the lowest costs and file with the Commission such documentation, with explanatory narratives, in Avista's annual filing beginning September 1, 2023. Subject to this condition, we determine that the Settling Parties' agreement to create an Insurance Balancing Account, including the proposed baselines for electric and natural gas, is in the public interest and should be approved.

Q. Did the Company meet the Commission's "Condition" to "document its action to seek out, negotiate, and attain the best insurance at the lowest costs and file with the Commission such documentation, with explanatory narratives, in Avista's annual filing beginning September 1, 2023"?

A. Yes, it did. On September 1, 2023, the Company filed its electric and natural gas tariff sheets (Tariff WN U-28, WA Electric and Natural Gas Insurance Expense Balancing Mechanism), effective November 1, 2023, including an insurance renewal summary describing the annual actions utilized by Avista to seek out, negotiate, and attain the best insurance at the lowest costs. Specific actions taken during 2023 regarding each of our six major types of insurance expense, which also explains the process by which Avista secures its insurance, were provided as Confidential Attachments A – E to that filing, . This filing, including the Confidential Attachments, are included as Confidential Exh. EMA-5C.

Q. Are the "extraordinary" and "volatile," insurance expense increases that "increased due to factors outside the Company's control," which where the supporting conditions described by Avista in Docket UE- Docket UE-220053, et. al., continuing factors in this case?

A. Yes, they are. In this case, the Company will show it continues to experience expected "extraordinary" and "volatile" conditions with regards to insurance expense now, and expected through its Two-Year Rate Plan. The Company also does not expect the drivers of the increases in insurance expense softening anytime in the near future, especially given the impacts of wildfires in the United States as described below, supporting the on-going need for the existing Insurance Expense Balancing Account currently approved for the Company.

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

A. As discussed above, the Company has included incremental expected insurance expense increases in electric and natural gas Pro Forma Insurance Expense Adjustments (3.12) of $5.3 million for electric and $598,000 for natural gas, above 12ME June 30, 2023 test period levels, to reflect the insurance expense levels expected in RY1, including insurance premiums for general liability, directors and officers ("D&O") liability, property insurance, and other insurance expense. This results in pro formed electric and natural gas insurance expense levels of approximately $12,795,000 and $2,247,000, respectively. Furthermore, as explained below, because the Company is proposing to continue its Insurance Expense Balancing Account mechanism, deferring insurance expense, above or below, actual expense premiums experienced annually, the Company is proposing to set insurance expense and the Insurance Expense Balancing Account baseline at these RY1 levels through the Two-Year Rate Plan.[23]

The insurance premium levels included by the Company in this case were based on the annual review analysis of its policies in advance of their renewals, including actual invoices received by December 2023 (such as certain general and property insurance premiums), and estimated premiums (such as D&O premiums to be received in March 2024, among others), to determine the appropriate insurance expense levels to include over the Two-Year Rate Plan. The Company will update any 2023/2024 estimated amounts, as well as updated insurance expense levels expected over the Two-Year Rate Plan included in this case, as soon as further actual invoices in 2023/2024 are available, in order to improve the estimated insurance expense and baseline amounts. Understanding that the insurance expense amount used by the Company in this case is substantially above current expense levels included in base rates today, and are estimates at this time, this provides further support for the Insurance Expense Balancing Account mechanism to continue, not just in this case, but on-going, in order to protect both the Customer and the Company.

Q. How do levels included by the Company beginning RY1 (2025), compare to the amount of insurance expense included in current rates today?

A. As shown in Table No. 5 below, current authorized insurance expense is approximately $15.5 million, used for both 2023 and 2024, over the current Two-Year Rate Plan, per Docket UE-220053, et., al. Washington's share of this expense (as well as current

[23] Otherwise, if this Commission were to not approve the continuation of the Insurance Expense Balancing Account, the Company would request an incremental increase in insurance expense in RY2, above RY1 levels of approximately $1.3 million system, or $798,000 Washington electric and $56,000 for Washington natural gas. These amounts are preliminary at this time and will vary from the revised expected RY2 (2026) levels), expected to be revised in Q'1 2024.

authorized Washington "baselines" for 2023 and 2024) totaled approximately $8.3 million Washington electric and $1.8 million Washington natural gas.

Table No. 5 – Insurance Expense 12/2020 through 2026[24]

Insurance Expense (000s)					
				PF RY1	PF RY2
	Total 2020 Levels	Test Period Level	Current Authorized Level*	Expected Levels	Expected Levels
	12.31.2020	06.30.2023	2023 / 2024	2025	2026
System Expense	$ 6,655	$ 14,587	$ 15,534	$ 23,635	$ 24,939
Washington Electric Baseline (Authorized and Proposed)			$ 8,271	$12,795	
Washington Natural Gas Baseline (Authorized and Proposed)			$ 1,746	$2,247	
Growth in Expense					
Percent Increase in Insurance 12ME 06.2023 Test Period versus 2020		119.2%			
Percent Increase in Insurance 2025 versus Authorized				52.1%	
Percent Increase in Insurance 2026 Expected versus 2025 Expected					5.5%

(1) Actual 2023 insurance expense was $15.2 million (system) versus that estimated and authorized by the Commission of $15.5 million, a difference of approximately $300,000 (system), or 2%. Washington's share of this difference was captured in the Insurance Expense Balancing Account as of 12.31.2023, reflecting an amount owed customers of $380,000 Washington electric, and $33,000 Washington natural gas. However, the Company expects the system insurance expense in 2024 to total $21.5 million, or $6.0 million incremental, resulting in an under-recovery of insurance expense of $3.3 million for Washington electric and $325,000 Washington natural gas, more than offsetting the 2023 deferred balances. Insurance expense deferral balances are recovered or returned to customers through seperate Insurance Tariff Schedule 66/166.

As can be seen in Table No. 5 above, actual insurance expense as of the 12ME June 30, 2023 test period of $14.6 million, increased 119.2% from levels experienced in 2020 of $6.7 million on a system basis. Also, insurance expense pro formed in this case for RY1 (2025) of $23.6 million (system) reflect an incremental 52.1% above current authorized levels of $15.5 million (system), proposed to be used over the Two-Year Rate Plan. Expected RY2 (2026) levels, are included in Table No. 5 for information purposes only, as the expected increase (5.5%) is not included in pro formed RY2 results; the proposed

[24] Actual expenses as of 12ME 06.30.2023 noted above, reflect all insurance pro formed in this case including general liability, D&O Liability, property, and "other" insurance including, worker's comp, cyber and Colstrip related insurance. In past general rate cases, the Company did not pro form the "other" insurance premiums because these types of insurance had not materially changed year over year, leaving test period amounts. That is no longer the case, especially with regards to cyber insurance, which was approximately $332,000 in 2020. Cyber insurance expense as of 12ME 06.30.2023 increased to approximately $743,000, a premium increase of over 124%.

Insurance Expense Balancing Account, therefore, would reflect any changes up or down from RY1 (baseline) approved levels.

Q. Does this explain why the Company is proposing that the Commission continue to allow the balancing account at this time for insurance expense?

A. Yes, it does. It is evident from the unprecedented increases the Company has seen in recent years (221% in general liability alone from 2020 to mid-2023), that these increases are undoubtedly "extraordinary" and volatile compared to past years, are financially harmful to the Company if not properly recovered in each rate period and are beyond the Company's control. This is especially true with regards to wildfire insurance premiums, notwithstanding our best efforts under the Wildfire Plan, as explained below.

Of even greater significance, is that the general liability premiums quoted for the 2024 year, which were received after the Company's filed revenue requirement in this case were calculated (and therefore not reflected in Table No. 5 above) to be approximately $20 million. This represents an increase of over 134% above 2023 test year actuals, and a 627% increase over liability premiums paid in 2020. Significant upward premium volatility for general liability is expected to persist into the future as a major utility mutual insurance company continues to reduce the availability of wildfire insurance limits forcing utility companies to obtain more of its wildfire and general liability insurance from the London and Bermuda insurance markets. Those markets have significantly increased their premiums in the last several years in order to obtain what they feel is an adequate rate for the growing wildfire risk in the U.S. The magnitude of the general liability premium increases is also reflected when comparing the increases to those experienced in the other lines of insurance. For the period 2020 – 2024, the combination of property, D&O, and other lines of insurance are expected to experience an increase of approximately $2.8 million for the group as a whole. For the same time period, general liability premiums by themselves will have increased approximately $17.6 million.[25]

Q. If this Commission were to approve the level of insurance expense as requested based on the updated RY1 levels shown in Table No. 5 above, would that make the need for an Insurance Expense Balancing Account unnecessary?

A. No, it would not. If this Commission approved the proposed RY1 level of insurance expense included by the Company, that might ensure the Company may recover its insurance expenses over the Two-Year Rate Plan, as expected today; if however, the recent levels have taught the Company anything, it is that future levels of insurance are unpredictable. The amounts included for the Two-Year Rate Plan are based on the informed judgement of the Company today. However, an Insurance Expense Balancing Account is absolutely necessary to protect the Company from losses over the Two-Year Rate Plan and beyond, similar to what it experienced in 2022, when the Insurance Expense Balancing Account did not exist,[26] as insurance premiums continue to increase as is expected based on current discussions with insurance providers. Furthermore, an Insurance Expense Balancing Account would also protect customers, especially during a multi-year rate plan, if insurance premiums were ever to begin to decline back to levels seen in past years, or even any reduction at all over current or future levels approved by the Commission.

Q. Beyond continuing the Insurance Balancing Account mechanism, are

[25] Property and General liability premiums were updated for 2024 based on invoices and quotes received after the Company's revenue requirements for this case were calculated and are not reflected in Table No. 5 above.
[26] In 2022 the Company absorbed approximately $4.8 million of Washington insurance expense unrecovered costs.

there changes you believe should be considered to the mechanism and deferral of insurance expenses?

A. Yes, there are. In the Company's previous request approved by this Commission, for an Insurance Expense Balancing Account deferral mechanism and recovery of those costs, the Company inadvertently proposed "no interest on the unamortized insurance deferral balances." While the original intent by the Company was to not accrue interest as the balances were being deferred, the Company had intended to accrue interest as the balances were being amortized and recovered from customers (or returned to customers in the event of a liability balance). The Commission, however, in its Order approved the Insurance Expense Balancing Account deferral, and the amortization of the deferral balances without a carrying charge of any kind or at any time.

The Company now proposes that, given the large deferral balances that could result due to the volatility of year-over-year insurance expense it has been experiencing over the last few years, and the higher carrying costs and delayed recovery of insurance costs, the Commission now approve a carrying charge on any existing deferred insurance balance and any new deferred balances going forward, as well as while these balances are being amortized, at the Company's actual cost of debt, updated semi-annually (January 1 and July 1), effective with RY1.

Q. Does the Company have an insurance balancing account in other jurisdictions?

A. Yes, the Company has an on-going mechanism approved in the State of Idaho, approved per Case Nos. AVU-E-21-01 and AVU-G-21-01, effective September 1, 2021. This mechanism is similar to Washington's current (and proposed) mechanism.

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

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

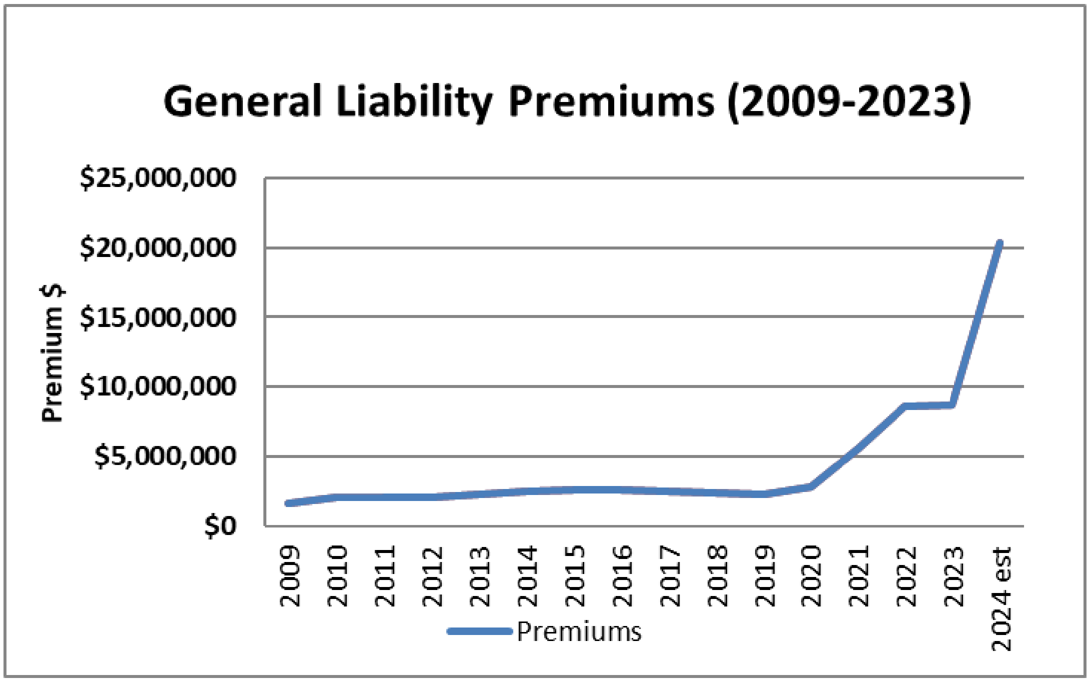
Q. Please provide the overall variability in the major lines of insurance expenses experienced by Avista over time.

A. Detail for each line of insurance is provided in Confidential Exh. EMA-2C, pages 1 – 7, for the period 2009 through 2023 (actual) and expected 2024, as well as confidential 2025 and 2026 values. Additional detail, by line of insurance, is also available within my confidential insurance expense related workpapers.

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

A. As shown in Chart No. 1 below, general liability premiums (that would address wildfire premiums) for Avista began to increase sharply beginning in 2020. (See also Confidential Exh. EMA-2C, page 2, for 2025 through 2026 confidential data.)

<u>Chart No. 1 – General Liability Insurance Premiums (2009 – 2024)</u>



Premium increases have been largely related to wildfire exposure in the industry at large, and especially in the West. Up until the Labor Day fires that occurred in the Pacific Northwest in the fall of 2020, the insurance market's focus on wildfire exposure was largely on California and some of the other southwestern States due to extreme drought conditions. The occurrence of the 2020 Labor Day fires, in combination with severe to exceptional drought in our region, resulted in insurance companies classifying many utilities as high risk from a wildfire standpoint. This change in exposure translated to insurance companies requesting significant increases in premiums or withdrawing from offering coverage for wildfire altogether. These conditions were the primary drivers in liability premiums during the 2020-2023 period.

The significant, increases in liability insurance that will occur in 2024 has its roots in large utility involved wildfires that occurred near Boulder, Colorado (December 2021) and Lahaina, Hawaii (August 2023). One of the significant industry impacts that these two fires had was that it led to one of the two primary utility insurance mutual insurers, Energy Insurance Mutual (EIM), to reduce the amount of wildfire insurance it made available to its members. Prior to 2021, EIM offered $100 million in wildfire insurance to its members. Beginning in 2021, because EIM could not obtain reinsurance for wildfire in seven western states, it reduced wildfire coverage for many of its members in these states by $25 million, to $75 million. Following the Boulder and Lahaina fires, EIM announced in December of 2023, that beginning with 2024 renewals, all members outside of western states would have wildfire coverage reduced from $100 million to $50 million, and those in most western states would have coverage reduced from $100 million to $25 million (no coverage is available in California). The coverage that used to be provided by EIM now has to be replaced with much more expensive coverage from London and Bermuda markets.

Avista's general liability premiums increased 101% in 2021 primarily due to insurance companies considering Avista as a heightened wildfire risk following the 2020 Labor Day fires and an expectation that some of the fires will result in future claims. Premiums continued to increase at the December 31, 2021 (for 2022) renewal. For 2022 alone, general liability premiums increased 49% above 2021 levels. General liability premium increases temporarily leveled off for 2023, rising only 6.5%. However, the Maui fire which occurred in August of 2023 triggered EIM's action to further reduce coverage as well as being a catalyst for the London and Bermuda markets to significantly increase their premiums. Based on the quoted premiums for 2024 coverage that were received after the revenue requirements for this case were calculated, year over year increases are expected to amount to $11.2 million (123%). Premiums will remain highly volatile into the future and are not expected to trend downward going forward. Additional yearly increases are expected for 2025 and 2026 respectively as EIM cuts the remainder of $50 million of wildfire coverage it offers by $25 million per year.

The projected increases assume only this one driver of increases will take place. Any additional industry-related wildfires or wildfire losses incurred by Avista itself, will certainly change insurer premium needs in this area, and will significantly impact premiums above and beyond those forecasts. Therefore, the level of general liability premium increases built into the Company's case over the Two-Year Rate Plan for insurance expense, should be considered conservative in all respects.

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

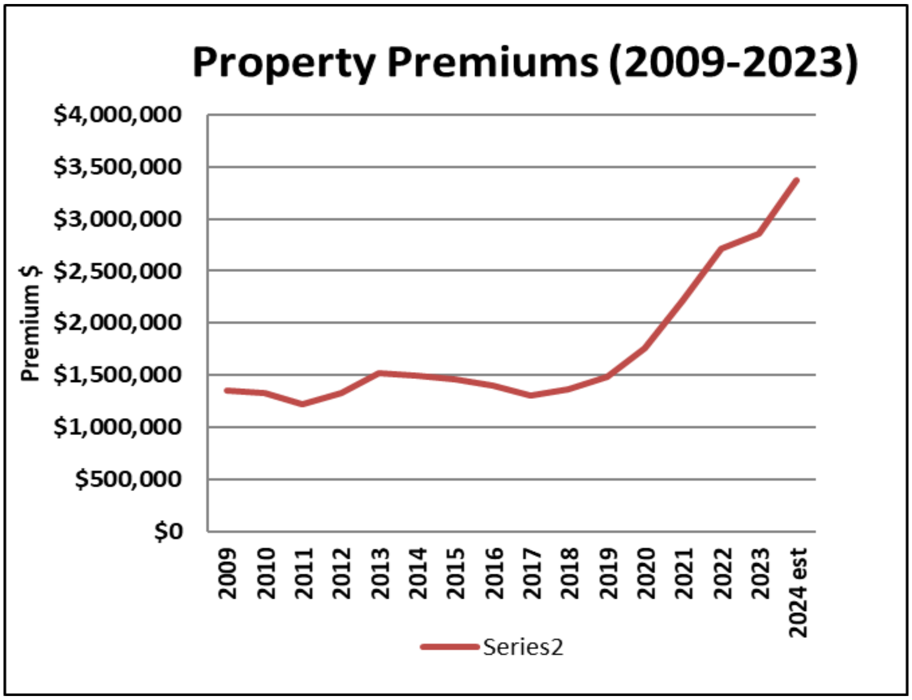
A. Over the course of the last several years, the availability of insurers willing to provide wildfire insurance has significantly declined. The limited capacity of wildfire coverage has resulted in not only a significant increase in premiums, but a reduction in the effectiveness of such tools as increasing retention levels (i.e. the "deductible"). In the past, the premium reduction using these strategies would have warranted assuming an increase in exposure for ratepayers, however, in this tight market, the payback for accepting increased risk does not merit the small return in premium reduction. In addition, as climate change continues to raise the probability of wildfire ignition despite the best efforts of operationalized Wildfire Plans, the likelihood of incurring increased losses under the expanded retentions increases.

At this point in time, there is limited capacity in the liability market, especially for wildfire coverage. We also do not have multiple insurance companies to consider for most layers of our liability program. In fact, we struggle to find the enough insurance companies to fill out each layer. Insurance companies have moved to inflated, opportunistic pricing at the very top of programs as they know many utilities do not have choices of insurance companies to fill out their programs. Near the end of our renewal process, however, through our offsets, we were able to achieve $1.25 million in savings by finding an alternative insurance company to provide a quote for reduced premium compared to the original quote we had received from another insurer (see General Liability Savings, shown in Confidential Exh. EMA-2C, page 6).

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

A. As shown in Chart No. 2, property insurance premiums have steeply increased since 2018, due to industry losses resulting from hurricanes Harvey, Irma, and Maria in 2017. (See also Confidential Exh. EMA-2C, page 3, for 2025 through 2026 confidential data.)

Chart No. 2 – Property Insurance Premiums (2009 – 2024)



Any projections are contingent on the industry remaining free of any large catastrophic events such hurricanes and for Avista's program itself to remain loss free.[27]

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

A. Annually, Avista reviews several components of the property program in order to achieve the most cost-efficient program that still delivers the necessary insurance protections for Avista and our customers. Components such as policy limits, retention limits, program structure, and potential replacement of incumbent insurers are considered. Our September 1, 2023 submission as part of our requested change to Tariff WN U-28, WA

[27] Property premiums were updated for 2024, 2025, and 2026 following receipts of invoices for 2024 received after revenue requirements for this case were calculated. Fortunately, based on the revisions, estimated property for each of these years are expected to be approximately $200,000 less than those originally forecasted when deriving revenue requirements for this case.

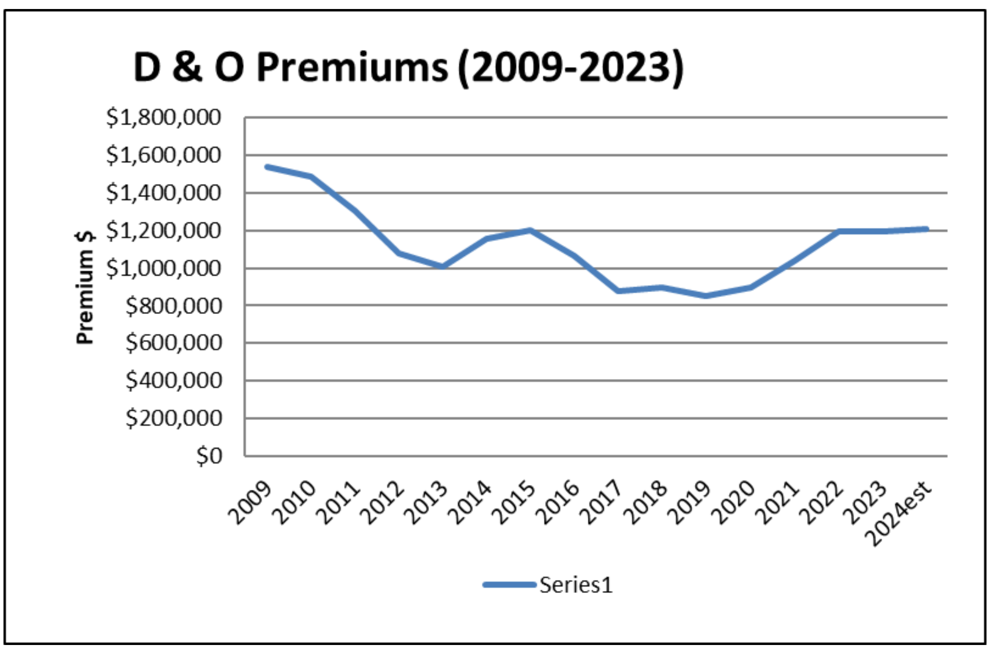
Electric and Natural Gas Insurance Expense Balancing Mechanism, provided specific details of such cost control activities (see Exh, EMA-5C).

Additional capacity existing in the property market at the December 1, 2023 renewal resulted in insurers being more willing to negotiate premium rates. Confidential Exh. EMA-2C, page 7, Property Savings, reflects a savings of approximately $338,000 that was achieved in our ability to negotiate down premium rates during the renewal process. In addition, we were able to take advantage of our dual market placement structure (U.S. and London), to transfer 4.25% of U.S. participation to the lower cost London market, resulting in additional savings of approximately $62,000.

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

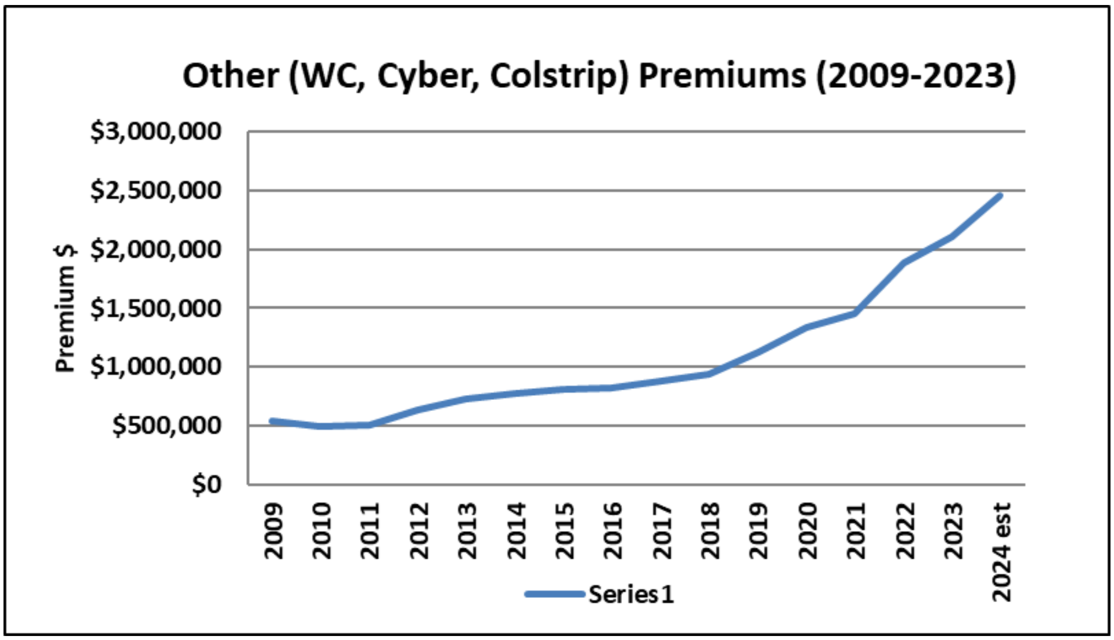
A. Chart Nos. 3 and 4 below, provides charts of "D&O" insurance premiums, and "Other" insurance premiums (reflecting worker's comp, cyber and Colstrip).

<u>Chart No. 3 – D&O Insurance Premiums (2009 – 2024)</u>



As shown in Chart No. 3, D&O premiums have followed a somewhat cyclical pattern since 2009. Premiums have been rising since 2019 due to an increase in the number and size of claims, primarily related to securities claims associated with merger and acquisition activity across numerous industries. Industry losses are beginning to moderate, which should translate to a slower rate of rate increases in the near term. The 2023 premium increase was approximately 1% over 2022. Premium increases for the periods 2024 through 2026 are expected to be approximately flat.

<u>Chart No. 4 – Other Insurance Premiums (2009 – 2022)</u>



For “Other” insurance (Workers’ Comp, Cyber, Colstrip), as shown in Chart No. 4, this category has continually increased since 2009 – and markedly so since 2018. Part of the increase was fueled by the addition of the cyber insurance coverage in October of 2013. Going forward, Cyber insurance will be the biggest driver of volatility of this category of spend. Avista’s Cyber premium increased 64% with the 2021 renewal, and an additional increase of approximately 42% with the 2022 renewal. These increases were driven by the dramatic increase in "ransomware" events across numerous industries during the last couple of years. However, the magnitude of premium increases have dropped off significantly as of late. The premium increase at the October 17, 2023 renewal was only up 3% over the October 17, 2022 renewal. Similar nominal increases are projected for renewals in 2024 through 2026 as long as there are no large industry losses or losses incurred by Avista. (See also Confidential Exh. EMA-2C, pages 4 and 5.)

V. PRO FORMA OFFSETTING FACTORS – DIRECT & INDRIECT

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

A. As discussed by Ms. Schultz, the Company has included in its electric and natural gas Pro Forma Studies, restating, pro forma and provisional adjustments to reflect the RY1 and RY2 level of revenues, expenses, and net plant investment, including all offsetting factors, producing a "matching" of costs in each rate year.

Below, I define in more detail, the total electric and natural gas offsets included in Ms. Schultz's Pro Forma Studies over the Company's Two-Year Rate Plan, reflecting total O&M offsets, other revenue, retirements (reduced depreciation expense), and reduced net plant after ADFIT for the change in A/D and ADFIT on existing plant at 06.2023, adjusted to AMA 2025 for RY1 and AMA 2025 for RY2. These offsetting adjustments reduce the Company's revenue requirement in total by $49.5 million for electric and $9.3 million for natural gas, for RY1, and by $20.1 million for electric and $3.2 million for natural gas, for RY2, (or a total of $69.6 million for electric and $12.5 million for natural gas, over the Two-Year Rate plan) as follows:

- Direct O&M expense and "Other Revenue" reductions – Included in Pro From "Capital O&M Offsets & Revenues" Adjustments (4.02) for RY1 and (5.08) for RY2 are 1) direct O&M savings for certain capital Business Cases, 2) an incremental "2% O&M efficiency" adjustment, reducing O&M expense, for all remaining capital Business Cases (not required for regulatory purposes), and 3) offsetting revenue associated with the Growth Capital Business Case. These direct O&M and "2% efficiency O&M" offsets and revenues are shown in detail in Exh. EMA-3. Incremental O&M savings related to AMI O&M offsets (see PF Adjustments 3.04 (RY1) & 5.01 (RY2)) are also included. As shown in Table Nos. 6 and 7 (Line 1) below, a combination of each of these O&M offsets and revenues total $9.8 million for electric and $1.4 million for natural gas, for RY1, and by $4.4 million for electric and $362,000 for natural gas, for RY2.

- Retirements – Includes reductions to electric and natural gas depreciation expense to reflect capital retirements through 2025 (RY1) and 2026 (RY2). As shown in Table Nos. 6 and 7 (Line 2) below, this reduces the Company's proposed revenue requirement by approximately $18.1 million for electric and $2.6 million for natural gas for RY1. For RY2, the result is a reduction of approximately $7.4 million for electric and $872,000 for natural gas.

- Reduction to Net Plant after ADFIT – Includes reductions to Net Plant after ADFIT for the change in A/D and ADFIT on existing plant at 06.2023, adjusted to AMA 2025 for RY1 and AMA 2026 for RY2. As shown in Table Nos. 6 and 7 (Line 3) below, this reduces overall net rate base, and the Company's revenue requirement by $21.6 million for electric and $5.3 million for natural gas, for RY1, and by $8.3 million for electric and $2.0 million for natural gas, for RY2.

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

Table No. 6 – Washington Electric Total Offsetting Factors

Total Two-Year (RY1 & RY2) Incremental Offsets - Washington Electric (Revenue Requirement Values)						
Electric (000s)	**2023/2024**	**2025**	**2023-2025 RY1**	**2026 RY2**	**Two-Year (RY1 & RY2) Totals**	**Electric Adjustments**
1) **Direct O&M Offsets & Other Revenue**	**$ (5,428)**	**$ (4,410)**	**$ (9,838)**	**$ (4,366)**	**$ (14,204)**	
a) Direct O&M Offsets[1]	$ (1,892)	$ (1,247)	$ (3,139)	$ (1,202)	$ (4,341)	3.04, 4.02, 5.01, 5.08
b) Other Revenue (Growth)	$ (3,536)	$ (3,163)	$ (6,699)	$ (3,164)	$ (9,863)	4.02, 5.08
2) **Depreciation Expense (Retirements)**	**$ (10,520)**	**$ (7,563)**	**$ (18,083)**	**$ (7,457)**	**$ (25,540)**	3.15, 3.17, 4.01, 5.07
3) **Revenue Requirement of A/D and ADFIT[2]**	**$ (16,645)**	**$ (4,944)**	**$ (21,589)**	**$ (8,310)**	**$ (29,899)**	
Total Revenue Requirement Impact	**$ (32,593)**	**$ (16,917)**	**$ (49,510)**	**$ (20,133)**	**$ (69,643)**	
[1]Direct O&M Offsets include new investment O&M offsets, 2% efficiency O&M adjustment and AMI O&M offset.						
[2]Revenue requirement based on reduction to A/D and ADFIT on existing (06.2023) plant as follows:	$ (177,152)	$ (52,620)	$ (229,772)	$ (88,439)	$ (318,211)	3.15, 3.17, 4.01, 5.07

As noted in Table No. 6, the row "Total Revenue Requirement Impact," combining all adjustments (Lines 1-3), results in an overall reduction to the Company's Washington electric revenue requirement of $49.5 million for RY1, $20.1 million for RY2, for a Two-Year Total of $69.6 million.

Table No. 7 – Washington Natural Gas Total Offsetting Factors

Total Two-Year (RY1 & RY2) Incremental Offsets - Washington Natural Gas (Revenue Requirement Values)						
Natural Gas (000s)	**2023/2024**	**2025**	**2023-2025 RY1**	**2026 RY2**	**Two-Year (RY1 & RY2) Totals**	**Natural Gas Adjustments**
1) **Direct O&M Offsets & Other Revenue**	**$ (848)**	**$ (530)**	**$ (1,378)**	**$ (362)**	**$ (1,740)**	
a) Direct O&M Offsets	$ (631)	$ (385)	$ (1,016)	$ (321)	$ (1,337)	3.04, 4.02, 5.01, 5.08
b) Other Revenue (Growth)	$ (217)	$ (145)	$ (362)	$ (41)	$ (403)	4.02, 5.08
2) **Depreciation Expense (Retirements)**	**$ (1,578)**	**$ (1,000)**	**$ (2,578)**	**$ (872)**	**$ (3,450)**	3.15, 3.17, 4.01, 5.07
3) **Revenue Requirement of A/D and ADFIT[1]**	**$ (4,115)**	**$ (1,193)**	**$ (5,307)**	**$ (1,948)**	**$ (7,255)**	
4) **Total Revenue Requirement Impact**	**$ (6,540)**	**$ (2,723)**	**$ (9,263)**	**$ (3,183)**	**$ (12,445)**	
[1]Direct O&M Offsets include new investment O&M offsets, 2% efficiency O&M adjustment and AMI O&M offset.						
[2]Revenue requirement based on reduction to A/D and ADFIT on existing (06.2023) plant as follows:	$ (43,800)	$ (12,695)	$ (56,495)	$ (20,740)	$ (77,235)	3.15, 3.17, 4.01, 5.07

As noted in Table No. 7, the row "Total Revenue Requirement Impact," combining all adjustments (Lines 1-3), results in an overall reduction to the Company's Washington natural gas revenue requirement of $9.3 million for RY1, $3.2 million for RY2, for a Two-Year Total of $12.5 million.

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

A. The Company has incorporated O&M cost savings across the board for all capital projects that are not otherwise related to mandates or growth. Avista has incorporated direct O&M offsets related to certain capital projects, and for the others incorporated a 2% efficiency adjustment, where immediate hard cost savings could not otherwise be identified. In this manner, this will provide additional impetus to drive efficiencies out of our capital investments.

Q. With regard to the "2% efficiency" adjustment, does this adjustment lead to an immediate write-off of capital investment?

A. No, it does not. Where no direct offset was determined by Business Case sponsor in each Business Case, the Company separately applied a "2% Efficiency Adjustment," calculated based on 2% of the "return on" the specific Business Case investment. Required Business Cases, whose "purpose" of the investment (as shown in the detail provided in Exh, EMA-3) is required and labeled as "Regulatory" and/or "Compliance", with no direct offsets provided, were otherwise excluded from the "2% Efficiency" adjustment calculation. The Company, however, has included the full level of capital investment in its revenue requirement and provided a separate "offsets adjustment" to incorporate both the direct offsets as well as the "2% Efficiency Adjustment," where appropriate.

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

A. Yes. In paragraph 202, of Order 08/05 in Dockets UE-200900, et. al., the

Commission stated, with regard to offsetting factors, "Avista must demonstrate all offsetting factors, direct and indirect, hard and soft, material and immaterial." As shown in Exh. EMA-3, the Company considered all off-setting factors - direct and indirect, hard and soft, material and immaterial, when evaluating the effects of all capital Business Cases included by the Company. To accomplish this, for all Business Cases, including those included by the Company over its Two-Year Rate Plan, the Company <u>requires</u> each Business Case sponsor, when completing its project/program supporting Business Case, to complete Section 2.3 and 2.4, describing all available "direct" or "indirect" offsets, hard or soft, O&M and capital, no matter how material or immaterial.

<u>Summarized</u> in the "Direct and Indirect – Offsets Matrix" (hereafter "Matrix"), provided as Exh. EMA-3 (pages 1-41), are each of the "direct" or "indirect" offset values and descriptions, as well as the "2% Efficiency Adjustment," calculated on investments, where applicable, by each Business Case included by the Company over its Two-Year Rate Plan for investments from 2024 through 2026. Each separate Business Case, with its Sections 2.3 - 2.4 "direct" and "indirect" offsets, <u>or</u> Offsets Form, are provided by each capital witness (i.e., Mr. Alexander at Exh. AGA-2; Mr. DiLuciano at Exh. JDD-2; Mr. Manuel at Ex. WOM-2; Mr. Howell at Exh. DRH-2; and Ms. Hydzik at Exh. NLH-2).

Page 1 of the Exh. EMA-3, per the Matrix, shows the efforts of the Company to reconcile "<u>indirect</u>" offsetting factors, producing indirect Washington-allocated offsets at \$88.6 million for electric and \$15.0 million for natural gas, for RY1, and \$88.6 million for electric and \$14.6 million for natural gas, for RY2. As discussed in the individual Business Cases, and summarized in the Matrix, "<u>indirect</u>" offsets include items such as, avoided costs (i.e. deferring the need to hire new employees, delaying capital investment, delaying incremental maintenance costs), redeployed benefits (efficiencies allowing shifting of labor hours to other growing areas of business, also reflects avoided new hire labor), indirect customer benefits, and safety benefits, for example. Included with Exh. EMA-3 is the summary analysis, by Business Case, by Capital witness sponsor, for each individual Business Case.

VI. 2026 CS2 DEFERRAL OF MAJOR MAINTENANCE AND RECOVERY

Q. Please summarize the Company's proposal with regards to the CS2 Major Maintenance (overhaul) planned for June 2026, and the impact on this GRC.

A. The Company is proposing to defer Washington's share (approximately $12.0 million) of the actual CS2 major maintenance expense (overhaul) scheduled for June 2026, estimated at $18.5 million system, and to amortize Washington's deferred balance (estimated at $12.0 million) over four (4) years, beginning July 1, 2026, through June 30, 2030. The Company also proposes to include a carrying charge on both the deferred balance and during the proposed 4-year amortization period.

The Company has included the effect of the proposed amortization expense in RY2, as noted above, in Electric Adjustment (5.11) Pro Forma CS2 Amortization, of Washington's share of the CS2 major maintenance expense deferral, amortized over 4 years beginning July 1, 2026 through December 31, 2026 (six months), including interest on the deferral balance and during the amortization period. The effect of this adjustment increases Washington electric RY2 amortization expense by $1,661,000 and decreases NOI by $1,312,000. This has an impact of increasing the RY2 revenue requirement by $1,744,000.

Q. How does this compare to the current Colstrip/CS2 major maintenance

methodology approved by the Commission in prior general rate cases?

A. In Order 05, page 56, paragraph 153 of Docket UE-150204, the Commission ordered the Company, for regulatory purposes, to normalize and recover its major maintenance expense associated with Avista's Colstrip unit 3 and Unit 4 and CS2 thermal plants over a three-year period for Colstrip and four-year period for CS2, to match the major maintenance cycles for each plant. The implied intent by the Commission was to normalize the level of major maintenance expense to be charged and collected from customers on an annual basis, in order to remove the fluctuation in this expense year-to-year.

Since that time (2015), when preparing the Company's annual Commission Basis Report (CBR) and as a restating adjustment in each subsequent general rate case, the Company has adjusted its actual results of operations to recognize this normalization adjustment.[28] This normalizing adjustment has required the Company to remove actual calendar (CBR) or test period (GRC) Colstrip and CS2 major maintenance expense recorded during the actual period, and normalize or amortize this expense, over the three-year period for Colstrip and four-year period for CS2. This methodology had the effect of normalizing these costs for recovery from customers only.

Q. What issues has the Company experienced under this methodology?

A. The first issue is that this methodology causes a "mismatch" for book purposes between when the cost of the maintenance is expensed and recorded on the Company's books, and when revenues (income) are received for these costs from customers. This mismatch also reflects, in part, a difference between normalized Commission Basis

[28] As discussed by Ms. Schultz, the Company has included Restating Adjustment 2.18 "Normalize CS2 Major Maintenance." Colstrip major maintenance, normalized or otherwise, is not included, as Colstrip is no longer included in base rates, but rather in Tariff Schedule 99 "Colstrip Tracker," as previously discussed above.

operating results versus actual operating results.

As noted above, this methodology was approved for regulatory purposes only; the Company was not allowed to recognize this methodology for book purposes. The result of the current approved methodology, while generally allowed Avista to recover its major maintenance over time, resulted in a mismatch between when major maintenance expense was recorded on Avista's books of record, versus when it received the revenues from its customers to recover those costs. Furthermore, specific to these costs alone, this methodology resulted in years where the Company under-earned (revenue collected was below actual expense) and years where the Company over-earned (revenue was greater than expense), while normalized Commission Basis Reports would not show this effect.

Correcting for this issue would have required the Company to defer its Colstrip and CS2 major maintenance expense annually, and then amortize that balance to amortization expense using a three-year period for Colstrip and four-year period for CS2. This treatment would have matched expense and revenue to the same period, creating an on-going normalized level of major maintenance expense, for both customers and the Company.

Second, per Docket. UE-220053, et., al., and discussed above, Colstrip O&M costs are no longer included in base rates, so the only major maintenance to consider (or restate) is that associated with CS2.

Q. Is this "mismatch" and / or the removal of Colstrip O&M expenses from base rates the driving force behind the Company's request to change this methodology now?

A. In part, as it is important to the Company to match recovery of expenses with collections from customers, so as to not cause an over- or under-earnings specific to just major maintenance expense. However, the main driving force at this time is the level of CS2 major maintenance expense expected to occur in 2026 of $18.5 million, which would only further exacerbate the mismatch issue described above.

In 2026, under the current methodology, the Company would be required, for regulatory purposes only, to remove Washington's share of actual CS2 major maintenance expense of approximately $12.0 million and replace it with a $3.0 million annual amortization starting annually in 2026 through 2029[29]. Illustration No. 2 below, provides the impact of the current methodology to the Company, as well as to customers, in each year 2026 – 2029.

<u>Illustration No. 2 – Comparison of Current Major Maintenance Methodology vs Actual</u>

Impact of Major Maintenance Methodology - Company Books versus Normalized (000s)					
	CS2 Major Maintenace Expense	**$ 18,500**			
	Washington Share Expense	**$ 12,025**			
	Company Books of Record	**2026**	**2027**	**2028**	**2029**
	Book Expense	$ 12,000	$ -	$ -	$ -
(a)	**Book Net income**	**$ 9,480**	**$ -**	**$ -**	**$ -**
	Customer Impact - Included in Base Rates (1)				
	Normalized Expense	$ 3,000	$ 3,000	$ 3,000	$ 3,000
(b)	**Normalized Net Income**	**$ 2,370**	**$ 2,370**	**$ 2,370**	**$ 2,370**
	Absorbed by the Company				
	Expense	$ (9,000)	$ 3,000	$ 3,000	$ 3,000
(c)	**Net Income (Loss) / Benefit**	**$ (7,110)**	**$ 2,370**	**$ 2,370**	**$ 2,370**

(1) Item (b) above would be the result for both the customer and the Company, if the Company's proposed deferral and 4-year amortization were approved by this Commission. Amounts in the illustration above vary from that proposed, only because of timing of deferral and amortization beginning mid-year, with the actual date of the overhaul, and the impact of interest.

As can be seen in Illustration No. 2 above, if the current methodology was not

[29] Or amortization from 2027 – 2030, depending on the Commissions ordered start date of the amortization.

revised with this proceeding, in RY2 the Company would record $12.0 million in actual maintenance expense in June of 2026 for the CS2 major maintenance overhaul, reducing actual net income by $9.5 million (See row (a) in Illustration No. 2). Whereas, as shown in row (b), including a normalized amount in this case, resulting in an amortization of $3.0 million annually, would only compensate Avista net income by $2.4 million. This results in under-recovery of $9.0 million expense in RY2 (2026), and a net loss recognized by the Company on an actual basis of over $7.1 million (row (c) in Illustration No. 2).

It is important to note that from a normalized Washington electric Commission Basis, everything else being equal, it would appear that Avista was earning its allowed return, even though on an <u>actual basis it would have a net loss of $7.1 million or a 63 basis point reduction in Washington's electric Return on Equity (ROE)</u>. While it is true, that in years 2027-2029, the Company would over-earn in each year by approximately $2.4 million net income (or 21 basis points), the $7.1 million or 63 basis point loss is far too much to expect the Company to absorb and still have an opportunity to earn its allowed rates of return. Whereas, if the Company over-earns, the Company may have to return certain over-earnings to customers. This mechanism clearly is flawed, disadvantaging the Company.

Further adding to this problem is that, while the Commission's intent was to normalize major maintenance for these plants for customers by expecting regular intervals of major maintenance, CS2 has had limited major maintenance occurring in previous years, CS2 has not had a major <u>overhaul</u> charged to <u>expense</u> since 2012. In fact, as described by Ms. Schultz, per Restating Adjustment 2.18 "CS2 Major Maintenance," the Washington normalized level of CS2 expense for the 12ME 06.30.2023 test period was only approximately $334,000.

Q. You state that CS2 has not had a major maintenance <u>expense</u> overhaul since 2012. Would you please explain this?

A. Yes. The last major maintenance (overhaul) for CS2 that was charged to expense was in 2012. While CS2 is required to have a major maintenance overhaul every 32,000 of fired hours on the unit (approximately every 4-years), and the last two overhauls did occur in calendar years 2016 and 2021, in both those subsequent years the cost of the overhaul were charged to capital, rather than expense. In 2015, when the Company negotiated its Long-Term Service Agreement (LTSA) with General Electric (GE), part of the agreement was the purchase of two complete sets of Advanced Gas Path parts, for installation at different times: the first set of new capital parts was installed in 2016, the second set in 2021. Therefore, under Avista's capitalization policy, it was appropriate to capitalize the entirety of the overhauls in 2016 and 2021. Following the 2021 outage, the removed, initially capitalized parts (initially installed in 2016), returned to the shop for a rebuild to be ready for installation during the next hot gas path inspection, scheduled in 2026 – which now, are a "rebuild" of parts, so must be expensed. Therefore, the level of CS2 major maintenance costs charged to expense has been significantly understated compared to the expected 2026 expense level ($18.5 million system).

Q. Please summarize the overall adjustments included in this case related to CS2 Major Maintenance.

A. The Company has recorded the following adjustments to reflect the proposed level of CS2 major maintenance expense in RY1 and RY2:

- <u>Restating Normalize CS2 Major Maintenance Adjustment 2.18</u>, as discussed by Ms. Schultz, reflects a normalized CS2 major maintenance expense reflecting a 4-year amortization in the 12ME 06.2023 test period associated with major maintenance expense in 2019 through 2021, totaling approximately $3.7 million system. No CS2 major maintenance occurred in 2022 or 2023, therefore, actual test period levels totaled $0. To normalize for regulatory purposes, consistent with UE-150204, the regulatory amortization expense is increased by $519,000 on a system basis, or Washington's share (64.40%) totaling $334,000. The net effect of this adjustment decreases NOI by approximately $264,000.

- Pro Forma Remove Normalize CS2 Major Maintenance Adjustment 3.22, as described above in Section I. "Sponsored Restating/Pro Forma Adjustments," removes the normalized CS2 major maintenance expense recorded in Adjustment 2.18 (Restating Normalize CS2 Major Maintenance Adjustment). Because the Company does not believe it is appropriate to record CS2 major maintenance using a 4-year average for book purposes only, the Company proposes to adjust RY1 major maintenance expense to $0, reflecting actual test period, as well as, RY1 expense levels. The effect of this adjustment reduces major maintenance expense by $334,000, and increases NOI by approximately $264,000. Resulting in a net $0 major maintenance expense in RY1 related to CS2.

- Pro Forma CS2 Amortization Adjustment 5.11, in RY2, as discussed in Section I. "Sponsored Restating/Pro Forma Adjustments" above, reflects the deferral and amortization expense in RY2 associated with Washington's share of the Company's proposed CS2 major maintenance expense deferral of approximately $12.0 million, and amortizing the deferred balance over a 4-year period beginning July 1, 2026 through June 30, 2030. The effect of this adjustment increases Washington electric RY2 amortization expense by $1,661,000 and decreases NOI by $1,312,000. This has an impact of increasing the RY2 revenue requirement by $1,744,000.

Any difference between the actual overhaul versus the expected overhaul amount of $18.5 million, and Washington's actual allocated share would be adjusted within the remaining balance to amortize in the Company's next general rate case (i.e. over the remaining 3.5 years, January 1, 2027 through June 30, 2030), truing up the deferred balance and amortization expenses to reflect actual amounts.

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

A. Yes, it does.