Exhibit BGM-7T
Dockets UE-150204/UG-150205
Witness: Bradley G. Mullins

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. AVISTA CORPORATION Respondent.	DOCKETS UE-150204 and UG-150205 (*Consolidated*)

RESPONSE TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF

THE ALLIANCE OF WESTERN ENERGY CONSUMERS

September 13, 2019

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EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is 1750 SW Harbor Way, Ste 450, Portland, Oregon 97201.

. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am an independent energy and utilities consultant representing energy consumers before state regulatory commissions, primarily in the Western United States. I am appearing at this phase in this matter on behalf of the Alliance of Western Energy Consumers ("AWEC"). AWEC is a non-profit trade association whose members are large energy users served by electric and gas utilities located throughout the West, including customers that receive services from Avista Corporation ("Avista"). AWEC was formed as a result of the merger of the Northwest Industrial Gas Users ("NWIGU") into the Industrial Customers of Northwest Utilities ("ICNU") on April 1, 2018.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes. I previously filed Exh. Nos. BGM-1CT through BGM-6 in this docket on behalf of ICNU.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. I have a Master of Accounting degree from the University of Utah. After obtaining my master's degree, I worked at Deloitte in San Jose, California, where I specialized in performing research and development tax credit studies. I later worked at PacifiCorp as an analyst involved in power cost forecasting. I have been performing independent energy and utilities consulting services for approximately six years, and provide services to utility customers on matters such as revenue requirement, power cost forecasting, and rate spread and design. I have sponsored testimony in several regulatory jurisdictions around the United States, including before the Washington Utilities and Transportation Commission (the "Commission"). An updated list of cases where I have submitted testimony can be found in Mullins, Exh. BGM-8.

Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?

A. I respond to the Testimony of Elizabeth M. Andrews, Exh. EMA-9T, regarding the August 7, 2018 Published Opinion issued by the Court of Appeals of Washington (the "Appeals Decision"), and the corresponding impacts of the Appeals Decision on the filed electric and natural gas service rates of Avista rates subsequent to Order 05 in this proceeding. I provide some procedural background and discuss several considerations for the Commission to take into account when determining the effects of the Appeals Decision. I also discuss my analysis and recommendations associated with the attrition models that the Commission used to establish electric and natural gas service rates in Order 05.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The ordering language in the Appeals Decision was not prescriptive about how the Commission should determine the revenue requirement impacts of the Court of Appeals' findings. The Appeals Decision simply struck "all portions of the attrition allowance attributable to Avista's rate base." Given the nature of the attrition models that were used in Order 05, determining the portions attributable to rate base is not a clear-cut exercise. Thus, the effects of the Appeals Decision on Avista's rates subsequent to Order 05 are subject to interpretation and a number of different considerations, including issues such as the time period of the rate adjustment, whether depreciation expenses are attributable to rate base within the context of the Appeals Decision, and the effects on other ratemaking mechanisms such as decoupling.

Based on my analysis of these considerations, which I discuss below, I recommend the Commission require Avista to refund $57,809,986 and $19,222,861 for electric and gas services, respectively. In Table 1, below, I detail the various components that make up these recommendations.

TABLE 1

Effects of Appeals Decision on Order 05 Attrition Allowance ($000)

		Rate Adjustment Period			
1	From	11-Jan-16	1-Jan-17	1-Jan-18	**Total**
2	To	31-Dec-16	31-Dec-17	30-Apr-18	**Refund**
	Electric				
3	Return on Rate Base	(4,178)	(4,295)	(1,400)	(9,874)
4	Return of Rate Base	(3,025)	(3,110)	(1,014)	(7,150)
5	Power Costs	(11,770)	(12,101)	(3,945)	(27,816)
6	Total Before Interest	(18,973)	(19,506)	(6,360)	(44,840)
7	Interest	(7,049)	(4,814)	(1,107)	(12,970)
8	**Total Refund**	**(26,022)**	**(24,321)**	**(7,467)**	**(57,810)**
	Natural Gas				
9	Return on Rate Base	(4,142)	(4,258)	(1,388)	(9,789)
10	Return of Rate Base	(2,167)	(2,228)	(726)	(5,121)
11	Total Before Interest	(6,309)	(6,486)	(2,115)	(14,910)
12	Interest	(2,344)	(1,601)	(368)	(4,313)
13	**Total Refund**	**(8,653)**	**(8,087)**	**(2,483)**	**(19,223)**

II. BACKGROUND

Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF THE COMMISSION'S DECISION IN ORDER 05.

A. In its initial filing in this docket, Avista requested to increase its electric service base rates by $33,229,000, or 6.6%,[1/] and to increase natural gas service base rates by $12,021,000, or 7.0%.[2/] These requested rate increases did not rely on the traditional ratemaking method used in Washington, which is based on the use of a modified historic test period.[3/] Rather, Avista based the rate increase in its initial filing on attrition analyses, which relied on historical cost trends, in contrast to the known and measurable pro forma adjustments that are typically considered in the Commission's traditional ratemaking method.[4/] Avista alleged that the traditional ratemaking methodology was insufficient to produce just and reasonable rates in the rate effective period, and argued that an attrition allowance was necessary to be included in revenue requirement for Avista to be provided with a reasonable opportunity to earn its authorized rate of return.[5/]

In Response Testimony, AWEC—through its predecessor organizations ICNU and NWIGU—and Public Counsel argued that no attrition adjustment was necessary for Avista to have an opportunity to earn its authorized return in the rate period.[6/] Instead, AWEC and Public Counsel argued for the Commission to continue to use a modified

1/ Andrews, Exh. No. EMA-2 at 1.
2/ Andrews, Exh. No. EMA-3 at 1.
3/ Dockets UE-150204 and UG-150205, Order 05, ¶ 38 (Jan. 6, 2016).
4/ Id., ¶¶ 59, 62.
5/ Andrews, Exh. No. EMA-1T at 7:12-10:2.
6/ Order 05, ¶¶ 85-88.

historical test period, with known and measurable pro forma adjustments, to determine Avista's revenue requirement.[7/]

In Staff's Response Testimony, it also generally argued against the use of an attrition allowance on the basis that Avista did not demonstrate that the circumstances Avista was experiencing were sufficient to warrant application of an attrition adjustment.[8/] Notwithstanding, Staff proposed alternative attrition analyses that the Commission could use if it were to approve the use of an attrition allowance to establish Avista's electric and gas service rates.[9/] In Rebuttal Testimony, Avista abandoned the attrition analyses presented in Avista's initial filing and, instead, adopted Staff's attrition model, subject to a few modifications.[10/]

In Order 05, the Commission approved the use of Staff's attrition models, subject to a few modifications.[11/] After these modifications, the Commission approved a revenue reduction of $8,110,000 million for electric service and a revenue requirement increase of $10,824,000 million for gas services.[12/]

Q. WHAT WAS THE REVENUE REQUIREMENT IN THE PRO FORMA STUDIES THE COMMISSION APPROVED IN ORDER 05?

A. In contrast to the attrition studies, the pro forma revenue requirement analyses that the Commission approved in Order 05 produced a revenue decrease of $36,442,000 for

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7/ Id.,¶¶ 85-86.
8/ McGuire, Exh. No. CRM-1T at 16:15-17.
9/ Id. at 34:6-12.
10/ Order 05, ¶ 89.
11/ Id., ¶ 135
12/ Id. at 1; id., Tables A1 and A2.

electric services and a revenue requirement increase of $3,975,000 for gas services.[13/] Accordingly, the revenue requirement that the Commission approved resulted in "attrition allowances," calculated as the difference between the attrition and pro forma study results. Thus, the Commission approved an attrition allowance of $28,332,000 for electric services and $6,849,000 for gas services.[14/]

Q. WHERE WERE STAFF'S ATTRITION MODELS THAT THE COMMISSION USED IN ORDER 05 PROVIDED?

A. Staff's attrition models were provided in McGuire, Exh. No. CRM-2 Rev. for electric Services and McGuire, Exh. No. CRM-3 Rev. for gas services. Those exhibits were filed on October 13, 2015.

Q. WHAT WERE THE MODIFICATIONS TO STAFF'S ATTRITION MODELS APPROVED BY THE COMMISSION IN ORDER 05?

A. For electric services, the Commission approved three adjustments to Staff's attrition models. First, the Commission removed all escalation associated with distribution plant, on the basis that Avista did not demonstrate that the rate of distribution expenditures were beyond its control.[15/] Second, the Commission adjusted the O&M escalation factor to 3.21%, compared to the 2.42% escalation factor that Staff used.[16/] Third, the Commission did not approve Staff's proposed disallowance related to Project Compass.[17/]

13/ Id., Tables A1 and A2 (The sum of contested and uncontested adjustments. For electric, services $36,442,000 is the sum of (-)$52,629,000 and $16,187,000 in Table A1. For gas services, $3,975,000 is the sum of $6,183,000 and (-)2,208,000 in Table A2).

14/ Id., ¶ 124, 140.

15/ Id., ¶ 136

16/ Id., ¶ 137-139.

17/ Id., ¶ 170-174

For gas services, the Commission made two adjustments to Staff's attrition model. First, the Commission adjusted the O&M escalation factor to 2.42%, compared to the 2.17% escalation factor that Staff used.[18/] Second, similar to the electric attrition model, the Commission did not approve Staff's proposed disallowance related to Project Compass.[19/]

Q. DID PARTIES RAISE QUESTIONS REGARDING ATTRITION ANALYSES THE COMMISSION USED IN ORDER 05 SUBSEQUENT TO THE ORDER?

A. Yes. Subsequent to the issuance of Order 05, parties were unable to duplicate the attrition allowance calculations detailed in the Order. On January 19, 2016, AWEC's predecessor ICNU and Public Counsel filed a motion for clarification, discussing the possibility that a technical error may have existed with respect to the attrition model the Commission used for Avista's electric services. Simultaneously, Staff filed a Motion for Reconsideration identifying the same potential technical error in the Commission's calculation. Specifically, it appeared that Avista's October 29, 2015 power cost update, which was intended to reduce power costs by $12.3 million, had not been fully captured in the Commission's attrition allowance model, based on the mechanical way that the attrition model had been designed.

The attrition models used by the Commission contained two pro forma power supply cost runs as inputs, one based on the historical test period loads and another based on forecasted 2016 rate period loads. Both power cost studies included the same pro

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18/ Id., ¶ 123

19/ Id., ¶¶ 170-174

forma adjustments applicable to the 2016 rate period.[20] Accordingly, with the exception of the different load assumptions, all other assumptions in the two power cost studies were the same. In its October 29, 2015 power supply update filing, Avista represented that the power supply update was a reduction of $12.3 million to its proposed revenue requirement. Avista, however, only provided the applicable power supply data from the power supply run that relied on historical loads. Since the only difference between the two studies was a minor difference in load—Avista had forecast load growth of only 1.56% in the 2016 period—it was the expectation of parties that both studies were to experience approximately the same $12.3 million reduction to power costs. When implementing the power supply update, however, it appeared that the Commission updated the power supply estimate that relied on historical loads, and made no change to the power supply estimate that relied on 2016 loads. Since the results of the power costs based on historical loads are ultimately replaced with the power costs based on 2016 loads, it appeared that the Commission's attrition models did not properly recognize the $12.3 million reduction to power costs identified in the October 29, 2015 update.

Q. HOW DID THE COMMISSION RULE ON THE MOTION FOR CLARIFICATION AND MOTION FOR RECONSIDERATION?

A. In Order 06, the Commission denied the motions of both AWEC/Public Counsel and Staff. In its order, the Commission acknowledged that "the approximate $12 million difference between their proposed attrition adjustment and what the Commission determined for electric service is explained largely by different treatments of power costs

[20] See Johnson, Exh. No. WGJ-1T at 8:14-20

in the attrition model."[21/] Notwithstanding, the Commission declined to modify the electric attrition model to incorporate the $12.3 million reduction to power costs that Avista represented in its October 29, 2015 filing. The Commission acknowledged that "'the attrition model functioned' and that 'the model will calculate an attrition revenue requirement using the information provided to it.'"[22/] Thus, the Commission determined that there was insufficient basis to open the attrition allowance model because, formulaically, the model functioned as it was designed, even though the power cost update had not been fully incorporated into the final model results. The Commission stated that "[t]he myriad adjustments in the interrelated cells of the models that inform our decisions in this matter that create final revenue requirements numbers cannot be considered separately or on an ad hoc basis."[23/]

Q. HAVE YOU ATTEMPTED TO RECREATE THE STUDIES THE COMMISSION USED TO ESTABLISH THE ATTRITION ALLOWANCE IN ORDER 05?

A. Yes. In Mullins, Exh. No. BGM-9 and Mullins, Exh. No. BGM-10 I have attempted to recreate the attrition studies used by the Commission in establishing rates based on the language in Order 05. Note that unreconciled differences exist between the studies I have recreated and the studies the Commission used.

As noted in the January 19, 2016 motions, the parties were unable to recalculate the attrition allowances the Commission used based upon the adjustments described in the Order 05. In response to Staff Data Request 219, Avista noted that it has also been

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21/ Order 06 ¶ 13.
22/ Id., ¶ 34 (citing Joint Parties' Response, ¶ 9).
23/ Id., ¶ 35.

unable to precisely duplicate the attrition study the Commission used in Order 05 for electric services. In the response, Avista stated that "[b]ased on Commission Order 05, the Company could not replicate an electric attrition study model showing the approved reduction for electric base rates of $8.1 million."[24/]

In Mullins, Exh. No. BGM-9, I have recalculated an attrition revenue requirement of $7,537,158 for electric services based on my understanding of the language in Order 05. In this study, I only updated the power supply calculation associated with historical loads. Thus, Mullins, Exh. No. BGM-9 represents a variance of $572,842 from the amount presented in Table A1 of Order 05.

In Mullins, Exh. No. BGM-10, I calculate an attrition revenue requirement of $10,839,797 for gas services based on my understanding of the language in Order 05. Mullins, Exh. No. BGM-10 represents an immaterial variance of $15,797 from the amount presented in Table A2 of Order 05. This variance is likely attributable to use of different rounding conventions when applying escalation factors in the gas attrition model.

I have considered these positive variances when calculating the impact of the Appeals Decision on the attrition revenue requirement in Table 1, above.

Q. HOW LONG WERE THE RATES ESTABLISHED IN ORDER 05 IN EFFECT?

A. The rates established in Order 05 went into effect on January 11, 2016. Following the Commission's Order 05, Avista subsequently filed a new rate case in Dockets UE-

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[24/] Mullins, Exh. No. BGM-17 at 1 (Avista Resp. to Staff Data Request No. 219).

160228 and UG-160229 on February 19, 2016, only 39 days after rates went into effect in this docket. Notwithstanding, the Commission ultimately rejected Avista's filing in Docket UE-160228 (Cons.), stating that the record did "not support a determination by the Commission that Avista's current rates are not fair, just, reasonable, or sufficient."[25/] Accordingly, the rates in Order 05 remained in effect following the filing and resolution of Docket UE-160228 (Cons).

Subsequently, Avista filed another rate case Dockets UE-170485 and UG-170486 on May 26, 2017, seeking new rates effective May 1, 2018. In Docket UE-170485 (Cons.) the Commission authorized Avista to increase its electric rates by $10.8 million, while reducing natural gas rates by $2.1 million.[26/] Thus, it was not until May 1, 2018, that new rates were established subsequent to Order 05.

Q. WHAT DIRECTION DID THE APPEALS COURT GIVE TO THE COMMISSION REGARDING THE APPROVED ATTRITION ALLOWANCE?

A. The Appeals Court found that the attrition allowance approved by the Commission was inconsistent with Washington's used and useful statute that was in effect at the time. Specifically, the Court found that "the WUTC based its calculation of Avista's rate base on projections rather than any specific identifiable plant. Regardless of their accuracy, use of projections in determining rate base ignores the requirement that the WUTC only consider property 'used and useful for service' in Washington."[27/] Finding also, however, that the used and useful statute was "purely a *rate base* statute," the Court did

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[25/] Docket UE-160228 (Cons.), Order 06, ¶ 4.
[26/] Docket UE-170485 (Cons.), Order 07 at 2.
[27/] Wash. Atty. Gen.'s v. Washington Util., 4 Wash.App.2d. 657, 687, 423 P.3d 861 (2018).

not disturb the attrition allowance to the extent it included O&M expense. With regard to rate base, however, the Appeals Court noted that the Commission provided for only one lump sum attrition allowance and simply struck "all portions of the attrition allowance attributable to Avista's rate base and reverse and remand for the WUTC to recalculate Avista's rates without relying on rate base that is not used and useful."[28/]

Q. GIVEN THIS HISTORY, WHAT DOES AVISTA'S TESTIMONY IN THIS PHASE OF THE PROCEEDING RECOMMEND REGARDING A REFUND TO CUSTOMERS IN ACCORDANCE WITH THE COURT OF APPEALS' DECISION?

A. Avista recommends that no refund be ordered on either the electric or natural gas side. Avista reaches this conclusion by making several questionable assumptions. First, it determines that the period the unlawful rates were in effect was approximately 11 months – the period between the rate-effective date of the underlying case in these dockets and the date of the Commission's final order dismissing Avista's rate case filing in Docket UE-160228 (Cons.).[29/] Second, it asks the Commission to consider plant it put into service after the rate-effective date, despite the Court's clear statement that plant projections are unlawful "regardless of their accuracy" and its consequent requirement to "strike all portions of the attrition allowance attributable to Avista's rate base …."[30/] Third, Avista offsets any remaining refund with over-earnings it shared with customers through its decoupling mechanism, even though the decoupling mechanism applies only to a subset of Avista's customers.

28/ Id. at 689.
29/ See Andrews, Exh. EMA-9T at 11:18-19.
30/ Wash. Atty. Gen.'s., 4 Wash.App.2d. at 689.

III. ANALYSIS AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR APPROACH FOR DETERMINING THE PORTION OF THE ORDER 05 ATTRITION ALLOWANCE ATTRIBUTABLE TO RATE BASE.

A. Starting with the Commission-approved attrition models (calculated as described above)—which I have recreated in Mullins, Exh. Nos. BGM-9 and BGM-10 for electric services and gas services, respectively—I made a number of sequential adjustments to isolate the portions of the attrition allowance attributable to rate base. These adjustments include removing the effects of both Avista's *return on* and *return of* rate base that were not used and useful as of the issuance of Order 05. Further, I made adjustments to modify the attrition model to accept Avista's October 29, 2015 power cost update and have also considered the effects of the Appeals Decision on Avista's decoupling mechanism, although I propose no adjustment for the decoupling mechanism at this time. I discuss each of these adjustments further, below, and I have documented and quantified the impact of each step in my workpapers.[31/] The collective results of these adjustments may be found in Mullins, Exh. No. BGM-11 for electric services and Mullins, Exh. No. BGM-12 for gas services. As detailed in Table 1, above, these adjustments establish the basis for AWEC's recommendation for the Commission to require Avista to refund $57,809,986 and $19,222,861 for electric services and gas services, respectively, in response to the Appeals Decision.

31/ The impact of each step can be identified by toggling the switches to the right of the attrition tables in my workpapers. For example, the values in cells "Y8:Y10" in tab "Attrition 09.2014 to 2016" of the file "Exh. No. BGM-11 Appeals Decision Electric Attrition Study" may be changed from one to zero to eliminate the impact of any particular component of AWEC's recommendation from the attrition model.

<u>a. Time Period of Rate Adjustment</u>

Q. OVER WHAT TIME PERIODS COULD THE RATE ADJUSTMENT ASSOCIATED WITH THE APPEALS DECISION APPLY?

A. The time period of the rate adjustment is complicated by the fact that, as discussed above, the Commission made no change to the Order 05 rates in Avista's subsequent general rate case, Docket UE-160228 (Cons.). Thus, depending on how one interprets the Commission decision in Docket UE-160228 (Cons.), there are at least three options available to the Commission for determining the appropriate time period to apply the rate adjustment associated with the Appeals Decision.

First, the Commission could apply the rate adjustment over the period beginning on January 11, 2016 through January 1, 2017, the rate effective date that Avista sought in Docket UE 160228 (Cons.). Under this approach the rate adjustment would apply for 356 days (note that 2016 was a leap year). This is the approach Avista proposes in its opening testimony in this phase of the proceeding.

Second, since new rates were never established in Docket UE-160228, another option available to the Commission is to apply the rate adjustment over the maximum eleven-month suspension period applicable in Docket UE-160228 (Cons.), which extended until January 19, 2017. Under this approach, a rate adjustment would apply for a slightly longer period of 375 days.

Third, the Commission could apply the rate adjustment through the rate effective date of Docket UE-170485 (Cons.), the first date that new rates became effective following the Commission Order 05 in this docket. As noted above, the rate effective date of Docket No. UE-170485 (Cons.) was May 1, 2018. Thus, this approach would result in a rate adjustment that applies for 841 days, or approximately 2.3 years.

Q. WHAT TIME PERIOD DOES AWEC RECOMMEND THE COMMISSION USE?

A. AWEC recommends the Commission apply the rate adjustment associated with the Appeals Decision over the 2.3-year period, until the rate effective date of Docket UE 170485 (Cons.).

Q. WHY DO YOU BELIEVE THAT THE 2.3 YEAR PERIOD IS APPROPRIATE FOR APPLYING THE RATE ADJUSTMENT?

A. In Order 06 in Docket UE-160228 (Cons.), the Commission found that "Avista failed to carry its burden to prove that its existing rates for electric service and natural gas service provided in Washington State are insufficient to yield reasonable compensation for the service rendered or are otherwise in any manner not fair, just, reasonable, and sufficient."[32/] Because Avista did not meet its burden, the Commission found that it had "neither the authority, nor an obligation, to determine fair, just, reasonable, or sufficient rates, charges, regulations, practices or contracts to be hereafter observed and in force or to fix the same by order."[33/] Since no findings were made with respect to Avista's rates, it is impossible to know what the Commission might have concluded had Avista satisfied its burden of proof.

Had the Commission not approved an attrition allowance in Order 05, it is possible that the Commission might have reached a different conclusion in Docket UE-160228 (Cons.). Absent re-opening the record in Docket UE-160228 (Cons.), however, it

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32/ Docket UE-160228 (Cons.), Order 06, ¶ 111.
33/ Id.

is not possible to know whether the Commission might have allowed Avista to increase revenues back to the Order 05 levels.

Q. IS IT POSSIBLE THAT, ABSENT AN ATTRITION ADJUSTMENT, RATES WOULD HAVE BEEN REDUCED IN DOCKET UE-160228 (CONS.)?

A. Yes. As detailed in Table 1 of Order 06 of Docket UE-160228 (Cons.), AWEC argued that even with an attrition allowance, Avista's rates should be reduced.[34/] Absent an attrition allowance, the potential for a rate reduction was significant. With respect to gas services, even Avista agreed that natural gas service rates should be reduced relative to the Order 05 levels, absent an attrition allowance. Since the Commission did not find that the Order 05 rates were unjust or unreasonable following Order 06 of Docket UE-160228 (Cons.), this favors applying the rate adjustment to the full 2.3 year period.

b. Recalculating Avista's Rates Relying Only on Used and Useful Rate Base

Q. DOES AVISTA'S TESTIMONY PROPERLY RECALCULATE RATE BASE IN THE ATTRITION ADJUSTMENT?

A. No. In addition to only calculating a refund based on an 11-month period, Avista's recalculation only accounts for the "return on" rate base, and not the "return of" rate base. Further, Avista attempts to perform this calculation outside of the attrition models, which does not accurately capture the impact of rate base on the attrition allowance amounts approved in Order 05. Accordingly, Avista's calculations are incomplete and do not fully effectuate the Appeals Decision.

[34/] Id., ¶ 64

Q. WHAT IS RATE BASE?

A. In Washington, "rate base" has been defined as "the total quantum of invested capital or of property 'values' on which the company is entitled to a reasonable rate of compensation."[35/]

Q. ARE DEPRECIATION EXPENSES "ATTRIBUTABLE TO RATE BASE" WITHIN THE CONTEXT OF THE APPEALS DECISION?

A. Yes. Depreciation expenses represent a utility's "return of" its rate base investment, and accordingly are appropriately considered in determining the portion of the attrition allowance approved in Order 05 that is attributable to rate base. If no adjustment is made to eliminate the attrition allowance associated with depreciation expenses, Avista will be provided with a return of investments in rate base that were not used and useful, which would be inconsistent with the Appeals Decision. The Appeals Decision did not require, for example, the Commission to remove all portions of rate base associated with just Avista's return on rate base; it struck "*all portions* of the attrition allowance attributable to Avista's rate base …."[36/] For this reason, when calculating the amount of the rate adjustment associated with the Appeals Decision I have made an adjustment to remove the attrition allowance amount associated with both the return on, and return of, rate base.

[35/] People's Org. for Wash. Energy Res. v. WUTC, 104 Wn.2d 798, 816 (1985) (quoting J. Bonbright, Principles of Public Utility Rates 149-50 (1961)); see also, WUTC v. PSE, Docket UE-130043, Order 05 ¶ 15 n. 9 (Dec. 4, 2013) (defining rate base as "the Commission-approved level of [a utility's] investment in facilities plus the cash, or 'working capital' supplied by investors that is used to fund the Company's day-to-day operations").

[36/] Wash. Atty. Gen.'s, 4 Wash.App.2d. at 689 (emphasis added).

i. *Return on* Rate Base

Q. HOW DID STAFF'S ATTRITION MODEL CALCULATE REVENUE REQUIREMENT FOR AVISTA'S "RETURN ON" RATE BASE?

A. When calculating Avista's return on rate base, the Staff attrition model used plant balances as of December 31, 2014. The model then applied two years of escalation to the December 31, 2014 balances, including accumulated deferred income taxes, in order to estimate plant balances for the 2016 rate period. For electric service, the escalation rate applied was 3.91% per year, or 7.83% for the two-year period. Note that the Commission subsequently modified this escalation approach such that it did not apply to distribution plant, as discussed above. For gas services, the escalation rate applied was 8.43% per year, or 16.86% for the two-year period.

After the application of escalation, several discrete projects were added to rate base in addition to the escalation amount. These additional projects were generally referred to as "Post-Attrition Adjustments." For electric services, the Post-Attrition Adjustments included a minor expense adjustment associated with Colstrip, and the plant additions associated with Project Compass. For gas services, these Post-Attrition Adjustments included the plant additions associated with Project Compass and expenses associated with Atmos Testing.

Q. WHAT WERE THE RATE BASE VALUES ASSUMED IN THE ORDER 05 ATTRITION ANALYSES?

A. Based on Mullins, Exh. Nos. BGM-9 and BGM-10, I calculate that the attrition analyses approved in Order 05 relied on a rate base of $1,357,850,741 for electric services and a rate base of $300,466,000 for gas services.

Q. HOW WAS RETURN ON RATE BASE CONSIDERED IN THE PRO FORMA STUDIES?

A. Similar to the attrition models, the pro forma study started with the plant balances as of December 31, 2014. Note that the starting December 31, 2014 balances used in the pro forma studies were slightly different than the amounts used in the attrition models and I have been unable to reconcile the differences. In contrast to the attrition model, however, the pro forma study included no escalation and instead included only those plant additions, as supported by Staff, that were known and measurable as of June 30, 2015.[37/] Thus, the escalation in the attrition model served as a proxy for the pro forma plant additions in the pro forma study.

Q. WHAT RATE BASE VALUES WERE ASSUMED IN THE PRO FORMA STUDIES THE COMMISSION APPROVED?

A. As detailed in Tables A1 and A2 of Order 05, the pro forma studies the Commission approved used a rate base of $1,315,891,000 for electric services and a rate base of $263,665,000 for gas services.

Q. HOW DO THE RATE BASE VALUES ASSUMED IN THE PRO FORMA STUDIES COMPARE TO THE AMOUNTS ASSUMED IN THE ATTRITION STUDIES?

A. In Mullins, Exh. No. BGM-13 and Mullins, Exh. No. BGM-14, I perform a detailed comparison of the revenue requirement impacts of the rate base assumed in the Order 05 pro forma studies and the Order 05 attrition studies for electric services and gas services, respectively. As can be seen in Mullins, Exh. No. BGM-13, the pro forma rate base for electric services in Order 05 was $41,958,604 less than the rate base assumed in the

[37/] Order 05, ¶ 30.

Order 05 electric attrition analysis. As can be seen in Mullins, Exh. No. BGM-14, the pro forma rate base for gas services in Order 05 was $36,791,360 less than the rate base assumed in the Order 05 gas attrition analysis. Note that these analyses do not necessarily correspond to the impacts of rate base on the attrition studies because the attrition studies assumed further adjustments associated with customer growth. Notwithstanding, I have used these analyses as the basis for adjusting rate base and depreciation expenses in the attrition models provided in Mullins, Exh. No. BGM-11 and Mullins, Exh. No. BGM-12.

In Order 05, the Commission did not detail the components of the rate base used in the pro forma study. Rather the Commission stated that it generally accepted Staff's pro forma capital adjustments, subject to some modifications. Accordingly, when preparing Mullins, Exh. No. BGM-13 and Mullins, Exh. No. BGM-14, I relied on the pro forma adjustments presented in Staff exhibits Hancock, Exh. No. CHS-2 (Rev.) and Hancock, Exh. No. CHS-3 (Rev.). I subsequently made conforming adjustments to the pro forma adjustments in Hancock, Exh. No. CHS-2 (Rev.) and Hancock, Exh. No. CHS-3 (Rev.) in order to tie to the pro forma adjustments presented in Table A1 and Table A2 of Order 05.

A summary of these analyses can be found in Table 2 and Table 3, below, for electric services and gas services, respectively.

TABLE 2

Electric Services Order 05 Pro Forma Versus Attrition Rate Base
($millions)

	Pro Forma Study			Attrition Study			
	Dec 31, 2014 Results	Pro Forma Adj.	Pro Forma Rate Base	Dec 31, 2014 Results	Escalation / Post Attr. Adj.	Attrition Rate Base	Delta
Gross Plant	2,242.3	137.2	2,379.5	2,260.4	157.0	2,417.3	(37.9)
Accum. Dep.	(780.3)	(27.8)	(808.1)	(788.1)	(43.9)	(831.9)	23.9
Net Plant	1,462.0	109.4	1,571.4	1,472.3	113.1	1,585.4	(14.0)
Def. Tax	(238.4)	(67.3)	(305.7)	(257.8)	(22.2)	(279.9)	(25.8)
Net Plant w/ DIT	1,223.6	42.1	1,265.7	1,214.5	90.9	1,305.4	(39.7)
Def. Dr./Cr.	11.8	(7.4)	4.4	4.6	-	4.6	(0.1)
Working Capital	25.0	20.7	45.7	47.8	-	47.8	(2.1)
Rate Base	1,260.5	55.4	1,315.9	1,266.9	90.9	1,357.8	(42.0)

TABLE 3

Gas Services Order 05 Pro Forma Versus Attrition Rate Base
($millions)

	Pro Forma Study			Attrition Study			
	Dec 31, 2014 Results	Pro Forma Adj.	Pro Forma Rate Base	Dec 31, 2014 Results	Escalation / Post Attr. Adj.	Attrition Rate Base	Delta
Gross Plant	416.1	33.3	449.3	422.3	84.4	506.7	(57.4)
Accum. Dep.	(139.6)	(6.1)	(145.8)	(141.7)	(24.5)	(166.2)	20.4
Net Plant	276.4	27.1	303.5	280.6	60.0	340.5	(37.0)
Def. Tax	(55.3)	(7.3)	(62.6)	(54.7)	(9.8)	(64.4)	1.8
Net Plant w/ DIT	221.1	19.8	240.9	225.9	50.2	276.1	(35.2)
Gas Inv.	12.8	-	12.8	14.8	-	14.8	(2.0)
Working Capital	-	10.4	10.4	10.1	-	10.1	0.3
Other	(0.4)	-	(0.4)	(0.5)	-	(0.5)	0.1
Rate Base	233.5	30.2	263.7	250.3	50.2	300.4	(36.8)

Q. HOW DO YOU RECOMMEND THE COMMISSION DETERMINE THE PORTION OF THE ATTRITION ALLOWANCE ATTRIBUTABLE TO AVISTA'S RETURN ON RATE BASE IN THE ATTRITION MODEL?

A. The Commission is presented with several different alternatives for determining the portion of the attrition allowance attributable Avista's return on rate base in the attrition models.

One option for the Commission is to re-run the attrition allowance model and simply eliminate all escalation associated with plant in the attrition allowance revenue requirement model, since the escalation is not tied to any discrete known and measurable plant addition. The attrition model was designed to operate separately from the pro forma study, and was not designed to include specific pro forma plant additions, with the exception of Project Compass.

Alternatively, the Commission could replace the escalated plant balances in the attrition allowance revenue requirement model with the pro forma plant balances approved in the pro forma revenue requirement study. This approach would effectively require the Commission to redesign the attrition model to accept pro forma plant additions, rather than using an escalator. This is similar to the approach Avista uses in its testimony, although Avista does not consider the difference directly within the attrition model. Accordingly, Avista's approach ignores some of the key components of the attrition model, such as the revenue growth factor.

Q. WHICH APPROACH DO YOU RECOMMEND?

A. Both approaches have merit. The first approach of simply removing all escalation from the attrition model, for example, has merit because it would allow the model to function as it was designed, by simply removing all escalation not tied to an explicit known and measurable plant addition. Such an approach would also be consistent with the Commission's decision to deny clarification through Order 06 in this docket, where the Commission decided not to modify the electric attrition model to accept the October 29, 2019 power cost update. The second approach also has merit, however, because it would provide Avista with a return on rate base that is equal to the pro forma rate base balances, even though the attrition model was not designed to accept pro forma plant additions, with the exception of Project Compass.

Given these two alternatives, I believe the latter approach of using the pro forma rate base balances in the attrition model is a more reasonable way to determine return on rate base, even though the attrition model was not designed explicitly to accept pro forma plant additions. Eliminating all plant escalation from the attrition model would result in an amount of plant in the attrition models that is less than the amount determined to be used and useful in the pro forma study. Accordingly, I found such an approach to be inconsistent with the requirements of the Appeals Decision to remove only the amounts associated with rate base that was not used and useful.

Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION ON THE ATTRITION ALLOWANCE?

A. As detailed in Mullins, Exh. No. BGM-11 and Mullins, Exh. No. BGM-12, I have added a new column to the Order 05 attrition studies to adjust the attrition rate base balances to tie to the amounts approved in the respective pro forma studies. I applied this adjustment to both plant balances, as well as to the other rate base balances, such as working capital and gas inventory.

Applying the Commission-approved level of pro forma plant additions in the electric attrition allowance model produces an annual rate adjustment of $4,295,396 or $9,873,849 over the 2.3-year period, excluding interest. Applying the Commission-approved level of pro forma plant additions in the natural gas attrition allowance model produces an annual rate adjustment of $4,258,488 or $9,789,008 over the 2.3-year period. These adjustments do not consider the impacts of rate base on net operating income, through depreciation expenses or income taxes, which I discuss below. These amounts also do not include interest.

ii. <u>*Return of* Rate Base / Depreciation</u>

Q. HOW ARE UTILITIES PROVIDED WITH A *RETURN OF* RATE BASE IN REVENUE REQUIREMENT?

A. In the context of a revenue requirement calculation, utilities are provided with a return of rate base through depreciation and amortization expenses. Depreciation expenses are calculated as a percentage of the gross plant balances included in rate base. Further, depreciation expenses accrue to accumulated depreciation, which is also a component of rate base. In addition, book-tax differences associated depreciation expenses typically comprise the major portion of accumulated deferred income taxes, which is also a component of rate base. Thus, depreciation is a major portion of the compensation that a utility receives in connection with rate base.

Q. HOW ARE DEPRECIATION EXPENSES CALCULATED?

A. Under the Commission's traditional ratemaking methodology, depreciation expenses are calculated by multiplying a utility's approved depreciation accrual rates to the gross plant in service that is found to be used and useful to Washington ratepayers. Depreciation accrual rates are calculated in a depreciation study. At the time of Order 05, the depreciation rates that were in effect were from Avista's 2012 Depreciation Study approved in Docket Nos. UE-120436 and UG-120437.

Q. DID STAFF'S ATTRITION MODELS CALCULATE DEPRECIATION EXPENSES BASED ON THE USED AND USEFUL PLANT BALANCES?

A. No. Similar to the plant balances discussed above, Staff's attrition models applied an escalation factor to depreciation expenses and did not calculate depreciation expenses based on the used and useful plant balances. Both the electric and gas attrition models started with depreciation expenses accrued over the twelve-month period ending on December 31, 2014, and then applied two years of escalation to estimate the test period amount associated with depreciation expenses. In the electric attrition model, the annual escalation associated with depreciation expenses was 4.77%, or 9.55% over the two-year period. In the natural gas attrition model, the annual escalation associated with depreciation expenses was quite large, at 11.14%, or 22.27% over the two-year period. These depreciation escalation amounts were neither based on Avista's actual used and useful plant balances, nor on the actual depreciation accrual rates approved in Avista's 2012 Depreciation Study.

Q. HOW WERE DEPRECIATION EXPENSES CONSIDERED IN THE PRO FORMA STUDIES?

A. In contrast to the attrition models, the pro forma studies calculated depreciation expenses using the actual deprecation accrual rates in the 2012 depreciation study. The pro forma study also used the actual used and useful plant, including the specific pro forma plant additions approved by the Commission, and multiplied those balances by the approved depreciation accrual rates for each class of property to determine the amount of depreciation expense included in revenue requirement.

Q. DO YOU RECOMMEND THE COMMISSION CONSIDER DEPRECIATION WHEN DETERMINING THE EFFECTS OF THE APPEALS DECISION?

A. Yes. Similar to return on rate base, multiple options are available to address the portion of the attrition allowance associated with depreciation expenses. The Commission could, for instance, allow the attrition allowance model to function as designed and simply remove all escalation amounts associated with depreciation expenses, since those amounts are not explicitly tied to any used and useful plant addition. Alternatively, the Commission could modify the attrition model and substitute the escalated depreciation expenses included in the attrition allowance model with the amounts approved in the respective pro forma studies.

Q. WHICH APPROACH HAVE YOU USED?

A. For the same reasons discussed above with respect to plant balances, I have applied the second alternative and have replaced the escalated depreciation expense amounts in the attrition studies with the amounts approved in the pro forma study.

Q. WHAT PORTIONS OF DEPRECIATION EXPENSES IN THE ATTRITION MODELS WERE NOT BASED ON USED AND USEFUL PLANT BALANCES?

A. In Mullins, Exh. No. BGM-13 and Mullins, Exh. No. BGM-14, I have also included comparisons of depreciation expenses established based on the used and useful plant levels in the Order 05 pro forma study and the Order 05 attrition analyses for electric services and gas services, respectively. As can be seen from Mullins, Exh. No. BGM-13, depreciation expense in the electric attrition study was $3,611,604 higher than the depreciation expense included in the pro forma study, which was explicitly calculated based on used and useful plant balances. Similarly, in Mullins, Exh. No. BGM-14, it can be noted that depreciation expense in the gas attrition study was $2,681,550 higher than the amounts included in the pro forma study.

Q. WHAT IS THE IMPACT OF REMOVING THESE DEPRECIATION EXPENSES FROM THE ATTRITION STUDY?

A. Similar to the plant balances discussed above, I have added a new column to the attrition studies in Mullins, Exh. No. BGM-11 and Mullins, Exh. No. BGM-12, to adjust the attrition-related depreciation expenses to tie to the amounts approved in the respective pro forma studies. This column also accounts for the effect of the used and useful plant balances on the tax benefit of interest expense. Based on Mullins, Exh. No. BGM-11, applying the Commission-approved level of pro forma depreciation expenses in the electric attrition allowance model produces an annual rate reduction of $3,110,331, or $7,149,734 over the 2.3-year period. Applying the Commission-approved level of pro forma plant additions in the natural gas attrition allowance model produces an annual rate reduction of $2,227,756, or $5,120,955 over the 2.3-year period. These amounts do not include interest.

c. Power Cost Update

Q. WHAT DIRECTION DID THE COMMISSION GIVE REGARDING THE TREATMENT OF POWER COSTS IN THIS PHASE OF THE PROCEEDING?

A. In its Prehearing Conference Order, Order 07, the Commission directed that testimony "must address the portions of rates that incorporate or rely on rate base, rather than, for example, operations and maintenance expenses. Portions of rates that incorporate rate base may or may not include, for example, components of power costs."[38/]

Q. DOES THE POWER COST REDUCTION THAT WAS NOT REFLECTED IN THE ATTRITION MODEL USED TO SET RATES IN ORDER 05 "INCORPORATE OR RELY ON RATE BASE"?

A. Avista's testimony argues that power costs are not related to rate base, but its interpretation is too narrow and is inconsistent with the changes it recommends to the attrition model. For example, the attrition model was not designed to accept the pro forma plant additions from the pro forma study, yet Avista now recommends the Commission consider those plant additions when evaluating the allowable return on rate base in the attrition model. I agree that it is reasonable to re-open the attrition model to accept those pro forma plant additions. But if the attrition allowance model is to be re-opened to determine the portions attributable to rate base versus operating expenses or other considerations, then it is appropriate for the model also to be adjusted to consider the full impact of the October 29, 2015 power supply cost update. Without adjusting for

38/ Order 07, ¶ 11.

the power supply update, a recalculation of the attrition adjustment including pro forma additions will yield an inaccurate result. For this reason, power costs in this proceeding do "rely on rate base" because absent addressing the proper level of power costs, the Commission would not be able to accurately ascertain the amounts attributable to rate base or the other various categories of revenue requirement.

To that end, if the Commission, conversely, is to accept a rigid formulaic view of the attrition model and exclude any power cost impacts, I recommend that the same perspective be applied to all aspects of its decision in this phase of the proceeding, which would then also exclude any recognition of pro forma plant additions in the modified attrition analyses.

Q. WOULD YOUR RECOMMENDATION IMPACT AVISTA'S ENERGY COST RECOVERY MECHANISM ("ERM") DEFERRAL?

A. No. As stated on Page 2 of the October 29, 2015 power supply update, the ERM baseline that was established subsequent to Order 05 was based on the lower level of power costs that were reduced by the $12.3 million October 29, 2015 update. Thus, the ERM baseline was not based on the higher level of power costs that was included in the final attrition analysis that the Commission appeared to have used when establishing the Order 05 revenue requirement for electric services. Had the higher level of power costs from the attrition analysis been used as the baseline in Avista's subsequent ERM calculations, the amount of the ERM deferrals that are currently under consideration to be refunded in Docket UE-190222 would be significantly greater. Thus, absent an explicit adjustment to the attrition allowance model, Avista will recognize a windfall through its ERM deferral, since its ERM baseline was based on a lower level of power costs than the amount of power costs Avista actually recovered through the Order 05 revenue requirement. If the attrition model is corrected, however, there will be no need to make any adjustment to the ERM deferral.

Q. COULD THE COMMISSION INCREASE THE ERM BASELINE FOR THE RATE ADJUSTMENT PERIOD IN DOCKET UE-190222?

A. Increasing the ERM baseline over the 2.3-year rate adjustment period to tie to the higher level of power costs included in the Order 05 attrition revenue requirement may be an alternative way for the Commission to address this issue. Absent resolution of that case, however, AWEC recommends the Commission make the appropriate adjustment to the attrition model in this proceeding

Q. HOW HAVE YOU MODIFIED THE ATTRITION MODEL TO ACCOUNT FOR THE OCTOBER 29, 2015 POWER COST UPDATE?

A. In Mullins, Exh. No. BGM-11, I have incorporated the October 29, 2015 power cost update directly into the attrition model. By doing so, my intention is to alleviate some of the Commission's previously stated concerns with modeling the update outside of the attrition model.[39/] To do so, I used the results of the October 29, 2015 power cost update and applied the same variances produced by that study, as identified on Attachment 3 of the update, to the power cost study results applicable using 2016 loads. This approach is reasonable, since the only difference between the two studies in the attrition models was the load assumptions.

39/ Order 06, ¶ 16.

Q. WHAT IS THE RESULT OF INCORPORATING THE POWER COST UPDATE INTO THE ELECTRIC ATTRITION MODEL?

A. Based on my analysis, incorporating the power supply update into the attrition model results in an approximate $12,100,708 reduction to the attrition allowance amount for electric service. Over the 2.3-year period this adjustment equates to $27,815,981.

d. Rate Spread and Rate Design

Q. HAVE YOU PREPARED AN EXHIBIT DETAILING AWEC'S PROPOSED RATE SPREAD AND RATE DESIGN FOR THE RATE REFUND?

A. Yes. Since Avista argued for no refund to be applied, no explicit rate spread or rate design was proposed in its Initial Testimony. Accordingly, Mullins, Exh. No. BGM-15 and Mullins, Exh. No. BGM-16 contain AWEC's proposed rate spread and rate design for the rate refund associated with the Appeals Decision for both electric and gas services.

Q. OVER WHAT PERIOD DO YOU RECOMMEND THE RATE ADJUSTMENT BE REFUNDED?

A. I recommend the rate adjustment amount be applied over a one-year period, beginning on January 1, 2020. A one-year refund is appropriate since it will capture the seasonality embedded in each of the various rate schedules.

Q. WHAT RATE SPREAD DO YOU RECOMMEND THE COMMISSION APPLY WITH RESPECT TO THE RATE ADJUSTMENT ASSOCIATED WITH THE APPEALS DECISION?

A. I recommend the Commission allocate the rate adjustment in a manner consistent with the rate spread agreed upon in the May 1, 2015 Multiparty Settlement Stipulation and approved by the Commission in Order 05.

Q. WHAT RATE SPREAD WAS APPROVED IN THE MAY 1, 2015 MULTI-PARTY SETTLEMENT STIPULATION?

A. In the May 1, 2015 stipulation, parties agreed that the revenue change for electric services would be spread on the basis of an equal percentage to each rate schedule. For gas services, parties agreed that the revenue increase would be spread on an equal percent of margin basis. Accordingly, I recommend that the rate adjustment applicable to electric services be applied on an equal percentage to each rate schedule and that the rate adjustment applicable to gas service be applied on an equal percentage of margin to each rate schedule. Because the composition of customers has changed slightly since this docket was initiated, I recommend calculating these percentages based on the base revenues in Avista's ongoing general rate case, Docket UE-190334 (Cons). Thus, when calculating these percentages in Mullins, Exh. No. BGM-15 and Mullins, Exh. No. BGM-15, I have relied on the base revenue calculations that were supplied in Docket UE-190334 (Cons.) in Miller, Exh. No. JDM-4 for electric services and Miller, Exh. No. JDM-7 for gas services.

Q. WHAT BILLING DETERMINANTS DO YOU PROPOSE?

A. I propose using the billing determinants that Avista has included in its initial filing in its ongoing general rate case, Dockets UE-190334 and UG-190335.

Q. IF THE COMMISSION APPROVES AN ADJUSTMENT WITH RESPECT TO DECOUPLING, IS THAT ADJUSTMENT APPROPRIATELY APPLIED TO ALL CUSTOMERS?

A. No. I recommend the Commission not apply any adjustment to the refund amount to account for decoupling. Avista argues for rate adjustment to be reduced in connection with the earnings test applicable to its decoupling mechanism. Avista's analysis, however, is overly simplified and not an accurate reflection of how the decoupling mechanism operates. If the impact of decoupling is to be considered in the context of the refund, all aspects of the decoupling mechanism must be considered, not just the earnings test. This would include recalculating the allowable revenues per customer, and the associated decoupling surcharges over the term of the rate adjustment period. In my view, this approach would also necessitate applying a production factor to the refund amount based on Avista's actual sales over the rate adjustment period. Since no production factor is being applied in my analysis, I have not made an adjustment for decoupling when calculating my proposed refund rates in Mullins, Exh. No. BGM-15 and Mullins, Exh. No. BGM-16.

Notwithstanding, if the Commission is to make an adjustment associated with the decoupling mechanism, I recommend that adjustment only apply to those customers subject to decoupling. Electric rate schedules 25, and 41-48 are not subject to Avista's electric decoupling mechanism.[40/] Further, gas rate schedules 112, 122, 132, and 146 are not subject to Avista's gas decoupling mechanism.[41/] Avista confirmed that, as a consequence of these customers being excluded from decoupling, they received none of the earnings sharing Avista proposes to use to offset the refund.[42/] Accordingly, a decoupling adjustment is not appropriately applied to the rate adjustment amount allocated to these schedules, to which decoupling does not apply.

40/ Dockets UE-140188 and UG-140189 (Consolidated), Full Settlement Stipulation at ¶ 13 (Aug. 18, 2014).
41/ Id.
42/ Mullins, Exh. BGM-17 at 2 (Avista Response to AWEC DR 270).

I may address this issue further in Cross-Answering Testimony, depending on the analyses presented by other parties. Accordingly, in my rate spread proposal in Mullins, Exh. No. BGM-15 and Mullins, Exh. No. BGM-16, I have included a column for a decoupling adjustment and have set the decoupling adjustment amount to zero.

e. Other Issues

Q. IS INTEREST APPROPRIATELY APPLIED TO THE AMOUNTS REFUNDABLE TO RATEPAYERS?

A. Yes. Since customers have historically paid too much in rates, I recommend interest be applied to the refund amount.

Q. WHAT INTEREST RATE DO YOU RECOMMEND?

A. I recommend that interest be applied at Avista's pre-tax cost of capital. Since the refund is representative of pre-tax revenue requirement, Avista's pre-tax return is the appropriate rate to apply to the refund amount. Avista has held the excess revenues over a period that spans two different rate cases, in which the Commission approved a different cost of capital. Accordingly, I recommend that different interest rates apply over different periods of time. Further, since the Tax Cuts and Jobs Act ("TCJA") was enacted on December 31, 2017, all interest accruals at Avista's pre-tax cost of capital are appropriately adjusted to consider the reduced tax rate implemented in the TCJA. Thus, three different interest rates will apply to the refund amount depending on the time period of the interest accrual. I have detailed these interest rates in Table 4, below.

TABLE 4
Interest Rates Applicable to Rate Adjustment

				Pre-TCJA		Post-TCJA	
	Weight	Rate	Post-Tax ROR	Tax Rate	Pre-tax ROR	Tax Rate	Pre-tax ROR
UE-150204/05							
Debt	51.50%	5.20%	2.68%		2.68%		2.68%
Equity	48.50%	9.50%	4.61%	35%	7.09%	21%	5.83%
Weighted	100.00%		7.29%		**9.77%**		**8.51%**
UE-170485/86							
Debt ST	2.90%	3.26%	0.09%				0.09%
Debt LT	48.60%	5.76%	2.80%				2.80%
Equity	48.50%	9.50%	4.61%			21%	5.83%
Weighted	100.00%		7.50%				**8.73%**

Thus, for interest accruals over the period January 11, 2016 through December 31, 2017—the enactment date of the TCJA—I recommend that an interest rate of 9.77% be used. For interest accruals over the period January 1, 2018 through May 1, 2018 (the effective date of UE-170485), I recommend that an 8.51% interest rate be used. Finally, for interest accruals in all periods subsequent to the May 1, 2018 rate effective date of UE-170485, I recommend that an 8.73% interest rate be used.

Q. HOW MUCH INTEREST HAVE YOU CALCULATED?

A. My calculation of interest can be found in the workpapers supporting this testimony.[43/] I have performed this calculation on a monthly basis. Based on those calculations, I am

[43/] See Exh. No. BGM-7T Workpaper - Tables and Interest Calculation supporting interest accruals of $12,970,421 for electric services and $4,312,899 for gas services.

IV. CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND CONCLUSIONS.

A. Based on the foregoing, AWEC recommends that the Commission require Avista to refund $57,809,986 for electric services and $19,222,861 for gas services for amounts paid by ratepayers over the 2.3-year period beginning on January 11, 2016, and ending on May 1, 2018. These refund amounts appropriately consider both the *return on* and *return of* rate base embedded in the attrition models. These amounts also revise the model to consider the effects of the Avista's October 31, 2015 power supply cost update, which parties stipulated would be considered in the final revenue requirement approved in this docket, and ensure accurate calculations in the attrition model. Further, these amounts consider the impact of interest at Avista's pre-tax cost of capital.

Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?

A. Yes.