Exh. PDE-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-22_____

DOCKET NO. UG-22_____

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Patrick D. Ehrbar and my business address is 1411 East Mission Avenue, Spokane, Washington. I serve as the Director of Regulatory Affairs.

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

A. Yes. I am a 1995 graduate of Gonzaga University, earning a Bachelor of Business Administration degree with an emphasis in Finance and Economics. In 1997 I graduated from Gonzaga University, earning a Master of Business Administration degree. I started with Avista in April 1997 as a Resource Management Analyst in the Company's Demand Side Management (DSM) department. Later, I became a Program Manager, responsible for energy efficiency program offerings for the Company's educational and governmental customers. In 2000, I was selected to be one of the Company's key Account Executives, where I was responsible for, among other things, being the primary point of contact for numerous commercial and industrial customers.

I joined the State and Federal Regulation Department as a Senior Regulatory Analyst in 2007. Responsibilities in that role included being the discovery coordinator for the Company's rate cases, line extension policy tariffs, as well as miscellaneous regulatory issues. In November 2009, I was promoted to Manager of Rates and Tariffs, and later promoted to be Senior Manager of Rates and Tariffs. My primary areas of responsibility included electric and natural gas rate design, decoupling, power cost and natural gas rate adjustments, customer

usage and revenue analysis, and tariff administration. In October 2017, I was promoted to my present position.

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

A. I will cover three distinct areas in my testimony. First, I will provide an overview of the Company's capital planning process – from the need/requirement for a capital project through to the approval of capital, in aggregate, by the Company's Board of Directors. Second, I will discuss the performance metrics that Avista is proposing for inclusion in this Two-Year Rate Plan, beginning in December 2022. Finally, I will discuss the new Earnings Test that was included in the Senate Bill 5295 legislation, and how that impacts the Company's electric and natural gas Decoupling Mechanisms.

Q. Are you sponsoring any exhibits that accompany your testimony?

A. No, I am not. A table of contents for my testimony is as follows:

II. CAPITAL BUDGETING & EXPENDITURES

Q. Would you please summarize this portion of your testimony?

A. Yes, this section of my testimony provides an overview of how capital projects are initially developed, are vetted within a business unit for approval or are denied, how the projects are then funded (in whole or in part, or delayed), and then how the combination of

those projects are summarized and presented to senior management and the Board of Directors for ultimate approval.

Q. What is the Company's recent history related to capital investments?

A. Avista continues to make significant capital investments in our electric generation, transmission and distribution facilities, natural gas distribution system, and new technology to better serve the needs of our customers. These investments are focused on, among other things, the preservation and enhancement of safety, service reliability and the replacement of aging infrastructure. For the period 2016 through 2020, our capital expenditures averaged approximately $427 million per year, on a system basis (i.e., Oregon, Washington, and Idaho, electricity and natural gas). While there are variations among the functional areas targeted for investment each year, the predominant areas have included electric generation, electric transmission, and electric and natural gas distribution facilities, new customer hookups, environmental and regulatory requirements, information technology and other supporting functions, such as fleet services and facilities.

Q. Please explain how Avista identifies and prioritizes capital investments, and why the investments are made in the time frame they are completed.

A. Avista's process to identify and prioritize capital investment is designed to meet the overall need for investment, in the appropriate time frame, in a manner that best meets the future needs and expectations of our customers, in both the short-term and long-term. The Company's practice has been to constrain the level of capital investment each year, such that not all of the prioritized projects and programs[1] will be funded in a given year at the

[1] "Project" refers to an individual investment for a specific period of time. "Programs" represent investments that address systemic needs that are ongoing with no recognized endpoint, but which may ramp up or down over time, such as the wood pole management program. For ease of reference, the term "capital project" will be

level requested. Avista believes that holding capital spending below the level requested also accomplishes several important items, including:

- ***Promotes Innovation*** – Encourages ways to satisfy the identified investment need in a manner that may identify potential cost savings or at a lower cost, defer implementation, or other creative options or solutions.

- ***Balances Cost and Risk*** – Captures the benefits of deferring needed investments by prudently managing the cost consequences and risks associated with such deferrals.

- ***Efficiently Allocates Capital*** – Ensures that the highest-priority needs are adequately funded in the most efficient and effective way.

- ***Reduces Variability*** – Moderates the magnitude of year-to-year variability to avoid excessive rate impacts, and more efficiently optimizes the number and cost of personnel necessary to carry out the capital projects.

Avista currently has chosen to stabilize the level of annual capital spending at what can be described as a constrained level of $445 million (system), in an effort to accomplish the objectives described above.

Q. What does Avista consider in setting the overall level of capital investment each year?

A. A range of factors influences the level of capital investment made each year, including: 1) the level of investment needed to meet safety, service and reliability requirements and to further optimize our facilities; 2) the degree of overall rate pressure faced by our customers; 3) the variability of investments required for major projects; 4)

used to represent both capital projects and capital programs.

unanticipated capital requirements, such as an unplanned outage on a large generating unit; 5) the cost of debt; and 6) the opportunity to issue equity on reasonable terms.

Several steps are involved in determining which projects should be considered for funding and how to maximize the value of limited budget dollars. Capital projects are organized into "Investment Drivers," six categories that are used to help explain the needs the project is trying to address. The Company developed these drivers in an effort to improve the transparency and consistency of decision making and they are a consideration for every project, regardless of where it resides. These drivers are:

1) **Customer Requested**. These projects are triggered by customer requests for new service connections, line extensions, transmission interconnections, transmission capacity, or system reinforcements to serve customers. Responding to customer requests for service is a requirement of providing utility service. Projects in this category also include customer service enhancements, line extensions or interconnections to serve large industrial or commercial customers, integrating customer generating projects, or requested interconnections with neighboring utilities.

2) **Mandatory and Compliance**. The investments in this category are driven typically by compliance with laws, rules, and contract requirements that are external to the Company, areas for which the Company has little or no discretion in spending. Avista operates in a complex regulatory and business framework and must adhere to national and state laws, state and federal agency rules and regulations, and county and municipal ordinances. Compliance with these rules, as well as contracts and settlement agreements, represent obligations that are generally external to the company and generally beyond Company control. Projects in this category may include the obligation to relocate facilities based on road construction projects, dam safety upgrades, air and water quality permits, NERC requirements related to the interconnected grid, FERC required transmission upgrades, etc.

3) **Failed Plant and Operations**. Although Avista responds to thousands of forced outage events every year, asset replacement due to equipment failure or an outage event is only one component of the investment required to operate natural gas and electric operations. Operating conditions are driven by seasonal variations in weather, changes in customer demand patterns, economic trends, as well as large scale events such as windstorms, floods, fire, lightning, and snowstorms. The replacement and capital repair of equipment failures constitute requirements to replace assets that have failed,

and which must be replaced in order to provide continuity and adequacy of service to customers (e.g. capital repair of storm-damaged facilities). This also includes investments in natural gas and electric infrastructure that is performed by Avista's operations staff, and which is typically budgeted under capital accounts by major asset or business class (e.g. Electric Distribution).

4) **Asset Condition**. Assets of every type will degrade with age, usage, and other factors, and must be replaced or substantially rebuilt at some point in order to ensure the reliable and acceptable continuation of service. Projects or programs in this category of need are defined as investments to replace assets based on established asset management principles and systematic programs adopted by the Company, which are designed to optimize the overall lifecycle value of the investment for our customers. The replacement of assets based on condition is essentially the practice of removing them from service and replacing them in the most cost efficiency way. This funding category replaces assets or portions of assets as needed to maintain function and usefulness, such as repairing or replacing parts that wear out, when safety or environmental concerns are identified, or when assets no longer provide optimized performance or customer value. Company witness Ms. Rosentrater sponsors testimony related to asset management.

5) **Customer Service Quality and Reliability**. Customer Service Quality and Reliability investments are those investments required to maintain or improve the quality of services provided to customers, to introduce new types of services and options based on an analysis of customer needs and expectations, to ensure customer service quality requirements are achieved, and to meet electric system reliability objectives. These investments include such programs as the Company's Customer at the Center projects supported by Company witness Mr. Magalsky, smart meter installation, replacing aging gas pipeline, changing out underground cables to reduce outages, or installing automation devices to help isolate outages and reduce their impact.

6) **Performance and Capacity**. Avista's projects and programs responsive to this category of need include a range of investments that address the capability of assets to meet defined performance standards, typically developed by the Company, or to maintain or enhance the performance level of assets based on a demonstrated need or analysis. This driver helps ensure that assets satisfy business needs and meet performance and reliability standards. Programs in this category ensure that assets satisfy business needs and meet performance standards. Examples might include adding a redundant feeder to reduce the chance of outages, upgrading systems to improve accuracy, monitoring, or service levels, or increasing capacity due to customer growth or to mitigate potential overloaded equipment.

Q. How are projects developed within the Company?

A. Projects are developed through various means including engineering planning studies, engineering & asset management analyses, required or scheduled upgrades, the result of observations of expert utility personnel, or as the need for investments are identified or otherwise required to provide safe and reliable service. Simply because a need is identified, though, does not mean that a project will ultimately be approved, funded, or completed. Any project will undergo internal review by multiple stakeholders within the business units themselves. There are any number of projects that are developed or scoped at some level, reviewed, and set aside for any number of reasons, including that a project might not meet the need, capital prioritization, risk mitigation, other alternatives, or resource constraints, among other things, within business units. For those projects that make it through that "informal phase gate", they will then go through a more formal review process at the appropriate business area level. Some of the more formal functional review teams are:

> **Engineering Round Table** (ERT) evaluates and recommends business cases for electric Transmission, Substation, or Protection projects and prioritizes resources for those projects. It is comprised of a diverse group of engineering leaders[2] who track project requests, prioritize them, and establish committed construction package dates and required in-service dates for projects.
>
> **Generation, Production and Substation** (SCRUM) is responsible for all projects within the scope of electric Generation, Production, and Substation Support. Each year Avista makes investment decisions for its generating facilities with the goals of maximizing the value of limited funding and other resources while managing competing requirements and aligning with Company goals and objectives. The group utilizes a process known as the Scheduling, Cost, and Resource Utilization Meeting or "SCRUM" to develop capital project requests. In these meetings, generation leaders and stakeholders discuss criticality, risks, costs, mandatory requirements, resource requirements, alternatives, and options in order to select and prioritize projects. If a project is approved, a more accurate cost and time estimate is developed, and once a

[2] Eleven representatives are included in this group from: Transmission and Distribution Planning, Transmission, Distribution, and Substation Design, System Protection, System Operations, Asset Management, Communications and Generation Engineering, and Transmission Services.

proposed project is finalized, it is sent to the Capital Planning Group for further consideration and funding.

Operations Round Table (ORT) manages requests related to electric Distribution programs including new customer service, wood pole and vegetation management, storm restoration, transformer change outs, streetlights, and grid modernization. This also includes the meter shop.

Technology Planning Group (TPG) oversees technology projects and selects and prioritizes those that will be sent on for potential funding. The TPG in conjunction with the Enterprise Technology Steering Committee (ETSC) oversee Avista's investments in technology. They act as the custodian and governance body of Avista's technology investments across the enterprise by focusing on strategic long-term investment planning and oversight of resource or funding constraints across the technology investments.

Gas Engineering Prioritization Investment Committee (EPIC) is accountable for the capital projects and programs that fall under the scope of natural gas operations and construction. Annually, this group prioritizes the projects and assess the spending level of the programs to support safe and reliable operation of the natural gas system and to maintain compliance with both State and Federal Regulations. The intent is to maximize risk reduction acknowledging there are limited funds to accomplish this. This committee reviews spend and budget data to provide monthly updates to the Capital Planning Group, as needed. The Business Cases to support these efforts are managed by this committee, reviewed by the Manager of Gas Engineering, and approved by the Director of Natural Gas.

Real Estate and Environmental (RE) develops budgets for business cases based on requirements of our Clark Fork River and Spokane River FERC hydro licenses, as well as local, state & federal regulations related to environmental, hydro safety and rights-of-way matters. The final proposed budgets are informed by analysis of these requirements as well as resource availability to carry out capital projects and past patterns of project costs.

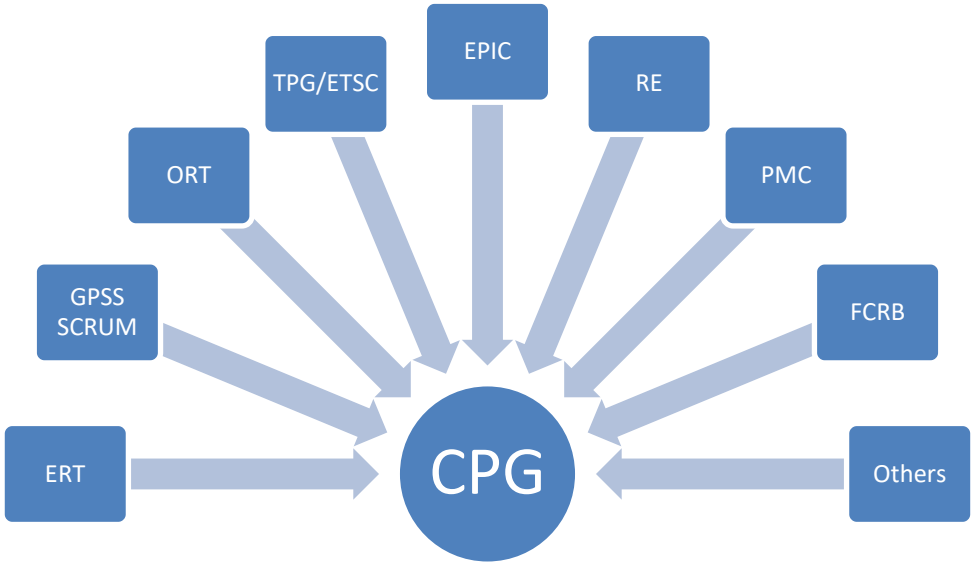
The Property Management Committee (PMC) ensures that the planning, purchasing, selling, and managing of real property is aligned with overall company strategies. The Committee will identify specific actions to improve that alignment, assess current policies and approaches related to property management and identify and adopt needed changes or new policies. The Committee ensures that decision-making processes related to real property are clear and effective and develop cohesive long-term strategies for managing properties.

Facilities Capital Request Board and Large Facilities Project Steering Committee (FCRB) vet facilities-related requests from across the service territory. If

projects are approved by this Board, they are prioritized based on risk, safety, environmental impact, and compliance then sent on to the Capital Planning Group.

Illustration No. 1 provides a simple schematic of how these groups ultimately provide input to the Capital Planning Group, or CPG, who decides the funding for proposed projects, as described later in my testimony:

Illustration No. 1 – Project Team Schematic



Q. What are the requirements from a business plan perspective as it relates to documenting the need for a project?

A. In recent years Avista developed a Business Case template that is required for any capital project that is approved by the committees referenced earlier (and prior to funding). A Business Case is a summary document that defines the business problem addressed by a project or program, along with a proposal and recommended solution. The Business Case explains why the work is necessary, and the risks associated with not making the investment, as well as the options considered, the selected alternative and the timeline associated with the project. Avista is committed to making optimal investment decisions on

behalf of our customers and stakeholders. Thorough, accurate, and evidence-based business case analyses are foundational to the capital investment decision making process. There have been ongoing improvement efforts over several years to improve and standardize the business case process, focusing on customers, financial and performance metrics, financial and risk analysis, prudence, and documentation. These improvement efforts have resulted in more robust narratives, increased standardization of processes and templates, and additional training.

When Avista makes any capital investment there is an obligation to demonstrate that the overall need, evaluations of alternatives, and the planned timing of implementation is prudent, and in the customer's best interests. Whether the investment touches the customer directly, such as customer service or metering systems, or indirectly, such as improving the capability and efficiency of employees and internal work processes, each dollar invested ultimately supports one purpose: to provide customers with safe, reliable, and cost-effective energy services that meet their expectations for quality of service and value.

The business case community of owners, sponsors, project managers and key contributors need support to help ensure thorough, consistent, accurate, and timely business cases. As such, the Company has a Business Case Administration Team (BCAT). The BCAT's purpose is to continuously improve and oversee our business cases by ensuring the required justification, options, analyses, metrics and documentation is described and provided. It is meant to be a "center of excellence" to refine and maintain the business case framework and to provide support for the business case community. The BCAT also supports improving processes and templates and providing training and business case peer reviews to help business case owners understand and include all the essential elements of a complete

business case. Ultimately, these efforts will enable Avista to meet its goal of having complete information at the right time for prioritization and capital decision making and contributing towards ensuring prudency standards are met.

Q. Once all of the projects are approved in their various committees, what is the next step in the approval process?

A. The various business units perform a thorough vetting of projects in their specific areas of responsibility. The resulting supported business cases are then sent to the Capital Planning Group (CPG) for final review and consideration. The CPG is comprised of Avista directors from across all of the capital-intensive areas of the Company, as well as myself as Director of Regulatory Affairs. The CPG has the responsibility of determining how the capital budget, at a level which is approved by the Finance Committee of the Board of Directors, will be allocated across the business. The CPG evaluates all of the projects proposed for funding from a Company-wide perspective. Based on the members expertise and considerable discussion and give-and-take, the CPG ultimately determines which projects should be funded in full, in part, or which should be deferred to future years in order to stay within budget, all while appropriately balancing the risks of the Company while providing safe and reliable service to our customers.

Q. What does the CPG take into account in their determination of funding?

A. The CPG considers the immediacy of the need for investment, the financial and other impacts/risks of deferring projects, as well as safety, reliability, and partial funding versus an "all or nothing" approach. This group also evaluates and discusses the consequences of not funding projects. Based on this iterative and comparative assessment, the team adjusts the list of projects to be funded, as well as the amounts to be funded, to arrive at

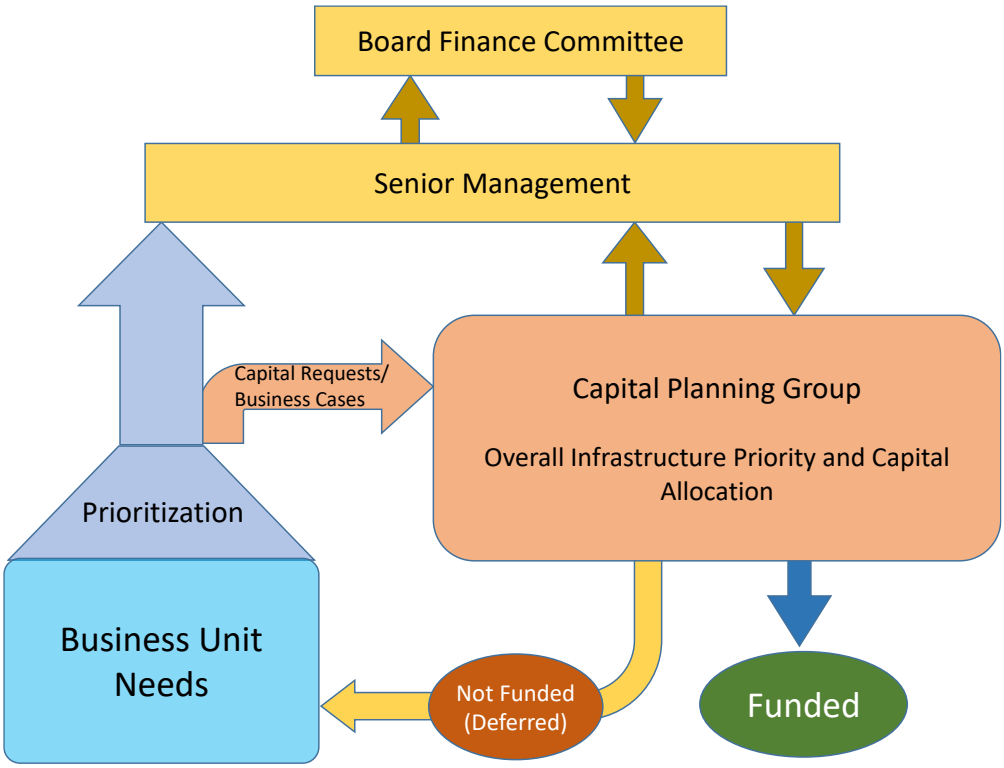
the best-balanced allocation of capital among priority needs across the business. The final allocation recommended by the CPG reflects the need to fund the highest priority investments first, on a Company-wide basis, while taking care to ensure that the investments deferred will not result in excessive cost or risk.

Q. After the CPG balances the requests of the Company within the financial constraints, what happens next?

A. Once funding is allocated to priority projects for the coming five-year period, the CPG presents the budget to Avista's senior management who provide feedback and future direction, and ultimately approve the five-year funding plan. Planned spend by business driver is presented to the Finance Committee of the Board of Directors, which after discussion and the opportunity for amendment, approves the funding plan. The status of the planned versus actual investment spending is reviewed with the Finance Committee at least twice each year. In the end, the approved capital funding plan demonstrates a reasonable balance among competing needs required to maintain the performance of Avista's systems, as well as prudent management of the overall enterprise in the best interest of customers.

The process under which Avista's planned capital expenditures are identified and prioritized is illustrated in Illustration No. 2 below.

Illustration No. 2 - Identification and Prioritization Process



As discussed earlier, the capital projects are identified in the lower-left portion of the diagram labeled "Business Unit Needs," and are then prioritized within each department. This prioritization occurs with the knowledge of the continuing constraint on the capital spend level for the Company, while at the same time the leadership of each department informs Senior Management of both the near-term and longer-term needs that are being delayed. For the prioritized projects, Business Cases are developed for each of the Capital Requests that go to the CPG. The CPG prioritizes the Capital Requests across departments, such that the overall planned capital spend stays within the constrained spend level established by Senior Management. The highest priority Capital Requests are "Funded", and a portion of the Capital Requests are "Not Funded" (Deferred), as shown on the diagram. Each year, the Board Finance Committee reviews and approves the first year of the rolling

five-year capital investment plan. Under this Identification and Prioritization Process, the capital projects are screened and prioritized twice: once within the departments, and then a second time across departments within the CPG.

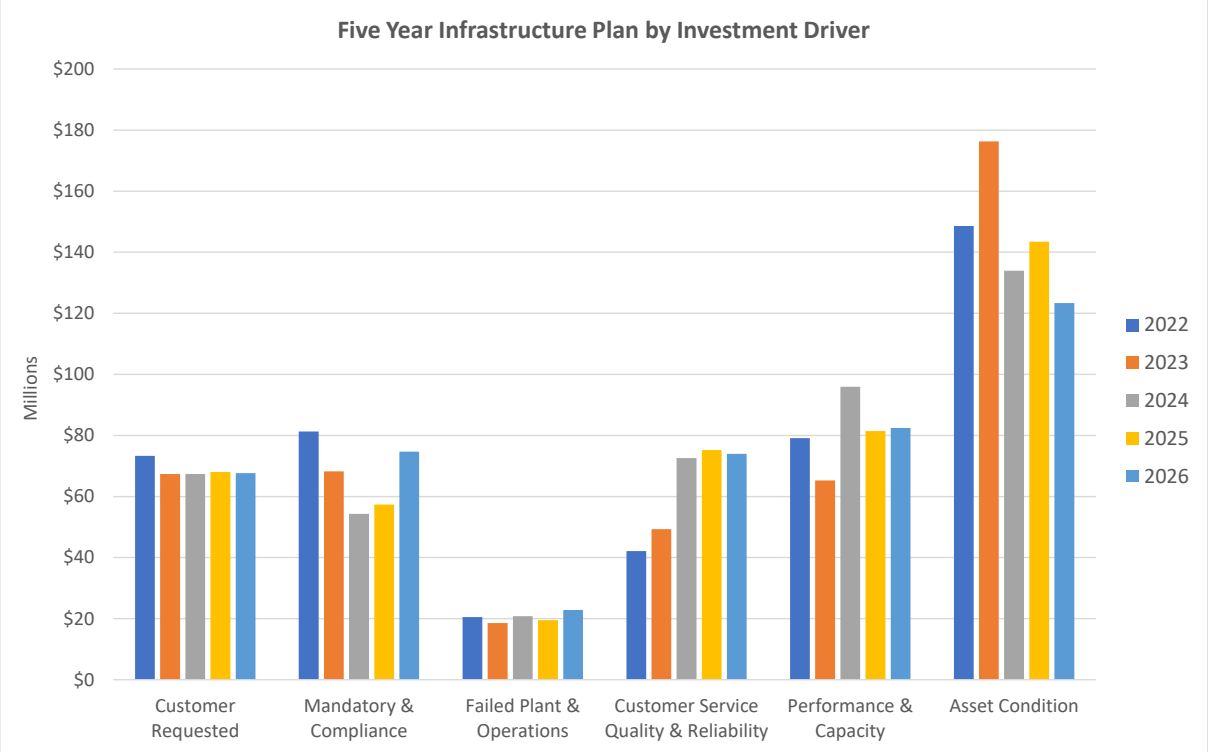
Q. Once the projects are approved, and the summarized plan is approved by the Finance Committee of the Board, is the plan essentially fixed and static?

A. Not at all. All good plans necessarily change. The projects in the Company's portfolio are regularly reviewed for changes in assumptions, constraints, project delays, accelerations, weather impacts, outage coordination, system operations, performance, permitting/licensing/agency approvals, safety, and customer-driven needs that arise. In recent years, we can also add pandemics to that list as well. The portfolio is continually updated throughout the year to remain as appropriate as possible.

Q. Would you please provide a summary of the Company's planned investments, by Investment Driver?

A. Yes. A breakdown of planned investments for each driver for 2022-2026 is shown in Illustration No. 3 below.

Illustration No. 3 – Planned Investments by Capital Investment Driver (2022-2026)



Q. If a project is delayed for whatever reason, can the Company simply lower the capital budget for that year rather than find another project to fund?

A. The continuing progress on projects in the queue is very important to avoid the creation of a large "bow-wave" of investment that needs to be done in a relatively short period of time. Generally, if a project is delayed, moving the next priority project up helps to alleviate that bow-wave. This reprioritization occurs within the CPG, which is charged with ensuring that the total capital spend for the year stays within the constrained spending limit established by the Company. The dollar amount of capital projects requested by departments with the amounts approved by the Company is provided in Table No. 1 below. The dollar amounts for projects that were delayed (not approved) are also shown:

Table No. 1: Capital Project Requests/Approvals ($ in millions)

Year	Requested	Approved	Delayed	% Capital Delayed
2017	$461	$405	$56	**12%**
2018	$455	$405	$50	**11%**
2019	$528	$405	$123	**23%**
2020	$505	$405	$100	**20%**
2021	$516	$407	$109	**21%**
2022	$501	$445	$56	**11%**
2023	$519	$445	$74	**14%**
2024	$501	$445	$56	**11%**
2025	$486	$445	$41	**8%**

As demonstrated in Table No. 1 above, the Company has a significant capital investment need, as determined by Company subject matter experts. If Avista were simply just trying to grow rate base for purposes of increasing earnings, we would not constrain ourselves to the $445 million capital budget level. Put another way, Avista could fully justify increasing its capital budget to over $500 million over the next several years, but is choosing not to, in order to balance investment need with customer affordability.

Q. Table No. 1, above, shows a much higher proportion of capital projects delayed. What accounts for that?

A. In short the Company has necessarily smoothed our capital investments, balancing the overall rate pressure caused by capital investments on our customers, with a level that still allows Avista to provide safe and reliable service, while also balancing the risks of the organization along with the workloads of our crews and available contractors.

Q. What is driving the investment in utility plant in Washington?

A. That information is covered in general by Company witness Ms. Andrews, with the restating and pro forma capital adjustments provided by Company witness Mr. Baldwin-Bonney. Other Company witnesses, (i.e., Mr. Thackston regarding Production

assets; Ms. Rosentrater regarding Transmission, Electric and Natural Gas Distribution, and General Assets; Mr. Kensok regarding the costs associated with Avista's Information Service/Information Technology (IS/IT) projects; Mr. Kinney related to Energy Imbalance Market (EIM) participation, Mr. Howell regarding Wildfire investment, and Mr. Magalsky regarding investment related to Customer Technology) provide more specific information on the capital projects included in this case. These investments reflect, among other things, replacement and maintenance of Avista's utility system and the need to sustain reliability, safety, and service to customers. Major projects included for recovery in this case include Avista's Cabinet Gorge Dam Fishway and Long Lake Plant Upgrade, Aldyl-A Pipe Replacement program, substation and transmission upgrades, investment to serve new electric and natural gas customers, wildfire resiliency plan investment, investment related to joining the EIM, and the overall systematic replacement of aging infrastructure, among others.

III. PERFORMANCE MEASURES

Q. Would you please cite the relevant statute related to Performance Measures and their interaction with Multiyear Rate Plans?

A. Yes. RCW 80.28.425(7) states that the Commission must:

> [I]n approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan. These performance measures may be based on proposals made by the gas or electrical company in its initial application, by any other party to the proceeding in its response to the company's filing, or in the testimony and evidence admitted in the proceeding.[3]

[3] RCW 80.28.425(7). The law provides that in developing performance measures, incentives, and penalty mechanisms, the commission may consider factors including, but not limited to, lowest reasonable cost planning, affordability, increases in energy burden, cost of service, customer satisfaction and engagement, service reliability, clean energy or renewable procurement, conservation acquisition, demand side management expansion, rate stability, timely execution of competitive procurement practices, attainment of state energy and emissions reduction policies, rapid integration of renewable energy resources, and fair compensation of utility employees.

Q. Is the Company prepared to offer a set of performance measures at this time in its Two-Year Rate Plan?

A. Yes, Avista is prepared to offer a set of performance measures, along with potential incentives and penalties, for the Commission's consideration in this Two-Year Rate Plan. In the Company's view, the proposed metrics and groupings are a good first start in our path towards changing the regulatory model through the inclusion of performance measures – and not just reliance on the traditional cost-of-service-based regulatory model.

Q. Before providing the measures and groupings noted above, do you have general testimony you would like to provide outlining how performance measures and alternative ratemaking is not necessarily new for Avista?

A. Yes. While inclusion of performance measures in our proposed Two-Year Rate Plan is very important, I would like to underscore that they are not necessarily new for Avista. As the Commission is aware, Avista already provides a significant amount of reporting to the Commission on a myriad of service-related, social, and economic issues facing the Company and our customers. Just some of those items include:

a. Service Quality Measures – Customer Service Measures, Electric System Reliability Metrics, and Customer Service Guarantees.
b. Electric Biennial Conservation Plan and Reporting - Two-year conservation targets and plans to achieve targets, and reports on progress.
c. Natural Gas Biennial Conservation Plan - Two-year conservation targets and plans to achieve targets.
d. Electric Reliability Report - IEEE reliability metrics and other reliability metrics
e. LIRAP Report - Annual report on customers served through LIRAP program.
f. CETA Energy Assistance Report - Assessment of programs to reduce energy burden and related information.
g. Renewable Portfolio Standard - Report detailing resources acquired to meet renewable resource obligation for the target year.
h. Electric and Natural Gas Integrated Resource Plans - Long-range resource plan.

i. Clean Energy Action Plan - A ten-year clean energy action plan for implementing RCW 19.405.030 through 19.405.050 at the lowest reasonable cost, and at an acceptable resource adequacy standard, that identifies the specific actions to be taken by the utility consistent with the long-range integrated resource plan.
j. Clean Energy Implementation Plan - Four-year plan that proposes specific targets for energy efficiency, demand response, and renewable energy
k. Clean Energy Progress Report - Informational annual clean energy progress report regarding its progress in meeting its targets during the preceding year.
l. Clean Energy Compliance Report - Compliance report demonstrating compliance with CETA targets.
m. Energy & Emissions Intensity Report - Report showing energy and emissions of energy delivered to customers.
n. Transportation Electrification Report - Metrics regarding company's TE programs and efforts.

Avista also has a history with alternative ratemaking mechanism that are a part of a broad Performance Based Ratemaking package. Perhaps the most obvious mechanism is the Company's electric and natural gas decoupling mechanism. This mechanism is designed to break the mold of the traditional cost-of-service-based regulation, essentially removing the link between usage and utility earnings. Through decoupling, utilities can focus on providing rigorous energy efficiency programs to help customers, as well as help lead (and not hinder) the transition to a clean economy through deployment of distributed generation resources. Finally, it removes the incentive for utilities to push customers to use more of our product, simply to drive utility margins. In our view this alternative ratemaking mechanism focuses the utility on very important environmental and social causes, which would not happen otherwise.

The Company also already operates under performance measures related to its electric energy efficiency program. Under I-937 and as outlined in our Biennial Conservation Plans,

Avista must meet (and actually exceed by 5%[4]) its electric targets, or otherwise face potential penalties under the law. Finally, Avista also has performance measures related to its Energy Recovery Mechanism, both in terms of the deadbands/sharing bands, but also as it relates to the availability of our thermal generation fleet. Finally, as I will discuss later in my testimony, Avista also has an existing Earnings Test associated with its electric and natural gas decoupling mechanisms.

In summary, Avista already provides much information to the Commission on how we are operating for the benefit of our customers. The Commission could, through stated process or on its own volition, choose to investigate and remediate performance issues that arise from any of the reporting Avista provides. While proposals for new measures are necessary in the era of multiyear rate plans, it is important to remember that the Commission already has made use of performance measures.

Q. What have other jurisdictions implemented in terms of performance-based ratemaking and performance measures?

A. Avista has not conducted a thorough analysis of all of the jurisdictions that have or are investigating or are implementing performance metrics and/or performance-based ratemaking. Anecdotally, however, what we are generally aware of is the substantial amount of work and process that has taken place in recent years in New York – "Reforming the Energy Vision for NY" or REV, as well as in Hawaii and Minnesota, just to name a few. Minnesota, in particular, has been working at performance-based ratemaking since 2009. This Commission as well has embarked on a multi-year effort to incorporate utility performance into ratemaking. In Docket U-210590, the Commission has set forth a high-level overview of

[4] As provided for when Avista received approval of its Electric Decoupling Mechanism.

Phases 1 through 4, with a detailed workplan specifically for Phase 1 that will culminate in a Policy Statement on Performance Metrics.

Q. What are the Company's general thoughts, at this time, on the issues the Commission should address in Phase 1 of Docket U-210590, "Performance Metrics"?

A. For Avista, perhaps the most important issue for the Commission to address is not necessarily related to objectives, principles, and metrics, but perhaps to outline how it will necessarily limit or constrain the total number of metrics to include in the Phase 1 Policy Statement. As Avista has been preparing this general rate case, we have reflected on the sheer number of reports and amount of data that we currently provide to the Commission. In short, it is quite overwhelming, and does not include other potential metrics that parties will raise during this proceeding. By no means are we diminishing any metrics that may be proposed, but Avista can see a path where dozens of various metrics could be proposed for inclusion. We are simply cautioning against an avalanche of new metrics at this time, before we have made good use of existing metrics.

Q. Would you provide a non-exhaustive list of all of the various types of metrics the Company now reports (or will report in the case of the Clean Energy Implementation Plan) with the Commission?

A. Yes. Below is just a sampling of some of the reporting we track and report on to the Commission. Ultimately, the Commission could take any one, or more, of these items and create an incentive or penalty around it:

Customer Service Guarantees ($50 credit for missed guarantee paid for by shareholders)

1. Electric and natural gas service appointments
2. Electric outage restoration within 24 hours of notification from customers, excluding MEDs

3. Switch on power within one business day from request
4. Provide cost estimate for new electric or natural gas supply within 10 business days
5. Investigate and respond to billing inquiries within 10 business days
6. Investigate customer-reported problems with a meter, or conduct a meter test, and report results within 20 business days
7. Provide notification at least 24 hours in advance of disconnecting service for scheduled electric interruptions

Reliability Reporting (provided annually to WUTC)

1. System Average Interruption Frequency Index (SAIFI)
2. System Average Interruption Duration Index (SAIDI)
3. Customer Average Interruption Duration Index (CAIDI)
4. Average Outage Duration
5. Average Number of Customers per Outage Event
6. Number of Outage Events
7. Total Customer Outage Hours
8. Momentary Average Interruption Frequency Index (MAIFI)
9. Customer Experiencing Multiple Interruptions (CEMI)

Additional Metrics Tracked Internally

1. Uptime
2. Perfect Power
3. Individual customer with most outages
4. Number of customers experiencing an outage
5. Number of customers experiencing multiple outages
6. Customers Experiencing Long Duration Outages (Single)
7. Customers Experiencing Long Duration Outages (Total)
8. Customers Experiencing High/Low Voltage

Energy Efficiency

1. Annual kWh savings by customer segment (residential, low-income, commercial) and program
2. Annual therm savings by customer segment (residential, low-income, commercial) and program
3. Cost-effectiveness of total portfolio by program and customer segment
4. # of customers served by program
5. Dollars spent by program

Energy Assistance

1. # of customers/households served
2. Total assistance provided
3. Average grant amount

Energy Independence Act (I-937)

1. Renewable Energy Credits use to comply with 15% requirement
2. All-cost effective conservation described above

Power Supply

1. Annual Energy & Emissions Intensity Report
    a. MWh per Capita
    b. MWh per Customer for residential and commercial customers
    c. Metric Tons CO_2e for known and unknown resources service WA
    d. % of 1990 CO_2
    e. Metric Tons of CO_2e per MWh

2. Integrated Resource Plan
    a. Load-Resource Balance
    b. Annual and Cumulative Energy Efficiency Acquisitions
    c. Clean Energy Acquisition Forecast
    d. Greenhouse Gas Emissions Forecast

Natural Gas IRP

1. Load-Resource Balance
2. Emissions – lbs. GHG/MMBtu and lbs. Co_2e/MMBtu

Transportation Electrification

1. Utility spending, revenue and net benefits, including any monetized environmental benefits and grid benefits from load management
2. Customer satisfaction
3. Number of EVs by type (light passenger, forklifts, buses, etc.)
4. Adoption projections
5. Customer operating cost savings and avoided CO2 emissions
6. EV load profiles for cases of uninfluenced, load management and EV rate participation
7. Electric transportation consumption (kWh) and peak load (kW), by vehicle type
8. Grid impacts integrated with System Planning including Distribution systems and the Integrated Resource Plan
9. EVSE installations, costs and % uptime
10. Stakeholder engagement
11. Benefits to low-income customers and communities
12. Detailed EV rate participation, analysis and results

New Reporting per CETA due biennially to Department of Commerce beginning February 2022 includes following metrics.

1. Estimated # and demographic characteristics of households served and total dollar value of assistance.

2. Estimated level of energy burden and energy assistance need amongst customers served
3. Energy efficiency potential
4. Assessment of progress towards reducing energy burden
5. Cumulative assessment of funding levels needed to meet 60% of energy assistance need by 2030 and 90% by 2050

Clean Energy Implementation Plan

1. Metrics Included
    a. Interim renewable energy target
    b. Energy Efficiency targets
    c. Interim Demand Response targets
    d. Clean Energy Acquisition target

2. Customer Benefit Indicators
    a. Participation in Company Programs
    b. Number of Households with a High Energy Burden (>6%)
    c. Availability of Methods/Modes of Outreach and Communication
    d. Transportation Electrification
    e. Named Community Clean Energy
    f. Investments in Named Communities
    g. Energy Availability
    h. Energy Generation Location
    i. Outdoor Air Quality
    j. Greenhouse Gas Emissions
    k. Employee Diversity
    l. Supplier Diversity
    m. Indoor Air Quality

Wildfire Resiliency Plan Metrics:

1. Pole Fires
2. Tree Fall-Ins
3. Overhead Equipment Failure
4. Spark Ignition Events
5. Tree Grow-Ins
6. Vegetation:
    a. Distribution Hazard Tree – planned miles, inspected miles, mitigation miles, satellite imagery
    b. Transmission Hazard Tree – planned miles, inspected miles, field mitigation (trees identified, and trees removed), LIDAR imagery
7. Infrastructure:
    a. Transmission Pole Wood to Steel Conversion
    b. Transmission Fire Resistant Pole Wraps
    c. Distribution Grid Hardening

Q. In Avista's most recent Order in Dockets UE-200900, et. al., the Commission directed Avista to specifically develop performance metrics for Wildfire and AMI. Has it done so?

A. Yes, as will be described below.

Q. What performance measures are Avista proposing for inclusion in this Two-Year Rate Plan?

A. Avista is proposing a total of 11 performance measures for tracking and reporting during the Two-Year Rate Plan, which are "bundled" into "groupings" for purposes of potential incentives and/or penalties.

Q. Would you please provide the first six performance measures being offered by the Company and an explanation of each?

A. Yes. Provided below are the first six measures and an explanation of their meaning:[5]

> **Measure 1**: **Customer Satisfaction with the Telephone Service provided by Avista's Customer Service Representatives** - As part of Avista's Service Quality Measures program, the level of our customers' satisfaction with the telephone service provided by the Company's contact center will meet or exceed a benchmark of 90%.[6] Several factors influence our customers' satisfaction with the quality of telephone service provided by our customer service representatives and contact center. We measure the importance of these factors to customers as well as their satisfaction with

[5] Measures 1 through 6 are outlined in the Company tariff, Schedules 85 (electric) and 185 (natural gas). Measures 7 through 9 are reported to the Commission pursuant to Washington Administrative Code (WAC) 480-100-398. These are also reported in the Company's annual "Service Quality Measures Program Report", last filed with the Commission on 4/28/2021 in Dockets UE-210282 and UG-210283.

[6] The level of Customer satisfaction with telephone service, as provided by the Company's Contact Center, will be at least 90 percent, where:

a. The measure of Customer satisfaction is based on Customers who respond to Avista's quarterly survey of Customer satisfaction, known as the Voice of the Customer, as conducted by its independent survey contractor;
b. The measure of satisfaction is based on Customers participating in the survey who report the level of their satisfaction as either "satisfied" or "very satisfied"; and
c. The measure of satisfaction is based on the statistically significant survey results for both electric and natural gas service for Avista's entire service territory for the calendar year, and if possible, will also be reported for Washington customers only.

them each year. These factors are listed below.

- The customer service representative handling the customer's call in a friendly, caring manner.
- The customer service representative being informed and knowledgeable.
- The customer service representative meeting the customer's needs promptly.
- The customer service representative giving the customer all the information they need in one call.
- Being connected to a customer service representative in a reasonable amount of time.

Measure 2: **Customer Satisfaction with Avista's Field Service Representatives** - As part of Avista's Service Quality Measures program, the level of our customers' satisfaction with the Company's field services will meet or exceed a benchmark of 90%.[7] The quality of our field services and the satisfaction of our customers is influenced by several factors. Each year we measure the importance of these factors to our customers and their satisfaction with each aspect of our service. These factors are listed below.

- The service representative keeping you informed of the status of your job.
- The service representative or service crew being courteous and respectful.
- The service representative or service crew being informed and knowledgeable.
- The service representative or service crew leaving your property in the condition they found it.
- The service work being completed according to the customer's expectations.
- The overall quality of the work performed by Avista Utilities.

Measure 3: **Customer Complaints made to the Commission** - As part of Avista's Service Quality Measures program, the number of complaints filed by our customers with the Commission will not exceed a ratio of 0.4 complaints per 1,000 customers.[8] When our customers are unhappy with any aspect of the service they receive from Avista, and the Company is made aware of the issue, our intent is work with the customer to resolve the issue quickly and fairly to their satisfaction. Though we are successful in resolving the majority of these customer issues, there are some that cannot be favorably resolved and result in the customer filing a formal complaint with the Commission. In addition to complaints arising in this manner, there are also instances where a customer files a complaint without having first notified the

[7] The level of Customer satisfaction with the Company's Field Services will be at least 90 percent, where:
a. The measure of Customer satisfaction is based on Customers who respond to Avista's quarterly survey of Customer satisfaction, known as the Voice of the Customer, as conducted by its independent survey contractor;
b. The measure of satisfaction is based on Customers participating in the survey who report the level of their satisfaction as either "satisfied" or "very satisfied"; and
c. The measure of satisfaction is based on the statistically significant survey results for both electric and natural gas service for Avista's entire service territory for the calendar year, and if possible, will also be reported for Washington customers only.

[8] The ratio is calculated by dividing the sum of all electric and natural gas customer complaints filed with the Commission by the average monthly number of Avista customers for the year. The rate is calculated by multiplying the percentage by 1,000.

Company of their issue or concern. While past experience has shown that the Commission ultimately finds in the great majority of these complaints that the Company has acted properly, Avista agrees that the number of complaints filed does provide one indicator of the level of dissatisfaction our customers may have with our service or their experience.

Measure 4: **Answering Our Customers' Calls Promptly** - As part of Avista's Service Quality Measures program, the percentage of customer calls answered live by a customer service representative within 60 seconds will average 80% or greater.[9] This particular customer service measure is one of the subsets of service attributes that contribute to the customer's overall satisfaction with our service representatives and contact center. Often referred to as the "Grade of Service", or "GOS", this measure is the average percentage of customer calls to our contact center that are answered live by a customer service representative within 60 seconds for those customers who wish to speak with a service representative. When a customer calls Avista's contact center, their call is initially received by our automated (voice activated) phone system. The customer is presented the option of using the phone system for self-service (e.g. to check their account balance or pay their bill, etc.) or to speak with a customer service representative live to meet their service need. Avista's response time in answering the customer's call is the time that elapses between the customer's request to speak to a representative and when their call is answered live by a representative.

Measure 5: **Avista's Response Time for Electric Emergencies** - As part of Avista's Service Quality Measures program, the average response time to an electric system emergency will not exceed 80 minutes for the year.[10] When customers call Avista to report an electric emergency, the Company works with the customer to quickly ascertain the particular circumstances being reported, and instructs the customer on how best to ensure the safety of themselves and that of others until help arrives. We immediately begin the dispatch of service personnel best situated to respond in the shortest time possible. Once at the scene, Avista's first priority is to make the situation safe for our customers, citizens, other emergency responders, and our employees. Restoration of the problem can begin once the safety of the site is secured and needed resources arrive at the scene. The Company's ability to respond quickly to an electrical emergency is influenced by many factors, some of which include the urban

[9] The percentage of Customer calls answered by a live representative within 60 seconds will average at least 80 percent for the calendar year, where:

a. The measure of response time is based on results from the Company's Contact Center, and is initiated when the Customer requests to speak to a Customer service representative; and
b. Response time is based on the combined results for both electric and natural gas Customers for Avista's entire service territory.

[10] The Company's average response time to an electric system emergency in Washington will not exceed 80 minutes for the calendar year, where:

a. Response time is measured from the time of the Customer call to the arrival of a field service technician;
b. "Electric system emergency" is defined as an event when police / fire services are standing by, or arcing/flashing wires down (unspecified location, pole to house, or pole to pole), or for feeder lockout; and
c. Response times are excluded from the calculation for those periods of time when the Company is experiencing an outage that qualifies as a "Major Event Day" (or "MED"), as defined by the Institute of Electrical and Electronics Engineers, and which includes the 24 hour period following the Major Event Day.

or rural locale, the location of the nearest available respondent (especially in rural areas), the time of day, season of the year, weather conditions, traffic, and the presence of other simultaneous emergency events across the system. For this measure, the response time to an electric emergency is the elapsed time between the confirmation of the emergency with the customer (when the dispatch field order is given) and when the Avista service person arrives at the scene.

Measure 6: **Avista's Response Time for Natural Gas Emergencies** - As part of Avista's Service Quality Measures program, the average response time to a natural gas system emergency will not exceed 55 minutes for the year.[11] When customers call Avista to report a natural gas emergency, the Company works with the customer to quickly ascertain whether the presence of natural gas (via odor or some other characteristic) is likely coming from inside the customer's home or business or from facilities located outside. If inside, the customer is instructed to immediately evacuate the building to a safe distance and await the arrival of emergency responders. If the leak is in facilities outside, instructions to the customer are based on the proximity and type of the leak to their (or others') home or business. Once the nature of the issue has been determined and the customer has been given precautionary instructions on how best to ensure their own safety and that of others until help arrives, the Company immediately begins the dispatch of service personnel best situated to respond at the scene in the shortest time possible. At the scene, Avista's first priority is to make the situation safe for our customers, citizens, other emergency responders, and our employees. Restoration of the problem can begin once the safety of the site is secured and needed resources arrive at the scene.

Q. For Measures 1-6 provided above, does Avista have a proposal on an incentive or penalty for exceeding or failing to meet the stated metrics?

A. Yes. For these six measures, Avista proposes to group them together (**Group 1**) for purposes of an incentive or penalty. Avista proposes that if the Company meets or exceeds all six of Measures 1 through 6 above, Avista would earn an annual incentive of $500,000. If Avista meets or exceeds 5 of the 6 measures, there would be no incentive or penalty. If Avista fails to meet two or more of the six measures, then Avista would pay a

[11] The Company's average response time to a natural gas system emergency in Washington will not exceed 55 minutes for the calendar year, where:
a. Response time is measured from the time of the customer call to the arrival of a field service technician; and
b. "Natural gas system emergency" is defined as an event when there is a natural gas explosion or fire, fire in the vicinity of natural gas facilities, police or fire are standing by, leaks identified in the field as "Grade 1", high or low gas pressure problems identified by alarms or customer calls, natural gas system emergency alarms, carbon monoxide calls, natural gas odor calls, runaway furnace calls, or delayed ignition calls.

penalty of $500,000. The accounting for incentives or penalties is discussed later in my testimony.

Q. Turning to Measures 7 through 9, as you will describe below those are related to electric reliability. Before describing them, do you have general commentary on what should be considered when developing a performance-based metric related to reliability?

A. Yes, I do. Avista measures system reliability based on three key industry performance measures including SAIFI (Sustained Average Interruption Frequency Index), SAIDI (Sustained Average Interruption Duration Index), and CAIDI (Customer Average Interruption Duration Index). Reliability is influenced annually based on numerous factors including but not limited to capital and expense investment in the distribution and transmission systems, weather, unplanned outages, and planned maintenance.

Weather has a significant impact on annual reliability performance and is outside of Avista's control, although ongoing levels of capital and expense spending will influence reliability related to system performance during weather events. Planned work also has a significant impact on reliability performance. Avista is making a significant investment in wildfire mitigation that will increase planned outages in the future and potentially negatively impact reliability.

Avista is proposing a performance-based target that that will be nearly statistically neutral related to average historical reliability but – importantly – will influence positive behaviors related to prior notification for planned maintenance activities including wildfire mitigation and grid hardening activities that will support long term reliability.

Q. Please describe Measures 7 through 9.

A. Provided below are Measures 7 through 9:

Measure 7: **Number of Electric System Outages** - As part of Avista's Service Quality Measures program, the Company reports its annual electric system reliability measure for the number of non-major storm power outages experienced per customer for the year (SAIFI).[12] SAIFI is the average number of sustained[13] interruptions or outages-per-customer for the year. This index value, developed by the IEEE, is calculated by Avista by dividing the total number of outages on the system each year by the average total number of customers on the system for that year. Dividing the value by the total number of customers normalizes the number of outages for comparison with other utilities.

It is proposed that Avista achieve a SAIFI that is less than the 5-year average (2017-2021) plus 1 standard deviation. The proposed target would be 1.21.

Measure 8: **Average Duration of Electric System Outages** - As part of Avista's Service Quality Measures program, the Company reports its annual electric system reliability measure for the total duration of non-major storm power outages experienced per customer for the year (SAIDI). SAIDI is the average duration (or length) of sustained interruptions per customer for the year. This index value, developed by the IEEE, is calculated by Avista by dividing the total number of customer outage hours (number of customers experiencing an outage multiplied by the duration of the outage) experienced on the system for the year by the average total number of customers on the system for that year. Dividing the value by the total number of customers normalizes the number of outages for comparison with other utilities.

It is proposed that Avista achieve a SAIDI that is less than the 5-year average (2017-2021) plus 1 standard deviation. The proposed target would be 173 minutes.

Measure 9: **Average Duration of Sustained Interuptions** – As a part of Avista's Reliability Reporting, the Company reports its annual electric system reliability measure for the average duration of sustained outages, or Customer Average Interruption Duration Index. Often referred to by its acronym CAIDI, is the average duration of sustained interruptions for those customers who experienced a service outage that year. This index value, developed by the IEEE, is calculated by dividing

[12] The Company will report the frequency of electric system interruptions per Customer for the calendar year, where:
a. The interruptions are measured as the System Average Interruption Frequency Index ("SAIFI"), as calculated by the IEEE;
b. The calculation of SAIFI excludes interruptions associated with any Major Event Day (MED);
c. The report provides a brief description of the predominant factors influencing the current-year results, and in the context of the Company's historic five-year rolling average of SAIFI; and
d. The results will be reported on a system basis for Washington and Idaho and will include the annual SAIFI for Washington only.

[13] Any service interruption greater than five minutes in duration.

the total number of customer outage hours experienced on the system for the year by the total number of customers who experienced an outage that year. Since this measure reflects the duration of outages for customers experiencing those outages, it is often used to represent the utility's average outage restoration time.

It is proposed that Avista achieve a CAIDI that is less than the 5-year average (2017-2021) plus 1 standard deviation. The proposed target would be 156 minutes.

Q. For Measures 7 – 9 provided above, does Avista have a proposal on an incentive or penalty for exceeding or failing to meet the stated metrics?

A. Yes. For these three measures, Avista proposes to group them together (**Group 2**) for purposes of an incentive or penalty. Avista proposes that if the Company meets or exceeds all three of Measures 7 through 9 above, Avista would earn an incentive of $500,000. If Avista meets or exceeds two of the three measures, there would be no incentive or penalty. If Avista fails to meet two or more of the three measures, then Avista would pay a penalty of $500,000.

Q. What is Avista proposing for Measure 10?

A. Avista is proposing a performance measure related to its recently deployed Advanced Metering Infrastructure. In authorizing Avista's AMI adjustment, the Commission ordered Avista to "Develop and propose AMI performance-based regulation metrics and measurements that the Commission might apply, and specifically such metrics and measurements relevant for each of the use cases, above".[14] The use cases identified by the Commission in the order were related to "TOU rates, real-time energy use feedback for customers, behavior-based programs, data disaggregation, grid-interactive efficient buildings, CVR or volt/VAR optimization, and other additional use cases Avista identifies."

Q. Has Avista prepared a performance measure for each of the use cases, or

[14] Dockets UE-200900 et. al., Order 08/05, ¶228.

others, identified by the Commission?

A. No, not at this time as such performance measures are premature. For example, Avista will be working with Commission Staff and other parties on a TOU pilot program in 2022, so a performance measure is premature (plus the Company is already subject to a Commission order that requires a TOU program to be filed and implemented by mid-2023). Company witness Ms. Rosentrater provides a further update on the other use cases in Section VI of her testimony, Exh. HLR-1T.

Avista is, however, presenting an AMI performance metric that essentially enables customers to have access to their data, such that they have the information they need for future Avista offerings – like TOU rates or behavior energy efficiency programs. Therefore, Avista is proposing the following measure:

> **Measure 10**: **AMI Performance Measure** - The percent of customers that have access to AMI data during a calendar year, as measured as a monthly average, through web presentment on myavista.com.

Q. For Measure 10, does Avista have a proposal on an incentive or penalty for exceeding or failing to meet the stated metric?

A. Yes. Avista would face a penalty of $500,000 if the percent of customers having access to their data is 80% or less. Avista would receive an incentive of $500,000 if customers had access to their data 95% of the time or more. Anything in between would not be penalized or incentivized.

Q. Why did Avista choose this metric?

A. The reason the Company proposed this metric is because it has been a key quality metric for the AMI system to ensure we are presenting the right data to customers that they actually find it useful. It takes intentional effort to ensure that we achieve the goal and it

helps us understand how the overall system is behaving. It will help measure how many customers are getting the maximum value out of the interval data (5 minute). It does take a large and consistent effort, as our systems can be impacted by items out of our control such as power outages longer than 8 hours, Avista's AMI vendors, cellular coverage issues, and other items that may affect data availability.

Q. Lastly, what is a proposed performance-based metric related to the Wildfire Resiliency Program, Measure 11, for non-urban areas?

A. For Measure 11, Avista is proposing a metric related to its Wildfire Resiliency Program. Avista's Wildfire Resiliency Program has identified four categories of mitigative-actions related to wildfire: 1) Enhanced Vegetation Management, 2) Grid Hardening, 3) Operations and Emergency Response, and 4) Situational Awareness. All four of the mitigative categories work together, but if there was only a single mitigative action, perhaps the most important would be the inspection and removal of risk trees that are in, or adjacent to, Avista's rights of way. Avista has made a commitment as part of its Wildfire Resiliency Program to inspect 100% of its non-urban distribution system on an annual basis to identify and schedule for mitigation the removal of risk trees that have the potential to contact conductor if they were to fall. Risk trees are those that are dead, dying, diseased or those that exhibit obvious structural defects such as a co-dominate stem and pose an increased fall-in risk with conductor during more severe weather. Therefore, Avista is proposing the following measure:

> **Measure 11**: **Wildfire Resiliency Performance Measure** - Complete a risk tree inspection of non-urban transmission and distribution electrical feeder miles on an annual basis, and schedule or plan for mitigation.

It is proposed that the inspection be completed utilizing multiple methodologies – the

use of digital data collection methodologies as well as physical field inspections utilizing certified arborists and/or qualified utility personnel.[15] Successfully achieving the risk tree inspection metric will identify trees to be removed that will reduce potential contacts between vegetation and electrical conductor during extreme weather events. Vegetation, especially tree "fall-ins", are a primary factor in spark ignitions. For Avista, tree "fall-ins" account for far more tree-related outages than tree "grow-ins". Analysis of historical Avista tree-related outage data indicates that nearly 90% of all outages that are vegetation related are due to tree "fall-ins".

Q. Why is the Company proposing this for non-urban areas and not urban areas?

A. Risk trees in urban areas are inspected and mitigated as part of Avista's 5-year routine maintenance vegetation management plan that is primarily addressing grow in risk as well as urban risk trees. Incorporated urban areas exceeding 10,000 in population are identified as 'developed areas' or 'urban' for wildfire hazard potential, and are considered non-Wildland-Urban Interface, or WUI, as these areas have well established fire response facilities and non-burnable hardscape areas such as roads and parking lots to serve as fire containment zones. In short, fire spread potential is constrained. On the other hand, non-urban or rural areas are in undeveloped areas with limited fire-fighting or suppression resources or areas that contain primarily agriculture, forest, non-production, large bodies of water, non-Avista service areas, or other undeveloped public lands with a housing density with parcels smaller than 20 acres. In short, there simply isn't the same level of fire risk in urban areas as

[15] The probable inspection methodologies for transmission facilities include LiDAR, visual helicopter, and/or ground inspections. The probable inspection methodologies for distribution facilities included digital data collection and ground inspection.

compared to non-urban areas.

Q. For Measure 11, does Avista have a proposal on an incentive or penalty for exceeding or failing to meet the stated metric?

A. Yes. If Avista is able to, on an annual basis, complete a risk tree inspection for 96% of the non-urban transmission and distribution electrical feeder miles or greater, Avista would receive an incentive of $500,000. If Avista is only able to inspect between 94 and 95 percent, there would be no incentive or penalty. Anything less than 94 percent inspection would result in a penalty of $500,000. Given that wildfire resiliency is a purely electric program, any incentive or penalty would apply only to electric operations.

Q. What is the potential total level of penalty or incentive proposed by the Company?

A. Avista is proposing a total upside or downside risk of $2 million related to the proposed performance measures, and is appropriate given the risks that are being addressed.

Q. Does Avista have a proposal on the reporting of, and accounting for, performance measures, including incentives and penalties?

A. Yes, Avista proposes the following: Beginning on January 1, 2023, the Commission will approve a Deferred Accounting Mechanism or equivalent where any incentives or penalties incurred during the forthcoming 12-month period would be accounted for. Group 1 and Metric 10 would be allocated 77.22% to electric operations and 22.78% to natural gas operations given the metrics apply to both fuels.[16] Group 2 and Metric 11 are electric-only measures, and therefore would be allocated only to electric operations.

The Company would file a report by March 31st of the subsequent year (the first such

[16] The Company proposes to use the AN allocator for electric and natural gas.

report due March 31, 2024) detailing to the Commission and Parties the results of the prior calendar year's results. Such reporting will also be accompanied by an electric and a natural gas tariff that would serve to surcharge or rebate the deferred balance, by service, to customers using the same rate spread as approved for base rates during the 12-month period being reviewed. No interest would accrue on the deferral.

As it relates to the allocation of incentives to electric and natural gas operations, any penalties would be shareholder funded.

Q. Did Avista consider other metrics to include in this case?

A. In addition to reviewing all of the reporting metrics described earlier in my testimony, we also considered how we might add metrics related to environmental targets and measures, diversity/equity/inclusion measures, a measure related to supplier diversity, and measures related to low-income and energy efficiency. Again, we believe we are simply too early in the process to develop meaningful measures and look forward to the upcoming process instigated by the Commission.

Q. Avista filed its first Clean Energy Implementation Plan (CEIP) on October 1, 2021, which included a set of proposed Customer Benefit Indicators (CBIs). Should the proposed CBIs be included in the performance-based metrics in this case?

A. No. It is premature to conclude that the Company's first set of proposed CBIs should be included in the performance-based metrics in this case. At the time of the filing of this general rate case, the Commission has not taken action on the Company's CEIP, which by statute they may approve, approve with conditions, or deny. It is unclear of when the Commission may take action and if the proposed CBIs will be the final CBIs approved. Even if the proposed CBIs are approved during the pendency of this case, the Company will need to

discuss with stakeholders which of the CBIs, if any, are appropriate as performance-based metrics. This topic of including CBIs as performance-based metrics is ripe for discussion in the Commission's proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making in Docket U-210590.

Q. Finally, did Avista reach out to other parties to gather input on potential measures for inclusion?

A. Avista considered doing so, but we were also keenly aware of the process that was announced by the Commission in Docket U-210590. We believe that is the proper venue for all the Commission, utilities, and other parties – some of which are unknown to Avista – to discuss and vet meaningful metrics, including the inclusion (or not) of the CBIs discussed above.

IV. EARNINGS TESTS

Q. Would you please provide an overview of the Earnings Test?

A. Yes. Included in RCW 80.28.425(6), the Multiyear Rate Plan legislation, is the following Earnings Test:

> If the annual commission basis report for a gas or electrical company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than .5 percent higher than the rate of return authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of .5 percent higher than the rate of return authorized by the commission for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding.

Q. Does Avista already have an Earnings Test as a part of its electric and natural gas Decoupling Mechanisms?

A. Yes, it does. If the Company earns less than its authorized rate of return on a Commission Basis, there is no earnings sharing. If the Company has earned in excess of its authorized rate of return, and is in the decoupling rebate position, Avista would rebate the decoupling balance plus 50% of the excess earnings. If the Company has earned in excess of its authorized rate of return, and is in the decoupling surcharge position, the surcharge would be reduced or eliminated by 50% of the excess earnings.

Q. Is the Company proposing that the Commission simply remove the Earnings Test from the Decoupling Mechanism, given the SB 5295 Earnings Test?

A. Yes. Avista is proposing that the SB 5295 Earnings Test replace the existing earnings test set forth in Schedules 75 (electric) and 175 (natural gas).

Q. Did the Company file revisions to these tariffs as a part of this case?

A. Yes, the Company filed revised tariffs showing the new SB 5295 Earnings Test, along with the filed Rate of Return stated so that customers and others reviewing the tariffs can understand what the return threshold is. The language is as follows (and would be updated should the rate of return during the case be different than that proposed by Avista):

> If the annual commission basis report for a gas or electrical company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than 0.5 percent higher than the rate of return (7.31 percent) authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of 0.5 percent higher than the rate of return authorized by the commission (or revenues above 7.81 percent rate of return) for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding.

Q. Does this conclude your pre-filed, direct testimony?

A. Yes, it does.