BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-17________

DOCKET NO. UG-17________

EXH. EMA-3

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

(Pro Forma including EOP 2017 Capital / Adjusted Capital Structure)

(Electric)

AVISTA UTILITIES

WASHINGTON ELECTRIC RESULTS

INCLUDING EOP 2017 CAPITAL & ADJUSTED CAPITAL STRUCTURE

TWELVE MONTHS ENDED DECEMBER 31, 2016

(000'S OF DOLLARS)

		May 1, 2018				
		WITH PRESENT RATES			WITH 05.2018 PROPOSED RATES	
Line No.	DESCRIPTION	Actual Per Results Report	Total Adjustments	05.2018 Adjusted Total (1)	Proposed Revenues & Related Exp	2018 Proposed Total
	a	*b*	*c*	*d*	*e*	*f*
	REVENUES					
1	Total General Business	$516,333	($25,145)	$491,188	$61,356	$552,544
2	Interdepartmental Sales	946	-	946		946
3	Sales for Resale	78,098	(42,535)	35,563		35,563
4	Total Sales of Electricity	595,377	(67,680)	527,697	61,356	589,053
5	Other Revenue	81,735	(68,703)	13,032		13,032
6	Total Electric Revenue	677,112	(136,383)	540,729	61,356	602,085
	EXPENSES					
	Production and Transmission					
7	Operating Expenses	184,672	(51,219)	133,453		133,453
8	Purchased Power	96,772	(23,552)	73,220		73,220
9	Depreciation/Amortization	26,677	1,440	28,117		28,117
10	Regulatory Amortization	4,310	(998)	3,312		3,312
11	Taxes	14,904	1,664	16,568		16,568
12	Total Production & Transmission	327,335	(72,665)	254,670	-	254,670
	Distribution					
13	Operating Expenses	21,420	182	21,602		21,602
14	Depreciation/Amortization	27,913	1,925	29,838		29,838
15	Regulatory Amortization	-	-	-		-
16	Taxes	45,258	(17,474)	27,784	2,361	30,145
17	Total Distribution	94,591	(15,367)	79,224	2,361	81,585
18	Customer Accounting	11,733	1,561	13,294	404	13,698
19	Customer Service & Information	18,081	(16,651)	1,430		1,430
20	Sales Expenses	-	-	-		-
	Administrative & General					
21	Operating Expenses	50,568	260	50,828	123	50,951
22	Depreciation/Amortization	23,877	7,777	31,654		31,654
23	Taxes	-	-	-		-
24	Total Admin. & General	74,445	8,037	82,482	123	82,605
25	Total Electric Expenses	526,185	(95,085)	431,100	2,888	433,988
26	OPERATING INCOME BEFORE FIT	150,927	(41,298)	109,629	58,468	168,097
	FEDERAL INCOME TAX					
27	Current Accrual	(25,741)	(15,594)	(41,335)	20,464	(20,871)
28	Debt Interest	-	(1,448)	(1,448)		(1,448)
29	Deferred Income Taxes	66,436	755	67,191		67,191
30	Amortized Investment Tax Credit	(325)	(1)	(326)		(326)
31	NET OPERATING INCOME	$110,557	($25,010)	$85,547	$38,004	$123,551
	RATE BASE					
	PLANT IN SERVICE					
32	Intangible	$156,057	$30,200	$186,257		$186,257
33	Production	832,833	80,710	913,543		913,543
34	Transmission	430,613	52,623	483,236		483,236
35	Distribution	970,455	104,531	1,074,986		1,074,986
36	General	233,266	25,741	259,007		259,007
37	Total Plant in Service	2,623,224	293,805	2,917,029	-	2,917,029
	ACCUMULATED DEPRECIATION					
38	Intangible	(30,914)	(15,109)	(46,023)		(46,023)
39	Production	(351,625)	(10,712)	(362,337)		(362,337)
40	Transmission	(135,624)	(5,984)	(141,608)		(141,608)
41	Distribution	(295,383)	(37,303)	(332,686)		(332,686)
42	General	(80,093)	(10,045)	(90,138)		(90,138)
43	Total Accumulated Depreciation	(893,639)	(79,153)	(972,792)	-	(972,792)
44	NET PLANT BEFORE DFIT	1,729,585	214,652	1,944,237	-	1,944,237
45	DEFERRED TAXES	(354,707)	(59,061)	(413,768)		(413,768)
46	NET PLANT AFTER DFIT	1,374,878	155,591	1,530,469	-	1,530,469
47	DEFERRED DEBITS AND CREDITS	4,568	(5,346)	(778)		(778)
48	WORKING CAPITAL	65,480	(3,006)	62,474		62,474
50	TOTAL RATE BASE	$1,444,926	$147,239	$1,592,165	$0	$1,592,165
51	RATE OF RETURN	7.65%		5.37%		7.76%

AVISTA UTILITIES
CALCULATION OF REQUESTED GENERAL REVENUE REQUIREMENT
WASHINGTON ELECTRIC
TWELVE MONTHS ENDED DECEMBER 31, 2016

Line No.	Description	Requested Base Rate Change 5/1/2018 (000's of Dollars)	Tariff 93 Expiration (000's of Dollars)	Billed Impact 5/1/2018 (000's of Dollars)
1	Pro Forma Rate Base	$ 1,592,165		
2	Proposed Rate of Return	7.76%		
3	Net Operating Income Requirement	$123,552	($9,276)	$114,276
4	Pro Forma Net Operating Income	85,547		85,547
5	Net Operating Income Deficiency	$38,005	($9,276)	$28,730
6	Conversion Factor	0.619413	0.619413	0.619413
7	Revenue Requirement	**$61,356**	($14,976)	**$46,380**
8	Total General Business Revenues	$492,134		
9	Percentage Revenue Increase	**12.47%**		
10	Total Billed General Business Revenues	$511,823	$14,976	$526,799
11	Percentage Revenue Increase	**11.99%**	**-2.93%**	**8.80%**

K-Factor Rate Adjustment for Rate Years 2 & 3 (5/1/2019 & 5/1/2020)

12	**K-Factor %**	**3.21%**	**per Exh. EMA-4, pg. 7**	
13	**Delivery & Power Plant Revenues 5/1/2018** *($390,850 + $61,332 - $16,609 = $435,573)* *	**$ 435,597**		
		Incremental Revenue	**Incremental % (Base)**	**Incremental % (Billed)**
14	**Rate Year 2: 5/1/2019 - 4/30/2020**	**$ 13,983**	2.53%	**2.44%**
15	**Delivery & Power Plant Revenues 5/1/2019** *($435,573+$13,982 = $449,555)*	**$ 449,580**		
16	**Rate Year 3: 5/1/2020 - 4/30/2021**	**$ 14,432**	2.54%	**2.46%**

* Current Delivery & Power Plant Revenues per Exh. EMA-4, pg 7	$390,850
5/1/2018 Proposed Revenue Increase from line 7, includes Pro Forma Power Supply ($16.609 million)	$61,356
Pro Forma Power Supply per Exh. EMA-3, pg	$16,609

AVISTA UTILITIES
PROPOSED COST OF CAPITAL
WASHINGTON ELECTRIC

Proposed Capital Structure*

Component	Capital Structure	Cost	Weighted Cost
Total Debt	50.0%	5.62%	2.81%
Common	50.0%	9.90%	4.95%
Total	100.00%		7.76%

* Based on rate year estimated capital structure and cost of debt.

AVISTA UTILITIES
REVENUE CONVERSION FACTOR
WASHINGTON ELECTRIC
TWELVE MONTHS ENDED DECEMBER 31, 2016

Line No.	Description	*Factor*
1	**Revenues**	*1.000000*
	Expense:	
2	Uncollectibles	*0.006578*
3	Commission Fees	*0.002000*
4	Washington Excise Tax	*0.038479*
6	Total Expense	*0.047057*
7	Net Operating Income Before FIT	*0.952943*
8	Federal Income Tax @ 35%	*0.333530*
9	**REVENUE CONVERSION FACTOR**	*0.619413*

AVISTA UTILITIES
WASHINGTON ELECTRIC RESULTS
INCLUDING EOP 2017 CAPITAL & ADJUSTED CAPITAL STRUCTURE
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Actual Results: Results of Operations	RESTATEMENT ADJUSTMENTS: Deferred FIT Rate Base	Deferred Debits and Credits	Working Capital	Eliminate B & O Taxes	Restate Property Tax	Uncollect. Expense	Regulatory Expense
	Adjustment Number	1.00	1.01	1.02	1.03	2.01	2.02	2.03	2.04
	Workpaper Reference	E-ROO	E-DFIT	E-DDC	E-WC	E-EBO	E-RPT	E-UE	E-RE
	REVENUES								
1	Total General Business	$516,333	$0	$0	$0	($17,807)	$0	$0	$0
2	Interdepartmental Sales	946	-	-	-	-	-	-	-
3	Sales for Resale	78,098	-	-	-	-	-	-	-
4	Total Sales of Electricity	595,377	-	-	-	(17,807)	-	-	-
5	Other Revenue	81,735	-	-	-	(14)	-	-	-
6	Total Electric Revenue	677,112	-	-	-	(17,821)	-	-	-
	EXPENSES								
	Production and Transmission								
7	Operating Expenses	184,672	-	4	-	-	-	-	-
8	Purchased Power	96,772	-		-	-	-	-	-
9	Depreciation/Amortization	26,677	-	-	-	-	-	-	0
10	Regulatory Amortization	4,310	-	-	-	-	-	-	-
11	Taxes	14,904	-	-	-	-	86	-	-
12	Total Production & Transmission	327,335	-	4	-	-	86	-	-
	Distribution								
13	Operating Expenses	21,420	-	-	-	-	-	-	-
14	Depreciation/Amortization	27,913	-	-	-	-	-	-	-
15	Regulatory Amortization	0	-	-	-	-	-	-	-
16	Taxes	45,258	-	-	-	(17,674)	(336)	-	-
17	Total Distribution	94,591	-	-	-	(17,674)	(336)	-	-
18	Customer Accounting	11,733	-	8	-	-	-	1,321	-
19	Customer Service & Information	18,081	-	-	-	-	-	-	-
20	Sales Expenses	0	-	-	-	-	-	-	-
	Administrative & General								
21	Operating Expenses	50,568	-	-	-	-	-	-	7
22	Depreciation/Amortization	23,877	-	-	-	-	-	-	-
23	Taxes	0	-	-	-	-	-	-	-
24	Total Admin. & General	74,445	-	-	-	-	-	-	7
25	Total Electric Expenses	526,185	-	12	-	(17,674)	(250)	1,321	7
26	OPERATING INCOME BEFORE FIT	150,927	-	(12)	-	(147)	250	(1,321)	(7)
	FEDERAL INCOME TAX								
27	Current Accrual	(25,741)	-	(4)	-	(51)	88	(462)	(2)
28	Debt Interest	0	(8)	-	30	-	-	-	-
29	Deferred Income Taxes	66,436	-	-	-	-	-	-	-
30	Amortized ITC - Noxon	(325)	-	-	-	-	-	-	-
31	NET OPERATING INCOME	$110,557	$8	($8)	($30)	($96)	$163	($859)	($5)
	RATE BASE								
	PLANT IN SERVICE								
32	Intangible	$156,057	$0	$0	$0	$0	$0	$0	$0
33	Production	832,833	-	-	-	-	-	-	-
34	Transmission	430,613	-	-	-	-	-	-	-
35	Distribution	970,455	-	-	-	-	-	-	-
36	General	233,266	-	-	-	-	-	-	-
37	Total Plant in Service	2,623,224	-	-	-	-	-	-	-
	ACCUMULATED DEPRECIATION/AMORT								
38	Intangible	(30,914)	-	-	-	-	-	-	-
39	Production	(351,625)	-	-	-	-	-	-	-
40	Transmission	(135,624)	-	-	-	-	-	-	-
41	Distribution	(295,383)	-	-	-	-	-	-	-
42	General	(80,093)	-	-	-	-	-	-	-
43	Total Accumulated Depreciation	(893,639)	-	-	-	-	-	-	-
44	NET PLANT	1,729,585	-	-	-	-	-	-	-
45	DEFERRED TAXES	(354,707)	806	-	-	-	-	-	-
46	Net Plant After DFIT	1,374,878	806	-	-	-	-	-	-
47	DEFERRED DEBITS AND CREDITS & OTHER	4,568	-	-	-	-	-	-	-
48	WORKING CAPITAL	65,480	-	-	(3,006)	-	-	-	-
49	TOTAL RATE BASE	1,444,926	$806	$0	($3,006)	$0	$0	$0	$0
50	RATE OF RETURN	7.65%							
51	REVENUE REQUIREMENT	2,533	88	13	(329)	154	(262)	1,386	7

AVISTA UTILITIES
WASHINGTON ELECTRIC RESULTS
INCLUDING EOP 2017 CAPITAL & ADJUSTED CAPITAL
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Injuries and Damages	FIT/DFIT/ ITC Expense	Office Space Charges to Non-Utility	Restate Excise Taxes	Net Gains / Losses	Weather Normalization	Eliminate Adder Schedules	Misc. Restating Non-Util / Non-Recurring Expenses
	Adjustment Number	2.05	2.06	2.07	2.08	2.09	2.10	2.11	2.12
	Workpaper Reference	E-ID	E-FIT	E-OSC	E-RET	E-NGL	E-WN	E-EAS	E-MR
	REVENUES								
1	Total General Business	$0	$0	$0	$0	$0	$7,392	($18,203)	$0
2	Interdepartmental Sales	-	-	-	-	-	-	-	-
3	Sales for Resale	-	-	-	-	-	-	-	-
4	Total Sales of Electricity	-	-	-	-	-	7,392	(18,203)	-
5	Other Revenue	-	-	-	-	-	(5,775)	684	(2,566)
6	Total Electric Revenue	-	-	-	-	-	1,617	(17,519)	(2,566)
	EXPENSES								
	Production and Transmission								
7	Operating Expenses	-	-	-	-	-	-	(383)	(5)
8	Purchased Power	-	-	-	-	-	-	-	-
9	Depreciation/Amortization	-	-	-	-	-	-	-	-
10	Regulatory Amortization	-	-	-	-	-	-	395	-
11	Taxes	-	-	-	-	-	-	-	-
12	Total Production & Transmission	-	-	-	-	-	-	12	(5)
	Distribution								
13	Operating Expenses	-	-	-	-	-	-	-	(2)
14	Depreciation/Amortization	-	-	-	-	(94)	-	-	-
15	Regulatory Amortization	-	-	-	-	-	-	-	-
16	Taxes	-	-	-	(62)	-	284	(700)	-
17	Total Distribution	-	-	-	(62)	(94)	284	(700)	(2)
18	Customer Accounting	-	-	-	-	-	49	(120)	-
19	Customer Service & Information	-	-	-	-	-	-	(16,675)	-
20	Sales Expenses	-	-	-	-	-	-	-	-
	Administrative & General								
21	Operating Expenses	151	-	(31)	-	-	15	(36)	(1,068)
22	Depreciation/Amortization	-	-	-	-	-	-	-	-
23	Taxes	-	-	-	-	-	-	-	-
24	Total Admin. & General	151	-	(31)	-	-	15	(36)	(1,068)
25	Total Electric Expenses	151	-	(31)	(62)	(94)	348	(17,519)	(1,075)
26	OPERATING INCOME BEFORE FIT	(151)	-	31	62	94	1,269	-	(1,491)
	FEDERAL INCOME TAX								
27	Current Accrual	(53)	110	11	22	33	444	-	(522)
28	Debt Interest	-	-	-	-	-	-	-	-
29	Deferred Income Taxes	-	(40)	-	-	-	-	-	-
30	Amortized ITC - Noxon	-	(1)	-	-	-	-	-	-
31	NET OPERATING INCOME	($98)	($69)	$20	$40	$61	$825	$0	($969)
	RATE BASE								
	PLANT IN SERVICE								
32	Intangible	$0	$0	$0	$0	$0	$0	$0	$0
33	Production	-	-	-	-	-	-	-	-
34	Transmission	-	-	-	-	-	-	-	-
35	Distribution	-	-	-	-	-	-	-	-
36	General	-	-	-	-	-	-	-	-
37	Total Plant in Service	-	-	-	-	-	-	-	-
	ACCUMULATED DEPRECIATION/AMORT								
38	Intangible	-	-	-	-	-	-	-	-
39	Production	-	-	-	-	-	-	-	-
40	Transmission	-	-	-	-	-	-	-	-
41	Distribution	-	-	-	-	-	-	-	-
42	General	-	-	-	-	-	-	-	-
43	Total Accumulated Depreciation	-	-	-	-	-	-	-	-
44	NET PLANT	-	-	-	-	-	-	-	-
45	DEFERRED TAXES	-	-	-	-	-	-	-	-
46	Net Plant After DFIT	-	-	-	-	-	-	-	-
47	DEFERRED DEBITS AND CREDITS & OTHER	-	-	-	-	-	-	-	-
48	WORKING CAPITAL	-	-	-	-	-	-	-	-
49	TOTAL RATE BASE	$0	$0	$0	$0	$0	$0	$0	$0
50	RATE OF RETURN								
51	REVENUE REQUIREMENT	158	111	(33)	(65)	(99)	(1,332)	-	1,565

AVISTA UTILITIES
WASHINGTON ELECTRIC RESULTS
INCLUDING EOP 2017 CAPITAL & ADJUSTED CAPITAL
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Eliminate WA Power Cost Defer	Nez Perce Settlement Adjustment	Restating Incentives	Normalize CS2/Colstrip Major Maint	Restate Debt Interest	(Authorized P.S. @ Authorized P/T ratio) Authorized Power Supply	Restated TOTAL
	Adjustment Number	**2.13**	**2.14**	**2.15**	**2.16**	**2.17**	**2.18**	**R-Ttl**
	Workpaper Reference	**E-EWPC**	**E-NPS**	**E-RI**	**E-PMM**	**E-RDI**	**E-APS**	
	REVENUES							
1	Total General Business	$4,698	$0	$0	$0	$0	$0	**$492,413**
2	Interdepartmental Sales	`	-	-	-	-	-	**946**
3	Sales for Resale	-	-	-	-	-	(20,773)	**57,325**
4	Total Sales of Electricity	4,698	-	-	-	-	(20,773)	**550,684**
5	Other Revenue	-	-	-	-	-	(56,948)	**17,116**
6	Total Electric Revenue	4,698	-	-	-	-	(77,721)	**567,800**
	EXPENSES							
	Production and Transmission							
7	Operating Expenses	(2,270)	(4)	-	(1,174)	-	(46,240)	**134,600**
8	Purchased Power	-	-	-	-	-	(19,641)	**77,131**
9	Depreciation/Amortization	-	-	-	-	-	-	**26,677**
10	Regulatory Amortization	-	-	-	-	-		**4,705**
11	Taxes	-	-	-	-	-	-	**14,990**
12	Total Production & Transmission	(2,270)	(4)	-	(1,174)	-	(65,881)	**258,103**
	Distribution							
13	Operating Expenses	-	-		-	-	-	**21,418**
14	Depreciation/Amortization	-	-	-	-	-	-	**27,819**
15	Regulatory Amortization	-	-	-	-	-	-	**-**
16	Taxes	181	-	-	-	-	-	**26,951**
17	Total Distribution	181	-	-	-	-	-	**76,188**
18	Customer Accounting	30	-	-	-	-	-	**13,021**
19	Customer Service & Information	-	-	-	-	-	-	**1,406**
20	Sales Expenses	-	-	-	-	-	-	**-**
	Administrative & General							
21	Operating Expenses	9	-	(626)	-	-	-	**48,989**
22	Depreciation/Amortization	-	-	-	-	-	-	**23,877**
23	Taxes	-	-	-	-	-	-	**-**
24	Total Admin. & General	9	-	(626)	-	-	-	**72,866**
25	Total Electric Expenses	(2,050)	(4)	(626)	(1,174)	-	(65,881)	**421,584**
26	OPERATING INCOME BEFORE FIT	6,748	4	626	1,174	-	(11,840)	**146,216**
	FEDERAL INCOME TAX							
27	Current Accrual	1,567	1	219	411	(455)	(4,144)	**(28,530)**
28	Debt Interest	-	-	-	-		-	**22**
29	Deferred Income Taxes	795	-	-	-	-	-	**67,191**
30	Amortized ITC - Noxon	-	-	-	-	-	-	**(326)**
31	NET OPERATING INCOME	$4,386	$3	407	763	455	($7,696)	**107,859**
	RATE BASE							
	PLANT IN SERVICE							
32	Intangible	$0	$0	$0	$0	$0	$0	**$156,057**
33	Production	-	-	-	-	-	-	**832,833**
34	Transmission	-	-	-	-	-	-	**430,613**
35	Distribution	-	-	-	-	-	-	**970,455**
36	General	-	-	-	-	-	-	**233,266**
37	Total Plant in Service	-	-	-	-	-	-	**2,623,224**
	ACCUMULATED DEPRECIATION/AMORT						-	
38	Intangible	-	-	-	-	-	-	**(30,914)**
39	Production	-	-	-	-	-	-	**(351,625)**
40	Transmission	-	-	-	-	-	-	**(135,624)**
41	Distribution	-	-	-	-	-	-	**(295,383)**
42	General	-	-	-	-	-	-	**(80,093)**
43	Total Accumulated Depreciation	-	-	-	-	-	-	**(893,639)**
44	NET PLANT	-	-	-	-	-	-	**1,729,585**
45	DEFERRED TAXES	-	-	-	-	-	-	**(353,901)**
46	Net Plant After DFIT	-	-	-	-	-	-	**1,375,684**
47	DEFERRED DEBITS AND CREDITS & OTHER	-	-	-	-	-	-	**4,568**
48	WORKING CAPITAL	-	-	-	-	-	-	**62,474**
49	TOTAL RATE BASE	$0	$0	$0	$0	$0	$0	**$1,442,726**
50	RATE OF RETURN							**(1)**
51	REVENUE REQUIREMENT	(7,081)	(4)	(657)	(1,232)	(735)	12,425	6,614

(1) The Restated TOTAL column does not represent 12/31/2016 Test Period Commission Basis results of operation on a normalized basis (CBR basis). Two differences exist here: 1) inclusion of proposed (Pro Forma) cost debt impacting Adj. 2.17 above; and 2) Authorized (ERM) Power Supply (Adj 2.18 above) versus revised Authorized Power Supply (CB) which included the updated Production/ Transmission (P/T) ratio. The P/T ratio update is included in PF Adj. 4.00 to seperate increased power supply costs from non-energy realted costs.

PRO FORMA ADJUSTMENTS

AVISTA UTILITIES
WASHINGTON ELECTRIC RESULTS
INCLUDING EOP 2017 CAPITAL & ADJUSTED CAPITAL
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

Line No.	DESCRIPTION	NON ERM Pro Forma Trans/Power Sup Non-ERM Rev/Exp	Pro Forma Labor Non-Exec	Pro Forma Labor Exec	Pro Forma Employee Benefits	Pro Forma Incentive Expenses	Pro Forma Property Tax	Pro Forma IS/IT Expense	Pro Forma Revenue Normalization
	Adjustment Number	**3.01**	**3.02**	**3.03**	**3.04**	**3.05**	**3.06**	**3.07**	**3.08**
	Workpaper Reference	**E-PTR**	**E-PLN**	**E-PLE**	**E-PEB**	**E-PI**	**E-PPT**	**E-CI**	**E-PREV**
	REVENUES								
1	Total General Business	$0	$0	$0	$0	$0	$0	$0	($1,225)
2	Interdepartmental Sales	-	-	-	-	-	-	-	-
3	Sales for Resale	-	-	-	-	-	-	-	-
4	Total Sales of Electricity	-	-	-	-	-	-	-	(1,225)
5	Other Revenue	71	-	-	-	-	-	-	(3,887)
6	Total Electric Revenue	71	-	-	-	-	-	-	(5,112)
	EXPENSES								
	Production and Transmission								
7	Operating Expenses	172	999	-	(125)	-	-	-	-
8	Purchased Power	-	-	-		-	-	-	-
9	Depreciation/Amortization	-	-	-	-	-	-	-	-
10	Regulatory Amortization					-	-	-	-
11	Taxes	-	-	-	-	-	1,578	-	-
12	Total Production & Transmission	172	999	-	(125)	-	1,578	-	-
	Distribution								
13	Operating Expenses	-	604		(77)		-	-	-
14	Depreciation/Amortization	-	-	-	-	-	-	-	-
15	Regulatory Amortization	-	-	-	-	-	-	-	-
16	Taxes	-	-	-	-	-	880	-	(47)
17	Total Distribution	-	604	-	(77)	-	880	-	(47)
18	Customer Accounting	-	322	-	(41)	-	-	-	(8)
19	Customer Service & Information	-	27	-	(3)	-	-	-	-
20	Sales Expenses	-				-	-	-	-
	Administrative & General								
21	Operating Expenses	-	912	(33)	(114)	119	-	694	(2)
22	Depreciation/Amortization	-	-	-	-	-	-	-	-
23	Taxes	-	-	-	-	-	-	-	-
24	Total Admin. & General	-	912	(33)	(114)	119	-	694	(2)
25	Total Electric Expenses	172	2,864	(33)	(360)	119	2,458	694	(57)
26	OPERATING INCOME BEFORE FIT	(101)	(2,864)	33	360	(119)	(2,458)	(694)	(5,055)
	FEDERAL INCOME TAX								
27	Current Accrual	(35)	(1,002)	12	126	(42)	(860)	(243)	(1,769)
28	Debt Interest	-	-	-	-	-	-	-	-
29	Deferred Income Taxes	-	-	-	-	-	-	-	-
30	Amortized ITC - Noxon	-	-	-	-	-	-	-	-
31	NET OPERATING INCOME	($66)	($1,862)	$21	$234	($77)	($1,598)	($451)	(3,286)
	RATE BASE								
	PLANT IN SERVICE								
32	Intangible	$0	$0	$0	$0	$0	$0	$0	$0
33	Production	-	-	-	-	-	-	-	-
34	Transmission	-	-	-	-	-	-	-	-
35	Distribution	-	-	-	-	-	-	-	-
36	General	-	-	-	-	-	-	-	-
37	Total Plant in Service	-	-	-	-	-	-	-	-
	ACCUMULATED DEPRECIATION/AMORT	-	-	-	-				
38	Intangible	-	-	-	-	-	-	-	-
39	Production	-	-	-	-	-	-	-	-
40	Transmission	-	-	-	-	-	-	-	-
41	Distribution	-	-	-	-	-	-	-	-
42	General	-	-	-	-	-	-	-	-
43	Total Accumulated Depreciation	-	-	-	-	-	-	-	-
44	NET PLANT	-	-	-	-	-	-	-	-
45	DEFERRED TAXES	-	-	-	-	-	-	-	-
46	Net Plant After DFIT	-	-	-	-	-	-	-	-
47	DEFERRED DEBITS AND CREDITS & OTHER	-	-	-	-	-	-	-	-
48	WORKING CAPITAL	-	-	-	-	-	-	-	-
49	TOTAL RATE BASE	$0	$0	$0	$0	$0	$0	$0	$0
50	RATE OF RETURN								
51	REVENUE REQUIREMENT	106	3,005	(35)	(378)	125	2,579	728	5,305

AVISTA UTILITIES
WASHINGTON ELECTRIC RESULTS
INCLUDING EOP 2017 CAPITAL & ADJUSTED CAPITAL
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Def. Debits, Credits & Regulatory Amorts	Pro Forma 2017 Threshhold Capital Adds	Pro Forma O&M Offsets	Pro Forma Director Fees Exp	PF Normalize CS2/Colstrip Major Maint	Pro Forma Underground Equip Inspection	Non-Energy Pro Forma Sub-Total
	Adjustment Number	3.09	3.10	3.11	3.12	3.13	3.14	PF-SubTtl
	Workpaper Reference	E-PRA	E-PCAP16	E-POFF	E-PDF	E-PNM	E-PUEI	
	REVENUES							
1	Total General Business	$0	$0	$0	$0	$0	$0	$491,188
2	Interdepartmental Sales	-	-	-	-	-	-	946
3	Sales for Resale	-	-	-	-	-	-	57,325
4	Total Sales of Electricity	-	-	-	-	-	-	549,459
5	Other Revenue	-	-	-	-	-	-	13,300
6	Total Electric Revenue	-	-	-	-	-	-	562,759
	EXPENSES							
	Production and Transmission							-
7	Operating Expenses	(248)	-	-	-	347	-	135,745
8	Purchased Power	-	-	-	-	-	-	77,131
9	Depreciation/Amortization	-	129	-	-	-	-	26,806
10	Regulatory Amortization	(1,393)		-	-	-	-	3,312
11	Taxes	-	-	-	-	-	-	16,568
12	Total Production & Transmission	(1,641)	129	-	-	347	-	259,562
	Distribution							-
13	Operating Expenses	-	-	(875)	-	-	532	21,602
14	Depreciation/Amortization	-	795	-	-	-	-	28,614
15	Regulatory Amortization	-	-	-	-	-	-	-
16	Taxes	-	-	-	-	-	-	27,784
17	Total Distribution	-	795	(875)	-	-	532	78,000
18	Customer Accounting	-	-	-	-	-	-	13,294
19	Customer Service & Information	-	-	-	-	-	-	1,430
20	Sales Expenses	-	-	-	-	-	-	-
	Administrative & General							
21	Operating Expenses	-	-	(112)	375	-	-	50,828
22	Depreciation/Amortization	-	2,297	-	-	-	-	26,174
23	Taxes	-	-	-	-	-	-	-
24	Total Admin. & General	-	2,297	(112)	375	-	-	77,002
25	Total Electric Expenses	(1,641)	3,221	(987)	375	347	532	429,288
26	OPERATING INCOME BEFORE FIT	1,641	(3,221)	987	(375)	(347)	(532)	133,471
	FEDERAL INCOME TAX							
27	Current Accrual	574	(1,127)	345	(131)	(121)	(186)	(32,990)
28	Debt Interest	53	(343)	-	-	-	-	(269)
29	Deferred Income Taxes	-	-	-	-	-	-	67,191
30	Amortized ITC - Noxon	-	-	-	-	-	-	(326)
31	NET OPERATING INCOME	$1,014	($1,750)	642	(244)	(226)	(346)	99,866
	RATE BASE							
	PLANT IN SERVICE							
32	Intangible	$0	$10,319	$0	$0	$0	$0	$166,376
33	Production	-	6,889	-	-	-	-	839,722
34	Transmission	-	-	-	-	-	-	430,613
35	Distribution	-	27,209	-	-	-	-	997,664
36	General	-	-	-	-	-	-	233,266
37	Total Plant in Service	-	44,417	-	-	-	-	2,667,641
	ACCUMULATED DEPRECIATION/AMORT							
38	Intangible	-	(1,092)	-	-	-	-	(32,006)
39	Production	-	(95)	-	-	-	-	($351,720)
40	Transmission	-	-	-	-	-	-	(135,624)
41	Distribution	-	(327)	-	-	-	-	(295,710)
42	General	-	-	-	-	-	-	(80,093)
43	Total Accumulated Depreciation	-	(1,514)	-	-	-	-	(895,153)
44	NET PLANT	-	42,903	-	-	-	-	1,772,488
45	DEFERRED TAXES	-	(7,992)	-	-	-	-	(361,893)
46	Net Plant After DFIT	-	34,911	-	-	-	-	1,410,595
47	DEFERRED DEBITS AND CREDITS & OTHER	(5,346)	-	-	-	-	-	(778)
48	WORKING CAPITAL	-	-	-	-	-	-	62,474
49	TOTAL RATE BASE	(5,346)	$34,911	$0	$0	$0	$0	1,472,291
50	RATE OF RETURN							
51	REVENUE REQUIREMENT	(2,307)	7,199	(1,036)	394	364	558	23,222
								Pro Forma Non-Energy
								4.72%

AVISTA UTILITIES
WASHINGTON ELECTRIC RESULTS
INCLUDING EOP 2017 CAPITAL & ADJUSTED CAPITAL
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

Line No.	DESCRIPTION	EOP 2017 Capital Net Rate Base	Non-Energy EOP Pro Forma Sub-Total	ERM Related Only Pro Forma Power Supply & Transm Revs	EOP Pro Forma Including PS Total	Tariff 93 expires upon effective date of new base rates from this GRC 9/1/2017 Power Supply Update Tariff Schedule 93	Incremental impact of Pro Forma Power Supply and Expiration of Schedule 93 Power Supply Incremental (Billed) Impact Increase / (Decrease)
	Adjustment Number	3.15	PF-SubTtl	4.00	PF-Ttl		
	Workpaper Reference	E-EOPCAP17		E-PPS			
	REVENUES						
1	Total General Business	$0	$491,188	$0	$491,188	$0	$0
2	Interdepartmental Sales	-	946	-	946	-	-
3	Sales for Resale	-	57,325	(21,762)	35,563	(26,116)	4,354
4	Total Sales of Electricity	-	549,459	(21,762)	527,697	(26,116)	4,354
5	Other Revenue	-	13,300	(268)	13,032	-	(268)
6	Total Electric Revenue	-	562,759	(22,030)	540,729	(26,116)	4,086
	EXPENSES						
	Production and Transmission		-		-		
7	Operating Expenses	-	135,745	(2,292)	133,453	(5,139)	2,847
8	Purchased Power	-	77,131	(3,911)	73,220	(6,706)	2,795
9	Depreciation/Amortization	1,311	28,117	-	28,117	-	-
10	Regulatory Amortization		3,312		3,312		-
11	Taxes	-	16,568	-	16,568	-	-
12	Total Production & Transmission	1,311	260,873	(6,203)	254,670	(11,845)	5,642
	Distribution		-				
13	Operating Expenses	-	21,602	-	21,602	-	-
14	Depreciation/Amortization	1,224	29,838	-	29,838	-	-
15	Regulatory Amortization	-	-	-	-	-	-
16	Taxes	-	27,784	-	27,784	-	-
17	Total Distribution	1,224	79,224	-	79,224	-	-
18	Customer Accounting	-	13,294	-	13,294	-	-
19	Customer Service & Information	-	1,430	-	1,430	-	-
20	Sales Expenses	-	-	-	-	-	-
	Administrative & General						
21	Operating Expenses	-	50,828	-	50,828	-	-
22	Depreciation/Amortization	5,480	31,654	-	31,654	-	-
23	Taxes	-	-	-	-	-	-
24	Total Admin. & General	5,480	82,482	-	82,482	-	-
25	Total Electric Expenses	8,015	437,303	(6,203)	431,100	(11,845)	5,642
26	OPERATING INCOME BEFORE FIT	(8,015)	125,456	(15,827)	109,629	(14,271)	(1,556)
	FEDERAL INCOME TAX						
27	Current Accrual	(2,805)	(35,796)	(5,539)	(41,335)	(4,995)	(545)
28	Debt Interest	(1,179)	(1,448)	-	(1,448)	-	-
29	Deferred Income Taxes	-	67,191	-	67,191	-	-
30	Amortized ITC - Noxon	-	(326)	-	(326)	-	-
31	NET OPERATING INCOME	($4,031)	95,835	($10,288)	85,547	($9,276)	($1,011)
	RATE BASE						
	PLANT IN SERVICE						
32	Intangible	$19,881	$186,257	$0	$186,257	$0	$0
33	Production	73,821	913,543	-	913,543	-	-
34	Transmission	52,623	483,236	-	483,236	-	-
35	Distribution	77,322	1,074,986	-	1,074,986	-	-
36	General	25,741	259,007	-	259,007	-	-
37	Total Plant in Service	249,388	2,917,029	-	2,917,029	-	-
	ACCUMULATED DEPRECIATION/AMORT						
38	Intangible	(14,017)	(46,023)	-	(46,023)	-	-
39	Production	(10,617)	($362,337)	-	($362,337)	-	-
40	Transmission	(5,984)	(141,608)	-	(141,608)	-	-
41	Distribution	(36,976)	(332,686)	-	(332,686)	-	-
42	General	(10,045)	(90,138)	-	(90,138)	-	-
43	Total Accumulated Depreciation	(77,639)	(972,792)	-	(972,792)	-	-
44	NET PLANT	171,749	1,944,237	-	1,944,237	-	-
45	DEFERRED TAXES	(51,875)	(413,768)	-	(413,768)	-	-
46	Net Plant After DFIT	119,874	1,530,469	-	1,530,469	-	-
47	DEFERRED DEBITS AND CREDITS & OTHER	-	(778)	-	(778)	-	-
48	WORKING CAPITAL	-	62,474	-	62,474	-	-
49	TOTAL RATE BASE	119,874	1,592,165	$0	1,592,165	$0	$0
50	RATE OF RETURN						
51	REVENUE REQUIREMENT	21,525	44,748	16,609	61,356	14,976	1,633
			Pro Forma Non-Energy	ERM Power Supply Adj	Ttl Pro Forma w/ PS	Sch. 93 PS Update	Incremental Increase / (Decrease) in PS Costs
			9.09%	3.37%	12.47%	*2.93%*	*0.32%*

<u>Exh. EMA-3 – Electric End of Period Rate Base Study</u>

Q. Please explain the purpose of the electric EOP Rate Base Study.

A. The Company's electric End-of-Period (EOP) Rate Base Study is the basis of the Company's requested electric rate relief in this case for Rate Year 1 beginning May 1, 2018. The EOP Rate Base Study starts with the results of the Traditional Pro Forma Study (discussed in Exh. EMA-1T and EMA-2), adjusted to EOP 2017 rate base, and utilizing an adjusted capital structure[1]. For Rate Years 2 and 3, an annual "K-Factor" revenue escalator is applied to non-ERM revenues to determine the Year 2 and Year 3 proposed rate changes. The results of the electric EOP Rate Base Study for Rate Year 1 is a revenue requirement of $61,356,000. The electric revenue requirement for Rate Years 2 and 3 are approximately $13,983,000 and $14,432,000, respectively.[2/ 3]

The narrative that follows explains the electric EOP Rate Base Study and its results. The Company has also provided workpapers, both in hard copy and electronic formats, which include additional details related to the electric EOP Rate Base Study and adjustments discussed in this exhibit.

Q. Please explain what is shown on pages 1 – 4 of Exh. EMA-3.

A. Exh. EMA-3, page 1, shows actual and rate year electric operating results and rate base for the State of Washington. Column (b) of page 1 of Exh. EMA-3 shows twelve-months ending December 31, 2016 actual operating results and components of the

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[1] The proposed capital structure in the EOP Rate Base Study has been adjusted to exclude short-term debt from the calculation. All other aspects of the calculation are the same as that presented in prior cases.
[2] Rate Years 2 and 3 use a K-Factor revenue escalator of 3.21% for electric applied to non-ERM revenues, covering investment - related costs and operating expenses. The calculation of the K-Factor used in Years 2 and 3 is discussed in Exh. EMA-1T.
[3] Revenue increases for Rate Years 2 and 3 are proposed to be implemented through Schedule 96 (electric) and 196 (natural gas), as discussed by Company witness Mr. Ehrbar.

average-of-monthly-average (AMA) rate base as recorded; Column (c) is the total of all adjustments to net operating income and rate base to reflect the May 1, 2018 to April 30, 2019 rate year results; and column (d) is the rate year adjusted results of operations, all under existing rates. Column (e) shows the revenue increase required to allow the Company to earn a 7.76% rate of return for the rate year beginning May 1, 2018. Column (f) reflects total rate year electric operating results with the requested revenue increase of $61,356,000.

Page 2 of Exh. EMA-3 shows, at line 7, the calculation of the electric Pro Forma level revenue requirement of $61,356,000, or 12.47% revenue increase, as shown on line 9. This page also shows the effect on billed rates, per the EOP Rate Base Study, with the expiration of Schedule 93 (Power Cost Rate Adjustment (PCRA)) totaling $14.976 million[4], resulting in a bill impact of $46,380,000, or 8.80% on an overall billed basis (net of the expiration of Schedule 93).

Also Shown on page 2, at lines 12-16, are the proposed incremental rate adjustments for Rate Year 2 (effective May 1, 2019) and Rate Year 3 (effective May 1, 2020). As shown on line 12, the incremental Rate Year 2 and 3 revenue increases are based on the Company's proposed "K-Factor" revenue escalator of 3.21% applied to non-Energy Recovery Mechanism (ERM) revenues. Non-ERM revenues represent revenues covering investment - related costs and operating expenses. The result of applying a 3.21% revenue

[4] Company witness Mr. Ehrbar discusses the PCRA as it relates to this general rate case. Schedule 93 includes the proposed update to current authorized power supply costs that are tracked through the Company's Energy Recovery Mechanism (ERM), increasing power supply net expense approximately $15.0 million effective September 1, 2017 (or 2.9%). With this general rate case the Company is proposing to update power supply base costs per the pro forma period for Rate Year 1 (May 1, 2018-April 30, 2019). With new base rates effective May 1, 2018, Schedule 93 expires ($15.0 million), offsetting the increase in pro forma net power supply costs ($16.6 million), for a bill impact of approximately $1.6 million.

escalator to non-ERM revenues as of April 30, 2019[5] for Rate Year 2 is an incremental revenue requirement of $13,983,000, or 2.44% on a billed basis. The result of applying a 3.21% revenue escalator to non-ERM revenues as of April 30, 2020[6] for Rate Year 3 is an incremental revenue requirement of $14,432,000, or 2.46% on a billed basis.

Page 3 of Exh. EMA-3, shows the proposed Cost of Capital and Capital Structure requested by the Company, including: 1) 50% Common Equity / 50% Debt capital structure (excludes short-term debt); 2) Return on Equity of 9.9%; and 3) cost of debt of 5.62%, resulting in an overall Rate of Return (weighted average cost of capital) of 7.76%. Company witness Mr. Thies discusses the Company's rate of return and the capital structure proposed by the Company, while Company witness Mr. McKenzie provides additional testimony related to the appropriate return on equity for Avista.

Page 4 shows the derivation of the electric net-operating-income-to-gross-revenue conversion factor. The conversion factor takes into account uncollectible accounts receivable, Commission fees and Washington State excise taxes. Federal income taxes are reflected at 35%.

Q. Now turning to pages pages 5 through 9 of Exh. EMA-3, please explain what is included on those pages?

A. Page 5 begins with actual operating results and rate base for the twelve-months-ending December 31, 2016 test period on an AMA basis in column (1.00).

[5] As shown on page 2, non-ERM revenues as of April 30, 2019 include current authorized base non-ERM revenues of $390.9 million, plus the proposed Rate Year 1 base increase of $61.3 million, less pro forma ERM related revenues of $16.6 million, associated with the pro forma power supply adjustment included in the EOP Rate Base Study. This totals $435.6 million in non-ERM revenues at May 1, 2019.

[6] As shown on page 2, non-ERM revenues as of April 30, 2020 include base non-ERM revenues as of May 1, 2019 of $435.6 million (see footnote 5), plus the proposed Rate Year 2 increase of $14.0 million. This totals $449.6 million in non-ERM revenues at May 1, 2020.

Individual normalizing and restating adjustments that are standard components of our annual reporting to the Commission begin in column (1.01) on page 4 and continue through column (2.18) on page 7. Individual Pro Forma adjustments are shown on pages 8 and 9 in columns (3.01) though (3.14).

The last column on page 9, labeled "Non-Energy Pro Forma Sub-Total" is the subtotal of the previous columns (1.00) through (3.14), and produces the Traditional Pro Forma Study Non-Energy net operating income (NOI) and total rate base amounts (includes impact of adjusted capital structure discussed above). The result of this column shows the non-ERM Pro Forma revenue requirement per the EOP Rate Base Study totals $23,222,000[7]. This balance is prior to the pro forma power supply expense proposed in this case, and prior to the 2017 EOP rate base adjustment discussed below.

Explanations for each Restating and Pro Forma adjustment are explained within the Traditional Pro Forma Study Exh. EMA-2. As these adjustments are the same between the EOP Rate Base and Traditional Pro Forma Studies, these descriptions will not be repeated here. However, I do describe below where there are differences in rate base adjusted restating and pro forma adjustments caused by the impact on restate debt interest. Changes in the tax benefit of debt interest on rate based items are due to the use of the proposed adjusted capital structure of 50% equity / 50% debt. This varies from the 48.5% equity / 51.5% debt included in the Traditional Pro Forma Studies, resulting in an increase in both the tax benefit of debt interest expense and resulting revenue requirement.

[7] The EOP Rate Base Study Non-Energy Pro Forma Total of $23.222 million varies from this same column in the Traditional Pro Forma Study (totaling $20.892 million); a difference of $2.306 million. This result is the incremental revenue requirement impact of applying a 50% equity/50% debt capital structure within the EOP Studies, versus the 48.5% equity/51.5% debt capital structure used within the Traditional Pro Forma Studies.

Q. Please explain what is provided on the last page of Exh. EMA-3, page 10.

A. Turning to page 10, this page includes the following columns, which will be discussed further below:

- (3.15) - EOP 2017 Net Rate Base;
- (PF-SubTtl) - Non-Energy EOP Pro Forma Sub-Total;
- (4.00) - Pro Forma Power Supply and Transmission Revenues;
- (PF-Ttl) "EOP Pro Forma Including PS Total."
- 9/1/2017 Power Supply Update Tariff Schedule 93; and
- Power Supply Incremental (Billed)

Each of these columns are described in the section that follows.

<u>Restating and Pro Forma Adjustments Impacted by Adjusted Capital Structure</u>

Q. Please explain the restating and pro forma adjustments impacted by the change in capital structure used within the EOP Rate Base Study.

A. As discussed above, the Company has proposed an adjusted capital structure, excluding short-term debt, resulting in a 50% equity/50% debt capital structure. The use of 50% equity/50% debt capital structure results in differences in revised tax expense, related to the tax benefit of interest on rate base adjusted items, between the electric EOP Rate Base Study (see page 3 of Exh. EMA-3) and that previously provided in the electric Traditional Pro Forma Study (see page 2 of Exh. EMA-2). The adjustments impacted by this change are described below.

Adjustment (2.17) **Restate Debt Interest** restates debt interest using the Company's pro forma weighted average cost of debt included in the EOP Rate Base Study of 2.81%, on the Results of Operations level of rate base shown in column (1.00) only, resulting in a revised level of tax deductible interest expense on actual test period rate base. The federal income tax effect of the restated level of interest on the change in rate base for the test period reduces current taxes $455,000, increasing net operating income by $455,000.[8]

Adjustment (3.09) **Pro Forma Deferred Debits, Credits, & Amortizations** adjusts certain items included in restating adjustment (1.02), which is included on an AMA 2016 commission basis level, to the level in effect for the rate period beginning May 1, 2018. Specifically, this adjustment revises the following deferred debit and credit deferral balances from AMA 2016 to AMA for the rate period (May 1, 2018 – April 30, 2019), consistent with prior Commission orders[9]: 1) Settlement Exchange Power; 2) CDA settlement Deferral; CDA/SRR (Spokane River Relicensing) CDR Deferral; 3) Spokane River Deferral; 4) Spokane River PM&E Deferral; and 5) Montana Riverbed Lease deferral. This adjustment also reduces amortization expense related to the expiration of the following regulatory amortizations: 1) Montana Lease Deferral; 2) 2012 Colstrip & Coyote Springs 2 Deferral; and 3) Spokane River Total Dissolved Gas Deferral. The federal income tax effect of the level of interest on the change in rate base increases current taxes

[8] The Traditional Pro Forma Study includes an equity layer of 48.5%, causing the pro forma weighted average cost of debt to equal 2.89%. For adjustment (2.18), per the Traditional Pro Forma Study adjustment, the federal income tax effect of the restated level of interest for the test period reduces current taxes $860,000, increasing net operating income by $860,000.

[9] For a description of each deferral item, see discussion provided in restating adjustment (1.02) Deferred Debits and Credits in Exh. EMA-2.

$55,000. The net effect of this adjustment reduces total rate base by $5,346,000 and increases net operating income by $1,014,000.[10]

Adjustment (3.10) **<u>Pro Forma 2017 Threshold Capital Additions</u>** reflects increases related to certain 2017 capital additions, together with associated A/D and ADFIT. This adjustment also includes associated depreciation expense for these 2017 additions. As sponsored and discussed by Company witness Ms. Schuh, based on Commission Order 05, the Company identified electric and natural Pro Forma capital projects that met the threshold of one-half of one percent of the Company's rate base (i.e., above $6.9 million for electric and $1.3 million for natural gas).[11] The federal income tax effect of the level of interest on the change in rate base decreases current taxes $343,000. The effect of this adjustment increases rate base by $34,911,000 and decreases net operating income by $1,750,000.[12]

All remaining restating and pro forma adjustments affecting rate base, which were included in both the EOP Rate Base and the Traditional Pro Forma Studies, were not material enough to revise the restate debt interest current tax expense. Therefore, these remaining adjustments were identical between the two studies.

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[10] Per the Traditional Pro Forma Study adjustment (3.09), Pro Forma Deferred Debits, Credits, & Amortizations, the federal income tax effect of the restate level of interest on the change in rate base increases current taxes $54,000. The net effect of this adjustment reduces total rate base by $5,346,000 and increases net operating income by $1,013,000.

[11] Order 05, Docket Nos. UE-150204 and G-150205 (Consolidated), paragraph 39 and 40.

[12] Per the Traditional Pro Forma Study adjustment (3.10), Pro Forma 2017 Threshold Capital Adds, the federal income tax effect of the restate level of interest on the change in rate base decreases current taxes $353,000. The effect of this adjustment increases rate base by $34,911,000 and decreases net operating income by $1,741,000.

<u>Additional EOP Rate Base Study Columns and Adjustments</u>

Q. Returning to page 10 of Exh. EMA-3, please explain the remaining columns.

A. The first column on page 10, column (3.15) **<u>EOP 2017 Net Rate Base</u>**, this adjustment <u>starts</u> with the Traditional Pro Forma Study net plant after ADFIT results and adjusts total net plant after ADFIT, including all 2017 remaining capital additions, to a 2017 EOP basis. Specifically, Avista reviewed the planned capital projects that were below the 0.5 percent threshold for 2017 (i.e., those not included in the Traditional Pro Forma Study adjustment 3.10 Pro Forma 2017 "Threshold Capital Additions" discussed in Exh. EMA-2). These additions were included in the EOP Studies for 2017, together with the associated A/D and ADFIT on a 2017 EOP basis, as well as annual depreciation expense.[13] The associated ADFIT includes the repairs deduction and bonus tax depreciation expected through 2017 on an EOP basis[14]. In addition, the plant-in-service for 2016 AMA was adjusted to a 2017 EOP basis. The effect of this adjustment increases rate base by $119,874,000 and decreases net operating income by $4,031,000.

Column (PF-SubTtl), **Non-Energy EOP Pro-Forma Sub-Total** provides the sub-total of net operating income, total rate base, and overall revenue requirement, including adjustment (3.15) EOP 2017 Net Rate Base adjustment. The revenue requirement

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[13] The Company reviewed large capital additions in 2017 to determine any offsets (e.g., reduced O&M costs, reduced load losses, etc.). Maintenance records were reviewed to determine whether any specific maintenance costs were incurred in the test year that would be reduced or eliminated by the investment. Those costs were quantified and included as a reduction to O&M expenses in adjustment (3.11) Pro Forma O&M Savings included in Exh. EMA-2 and Exh. EMA-3. In addition, the output from generation assets is included in the $\text{AURORA}_{\text{XMP}}$ power cost model. Therefore, to the extent that the additional investments serve to either preserve or increase generation from the generation projects, the benefits are already reflected in the $\text{AURORA}_{\text{XMP}}$ model.

[14] The IRS extended bonus depreciation through 2019. The Company has included bonus depreciation through 2019 within its capital adjustments.

associated with this Sub-Total is $44,748,000 and is the revenue requirement prior to inclusion of adjustment (4.00) Pro Forma Power Supply & Transmission Revenues (ERM related pro forma costs) explained immediately below.

The final adjustment, **Pro Forma Power Supply & Transmission Revenues (ERM Related Only),** column (4.00), includes pro forma power supply related revenue and expenses to reflect the twelve-month period May 1, 2018 through April 30, 2019, using 2016 historical loads. Company witness Mr. Johnson's testimony outlines the system level of pro forma power supply revenues and expenses that are included in this adjustment. Company witness Mr. Schlect outlines the system level of pro forma transmission revenues that are included in this adjustment. This adjustment calculates the Washington jurisdictional share of those figures.[15] The net effect of this adjustment decreases net operating income by $10,288,000.[16]

Q. Please explain the final column "PF Ttl" on page 10 of Exh. EMA-3.

A. The final column "PF-Ttl," titled **EOP Pro Forma Including PS Total,** provides the total EOP Rate Base Study revenue requirement results, including pro forma power supply, of $61,356,000. This represents the overall revenue requirement shortfall

[15] This adjustment is identical to that included the electric Traditional Pro forma Study, Exh. EMA-2.

[16] As explained in Exh. EMA-1T, for Rate Year 1 (effective May 1, 2018), the increase in net power supply expenses increases the requested revenue requirement by $16.6 million, compared to that currently authorized (approximately 27% of the total electric Rate Year 1 request). Mr. Johnson discusses the changes in power supply costs in Rate Year 1, explaining that over $8 million is due to the expiration of the Portland General Electric (PGE) capacity sales contract in December 2016.

per the electric EOP Rate Base Study[17], as previously shown on page 2 of Exh. EM-3.

Q. What are the purpose of the last two columns shown on page 10 of Exh. EMA-3?

A. The last two columns labeled “9/1/2017 Power Supply Update Tariff Schedule” and “Power Supply Incremental (Billed) Impact,” are provided to show the effect of the expiration of Schedule 93 “Power Supply Update,” filed coincident with this general rate case filing. As discussed by Mr. Ehrbar, the Company has filed, coincident with this general rate case, its Power Cost Rate Adjustment (PCRA) filing requesting an increase in revenues of $15.0 million (or 2.9%) effective September 1, 2017, to be recovered through Tariff Schedule 93. The PCRA reflects changes in net power supply costs, including the expiration of the PGE capacity sales contract. Schedule 93 would expire, effective with the change in base rates from this general rate case. If the September 1, 2017 proposed rate change reflecting increased power supply costs is approved, the incremental power supply cost increase to customers from this general rate case effective May 1, 2018 is $1.652 million (or 0.32%).

[17] As noted in Exh. EMA-1T, the results of the Traditional Pro Forma Study will not yield the electric and natural gas revenue increases necessary for the prospective rate year. The Traditional Pro Forma Studies alone do not provide sufficient rate relief; thereby warranting the use or inclusion of other “tools” available to this Commission. Approval of other “tools,” such as that proposed by Avista including EOP 2017 rate base and an adjusted capital structure, would allow the Company an opportunity to earn its authorized rate of return. The EOP Rate Base Studies represent the Company’s requested rate relief in this proceeding.