BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-17________

DOCKET NO. UG-17________

EXH. EMA-6

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

AVISTA UTILITIES
CALCULATION OF TRADITIONAL PRO FORMA STUDY REVENUE REQUIREMENT
WASHINGTON NATURAL GAS
TWELVE MONTHS ENDED DECEMBER 31, 2016

The following information provides the Traditional Pro Forma Study results as required by the WUTC. This Study alone, does not provide the necessary rate relief needed to allow the Company the opportunity to earn the proposed Rate of Return (ROR) requested in this case. The base rate change, noted below of $4,531,000, does not reflect the requested rate relief proposed by the Company. See Exh. EMA-7 for the EOP Rate Base Study representing the Company's requested rate relief proposed in this case.

Line No.	Description	Per Traditional Pro Forma Study May 1, 2018 (000's of Dollars)
1	Pro Forma Rate Base	$ 305,913
2	Proposed Rate of Return	7.69%
3	Net Operating Income Requirement	$23,525
4	Pro Forma Net Operating Income	$ 20,712
5	Net Operating Income Deficiency	$2,813
6	Conversion Factor	0.620645
7	Revenue Requirement - 2016	**$4,531**
8	Total Base Distribution Revenues*	$ 88,832
9	Percentage Base Distribution Revenue Increase	**5.10%**
10	Total Present Billed Revenue	$ 152,089
11	Percentage Billed Revenue Increase	**2.98%**

* Line 8 "Total General Business Revenues" includes special contract transportation revenues.

AVISTA UTILITIES
TRADITIONAL PRO FORMA COST OF CAPITAL
WASHINGTON NATURAL GAS

Capital Structure

Component	Capital Structure	Cost	Weighted Cost
Total Debt	51.5%	5.62%	2.89%
Common Equity	48.5%	9.90%	4.80%
Total	100.00%		7.69%

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

Line No.	Description	Factor
1	**Revenues**	1.000000
	Expense:	
2	Uncollectibles	0.004827
3	Commission Fees	0.002000
4	Washington Excise Tax	0.038334
6	Total Expense	0.045161
7	Net Operating Income Before FIT	0.954839
8	Federal Income Tax @ 35%	0.334194
9	REVENUE CONVERSION FACTOR	0.620645

AVISTA UTILITIES
WASHINGTON NATURAL GAS - PRO FORMA
TRADITIONAL PRO FORMA STUDY
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

		ACTUAL RESULTS	RESTATEMENT ADJUSTMENTS								
Line No.	DESCRIPTION	Per Results Report	Deferred FIT Rate Base	Deferred Debits and Credits	Working Capital	Eliminate B & O Taxes	Restate Property Tax	Uncollectible Expense	Regulatory Expense	Injuries & Damages	FIT / DFIT Expense
	Adjsutment Number	1.00	1.01	1.02	1.03	2.01	2.02	2.03	2.04	2.05	2.06
	Workpaper Reference	G-ROO	G-DFIT	G-DDC	G-WC	G-EBO	G-RPT	G-UE	G-RE	G-ID	G-FIT
	REVENUES										
1	Total General Business	$ 146,098	$ -	$ -	$ -	$ (5,097)	$ -	$ -	$ -	$ -	$ -
2	Total Transportation	4,595	-	-	-	(118)	-	-	-	-	-
3	Other Revenues	69,723	-	-	-	-	-	-	-	-	-
4	Total Gas Revenues	220,416	-	-	-	(5,215)	-	-	-	-	-
	EXPENSES										
	Production Expenses										
5	City Gate Purchases	112,605	-	-	-	-	-	-	-	-	-
6	Purchased Gas Expense	988	-	-	-	-	-	-	-	-	-
7	Net Nat Gas Storage Trans	2,932	-	-	-	-	-	-	-	-	-
8	Total Production	116,525	-	-	-	-	-	-	-	-	-
	Underground Storage										
9	Operating Expenses	974	-	-	-	-	-	-	-	-	-
10	Depreciation/Amortization	492	-	-	-	-	-	-	-	-	-
11	Taxes	210	-	-	-	-	-	-	-	-	-
12	Total Underground Storage	1,676	-	-	-	-	-	-	-	-	-
	Distribution										
13	Operating Expenses	12,049	-	-	-	-	-	-	-	-	-
14	Depreciation/Amortization	9,866	-	-	-	-	-	-	-	-	-
15	Taxes	12,807	-	-	-	(5,183)	375	-	-	-	-
16	Total Distribution	34,722	-	-	-	(5,183)	375	-	-	-	-
17	Customer Accounting	7,352	-	2	-	-		(590)	-	-	-
18	Customer Service & Information	7,595	-	-	-	-	-	-	-	-	-
19	Sales Expenses	-	-	-	-	-	-	-	-	-	-
	Administrative & General										
20	Operating Expenses	13,763	-	-	-	-	-	-	(3)	76	-
21	Depreciation/Amortization	6,260	-	-	-	-	-	-	-	-	-
22	Regulatory Amortizations	-									
23	Taxes	-	-	-	-	-	-	-	-	-	-
24	Total Admin. & General	20,023	-	-	-	-	-	-	(3)	76	-
25	Total Gas Expense	187,893	-	2	-	(5,183)	375	(590)	(3)	76	-
26	OPERATING INCOME BEFORE FIT	32,523	-	(2)	-	(32)	(375)	590	3	(76)	-
	FEDERAL INCOME TAX										
27	Current Accrual	(841)	-	(1)	-	(11)	(131)	207	1	(27)	-
28	Debt Interest	-	3	-	9	-	-	-	-	-	
29	Deferred FIT	9,923	-	-	-	-	-	-	-	-	-
30	Amort ITC	(17)				-	-	-	-	-	-
31	NET OPERATING INCOME	$ 23,458	$ (3)	$ (1)	$ (9)	$ (21)	$ (244)	$ 384	$ 2	$ (49)	$ -
	RATE BASE										
	PLANT IN SERVICE										
32	Underground Storage	$ 26,868	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
33	Distribution Plant	390,508	-	-	-	-	-	-	-	-	-
34	General Plant	82,624	-	-	-	-	-	-	-	-	-
35	Total Plant in Service	500,000	-	-	-	-	-	-	-	-	-
	ACCUMULATED DEPRECIATION/AMORT										
36	Underground Storage	(10,317)	-	-	-	-	-	-	-	-	-
37	Distribution Plant	(129,098)	-	-	-	-	-	-	-	-	-
38	General Plant	(23,473)	-	-	-	-	-	-	-	-	-
39	Total Accumulated Depreciation/Amortization	(162,888)	-	-	-	-	-	-	-	-	-
40	NET PLANT	337,112	-	-	-	-	-	-	-	-	-
41	DEFERRED TAXES	(73,856)	(325)	-	-	-	-	-	-	-	-
42	Net Plant After DFIT	263,256	(325)	-	-	-	-	-	-	-	-
43	GAS INVENTORY	9,116	-	-	-	-	-	-	-	-	-
44	GAIN ON SALE OF BUILDING	-	-	-	-	-	-	-	-	-	-
45	OTHER	(249)		-							
46	WORKING CAPITAL	15,664	-	-	(864)	-	-	-	-	-	-
47	**TOTAL RATE BASE**	**$ 287,787**	**$ (325)**	**$ -**	**$ (864)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
48	RATE OF RETURN	8.15%									
50	REVENUE REQUIREMENT	-2,138	-35	2	-93	34	393	-618	-3	80	0

Pro Forma Rate of Return	7.69%
Revenue Conversion Factor	0.620645

AVISTA UTILITIES
WASHINGTON NATURAL GAS - PRO FORMA
TRADITIONAL PRO FORMA STUDY
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Office Space Charges to Subs	Restate Excise Taxes	Net Gains & Losses	Weather Normalization / Gas Cost Adjust	Eliminate Adder Schedules	Misc. Restating Non-Util / Non-Recurring Expenses	Project Compass Deferral	Restating Incentives	Restate Debt Interest	Restated TOTAL
	Adjsutment Number	2.07	2.08	2.09	2.10	2.11	2.12	2.13	2.14	2.15	
	Workpaper Reference	G-OSC	G-RET	G-NGL	G-WNGC	G-EAS	G-MR	G-CD	G-RI	G-DI	R-Ttl
	REVENUES										
1	Total General Business	$ -	$ -	$ -	$ 11,209	$ (1,240)	$ -	$ -	$ -	$ -	**$ 150,970**
2	Total Transportation	-	-	-		-	-	-	-	-	**4,477**
3	Other Revenues	-	-	-	(5,427)	(63,276)	-	-	-	-	**1,020**
4	Total Gas Revenues	-	-	-	5,782	(64,516)	-	-	-	-	**156,467**
	EXPENSES										
	Production Expenses										
5	City Gate Purchases	-	-	-	5,274	(54,419)	-	-	-	-	**63,460**
6	Purchased Gas Expense	-	-	-	6	-	-	-	-	-	**994**
7	Net Nat Gas Storage Trans	-	-	-	-	(2,932)	-	-	-	-	**-**
8	Total Production	-	-	-	5,280	(57,351)	-	-	-	-	**64,454**
	Underground Storage										
9	Operating Expenses	-	-	-	-	-	-	-	-	-	**974**
10	Depreciation/Amortization	-	-	-	-	-	-	-	-	-	**492**
11	Taxes	-	-	-	-	-	-	-	-	-	**210**
12	Total Underground Storage	-	-	-	-	-	-	-	-	-	**1,676**
	Distribution										
13	Operating Expenses	-	-	-	-	-	1	-	-	-	**12,050**
14	Depreciation/Amortization	-	-	(13)	-	-	-	-	-	-	**9,853**
15	Taxes	-	2	-	430	(48)	-	-	-	-	**8,383**
16	Total Distribution	-	2	(13)	430	(48)	1	-	-	-	**30,286**
17	Customer Accounting	-	-	-	54	(6)	-	-	-	-	**6,812**
18	Customer Service & Information	-	-	-	-	(6,632)	-	-	-	-	**963**
19	Sales Expenses	-	-	-	-	-	-	-	-	-	**-**
	Administrative & General										**-**
20	Operating Expenses	(9)	-	-	22	(2)	(316)	-	(181)	-	**13,350**
21	Depreciation/Amortization	-	-	-			-	-	-	-	**6,260**
22	Regulatory Amortizations				-	-	-	1,079	-	-	**1,079**
23	Taxes	-	-	-	-	-	-	-	-	-	**-**
24	Total Admin. & General	(9)	-	-	22	(2)	(316)	1,079	(181)	-	**20,689**
25	Total Gas Expense	(9)	2	(13)	5,786	(64,039)	(315)	1,079	(181)	-	**124,880**
26	OPERATING INCOME BEFORE FIT	9	(2)	13	(4)	(477)	315	(1,079)	181	-	**31,587**
	FEDERAL INCOME TAX										
27	Current Accrual	3	(1)	5	(1)	(167)	110	(378)	63	(171)	**(1,340)**
28	Debt Interest	-	-	-	-	-	-	-	-		**12**
29	Deferred FIT	-	-	-	-	-	-	-	-	-	**9,923**
30	Amort ITC	-	-	-	-	-	-	-	-	-	**(17)**
31	NET OPERATING INCOME	$ 6	$ (1)	$ 8	$ (3)	$ (310)	$ 205	$ (701)	$ 118	$ 171	**$ 23,009**
	RATE BASE										
	PLANT IN SERVICE										
32	Underground Storage	$ -	$ -	$ -	$ -	$ -	$ -	**$** -	**$** -	$ -	**$ 26,868**
33	Distribution Plant	-	-	-	-	-	-	-	-	-	**390,508**
34	General Plant	-	-	-	-	-	-	-	-	-	**82,624**
35	Total Plant in Service	-	-	-	-	-	-	-	-	-	**500,000**
	ACCUMULATED DEPRECIATION/AMORT										
36	Underground Storage	-	-	-	-	-	-	-	-	-	**(10,317)**
37	Distribution Plant	-	-	-	-	-	-	-	-	-	**(129,098)**
38	General Plant	-	-	-	-	-	-	-	-	-	**(23,473)**
39	Total Accumulated Depreciation/Amortization	-	-	-	-	-	-	-	-	-	**(162,888)**
40	NET PLANT	-	-	-	-	-	-	-	-	-	**337,112**
41	DEFERRED TAXES	-	-	-	-	-	-	-	-	-	**(74,181)**
42	Net Plant After DFIT	-	-	-	-	-	-	-	-	-	**262,931**
43	GAS INVENTORY	-	-	-	-	-	-	-	-	-	**9,116**
44	GAIN ON SALE OF BUILDING	-	-	-	-	-	-	-	-	-	**-**
45	OTHER										**(249)**
46	WORKING CAPITAL	-	-	-	-	-	-	-	-	-	**14,800**
47	**TOTAL RATE BASE**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 286,598**
48	RATE OF RETURN										**(1)**
50	REVENUE REQUIREMENT	-9	2	-14	4	500	-330	1,130	-190	-276	-1,562

Pro Forma Rate of Return

Revenue Conversion Factor

(1) The Restated TOTAL column does not represent 12/31/2016 Test Period Commission Basis results of operation on a normalized basis (CBR basis). Difference exists due to inclusion of proposed cost of debt (pro forma versus CBR cost of debt) impacting Adjustment 2.15 above

AVISTA UTILITIES
WASHINGTON NATURAL GAS - PRO FORMA
TRADITIONAL PRO FORMA STUDY
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

PRO FORMA ADJUSTMENTS

Line No.	DESCRIPTION	Pro Forma Atmospheric Testing & Leak Survey	Pro Forma Labor Non-Exec	Pro Forma Labor Exec	Pro Forma Employee Benefits	Pro Forma Incentive Adjustment	Pro Forma Property Tax	Pro Forma IS/IT Expense	Pro Forma Revenue Normalization
	Adjsutment Number	**3.01**	**3.02**	**3.03**	**3.04**	**3.05**	**3.06**	**3.07**	**3.08**
	Workpaper Reference	**G-PAT**	**G-PLN**	**G-PLE**	**G-PEB**	**G-PI**	**G-PPT**	**G-PIS**	**G-PREV**
	REVENUES								
1	Total General Business	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (66,671)
2	Total Transportation	-	-	-	-	-	-	-	56
3	Other Revenues	-	-	-	-	-	-	-	(776)
4	Total Gas Revenues	-	-	-	-	-	-	-	(67,391)
	EXPENSES								
	Production Expenses								
5	City Gate Purchases	-	-	-	-	-	-	-	(63,460)
6	Purchased Gas Expense	-	31	-	(6)	-	-	-	-
7	Net Nat Gas Storage Trans	-	-	-	-	-	-	-	-
8	Total Production	-	31	-	(6)	-	-	-	(63,460)
	Underground Storage								
9	Operating Expenses	-	-	-	-	-	-	-	-
10	Depreciation/Amortization	-	-	-	-	-	-	-	-
11	Taxes	-	-	-	-	-	37	-	-
12	Total Underground Storage	-	-	-	-	-	37	-	-
	Distribution								
13	Operating Expenses	348	371		(76)	-	-	-	-
14	Depreciation/Amortization	-	-	-	-	-	-	-	-
15	Taxes	-	-	-	-	-	439	-	(2,554)
16	Total Distribution	348	371	-	(76)	-	439	-	(2,554)
17	Customer Accounting	-	203	-	(41)	-			(322)
18	Customer Service & Information	-	18	-	(4)	-	-	-	-
19	Sales Expenses	-	-	-	-	-	-	-	-
	Administrative & General								
20	Operating Expenses	-	251	(10)	(49)	34	-	201	(133)
21	Depreciation/Amortization	-	-	-	-		-	-	-
22	Regulatory Amortizations					-			-
23	Taxes	-	-	-	-	-	-	-	-
24	Total Admin. & General	-	251	(10)	(49)	34	-	201	(133)
25	Total Gas Expense	348	874	(10)	(176)	34	476	201	(66,469)
26	OPERATING INCOME BEFORE FIT	(348)	(874)	10	176	(34)	(476)	(201)	(922)
	FEDERAL INCOME TAX								
27	Current Accrual	(122)	(306)	4	62	(12)	(167)	(70)	(323)
28	Debt Interest	-	-	-	-	-	-	-	-
29	Deferred FIT	-	-	-	-	-	-	-	-
30	Amort ITC	-	-	-	-	-	-	-	-
31	NET OPERATING INCOME	$ (226)	$ (568)	$ 7	$ 114	$ (22)	$ (309)	$ (131)	$ (599)
	RATE BASE								
	PLANT IN SERVICE								
32	Underground Storage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
33	Distribution Plant	-	-	-	-	-	-		-
34	General Plant	-	-	-	-	-	-		-
35	Total Plant in Service	-	-	-	-	-	-	-	-
	ACCUMULATED DEPRECIATION/AMORT								
36	Underground Storage	-	-	-	-	-	-	-	-
37	Distribution Plant	-	-	-	-	-	-		-
38	General Plant	-	-	-	-	-	-		-
39	Total Accumulated Depreciation/Amortization	-	-	-	-	-	-	-	-
40	NET PLANT	-	-	-	-	-	-	-	-
41	DEFERRED TAXES					-	-		-
42	Net Plant After DFIT	-	-	-	-	-	-	-	-
43	GAS INVENTORY					-	-	-	-
44	GAIN ON SALE OF BUILDING					-	-	-	-
45	OTHER								
46	WORKING CAPITAL					-	-	-	-
47	**TOTAL RATE BASE**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
48	RATE OF RETURN								
50	REVENUE REQUIREMENT	364	915	-10	-184	36	499	211	966

Pro Forma Rate of Return

Revenue Conversion Factor

AVISTA UTILITIES
WASHINGTON NATURAL GAS - PRO FORMA
TRADITIONAL PRO FORMA STUDY
TWELVE MONTHS ENDED DECEMBER 31, 2016
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Regulatory Amortization	Pro Forma 2017 Threshhold Capital Adds	Pro Forma O&M Offsets	Pro Forma Director Fees Expense	Pro Forma Leap Deferral Gas Line Ext.	Pro Forma Total
	Adjsutment Number	**3.09**	**3.10**	**3.11**	**3.12**	**3.13**	
	Workpaper Reference	**G-PRA**	**G-PCAP16**	**G-POFF**	**G-PDF**	**G-PLEAP**	**PF-Ttl**
	REVENUES						
1	Total General Business	$ -	$ -	$ -	$ -	$ -	**$ 84,299**
2	Total Transportation	-	-	-	-	-	**4,533**
3	Other Revenues	-	-	-	-	-	**244**
4	Total Gas Revenues	-	-	-	-	-	**89,076**
	EXPENSES						
	Production Expenses						
5	City Gate Purchases	-	-	-	-	-	**-**
6	Purchased Gas Expense	-	-	-	-	-	**1,019**
7	Net Nat Gas Storage Trans	-	-	-	-	-	**-**
8	Total Production	-	-	-	-	-	**1,019**
	Underground Storage						
9	Operating Expenses	-	-	-	-	-	**974**
10	Depreciation/Amortization	-	-	-	-	-	**492**
11	Taxes	-	-	-	-	-	**247**
12	Total Underground Storage	-	-	-	-	-	**1,713**
	Distribution						
13	Operating Expenses	-	-	-	-	-	**12,693**
14	Depreciation/Amortization	-	366	-	-	-	**10,219**
15	Taxes	-	-	-	-	-	**6,268**
16	Total Distribution	-	366	-	-	-	**29,180**
17	Customer Accounting	-	-	-		-	**6,652**
18	Customer Service & Information	-	-	-	-	-	**977**
19	Sales Expenses	-	-	-	-	-	**-**
	Administrative & General						
20	Operating Expenses	-	-	(32)	108	-	**13,720**
21	Depreciation/Amortization	-	1,217	-	-	-	**7,477**
22	Regulatory Amortizations	(1,079)				584	**584**
23	Taxes	-	-	-	-	-	**-**
24	Total Admin. & General	(1,079)	1,217	(32)	108	584	**21,781**
25	Total Gas Expense	(1,079)	1,583	(32)	108	584	**61,322**
26	OPERATING INCOME BEFORE FIT	1,079	(1,583)	32	(108)	(584)	**27,754**
	FEDERAL INCOME TAX						
27	Current Accrual	378	(554)	11	(38)	(204)	**(2,681)**
28	Debt Interest	-	(180)	-	-	(15)	**(183)**
29	Deferred FIT	-	-	-	-	-	**9,923**
30	Amort ITC	-	-	-	-	-	**(17)**
31	NET OPERATING INCOME	$ 701	$ (848)	$ 21	$ (70)	$ (365)	**$ 20,712**
	RATE BASE						
	PLANT IN SERVICE						
32	Underground Storage	$ -	$ -	$ -	$ -	$ -	**$ 26,868**
33	Distribution Plant	-	14,510	-		-	**405,018**
34	General Plant	-	8,260	-		-	**90,884**
35	Total Plant in Service	-	22,770	-	-	-	**522,770**
	ACCUMULATED DEPRECIATION/AMORT						
36	Underground Storage	-	-	-	-	-	**(10,317)**
37	Distribution Plant	-	(163)	-		-	**(129,261)**
38	General Plant	-	(624)	-		-	**(24,097)**
39	Total Accumulated Depreciation/Amortization	-	(787)	-	-	-	**(163,675)**
40	NET PLANT	-	21,983	-	-	-	**359,095**
41	DEFERRED TAXES		(4,142)				**(78,323)**
42	Net Plant After DFIT	-	17,841	-	-	-	**280,772**
43	GAS INVENTORY		-		-		**9,116**
44	GAIN ON SALE OF BUILDING				-		**-**
45	OTHER					1,474	**1,225**
46	WORKING CAPITAL				-		**14,800**
47	**TOTAL RATE BASE**	**$ -**	**$ 17,841**	**$ -**	**$ -**	**$ 1,474**	**$ 305,913**
48	RATE OF RETURN						
50	REVENUE REQUIREMENT	-1,130	3,578	-34	113	770	**4,531**

Pro Forma Rate of Return

Revenue Conversion Factor

Exh. EMA-6 – Natural Gas Traditional Pro Forma Study

Q. Please explain the purpose of the natural gas Traditional Pro Forma Study.

A. In determining the Company's need for rate relief, the Company first completed its Traditional Pro Forma Study, adjusting 2016 historical test year balances for restating and pro forma adjustments. The restating and pro forma adjustments included in this study are those traditionally accepted and approved by the Washington Utilities and Transportation Commission (WUTC or Commission). This study alone, does not provide the necessary rate relief needed to allow the Company the opportunity to earn the proposed ROR requested in this case, and therefore, on its own is not the basis of the Company's request. The results of the natural gas Traditional Pro Forma Study for Rate Year 1 is $4,531,000 million.

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

A. Page 1 of Exh, EMA-6 shows, at line 7, the calculation of the natural gas Pro Forma level revenue requirement of $4,531,000, or 5.1% base revenue increase (2.98% on a billed basis), as shown on lines 9 and 11.

Page 2 of Exh, EMA-2, shows the Cost of Capital and Capital Structure included in the Traditional Pro Forma Study, including: 1) 48.5% Common Equity / 51.5% Debt capital structure; 2) Return on Equity of 9.9%; and 3) cost of debt of 5.62%, resulting in an overall Rate of Return (weighted average cost of capital) of 7.69%. Company witness Mr. Thies discusses the Company's rate of return and the capital structure, while Company witness Mr. McKenzie provides additional testimony related to the appropriate return on equity for Avista.

Page 3 shows the derivation of the natural gas net-operating-income-to-gross-revenue conversion factor. The conversion factor takes into account uncollectible accounts receivable, Commission fees and Washington State excise taxes. Federal income taxes are reflected at 35%.

Q. Now turning to pages pages 4 through 7 of Exh. EMA-6, please explain what is included on those pages.

A. Page 4 begins with actual operating results and rate base for the twelve-months-ending December 31, 2016 test period on an AMA basis in column (1.00). Individual normalizing and restating adjustments that are standard components of our annual reporting to the Commission begin in column (1.01) on page 4 and continue through column (2.15) on page 5. Individual Pro Forma adjustments are shown on pages 6 and 7 in columns (3.01) though (3.13). The last column on page 7, labeled "Pro Forma Total" is the subtotal of the previous columns (1.00) through (3.13), and produces the Pro Forma Total revenue requirement of $4,531,000.

The testimony that follows explains each of the natural gas Commission Basis, restating and Pro Forma adjustments. The Company has also provided workpapers, both in hard copy and electronic formats, which include additional details related to each of these adjustments.

<u>Natural Gas Standard Commission Basis and Restating Adjustments</u>

Q. Please explain each of the Commission Basis and restating adjustments included, starting on page 4 of Exh. EMA-6, the reason for the adjustment and its

effect on the Washington natural gas net operating income and/or rate base for the historical test period.

A. Starting on page 4, Column (1.00) the **Results of Operations** reflect the Company's actual operating results and total net rate base experienced by the Company for year ending December 2016 on an AMA basis. Columns following the Results of Operations column (1.00), (columns (1.01) – (2.15)) mainly reflect normalizing and restating adjustments necessary to restate the actual results based on prior Commission orders, reflect appropriate annualized expenses, correct for errors, or remove prior period amounts reflected in the year ending December 2016.

The first adjustment, column (1.01) on page 6, entitled **Deferred FIT Rate Base,** adjusts the accumulated deferred federal income tax (ADFIT) rate base balance included in the Results of Operations column (1.00) to the adjusted ADFIT balance reflected on an AMA basis, as shown within my workpapers provided with the Company's filing.

ADFIT reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS, repairs deduction and bonus depreciation), bond refinancing premiums, and contributions in aid of construction.

The effect on Washington rate base for this adjustment is a decrease of $325,000 and a reduction of $3,000 of net operating income.

Deferred Debits and Credits, column (1.02), is a consolidation of previous Commission Basis or other restating rate base adjustments and their net operating income (NOI) impact. The rate base amount for each of the deferred debits and credits adjustments discussed below are already reflected in the natural gas results of operations reports and the Results of Operations column (1.00), and, therefore, no restating rate base adjustment is necessary. The net impact on a consolidated basis of this adjustment on Washington natural gas net operating income (NOI) is a decrease of $1,000.

For consistency with prior rate case filings, a description of each adjustment is included below.

- **<u>Customer Advances</u>** decreases rate base for money advanced by customers for line extensions, as they will be recorded as contributions in aid of construction at some future time. No adjustment from that recorded within results of operations is necessary.

- **<u>Customer Deposits</u>** reduces natural gas rate base by the average-of-monthly-averages of customer deposits held by the Company, as ordered by this Commission in Docket UG-090135. No adjustment is necessary to rate base. The corresponding interest paid on customer deposits is reclassified to utility operating expense, at the current UTC interest rate of 0.49%. The effect on Washington operating income is a decrease of $1,000.

Q. Please continue describing the remaining adjustments on page 5.

A. **<u>Working Capital,</u>** column (1.03), restates the working capital balance reflected in the Company's Results of Operations column (1.00), to the adjusted working capital balance. The Company uses the Investor Supplied Working Capital (ISWC) methodology to calculate the amount of working capital reflected in its actual results of operations. In addition, ISWC was revised to properly reflect the effect of Investment Tax Credit (ITC) in 2016 on the Company's Nine Mile capital project, which went into service in mid-2016. This method is consistent with that incorporated in the Company's last approved natural gas general rate case, Docket No. UE-150205. The net effect of adjustments to ISWC from that recorded per results of operations at December 31, 2016, decreases net rate base by $864,000. Increases in net operating income of $9,000 is due to the FIT expense on the restated level of interest on the change in rate base[1].

<u>Eliminate B & O Taxes</u>, column (2.01), eliminates the revenues and expenses associated with local business and occupation taxes, which the Company passes through to customers. The adjustment eliminates any timing mismatch that exists between the revenues and expenses by eliminating the revenues and expenses in their entirety. B & O Taxes are passed through on a separate schedule, which is not part of this proceeding. The effect of this adjustment decreases net operating income by $21,000.

<u>Restate Property Tax,</u> column (2.02), restates the accrued property tax during the test period to actual property tax paid during 2016. Property tax expense for 2016 was based on actual plant balances as of December 31, 2015. The effect of this adjustment decreases net operating income by $244,000. Adjustment (3.06) Pro Forma Property Tax, explained below, increases property tax expense to reflect the levels of expense expected during the rate year, based on planned plant balances as of December 31, 2017.

<u>Uncollectible Expense</u>, column (2.03), restates the accrued expense to the actual level of net write-offs for the test period. The effect of this adjustment increases net operating income by $384,000.

<u>Regulatory Expense Adjustment</u>, column (2.04) restates recorded regulatory expense for the year ending December 31, 2016 to reflect the UTC assessment rates applied to revenues for the test period. The effect of this adjustment decreases net operating income by $2,000.

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[1] The net effect of Federal Income Tax (FIT) expense on the restated level of interest expense due to a change in rate base, is shown within <u>each</u> individual adjustment. The restated debt interest impact per individual rate base adjustment can be seen on line 28 of Exh. EMA-6).

Injuries and Damages, column (2.05), is a restating adjustment that replaces the accrual with a six-year rolling average of injuries and damages payments not covered by insurance. As a result of the Commission's Order in Docket No. U-88-2380-T, the Company changed to the reserve method of accounting for injuries and damages not covered by insurance. The effect of this adjustment decreases net operating income by $49,000.

FIT/DFIT Expense, column (2.06), adjusts the FIT and DFIT calculated at 35% within Results of Operations for the year ending December 31, 2016. Results of Operations is appropriately reflected for year ending December 31, 2016, therefore, no adjustment is necessary.

Q. Please turn to page 5 and explain the adjustments shown there.

A. The first adjustment on page 5 entitled **Office Space Charges to Subs**, column (2.07), removes a portion of the office space costs[2] based on the relationship of labor hours charged to subsidiary/non-utility activities by employee compared to total labor hours by employee. These percentages are applied to the employees' office space (expressed in square feet) and multiplied by office space costs/per square foot. This restating adjustment is made as a result of the Commission's Third Supplemental Order in Docket No. U-88-2380-T. This adjustment removes the portion of expense that has not already been reflected in the test period as non-utility. The effect of this adjustment increases net operating income by $6,000.

[2] Office space is comprised of office building operating and fixed costs, utilities, administrative, security, HVAC, depreciation and property taxes, as well as other costs related to employee use of phones, laptops, etc.

Restate Excise Taxes, column (2.08), removes the effect of a one-month lag between collection and payment of taxes. The effect of this adjustment decreases net operating income by $1,000.

Net Gains/Losses, column (2.09), reflects a ten-year amortization of net gains realized from the sale of real property disposed of between 2007 and December 31, 2016. This restating adjustment is made as a result of the Commission's Order in Docket No. UG-050483 and consistent with previous Company general rate cases. The effect of this adjustment increases Washington net operating income by $8,000.

Weather Normalization & Gas Cost Adjustment, column (2.10), normalizes weather sensitive gas therm sales by eliminating the effect of temperature deviations above or below historical norms. This adjustment also restates therms sold to reflect the weather normalized therms and then reprices the adjusted therms sold based upon the authorized weighted average cost of gas. Company witness Mr. Miller is sponsoring this adjustment. The effect of this adjustment decreases net operating income by $3,000.

Eliminate Adder Schedule Adjustments, column (2.11), removes the impact of adder schedule revenues and related expenses, such as Schedule 191 Tariff Rider (DSM), Schedule 192 Low Income Rate Assistance Program Rate, Schedule 155 Gas Cost surcharge or rebate, and Schedule 175 Decoupling surcharge or rebate, since these items are recovered/rebated by separate tariffs and, therefore, are not part of base rates. Various accounts associated with the cost of gas managed through the PGA deferral mechanism are consolidated into City Gate Purchases in this adjustment. The effect of this adjustment decreases net operating income by $310,000.

Miscellaneous Restating Adjustments, column (2.12), removes a number of non-operating or non-utility expenses associated with dues and donations, etc., included in error in the test period actual results, and removes, reclassifies or restates other expenses incorrectly charged between service and or jurisdiction. The Company has removed or restated certain Director and Officer related expenses. Director meeting expenses were reduced by $108,000 expense to reflect removal of 50% of director meeting expenses were excluded from utility operations, per Docket No. UE-090135. The Company has also removed the utility-portion of the Company's Long Term Incentive Plan (LTIP) related to restricted shares expense, as ordered in Docket No. UE-150205 in the amount of $195,000 expense. Finally, 10% of total Directors' and Officers' insurance expense has been removed to reflect the non-utility/subsidiary portion. The net reduction of these expenses is approximately $316,000, or an increase in net operating income of $205,000. Avista proposes, through Adjustment (3.12) Pro Forma Director Fee Expense as explained below, to include utility expense as actually recorded on the Company's books, based on annual surveys of the Board of Directors of their time split between utility/non-utility operations, versus the 50/50 sharing currently authorized.

Project Compass Deferral, column (2.13), includes the regulatory amortization expense included during the 2016 test period for regulatory purposes. Per the Settlement Stipulation in Docket No. UG-140189, Section III, paragraph 7, page 4-5, the Company was allowed to defer for recovery in a future proceeding the natural gas revenue requirement amount associated with the Project Compass Customer Information System for the calendar year 2016, based on the actual costs of the Project at the time the Project went into service. A two-year amortization schedule (2016-2017) was established within

Docket No. UG-150205. The effect of this adjustment decreases net operating income by $701,000. (This regulatory amortization expense is removed in Adjustment (3.09) "Pro Forma Regulatory Amortizations," as discussed below, to reflect this amortization is $0 during the rate year effective May 1, 2018.)

Restating Incentive Adjustment, column (2.14), restates actual O&M incentive compensation expense recorded in 2016 to reflect a six-year average (2011-2016) of target payout. Target payout is based on salary levels in effect as of December 31, 2016. The net effect of this adjustment (including both executive and non-executive) increases net operating income by approximately $118,000.

For executive officers, the six-year average payout of O&M metrics related to efficiencies in cost management (O&M cost-per-customer), customer service and reliability have averaged approximately 106%. Incentive compensation related to financial metrics are excluded from the Company's filing with expenses borne by shareholders. For non-executive officers, the six-year average of incentive compensation payout is 109% for O&M metrics designed to drive cost-control, and delivery of safe, reliable service with a high level of customer satisfaction. This methodology is consistent with that approved in Dockets UE-150204 and UG-150205. Adjustment (3.05) Pro-Forma Incentive Expenses adjusts incentives based on pro forma labor expense. Additional descriptions are provided in Exh. EMA-2 of overall compensation and components of the executive and non-executive incentive compensation.

Restate Debt Interest, column (2.15), restates debt interest using the Company's pro forma weighted average cost of debt included in the Traditional Pro Forma Study of 2.89%, on the Results of Operations level of rate base shown in column (1.00) only, resulting in a revised level of tax deductible interest expense on actual test period rate base. The Federal income tax effect of the restated level of interest for the test period increases net operating income by $171,000.

The Federal income tax effect of the restated level of interest on all other rate base adjustments included in the Company's filing are included and shown in each individual rate base adjustment described elsewhere in this testimony.

Restated Total, the last column on page 5, subtotals all the preceding columns (1.00) through column (2.15). These totals represent actual operating results and rate base plus standard normalizing adjustments that the Company includes in its annual Commission Basis reports. However, the Restated Total column does not represent December 31, 2016 test period results of operations on a normalized Commission Basis. Differences exists due to inclusion of the proposed cost of debt (pro forma versus CBR cost of debt) impacting Adjustment 2.15 above.

Natural Gas Pro Forma Adjustments

Q. Please now turn to pages 6 through 7 of Exh. EMA-6 and explain what is provided there.

A. Starting on page 6 are individual "Pro Forma" adjustments, (3.01) through (3.13), proposed by the Company for the rate effective period May 1, 2018 – April 30, 2019. Each of these adjustments are described below.

The first adjustment on page 6, column (3.01), **Pro Forma Atmospheric Testing and Leak Survey,** reflects the net increase in atmospheric corrosion testing and leak survey inspection expense during the rate year of $348,000. The effect of this adjustment decreases net operating income by $226,000.

Atmospheric Testing is an inspection program to find conditions in the Company's system that could lead to corrosion issues on customer meter sets. This program is a federally-mandated program that requires the Company to inspect all above-ground steel pipe at a frequency not to exceed three-years. This expense includes the inspection costs and follow-up remedial actions based an Atmospheric Corrosion (AC) inspection cycle completed one third of each jurisdiction per year.

Natural Gas Leak Survey Inspection is a gas operations program required by 49 CFR 192.723. The LS Program is accomplished utilizing a contractor specializing in gas leak survey. In accordance with 49 CFR 192.723, Avista leak surveys business districts every 12 months not to exceed 15 months, and residential areas at 20 percent annually (surveyed every 60 months not to exceed 63 months.) Based on the historical survey cycles, Avista surveys approximately 4,900 miles of pipeline (distribution and transmission) and associated meters annually.

<u>Pro Forma Labor-Non-Exec</u>, column (3.02), reflects changes to test period union and non-union wages and salaries, excluding executive salaries, which are handled separately in adjustment (3.03). For <u>non-union</u> employees, the 3% increase for March 2017 represents actual increases already in effect. In May 2017, the Board of Directors voted to approve a minimum level of salary increases of 3% for March 2018. <u>Union</u> employee increases are made in accordance with contract terms. The current contract with the IBEW Union 77 (Washington/Idaho) expires on March 25, 2019. The methodology behind this adjustment is consistent with Docket No. UE-150204 and UG-150205. The effect of this adjustment decreases net operating income by $568,000. (For further discussion regarding employee base pay and benefits, see electric Exh. EMA-2, Pro Forma Labor-Non-Exec section.)

Pro Forma Labor-Executive, column (3.03), annualizes actual salary levels effective as of March 1, 2017. This results in an increase in net operating income of $7,000 over and above what was in effect year ending December 31, 2016. Base pay is allocated approximately 90% to utility operations and 10% to non-utility operations based on actual timesheet allocations as of December 31, 2016 per order UE-150204/UG-150205. (For further discussion regarding officer compensation, see electric Exh. EMA-2, Pro Forma Labor-Executive section.)

Pro Forma Employee Benefits, column (3.04), adjusts the year ending December 31, 2016 pension and medical expense to include the net changes in the Company's 401(k) and medical insurance expense expected during the rate year. In total, this adjustment reflects the change in total employee benefit expense on a system level from $40.5 million to $39.8 million (O&M). The total net effect of this adjustment is a reduction to expense of $176,000, increasing net operating income $114,000. (For further discussion regarding employee benefits, see electric Exh. EMA-2, Pro Forma Employee Benefits section.)

Pro Forma Incentive Adjustment, column (3.05), pro-forms increases in variable pay/incentive compensation expense, from the year ending 2016 to the rate year amounts in effect, by approximately 2.8% per year, consistent with base pay increases in adjustment 3.02 Pro-Forma Labor Non-Exec. The net impact of this adjustment decreases net operating income by $22,000. (For further discussion regarding employee incentives, see electric Exh. EMA-2, Pro Forma Incentive section.)

Pro Forma Property Tax, **c**olumn (3.06), restates the 2016 level of property tax expense included in adjustment (2.02) Restate 2016 Property tax, to the level of property tax expense the Company will experience during the rate year. The property on which the tax is calculated is the property value as of December 31, 2017. The effect of this adjustment decreases net operating income by $309,000.

Pro Forma IS/IT Expense, column (3.07), adjusts the actual level of information services and technology expense included in the 2016 test year to that expected during the rate period beginning May 1, 2018. This adjustment includes the incremental costs associated with software development, application licenses, maintenance fees, and technical support for a range of information services programs. These incremental expenditures are necessary to support Company cyber and general security, emergency operations readiness, electric and natural gas facilities and operations support, and customer services. Company witness Mr. Kensok sponsors this adjustment and provides more information within his testimony. The effect of this adjustment decreases net operating income by $131,000.

Pro Forma Revenue Normalization, the final adjustment on page 6, column (3.08), adjusts 2016 test period customers and usage for any known and measurable (pro forma) changes. In addition, the adjustment re-prices billed, unbilled, and weather adjusted usage at the base tariff rates approved for 2016, as if the January 11, 2016 base tariff rates were effective for the full 12-months of the test year. Company witness Mr. Miller is sponsoring this adjustment. The effect of this adjustment decreases net operating income by $599,000.

Q. Please address the final adjustments on page 7 of Exh. EMA-6.

A. The final adjustments on page 7 begins with **<u>Pro Forma Regulatory Amortization</u>**, column (3.09). This adjustment removes the regulatory amortization expense (included in restating adjustment (2.13)) related to the "Project Compass Deferral." Per the Settlement Stipulation in Docket No. UG-140189, Section III, paragraph 7, page 4-5, the Company was allowed to defer the revenue requirement associated with the 2015 Project Compass Customer Information System capital project for recovery in a future proceeding. A two-year amortization schedule (January 2016 – December 2017) was established within Docket No. UG-150205. The effect of this adjustment increases net operating income by $701,000.

<u>Pro Forma Capital Threshold Capital Adds</u>, column (3.10), reflects increases related to certain 2017 capital additions, together with associated A/D and ADFIT. This adjustment also includes associated depreciation expense for these 2017 additions. As sponsored and discussed by Company witness Ms. Schuh, based on Commission Order 05, the Company identified electric and natural Pro Forma capital projects that met the threshold of one-half of one percent of the Company's rate base (i.e., above $6.9 million for electric and $1.3 million for natural gas).[3] The effect of this adjustment increases rate base by $17,841,000 and decreases net operating income by $848,000.

<u>Pro Forma O&M Offsets,</u> column (3.11), as explained by Ms. Schuh, the Company reviewed large capital additions in 2017 to determine any offsets (e.g., reduced O&M costs, etc.) resulting in rate period reductions effective May 1, 2018. Maintenance records were reviewed to determine whether any specific maintenance costs were incurred

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

in the test period that would be reduced or eliminated by the investment for that capital project. Those reductions in costs were quantified and included as a reduction to O&M. The effect of this adjustment increases net operating income by $21,000.

Pro Forma Director Fee Expense, column (3.12), reflects an increase in director fee expense to reflect director fee expense using a 97% utility / 3% non-utility split.[4] Avista proposes to reflect director fee expense based on annual surveys of the Board of Directors of their time split between utility/non-utility operations, which reflect a 97% utility / 3% non-utility. This adjustment, as proposed by Avista, removes the effect of adjustment 2.12 (director fee expense noted above) reflecting a 50%/50% sharing, to reflect the proper level of director fee expense that should be included during the rate period. The effect of this adjustment decreases net operating income by $70,000.

The final natural gas pro forma adjustment on page 7, **Pro Forma LEAP Deferral Gas Line Extension,** column (3.13), reflects the annual LEAP deferral amortization expense and rate base associated with the five-year recovery period of the existing LEAP gas line extension deferral balance. The LEAP deferral balance as of March 31, 2017 was $2.9 million. Total rate base, net of ADFIT, on an AMA basis over the rate year is approximately $1.5 million. The five-year amortization results in amortization expense of approximately $580,000 annually. The effect of this adjustment, therefore, increases rate base by $1,474,000, and decreases net operating income by $365,000.

[4] Restating adjustment 2.12 "Miscellaneous Restating Non-Utility /Non-Recurring Expenses," reduced director fee expense recorded on Avista's books at a 97% utility/3% non-utility basis, to a 50%/50% per Docket No. UE-090134. This adjustment, as proposed by Avista, removes the effect of adjustment 2.12 to reflect the proper level of director fee expense.

As discussed by Company witness Mr. Christie, on February 25, 2016, per Docket UG-152394, Order 01, the Commission approved the changes to the Company's natural gas line extension tariff Schedule 151, for a temporary three-year period. Specifically, the Commission approved the use of any excess single-family residential line extension allowance as a rebate on customers' purchase and installation of high efficiency natural gas space and/or hot water heating equipment, if the customer is converting to natural gas from another fuel source.

The Commission also approved the Company's proposed ratemaking treatment, allowing the Company to defer, for opportunity for later recovery in rates, the excess line extension allowance paid to Washington residential customers upon conversion to natural gas. The Commission approved a five-year amortization period for balances included in future general rate cases filed during the pilot period, with a return on the unamortized balance."[5] Per Order 01, the deferral began on March 1, 2016. As of March 31, 2017, the total amount deferred was approximately $2.9 million. The Company is proposing in this case to amortize this balance over five years beginning May 1, 2018 through April 30, 2023. The Company will include additional deferrals associated with the remaining two years of the program in future regulatory proceedings.

Q. Please explain the final column (PF Ttl), labeled Pro Forma Total on page 7 of Exh. EMA-6.

A. The last column on page 7, labeled "Pro Forma Total," reflects total pro forma results of operations and rate base consisting of test period actual results (twelve-

[5] UG-152394 Avista Petition, ¶ 31

months ending December 31, 2016) and the restating and pro forma adjustments explained above. This column provides the total pro forma results of $4,531,000, representing the overall revenue requirement shortfall per the natural gas Traditional Pro Forma Study, as previously showed on page 1 of Exh. EM-6. [6]

[6] As noted in Exh. EMA-1T, the results of the Traditional Pro Forma Study will not yield the electric and natural gas revenue increases necessary for the prospective rate year. The Traditional Pro Forma Studies alone do not provide sufficient rate relief; thereby warranting the use or inclusion of other “tools” available to this Commission. Approval of other “tools,” such as that proposed by Avista including EOP 2017 rate base and an adjusted capital structure, would allow the Company an opportunity to earn its authorized rate of return. The EOP Rate Base Study represents the Company’s requested rate relief in this proceeding and are provided as Exh. EMA-3 (electric) and Exh. EMA-7 (natural gas).