

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-150204

DOCKET NO. UG-150205

(Consolidated)

TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION: SCOPE OF REMAND**

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

4 A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as
5 Senior Manager of Revenue Requirements in the State and Federal Regulation Department.
6 My business address is 1411 East Mission, Spokane, Washington.

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

8 A. I am a 1990 graduate of Eastern Washington University with a Bachelor of
9 Arts Degree in Business Administration, majoring in Accounting. That same year, I passed
10 the November Certified Public Accountant exam, earning my CPA License in August 1991.¹
11 I worked for Lemaster & Daniels, CPAs from 1990 to 1993, before joining the Company in
12 August 1993. I served in various positions within the sections of the Finance Department,
13 including General Ledger Accountant and Systems Support Analyst until 2000. In 2000, I
14 was hired into the State and Federal Regulation Department as a Regulatory Analyst until
15 my promotion to Manager of Revenue Requirements in early 2007, and later promoted to
16 Senior Manager of Revenue Requirements. I have also attended several utility accounting,
17 ratemaking and leadership courses.

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

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

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

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

3 **Q. Did you participate in these dockets as a witness on behalf of Avista?**

4 A. Yes, I did. I was the primary revenue requirements witness in the 2015
5 general rate case (i.e., this case) that was the subject of the appeal and remand, and as such, I
6 am quite familiar with the various adjustments to rate base and expenses, and the revenue
7 requirements modeling associated with that. I also served in the same capacity as a witness
8 in each subsequent general rate case filing by the Company.

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

10 A. I will first address what I understand to be the scope of this remand
11 proceeding based on my reading of the court's remand order. I will then describe what I
12 believe to be the time period affected by the remand – essentially the 2016 rate year. With
13 the scope and time period defined, I will isolate the electric and natural gas rate base
14 associated with the “attrition adjustment” at issue, and quantify the revenue requirement
15 related thereto. I will explain why any disputed power supply calculations that were
16 previously part of the case on appeal do not relate, in any way, to the “attrition rate base.”
17 Stated differently, there were no power supply adjustments that related to “used and useful”
18 rate base challenged on appeal.

19 **Q. What conclusion does the Company draw in this testimony regarding**
20 **amounts possibly owed to customers through this remand proceeding?**

21 A. I will explain in this testimony that based on the scope at issue in this remand
22 proceeding, effectively isolating the revenue requirement on the electric and natural gas rate

1 base associated with the “attrition adjustment,” and reflecting amounts already refunded to
2 customers through the “earnings sharing” mechanism for 2016, the Commission should find
3 that no further adjustment to electric or natural gas rates is warranted.

4 **Q. What is the underlying reason for this remand proceeding?**

5 A. The Commission’s Prehearing Conference Order 07 (hereafter, “Prehearing
6 Order 07”) succinctly summarizes the events leading up to this remand proceeding.²

7 The Washington Utilities and Transportation Commission (Commission) entered
8 Order 05, the final order in this proceeding, on January 6, 2016. In Order 05, the
9 Commission accepted a multiparty partial settlement and ruled on the contested issues in the
10 case. One of the contested issues was whether to allow for attrition adjustments to Avista’s
11 electric and natural gas rates.

12 Public Counsel filed a petition for judicial review in the Superior Court for Thurston
13 County on March 18, 2016. On April 29, 2016, the Thurston County Superior Court certified
14 the case for direct review by the Court of Appeals of Washington, Division Two. On August
15 7, 2018, the Court of Appeals reversed in part the Commission’s Order 05. There were two
16 separate issues on appeal: (1) whether the use of an “attrition adjustment” to calculate “used
17 and useful” rate base was in accordance with law (RCW 80.04.250); and (2) whether the
18 Commission correctly determined the power supply adjustment. The court reversed and
19 remanded the former, but did not disturb the Commission’s order on the calculation of the
20 power supply adjustment. The court remanded the proceeding to the Commission to
21 “recalculate Avista’s rates without relying on rate base that is not used and useful,” that is,

² See Order 07, Prehearing Conference Order; Notice of Hearing (May 29, 2019) at pp. 1-2.

1 removing the attrition adjustment applied to property that was not used and useful as of the
2 date that the Commission entered Order 05.³ On April 16, 2019, the Thurston County
3 Superior Court remanded the matter to the Commission to effectuate the decision of the
4 Court of Appeals on the “used and useful” issue.

5 Therefore, it is important to establish at the outset what this proceeding addresses—
6 and what it does not.

7 **Q. Would you please elaborate?**

8 A. Yes. As Prehearing Order 07 appropriately noted:

9 The court [Court of Appeals] remanded the proceeding to the Commission to
10 “recalculate Avista’s rates without relying on rate base that is not used and
11 useful,” that is, removing the attrition adjustment applied to property that was
12 not used and useful as of the date that the Commission entered Order 05.⁴

13 Moreover, in the agreed-upon remand order presented to and issued by the Thurston
14 County Superior Court on April 16, 2019 (its Mandate to the Commission), the limited
15 scope of the remand was made quite clear:

16 Because the projections of future rate base were not “used and useful” for
17 service in Washington, we conclude that the WUTC may not base Avista’s
18 rates on them. Accordingly, the WUTC erred in calculating Avista’s electric
19 and natural gas rates. The WUTC order provided one lump sum attrition
20 allowance without distinguishing what portion was for rate base and which
21 was for O&M expenses or other considerations. We strike all portions of the
22 attrition allowance attributable to Avista’s rate base and reverse and remand
23 for the WUTC to recalculate Avista’s rates without relying on rate base that is
24 not used and useful. (See Order Granting Joint Motion of the Parties to
25 Remand Cause to WUTC, at pp. 1-2 (quoting from *Pub. Counsel v. WUTC*,
26 *supra*), and attached as Exhibit EMA-10.)

27

³ *Pub. Counsel v. Wsh. Utils. & Transp. Comm’n*, 4 Wn. App. 2d 657, 688-89 (2018).

⁴ See *Pub. Counsel v. WUTC*, supra, at pp. 688-89.

1 **Q. Did the Prehearing Order 07, at ¶ 11, also define the scope of testimony**
2 **to be submitted?**

3 A. Yes, it did:

4 Testimony filed in this proceeding must address the portions of rates that
5 incorporate or rely on rate base, rather than, for example, operations and
6 maintenance expenses. Portions of rates that incorporate rate base may or
7 may not include, for example, components of power costs. (emphasis added)
8

9 The remand order from the Thurston County Superior Court and this Commission’s
10 Prehearing Order of May 29, 2019, are noteworthy in several respects:

11 First, they serve to define the scope of the remand as relating just to that portion of
12 the Commission’s Order 05 dealing with “attrition” rate base—not “attrition” expenses or
13 other O&M or A&G expenses.

14 Secondly, the Court simply directed the “WUTC to recalculate Avista’s rates without
15 relying on rate base that is not used and useful” (See Order Granting Remand, supra, at p. 2)
16 —nothing less and nothing more.

17 Thirdly, this limited scope was also clearly reflected in the Commission’s own
18 Prehearing Order, where it defined the limited scope of testimony to be presented in this
19 proceeding: it must address rates that incorporate or rely on rate base, rather than O&M
20 expense; it “may or may not” include “components of power costs,” but only to the extent
21 that such a component is incorporated into rate base. (emphasis added) As my testimony
22 will discuss below, “components of power costs” do not involve rate base; such costs are
23 O&M and are treated separately and, most decidedly, are not derived through an attrition
24 adjustment.

1 Fourthly, if parties still believe that power costs (including any possible mistakes in
2 their calculation) remain an issue, notwithstanding the clear—and limited—mandate from
3 the Court, they should have sought immediate clarification from the Court of Appeals which
4 did not reverse the Commission on the disputed issue of power costs, or otherwise sought
5 further appeal of that decision to the State’s Supreme Court; they did not do this. Further, all
6 parties, including Staff and Public Counsel, jointly moved the Thurston County Superior
7 Court for the mandate order that was issued on April 16, 2019 – the agreed-upon Order, as
8 drafted and presented by Staff, makes no mention whatsoever of power supply costs.

9 **Q. Do any “[p]ortions of rates that incorporate rate base ... include, for**
10 **example, components of power costs,” as referenced in the Prehearing Order?**

11 A. No. Power costs, including the calculation of such costs that was disputed, do
12 not touch on or otherwise relate to “rate base,” and certainly not the “attrition” rate base here
13 at issue.

14 **Q. Please explain how the “attrition” related costs, both rate base and**
15 **expenses, and overall 2016 revenues and costs were determined in the 2015 rate case.**

16 A. First, it is important to note that the calculation of the 2015 rate case
17 “attrition” adjustment and overall 2016 revenues and costs, as described here, were derived
18 in a similar manner by both Avista and Commission Staff. The starting point by both Avista
19 on rebuttal, and Staff on direct, was the electric and natural gas December 2014 Commission
20 Basis results, which were then used to prepare both electric and natural gas Attrition

1 Studies.⁵ For Avista, on rebuttal these studies were provided in the 2015 rate case as Exhibit
2 Nos. EMA-6 (electric) and EMA-7 (natural gas).⁶ Specifically, pages 4 and 5 of both Exhibit
3 Nos. EMA-6 and EMA-7 provide Avista’s calculation for its Attrition-adjusted 2016
4 revenues and costs, and proposed revenue requirement above current rates, with Column [A]
5 on those pages reflecting the December 2014 Commission Basis results. Included as Exhibit
6 No. EMA-11, for ease of reference here, are pages 4 and 5 of electric Exhibit No. EMA-6,
7 which I will refer to now as EMA-11, pages 1 and 2. (Corresponding pages for natural gas
8 appear at pages 3 and 4 of EMA-11).

9 The first adjustment of particular importance on EMA-11 page 1, Column [B], is the
10 adjustment labeled “(less) 12.2014 Normalized Net Power Supply costs.” This adjustment
11 removes all 2014 normalized power supply costs from the Company’s results, and is done so
12 prior to escalation of any expense or rate base balances. This adjustment removes only
13 power supply revenues and expenses, as there are no rate base components in Avista’s power
14 supply base calculation. The sole purpose of this adjustment (removing power supply net
15 costs), is to create an “escalation base” for which to apply any “escalation factors” or
16 percentages to, excluding the impact of power supply costs. The “December 2014
17 Escalation Base” can be seen on page 1 of EMA-11, Column [E].

18 As noted above, Staff prepared its Attrition Studies in a fashion similar to Avista,
19 including the adjustment Column [B] labeled “(less) 12.2014 Normalized Net Power Supply

⁵ The Company’s initial filing used a 12-months-ending September 30, 2014 historical test period. (See 2015 case, Exhibit Nos. EMA-2 and EMA-3, pages 4 and 5.) Both Staff on direct, and Avista on rebuttal, updated the attrition analyses to a December 31, 2014, 12-months-ending basis. (See 2015 case, Exhibit Nos. EMA-6 and EMA-7, pages 4 and 5.)

⁶ Commission Staff’s 2016 Attrition Study results were provided in the 2015 case as Exhibit Nos. CRM-2_Revised and CRM-3_Revised.

1 costs,” to produce their “escalation base,” on which to apply their “escalation factors,” which
2 excluded the impact of power supply costs. Staff’s pages 4 and 5 of Exhibit No. CRM-
3 2_Revised from the 2015 case shows the adjustment column (Column [B]), as well as
4 Staff’s “December 2014 Escalation Base” (Column [E]) and “escalation factors” (Column
5 [F]). For ease of reference here, excerpted pages 4 and 5 of Staff Exhibit No. CRM-
6 2_Revised are provided, which I will refer to now as EMA-12, pages 1 and 2.

7 **Q. Why are power supply costs excluded from the “escalation base” in the**
8 **electric attrition study?**

9 A. Power supply net costs are separate and distinct from all other expenses and
10 rate base costs normally included in the Company’s electric rate filings. Both power supply
11 revenues and expenses (net power supply costs) are determined based on modeling in order
12 to determine the proper power supply net costs to set within a general rate case, for purposes
13 of establishing the Company’s Energy Recovery Mechanism (ERM) base. They are
14 calculated as a pro forma adjustment added to all other revenue requirement costs, to reflect
15 the projected net power supply costs during the specified rate year. Total net power supply
16 costs are not established based on historical levels and then escalated by a certain “escalation
17 factor” one or more years into the future to establish the level of rate year net costs, and for
18 Avista do not include components of rate base.

19 **Q. The Company’s rate base includes generating assets that impact the**
20 **Company’s power supply costs. Is it proper to think that power supply costs have been**
21 **affected by the attrition escalation of rate base, which includes generation assets?**

1 A. No, it is not. Rate base are the investments made to serve customers. The
2 Company is allowed to receive a return on rate base (rate of return), as well as the return of
3 rate base (depreciation). None of those items – return on or of – is included in the
4 development of power supply costs. So while generation rate base was escalated by the
5 Commission through the use of attrition, power supply costs were not, and therefore outside
6 of the scope of the remand.

7 Put another way, all rate base, including generation assets, are treated separate and
8 distinct from the calculation of net power supply costs (revenues and expenses). Where
9 variable power supply revenue and expense related amounts are isolated and adjusted
10 independently (not escalated) within both Avista and Staff’s attrition models, as discussed
11 above, net plant related rate base (including the fixed generation assets impacting power
12 supply costs) are separately identified and escalated to reflect a revised “attrition adjusted”
13 rate base amount.⁷

14 **Q. Once the test year net power supply costs were removed, how were the**
15 **other revenues, expenses and rate base adjusted to create the 2016 level of revenues**
16 **and costs?**

17 A. As shown on page 1 of EMA-11, once the non-energy cost “escalation base”
18 (i.e. Column [E]) was established, the “escalation factor” or escalation percentage (i.e.
19 Column [F]) was multiplied by the “escalation base,” resulting in Column [G] “Non-Energy
20 Cost Escalation Amount.” The cost escalation amount (Column [G]), was then added to the

⁷ Unlike Puget Sound Energy (PSE), who previously through their Power Cost Only Rate Case (PCORC) had included fixed generation assets in determining their power supply base. It is our understanding, they have since removed fixed assets from their power supply calculation.

1 “December 2014 Escalation Base” (Column [E]), producing the “Trended 2016 Non-Energy
2 Cost” in Column [H]. This column included the trended level of revenues, expenses and
3 rate base, and excluded any impact of power supply.

4 **Q. Since the historical level of net power supply costs were removed, as**
5 **shown in Column [B] of page 1 of EMA-11, how then were net power supply costs later**
6 **included in the overall 2016 revenues and costs included in the 2015 case?**

7 A. After Column [H] “Trended 2016 Non-Energy Cost” was determined, the pro
8 formed net power supply costs were then separately added to reflect the pro forma power
9 supply net costs included in the overall 2016 revenues and costs. This can be seen in
10 Column [I] “(plus) 12.2014 Pro Formed Net Energy Cost.” Therefore, although net power
11 supply costs were separately added back in later, they had no impact on the trended attrition
12 revenues, expenses or rate base, but were only a separate component of the overall requested
13 revenue and cost that ultimately became Column [M] “2016 Revenue and Cost.”⁸ Likewise,
14 the power supply adjusted revenue and expenses has no bearing on the “attrition” rate base at
15 issue in this remand proceeding.

16 **Q. Is the addition of power supply costs in this manner similar to the**
17 **approach used in a traditional electric pro forma study in a rate case not relying on**
18 **attrition, when establishing the overall revenues, costs and revenue requirement?**

19 A. Yes. In a traditional pro forma study used to establish the overall base

⁸ Staff also added pro forma net power supply costs back in as a separate component (Column [I] labeled: “(plus) 12.2014 Pro Formed Net Energy costs”), after the “Trended 2016 Non-Energy Cost,” resulting in of the overall requested revenue and cost that ultimately became Column [M] “2016 Revenue and Cost.” See pages 1 and 2 of Exhibit No. EMA-12 (excerpted pages 4 and 5 from Staff witness McGuire Exhibit No. CRM-2_Revised).

1 revenues, costs, power supply base and revenue requirement in a general rate case
2 proceeding not relying on “attrition,” net power supply costs are included as a separate and
3 distinct pro forma adjustment.

4 **Q. Finally, with respect to the scope of this remand, what time period is**
5 **covered?**

6 A. The time period affected by the appealed Order 05 was confined to the rate
7 year of January 11, 2016 through December 15, 2016. Thereafter, rates were re-examined in
8 Docket Nos. UE-160228 and UG-160229, based on fresh evidence and a new test period,
9 and then-existing rates were deemed just, reasonable and sufficient (even though some
10 parties had argued for a rate reduction). The Commission itself did not rely on the 2015 case
11 to effectuate its decision, it relied on fresh data based on new information within the 2016
12 case. Furthermore, no party to that subsequent case, based on a different test period,
13 challenged the Commission’s Order in those dockets. They, of course, could have, if they
14 believed that the previous Order 05 on appeal somehow “carried over” into the new case and
15 impacted the results.

16 **Q. So, to be clear, is it Avista’s position that the timeframe in question is**
17 **essentially the 11-month period from January 11, 2016 to December 15, 2016?**

18 A. Yes, the time period is roughly 11 months, and should not extend past
19 December 15, 2016.

20

1 it rejected a further increase proposed by Avista⁹ and rate decreases proposed by Staff and
 2 other parties. It could not have done so without a fresh examination of new evidence based
 3 on a more recent test period. In its Order 06, at p. 37, the Commission summarized the
 4 positions of the parties as follows:

5 **TABLE ONE**
 6 **Dockets UE-160228 and UG-160229**
 7 **Pro Forma and Attrition Study Revenue Increases**
 8 **(\$ Millions)**

Party	Electric			Gas		
	Pro Forma	Attrition	Revenue Requirement	Pro Forma	Attrition	Revenue Requirement
Avista	\$11.8	\$48.9 (\$38.5 in 2017 plus \$10.3 in 2018)	\$48.9 (\$38.5 in 2017 plus \$10.3 in 2018)	(\$1.2)	\$5.3 (\$4.4 in 2017 plus \$0.9 in 2018)	\$5.3 (\$4.4 in 2017 plus \$0.9 in 2018)
Staff	(\$0.4)	\$26.0 (18 months)	\$25.6 (18 months)	(\$3.3)	\$2.1 (18 months)	(\$1.2) (18 months)
ICNU	(\$8.1)	(\$3.2)	(\$4.9)	(\$4.1)	(\$4.7)	(\$0.6)

13 No party appealed this Order and claimed that the rates re-affirmed by the Commission were
 14 somehow based on an inappropriate “attrition adjustment.” Indeed, as discussed below, with
 15 the exception of Public Counsel¹⁰, all parties in that docket presented testimony that began
 16 with a pro formed level of electric rate base for 2016 that exceeded even the attrition level of
 17 rate base at issue in the previous case on appeal (i.e., this case). For the 2016 case (Docket
 18 No. UE-160228) both Staff and ICNU began with a pro formed 2015 historical test period

⁹ Exhibit Nos. EMA-13 (electric) and EMA-14 (natural gas) are Avista’s rebuttal Electric (JSS-5) and Natural Gas (JSS-6) Pro Forma Studies in Docket Nos. UE-160228/UG-160229, showing 09.2015 actual test year results at p. 6, as well as the Company’s proposed pro formed and attrition adjusted 2017 rate year rate base results, at pp. 10 and 12, respectively, for both electric and natural gas. For electric, the pro forma rate base amount per p. 10, l. 49 was \$1.413 billion, and the attrition rate base amount per p. 12, l. 49 was \$1.467 billion. For natural gas, the pro forma rate base amount per p. 10, l. 47 was \$285.1 million, and the attrition rate base amount per p. 12, l. 47 was \$299.4 million.

¹⁰ Public Counsel did not provide testimony regarding a pro forma level revenue requirement or rate base, only that an attrition adjusted revenue requirement was not supported by the Company.

1 electric rate base of \$1.383 billion, before any attrition adjustments were made. (See Staff
2 Exh. CSH-2 provided as Exhibit No. EMA-18 at p. 2, and ICNU Exh. BGM-13 provided as
3 Exhibit No. EMA-19 at p. 2). This was well above (nearly \$40 million) the so-called
4 “attrition-adjusted rate base” in the previous case on appeal of \$1.344 billion.

5 **Q. If one were to simply “strip out” the level of attrition rate base from the**
6 **challenged 2016 rate year, what would be the result?**

7 A. As shown on page 1 of Exhibit No. EMA-15, approximately \$28 million of
8 electric rate base would be removed.¹¹ The revenue requirement associated with this rate
9 base would be \$2.865 million (electric) for calendar 2016. Taking into consideration that
10 the timeframe in question, as noted above, is essentially the 11-month period from January
11 11, 2016 to December 15, 2016, or 338 days, the revenue requirement associated with the
12 rate effective period, is approximately \$2.653 million.¹²

13 Table No. 1 shows the calculation of the \$28 million of attrition rate base above the
14 pro forma rate base approved in the 2015 case and the associated adjusted revenue
15 requirement:

16

¹¹ See Exhibit No. EMA-15 pages 1 through 3 for approved attrition rate base calculation, approved pro forma rate base per Order 05, as well as the revenue requirement calculation on the \$27.976 million difference. Page 2 represents the isolated calculation of the electric attrition rate base approved in the 2015 case, based on the Commission’s approved escalation factor (8.41%) multiplied by the December 2014 rate base “Escalation Base.” Page 3 is excerpted page 96 of Order 05, Table A1, showing the approved electric pro forma rate base.

¹² The rate effective period from January 11, 2016 – December 15, 2016 is approximately 338 days or 92.6% of the 2016 calendar year (338/365). The calendar rate base revenue requirement of \$3.865 million x 92.6% is \$2.653 million on an adjusted rate effective period basis. The Company chose a more conservative calculation methodology for the ease of the Commission, rather than a methodology that would “shape” revenues, given December and January are high revenue months for Avista.

Table No. 1

ELECTRIC SUMMARY	
Approved versus Pro Forma Rate Base (000s)	
Per Order 5: UE-150204	Total Approved Rate Base
Attrition Study Rate Base ¹	\$ 1,343,867
Pro Forma Rate Base: Total Contested and Uncontested Adjustments ²	\$ 1,315,891
Approved Rate Base Above Pro Forma	\$ 27,976
Net Revenue Requirement of Attrition Rate Base Above Pro Forma Rate Base on a Calendar Basis	\$ 2,865
Rate Effective Period Jan. 11, 2016 - Dec. 15, 2016 (338 / 365 days, or 92.6%) Resulting Adjusted Revenue Requirement	\$ 2,653
¹ Attrition rate base includes escalation of plant related balances only, not total rate base. Escalation of rate base is based on approved escalation percentages on test period net plant per Order 5.	
² Per Order 05 (Table A1)	

The calculated \$2.653 million of electric revenue requirement in Table No. 1, however, would be further adjusted to reflect the 50/50 revenue sharing already returned to electric customers for this period.¹³

As can be seen in Table No. 2, under the earnings sharing calculation, Avista already refunded \$2.597 million to electric customers related to 2016 (based on \$5.194 million in over-earnings).

Table No. 2

2016 Electric Earnings-Sharing Calculation (000s)	
Total 2016 Earnings to Share	\$ 5,194
50% Earnings-Sharing	50%
Amount Paid to Customers for 2016 Over-Earnings	\$ 2,597

¹³ On November 25, 2014, the Commission issued Order 05 in Docket Nos. UE-140188 and UG-140189, approving the Company's current electric and natural gas Decoupling Mechanisms. A component of the electric and natural gas Decoupling Mechanisms is the "Earnings Test" with a 50/50 revenue sharing. The Earnings Test ensures that, should the Company have an earned return in excess of its authorized return in any given year, one-half the rate of return amount in excess of authorized will be returned to customers.

1 Any electric refund ordered by the Commission should consider amounts already
 2 paid to customers, and how the 2015 remand of attrition-related amounts would have
 3 impacted the actual 2016 over-earnings calculation. Table No. 3 below, shows the effect of
 4 considering the 2015 remand on any refunds ordered due to the attrition-related rate base. If
 5 one were to reduce the total 2016 overearnings by the \$2.653 million related to attrition rate
 6 base, total “non-attrition” related over earnings would have been \$2.541 million (\$5.194
 7 million - \$2.653 million). Taking 50% of that amount, only \$1.27 million would have been
 8 owed (shared) to customers after considering the effect of the 2015 remand.

9 **Table No. 3**

2016 Electric Earnings-Sharing Paid To Customers (000s)	
Total 2016 Earnings to Share	\$ 5,194
Remove Attrition vs Pro Forma Revenue Requirement (per Table No. 1)	\$ (2,653)
Earnings Sharing Excluding Attrition Rate Base Portion	<u>\$ 2,541</u>
50% Share of "Non-Attrition" Earnings-Sharing Owed/Paid Customers	<u>\$ 1,270</u>
Actual Amount Refunded (See Table No. 2)	\$ 2,597
50% Share of Non-Attrition Rate Base Earnings Sharing Paid Customers	\$ (1,270)
Net Refund Already Paid to Offset Any Ordered Refund	<u>\$ 1,327</u>

18 Considering the actual amount refunded to customers of \$2.597 million, excluding
 19 the “non-attrition” earnings-sharing amount owed (and already refunded) to customers,
 20 would leave \$1.327 million paid to customers to apply towards any electric refund amount
 21 ordered related to attrition rate base.

1 A. It was the latter. My reading of the order granting remand was that the
2 Commission should “recalculate” Avista’s rates without relying on rate base that is not
3 “used and useful.”¹⁴ Accordingly, the Commission’s inquiry is not at an end, if it merely
4 “strips out” attrition rate base; it must instead “recalculate” rate base in a manner that does
5 not rely on an “attrition adjustment.”¹⁵ The obvious question is then, “what should it look
6 at?”

7 **Q. What was the level of rate base that was “used and useful” during the**
8 **affected period?**

9 A. Fortunately, we now know what that level was for 2016. In place of the \$28
10 million of attrition-related electric rate base based on attrition projections for 2016, we know
11 that the actual level of AMA rate base that was used and useful during 2016 was \$1.443
12 billion (WA Electric)¹⁶, as shown on page 2 of Exhibit No. EMA-16. This exceeds by
13 nearly \$100 million the level of assumed electric rate base (based on attrition) in the 2015
14 case for this same period in 2016 (\$1.443 billion actual versus \$1.344 billion projected
15 through attrition). In a perfect regulatory construct, the challenged 2015 electric rates should

¹⁴ April 16, 2019 Order Granting Remand, at p. 1 stated:

Because the projections of future rate base were not “used and useful” for service in Washington, we conclude that the WUTC may not base Avista’s rates on them. Accordingly, the WUTC may not base Avista’s rates on them. Accordingly, the WUTC erred in calculating Avista’s electric and natural gas rates. The WUTC order provided one lump sum attrition allowance without distinguishing what portion was for rate base and which was for O&M expenses or other considerations. We strike all portions of the attrition allowance attributable to Avista’s rate base and reverse and remand for the WUTC to recalculate Avista’s Rates without relying on rate base that is not used and useful. (emphasis added)

¹⁵ See RCW 80.04.250, Valuation of public service property. (1) The commission has power upon complaint or upon its own motion to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state and shall exercise such power whenever it deems such valuation or determination necessary or proper under any of the provisions of this title...

¹⁶ See Electric December 2016 Commission Basis Report filed on April 28, 2017; a copy of excerpted summary pages (pages 1-6) appearing in the report are provided as Exhibit No. EMA-16. See page 2, Rate Base column total \$1,442,726 (billion).

1 actually be increased on remand to reflect higher levels of actual used and useful plant than
 2 were assumed in the attrition study. We, of course, are not advocating such a result here.

3 **Q. Have you prepared a similar analysis for natural gas?**

4 A. Yes, I have. The results are included below in Table Nos. 5 through 8:

5 **Table No. 5**

NATURAL GAS SUMMARY	
Approved versus Pro Forma Rate Base (000s)	
Per Order 5: UG-150205	Total Approved Rate Base
Attrition Study Rate Base ¹	\$ 297,012
Pro Forma Rate Base: Total Contested and Uncontested Adjustments ²	<u>\$ 263,655</u>
Approved Rate Base Above Pro Forma	<u>\$ 33,357</u>
Net Revenue Requirement of Attrition Rate Base Above Pro Forma Rate Base on a Calendar Basis	<u>\$ 3,416</u>
Rate Effective Period Jan. 11, 2016 - Dec. 15, 2016 (338 / 365 days, or 92.6%) Resulting Adjusted Revenue Requirement	<u>\$ 3,163</u>
¹ Attrition rate base includes escalation of plant related balances only, not total rate base. Escalation of rate base is based on approved escalation percentages on test period net plant per Order 5.	
² Per Order 05 (Table A2)	

15 Table No. 5 shows, again, if one were to merely “strip out” the level of the natural
 16 gas attrition rate base derived from the “attrition study,” one would remove \$33.4 million of
 17 rate base.¹⁷ The revenue requirement associated with this rate base would be \$3.416 million
 18 (natural gas) for calendar 2016. Adjusting this amount to reflect the rate

¹⁷ See Exhibit No. EMA-15 pages 4 through 6 for the approved attrition rate base calculation, approved pro forma rate base per Order 05, as well as the revenue requirement calculation on the \$33.357 million difference. Page 5 represents the isolated calculation of the natural gas rate base approved in the 2015 case, based on the Commission’s approved escalation factor (16.86%) multiplied by the December 2014 rate base “Escalation Base.” Page 6 is excerpted page 97 of Order 05, Table A2, showing the approved natural gas pro forma rate base.

1 effective period (January 11, 2016 to December 15, 2016, or 338 days), the revenue
 2 requirement is approximately \$3.163 million.¹⁸ This calculated amount would be further
 3 adjusted to reflect the 50/50 revenue sharing already returned to natural gas customers for
 4 this period.

5 As can be seen in Table No. 6, under the earnings sharing calculation, Avista already
 6 refunded \$2.927 million to natural gas customers related to 2016 (based on \$5.855 million in
 7 over-earnings).

8 **Table No. 6**

2016 Natural Gas Earnings-Sharing Calculation (000s)		
Total 2016 Earnings to Share	\$	5,855
50% Earnings-Sharing		50%
Amount Paid to Customers for 2016 Over-Earnings	\$	2,927

11

12 Any natural gas refund ordered by the Commission should consider amounts already
 13 paid to customers, and how the 2015 remand of attrition-related amounts would have
 14 impacted the actual 2016 over-earnings calculation. Table No. 7 below, shows the effect of
 15 considering the 2015 remand on any refunds ordered due to the attrition-related rate base. If
 16 one were to reduce the total 2016 overearnings by the \$3.163 million related to attrition rate
 17 base, total “non-attrition” related over earnings would have been \$2.692 million (\$5.855
 18 million - \$3.163 million). Taking 50% of that amount, only \$1.346 million would have been
 19 owed (shared) to customers after considering the effect of the 2015 remand.

20

¹⁸ The rate effective period from January 11, 2016 – December 15, 2016 is approximately 338 days or 92.6% of the 2016 calendar year (338/365). The calendar rate base revenue requirement of \$3.416 million x 92.6% is \$3.163 million on an adjusted rate effective period basis.

Table No. 7

2016 Natural Gas Earnings-Sharing Paid To Customers (000s)	
Total 2016 Earnings to Share	\$ 5,855
Remove Attrition vs Pro Forma Revenue Requirement (per Table No. 5)	\$ (3,163)
Earnings Sharing Excluding Attrition Rate Base Portion	\$ 2,692
50% Share of "Non-Attrition" Earnings-Sharing Owed/Paid Customers	\$ 1,346
Actual Amount Refunded (See Table No. 6)	\$ 2,927
50% Share of Non-Attrition Rate Base Earnings Sharing Paid Customers	\$ (1,346)
Net Refund Already Paid to Offset Any Ordered Refund	\$ 1,581

Considering the actual amount refunded to customers of \$2.927 million, excluding the "non-attrition" earnings-sharing amount owed (and already refunded) to customers, would leave \$1.581 million paid to customers to apply towards any natural gas refund amount ordered related to natural gas attrition rate base.

Moreover, if the Commission were to order the refund of \$3.163 million to natural gas customers, the net amount owed customers, prior to any earnings-sharing for 2016, would then total \$4.509 million, as shown in Table No. 8:

Table No. 8

2016 Net Amount Due Customers if 2015 Refund Ordered (000s)	
Attrition Above Pro Forma Rate Base for Rate Effective Period (See Table No. 5)	\$ 3,163
2016 "Non-Attrition" Related Earnings-Sharing 50% (See Table No. 7)	\$ 1,346
Total 2016 Amount Owed Customers	\$ 4,509
Actual Amount Refunded (See Table No. 6)	\$ 2,927
Net Amount Owed Customers if Refund Ordered	\$ 1,582

After considering the total amount already refunded of \$2.927 million, the Company would, therefore, owe customers a remaining amount of \$1.582 million.

1 **Q. As with electric, is that the end of the story when it comes to natural gas**
2 **refunds?**

3 A. No, it is not. As shown on page 2 of Exhibit No. EMA-17, the actual level of
4 AMA 2016 rate base for natural gas was \$286.597 million¹⁹, while the “attrition” level of
5 rate base was \$297.012 million, meaning that the attrition adjustment produced, unlike
6 electric, a higher level of natural gas rate base than what actually occurred (\$297.012 million
7 - \$286.597 million = \$10.415 million). This overstated natural gas rate base of \$10.415
8 million translates into a revenue requirement of approximately \$1.0 million²⁰, but which is
9 entirely offset by the \$1.582 million of shared earnings for natural gas in 2016 already paid
10 (as shown in Table No. 7). In the end, we believe that no refund is owing to natural gas
11 customers either.

12 **Q. In conclusion, should there be any refund owing to customers as a result**
13 **of this proceeding?**

14 A. No. This remand should be resolved with no further adjustment to electric or
15 natural gas rates for this prior time period (2016). All of the information necessary to make
16 this determination already exists and has been presented in these Docket Nos. UE-150204
17 and UG-150205 (2015 case), in the filed December 2016 Commission Basis Reports (see

¹⁹ See Natural Gas December 2016 Commission Basis Report filed on April 28, 2017; a copy of excerpted summary pages (pages 1-5) appearing in the report are provided as Exhibit No. EMA-17. See page 2, Rate Base column total \$286.597 million.

²⁰ See calculation of revenue requirement (\$1.067 million) of overstated natural gas rate base of \$10.415 million at page 5 of Exhibit No. EMA-15.

- 1 Exhibit Nos. EMA-16 and EMA-17), and in relevant evidence in Docket Nos. UE-160228
- 2 and UG-160229 (2016 case) (see Exhibit Nos. EMA-13, EMA-14, EMA-18 and EMA-19).²¹

²¹ Furthermore, the impact of new legislation changes to RCW 80.04.250 provides the Commission with additional flexibility in determining what rate base is “used and useful.”